employment insurance premiums from income while at the same time it taxed unemployment insurance benefits.

Allowing the worker to deduct unemployment insurance contributions from income tax cost the government $100 million, but the estimate of the government is that it will take in $130 million by taxing unemployment insurance benefits. That is $30 million to the good. If you have to chisel $30 million out of somebody, for God's sake, don't do it out of the unemployed.

Some hon. Members: Hear, hear!

Mr. Douglas: Mr. Speaker, I say to the government on behalf of my colleagues and myself that we will not cease fighting in this House to get the government to remove this iniquitous provision of including holiday pay, statutory holiday pay and other items of this kind in the definition of earnings. We contend that the government has no right to apply a means test.

Mr. Hees: Hear, hear!

Mr. Douglas: When a man or woman has contributed to the unemployment insurance fund over a period of time, the fact that they are unemployed after the specified waiting period should entitle them to unemployment insurance, without anything else.

Some hon. Members: Hear, hear!

Mr. Peters: Crooked government.

Mr. Douglas: Mr. Speaker, I should like to see the government go to the people of this country who live on fixed incomes and tell them, in the words of the Minister of the Environment, that the economy of Canada is in good shape. People on fixed incomes are the most defenceless and vulnerable group in our society. Every increase in the cost of living reduces their standard of living and the purchasing power of their small income. All over this country one meets people—not just poor people but people who retired 10 or 15 years ago on what was then considered an adequate income—who now find it increasingly difficult to make ends meet.

In the speech which was given at the prorogation of the last session of Parliament on February 16, the government boasted of, and I quote, "the unmatched achievement in the area of price stability". The government has made a great deal of noise about the fact that last year the cost of living went up only between 3 per cent and 4 per cent. Mr. Speaker, if there was any price stability it had nothing to do with the government's prices and incomes policy; it was due to the fact that in 1970 the Canadian dollar was unpegged. That automatically had the effect of reducing the price of goods imported from the United States by 7 per cent or 8 per cent. Over a period of a year or a year and a half we have used up the benefit derived from unpegging the Canadian dollar.

What is happening now? Last December the cost of living index was up 5 per cent over the same month the previous year. In January of this year the cost of living index was up 4.9 per cent compared with January of last year. Already we are beginning to see the signs of an upsurge in the cost of living. Interest rates are going up. Our interest rates are now higher than those in the United States, whereas a short time ago they were lower.

We would like to know whether the government is going to move to begin monetary restraints, because if they are, then we are back to the old game that this government has been playing in recent years: they have been going up and down like a yo-yo. When we are faced with rising living costs, they immediately apply the brakes and get unemployment; then they give the economy a short shot in the arm, increasing the money supply by some 20 per cent, and when the cost of living goes up again, they put on the brakes.

• (1700)

I think we have good reason to wonder whether this government, which pumped a lot of money into the economy last year and is now watching the cost of living rising and interest rates increasing, is in a hurry to get the election over so it can start to put the restraints on again and further increase unemployment. This government has never learned the basic and essential fact that Canada has not faced inflation; Canada has faced an inequitable distribution of income. The people who have money do not need more goods. The people who need more goods do not have the money to buy them.

As John Kenneth Galbraith has been pointing out in the United States, as well as Professor Samuelson, the answer lies in a twofold program: first, public programs to improve the public sector, the building of houses, schools, hospitals and recreation centres, clearing up pollution and reforesting the devastated areas of this country; second, a program to put money into the pockets of the people in the middle and lower income groups, the old age pensioners, veterans, pensioners, native Indians and the unemployed in order to create the effective demand which is required.

The report of the Economic Council of Canada which has just been released points out that industry is reducing its forecast capital spending this year. This ought to prove to the government that merely making concessions to industry and giving tax rebates to encourage them to expand their plants is not the answer. What entrepreneur is going to expand his plant if it is operating at 80 per cent or 85 per cent capacity. The quickest way to get expansion of industry is to increase demand. If the orders were coming in at a rate the factory could not handle, the industry would soon expand its plant.

Some hon. Members: Hear, hear!

Mr. Douglas: This government continues to follow the "trickle down" theory. It believes that if it pumps enough money into the big corporations, giving them special concessions, grants and loans, it will somehow trickle down to the people at the bottom. The fact is that it is not trickling down at all.