I shall stop here because I know there are other hon. members who want to speak. I like to be constructive in this type of debate. I know we are going through a very difficult time and that we have to find solutions. If we do not, we will have an awful mess in Canada. Our employment rate will zoom to double what it is if we do not solve these problems.

I put these ideas forward in the hope that the government will take them seriously and consider them. I will be pleased to sit down with government members to expand on these ideas and give any other help I can in this regard to assist in putting these things in place, because I know they will pay dividends down the road.

● (1650)

Mr. John Evans (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance): Mr. Speaker, at the outset I want to commend the chief opposition whip for the very constructive ideas he put forward, especially with regard to research and development. They are ideas he and I have discussed before. I want to assure him that I am certainly looking very carefully at what he has suggested. Hopefully, something can be done to respond to the concerns he so rightfully raised, especially in the area of research and development. We are all aware of the problem. He has some very interesting proposals that deserve serious consideration.

With regard to the motion before the House dealing with the interest rate situation facing this country, in the last week we have had at least two opportunities to discuss this question and the causes of the difficulties we now face. We heard a great deal of opposition comment with regard to policies the government should adopt in trying to respond to the situation we face.

My opportunity to discuss the subject today will be used to indicate why those alternatives that have been put forward thus far in this debate and on the previous two opposition days are simply not workable and why the current government policy is the appropriate policy. It is the only policy that holds any hope of eliminating the problem we face and not exacerbating the problem. It does very little good to discuss the concept of interest rates or basic economic concepts using the tool of rhetoric as opposed to the tool of logic and understanding and the basic economic forces that face this country today, trying to respond to those basic economic forces with policies that deal with the problem and not just the symptoms.

As hon. members know, we are facing a very difficult situation. As the Minister of Finance (Mr. MacEachen) indicated in his May 6 speech, if you analyse the last five to six months, inflation is running somewhere in the range to 13½ to 14 per cent. That is an unacceptably high rate of inflation. That factor alone is the prime driving force behind high interest rates.

There are two other factors that I will mention that are exacerbating the problem and creating additional upward pressures on interest rates. The main driving force behind high interest rates is the high rate of inflation and the expectation that the inflation rate will either continue at these high levels or in fact get worse. It is those expectations we have to deal with in addition to the fundamental causes that are driving up that rate of inflation.

If we look at the most recent month, as the Minister of Finance indicated the other day in the House during question period, there was a reduction in the rate of increase in inflation. In the first quarter of this year, we had monthly inflation factors of 1.3 per cent, 1 per cent and 1.3 per cent. In the month of April we saw a decline to .7 per cent which, if you annualize it, will be in the range of 8.7 per cent. That could be a temporary anomaly. We certainly hope not. We hope it is a sign that finally inflationary pressures are being brought under control. If that is the case, we will see lower inflation and lower interest rates. It is too early to say whether that is the establishment of a long-term trend. We certainly know it is a hopeful light.

In addition to the inflation factor that is so very important in establishing the level of today's interest rates, there are two other factors. The first is the fact that the federal government and Bank of Canada are into a policy that, in my opinion, is the only policy that promises any hope of success in dealing with inflation. It is the only policy that I am convinced will work, and that is to bring the growth rate in purchasing power more into line with the growth rate in real output in the economy.

The Bank of Canada recently reduced its target for the growth rate of the money supply, defined, as the hon. member for Calgary Centre (Mr. Andre) indicated, as M1, into the 4 to 8 per cent range. In fact, the bank is holding the money supply growth in that range. In so doing, the bank is reducing the relative growth rate in money below the level of inflation. As a result, the relative effect is to create a reduction in the supply of purchasing power in the system below that which is demanded, even at the current inflation rate, and even at stable demand levels.

On the other hand, we have a fire of expectations in the system, as I indicated last week and as the minister also indicated, which has led to an increase in the demand for credit to buy now before prices go higher later, up some 20 per cent in April. Therefore, we have two forces operating here, the constraint on the supply of credit by the central bank, the government, at the same time as a major increase in the demand for credit. These two forces are going to cause an escalation in the real rate of interest above inflation. It is going to cause that gap between inflation and interest rates to widen.

The final factor we are faced with, one that is also very important, is the level of interest rates in the United States. The hon. member for Oshawa (Mr. Broadbent) stated that the federal government has, first, a high interest rate policy and, second, that it is a made-in-Washington interest rate policy. Neither statement is true. The policy of the government is not to have high interest rates. The policy is to deal with the fundamental factors that are causing inflation, to bring down the rate of inflation, and part of the transition we are going through is temporarily higher interest rates than would normally be the case.