

*The Budget—Mr. Macdonnell*

Could there be anything in the world more clear than that? The report continues:

At other times, when there was buying demand in the market, securities were sold with a view to offsetting the increase in money supply occasioned by the previous purchases . . . The bank's participation in the market for government securities, in conjunction with the retirement of debt by the government, had the effect of moderating the rise in interest rates so that the level reached was lower than would otherwise have been reached under the pressure of demand.

These words of the governor of the bank are surely clear beyond doubt and I hope we will have no further question raised on that point.

There is one aspect of high interest rates which has been very hard on one section of the community; I mean small business. Banks have had to regard existing businesses and to protect their long established borrowers. This has meant that a special pressure has come on small business and new business.

This was no doubt accentuated by the delay in applying the curb. No doubt this delay meant that those who were enjoying liberal credit made use of it as long as they could and when the curb came down sharply there was less for the newcomers. I shall have more to say about that later.

Up to the present I have been referring to credit control through the application of monetary policy. But monetary experts unanimously agree that the job cannot be done without assistance from government. The National City Bank speaks of "the major role that government must play if inflation is to be contained. Government is responsible not to any one group but to all the people—the shareholder, the worker, the consumer, the retired person living on a fixed income or savings."

To hold inflationary forces in check government must be prepared, as emphasized earlier, to adopt appropriate budget and credit policies.

This means holding back on its own spending to avoid competing in the markets for scarce goods and services, thus setting an example of frugality. Here I would point out that it is to its credit that the Bank of Canada set an example in the case of its building in Toronto.

How does our own government measure up to this test? The answer of course is not at all. They have been spending more and more and more. The minister asks for restraint while he himself does nothing. Perhaps he believes that the electors like expenditures.

It is a terribly irresponsible attitude on the part of the government and if one could only make the electors feel the true extent

of the danger they would demand that it be taken seriously. Take the results for the year 1956-57. The expenditures with the last supplementaries now total \$4,867 million. This means \$434 million more than last year. This means that the government themselves are raising prices by the pressure of their own spending. The governor of the bank spoke of the difference it would have made if there had been one billion dollars less expended during the past year, but the answer of the government to that was \$434 million additional expenditure. Perhaps we should sympathize with the minister because of divided counsels. There is a cartoon in the *Winnipeg Free Press* of February 19, showing the division of the cabinet. It shows the minister sitting as an arbiter. On the one hand is the Minister of Trade and Commerce saying "inflation is not serious". On the other hand is a group headed by the Minister of Fisheries and the governor of the bank saying "inflation is serious". The minister says, "Do the noes have it?" and so you see what a host in himself is the Minister of Trade and Commerce. He outweighs all the others.

I can best sum up the government's failure on the fiscal side by quoting from the president of the Bank of Montreal at the last annual meeting. After pointing out the other measures that could be taken he came back to suggest strongly that without the co-operation of the government everything else would fail. He then goes on:

—it goes without saying that governments at all levels should not press their claims on national resources at a time of excessive demand.

As I have stressed, our government has done exactly the opposite.

I have stressed the evils of high prices which bear down particularly on those with low incomes, but as I have pointed out the government by its inaction has aided and abetted these high prices and has failed to do its part to cure the evil by fiscal policy, notably by failing to cut down and delay some of its own expenditures and those of some of the crown companies. More might have been done to follow the example of the Bank of Canada, as I said a moment ago.

The result is that there are some taxpayers in the lower groups who are the special victims of these high prices and who are bearing, in an acute form, the burdens of us all. Among these are pensioners, holders of fixed interest securities, people who save, people who insure themselves, many white collar earners and those wage earners whose bargaining strength is not great enough to enable them to keep abreast or anything like abreast of the rise in the cost of living.