

supply and it has been successful in achieving those targets. I do not quarrel with that assertion at all. I am merely asking him what the bank has done, after setting those targets, which has enabled it to achieve them?

Senator Everett: I suspect that I am getting on to fairly dangerous ground, but the bank does control the monetary base, which is reserves to the banking system plus currency. The governor has always said that their most reliable indicator of the success of controlling the aggregates is M1 or M1-B, which is currency plus demand deposits. I think their method of doing it is rather arcane—and Senator Lamontagne can probably correct me if I am wrong—but I believe they try to establish an interest rate at which they can either buy or sell government securities. By doing so, they can drain off deposits, thereby tightening the money supply, or add to those deposits, thereby having a more liberal money supply.

Senator Smith: That is a poor word to use.

Senator Everett: I beg your pardon?

Senator Smith: I apologize, I only meant to make a joke about the use of the word "liberal." Obviously it was not very successful.

Senator Murray: The honourable senator has said that our economy is operating at well below potential, yet he went on to say that the only way to attack inflation is to reduce demand. Let me put Senator Godfrey's question to you, then, Senator Everett. If 7 per cent unemployment is not enough slack in the economy, how much unemployment would be sufficient to attack inflation?

Senator Everett: When we conducted our hearings 10 years ago on Growth, Employment and Price Stability, I believe the accepted rate of unemployment was 3 per cent. We concluded,

because of the several landing nets that were available to people, that probably the full employment on a disaggregated basis across Canada—which is a fairly vague figure—was probably 4 to 4½ per cent. The governor, when he appeared before us, indicated that it was somewhere in the neighbourhood of 6 to 7 per cent. I do not think I am misquoting him; Senator Roblin will correct me if I am.

The neighbourhood of 6 to 7 per cent is probably as low as you are going to get the disaggregated Canadian figure, because I think that indicates—one hesitates to use these figures today—the prime male unemployment rate running around 3 to 4 per cent or 2½ to 3½ per cent.

We have provided a lot of opportunities through unemployment insurance, with a high participation rate in employment in our economy, which means very often two members of a family or more are working. People can be unemployed at their option. I am not trying to be cruel or to ignore the plight of people who are unemployed. However, as I understand it, the fact of the matter is that unemployment figures arise out of a survey conducted by Statistics Canada in which they ask, "Are you looking for a job and have you been out of work for one week or more?" That is a fairly subjective test. However, I think there are a lot of people who have the option on that test to stay unemployed.

Therefore, I would think that yes, probably 6 to 7 per cent is about as low as we can reasonably get, unless we change some of the underlying rules, especially as they relate to unemployment insurance. Yes, I think that we would probably start to bump our heads against the top of the economy at that stage.

On motion of Senator Lamontagne, debate adjourned.

The Senate adjourned until tomorrow at 2 p.m.