

*The Budget—Mr. Gillies*

petitive situations from creating abnormal increases in prices which are not justified by any sort of competitive situation in the market. That is why we suggest an incomes policy—an incomes policy designed first to work against inflationary expectations and second to protect people from prices that result from the market because of lack of competition. You may say that there is a better way of dealing with this problem. I doubt it. I do not know what it is. But you cannot ignore the problem. If you are serious about solving the inflationary problem in this country, not by moderating demand but by increasing supply, you simply have to have policies to deal with the transitional phase, otherwise there will be as much inflation as we have already—10 per cent last year and 10 per cent this year. The tragedy in this budget is that it does not recognize this fundamental proposition.

I am sure no one in this House is more dedicated than my party to the proposition that the way in which we get maximum use of our resources is through a free competitive market operating under normal expectations. But we do not have that, Mr. Speaker. The real question is, how can we get to such a situation? I am desperately frightened that as long as we continue to have inflation at the rate we have we will be involved with 12 per cent interest rates and 15 per cent interest rates, the equity market not working and the decline of all confidence in the economy. It seems to me that we are going to be in for some difficult times that cannot and will not be solved by the temporary kind of band-aid or cosmetic—although I do not like those words—that the minister is advancing. We cannot solve the problems of poverty in Canada, the problems of housing, the problems of income redistribution and the problems of regional disparity until we do something about inflation. And, Mr. Speaker, we cannot do something about the inflation problem under the present policies being followed by this government. We must have a totally new approach if this problem is to be brought under control.

In this party we have never suggested—and I say this for the leader of the New Democratic Party (Mr. Lewis)—that there is any simple, easy solution to inflation. Of course there is not. It is a most difficult problem and it is not going to go away. But it is not going to be solved by the sort of policies that we have used in the past, because traditional policies do not work. For example it has been suggested that one of the ways to slow down the rate of inflation is to raise interest rates. But that does not now slow down inflation, at least not with the level of expectations that we have at the present time. Who would have thought that mortgages in Canada would command 12 per cent? Who would have thought that we would have a plethora of consumer lending at over 15 per cent, 18 per cent and up? Who would have thought that with interest rates at current levels for prime loans we would have as much capital investment as we have?

High interest rates today are not anti-inflationary; they are inflationary because they are looked on as a cost and are passed on in the price people pay for the products. The fact is, the traditional policy tools are not working. I would hate to try to speculate on what level you would have to put interest rates in this country to start an anti-inflationary movement. The government is caught in a trap. It is suggested that the rate of inflation can be

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slowed down by slowing down the rate of increase in the money supply. But how can you slow down the rate of increase in the money supply when inventories, for example, have to be financed at very high prices and with money borrowed at very high rates of interest? We are caught in a very difficult situation, one which can only be solved, I suggest, by adopting substantially new approaches.

● (2140)

**Mr. Turner (Ottawa-Carleton):** The hon. member is saying that there has to be a better way. That is the sort of speech one hears all the time.

**Mr. Gillies:** I do not subscribe to the theory that inflation has been caused because, suddenly, all over the world there is a shortage of supply and suddenly the world is not producing as many goods and services as it produced in the past. If one examines the historical perspectives of inflation—the Minister of Finance mentioned this in the early part of his speech last night—one will see that inflation has come about from the great increase in world liquidity. The fact of the matter is that ever since the 1930s, and certainly since the 1940s, all governments have been willing to spend much more than they are taking in from tax revenues and other sources. They have been financing programs by printing paper money. It is as simple as that. We have seen this rate of increase in inflation and the decline in the value of currency all over the world as a result of such policies. The only way, generally speaking, to curb inflation all over the world is to bring some discipline back to government spending.

I find it incredible that in Canada, in the year in which we have inflation rates at 10 per cent, the government has increased spending by the dimensions we have witnessed. According to the budget this year, the government is to increase the tax take by 25 per cent. Yet, while taking that amount out of the economy, we are to operate with a modest deficit. One would think that if there were ever a time when expenditures might be kept down and revenues might be in surplus, that time might be the present.

The Liberal government has been operating its economic policy in the last 25 years under the modern Keynesian theory under which there is a budget deficit with slower economic activity and a surplus with higher economic activity. The fact is that the government has made no attempt at all to slow down the rate of government expenditure. Actually, never before in peacetime has Canadian government spending been growing so fast. It seems incredible to me that the government has not made a major effort to attempt to control government spending. How long can you continue to take as much out of the economy as is being taken by this government and applied to the sorts of activities which are being carried on at present, without diminishing the true productive capacity of the economy?

Surely, if there was ever a time to practice discipline in government spending, considering the rate of inflation that time is now. Governments do not exist for the purpose of collecting taxes and spending money. Governments exist to provide services for the people in an efficient and effective way. The fact is we face a very critical economic situation. There has never been as much peace-