Cost of Living

For Canada and the United States, the problem has been compounded by the substantial appreciation which has taken place in the relative value of the currencies of a number of other countries as a result of uncertainty—uncertainty over the United States balance of payments position and uncertainty over domestic political developments in the United States. This worldwide upsurge in simultaneous economic growth, combined with the fact of inflation itself and uncertainties surrounding the international monetary system, have had the further adverse effect of sharply increasing the cost of credit—that is to say, interest rates—in every western country.

Within the past several weeks the problem of inflation has been further intensified by the adverse effect of the United States freeze and United States policy of export controls, both of which have had a harmful effect on prices in Canada, as well as by the disruption in supplies of many commodities caused by the rail strikes in this country.

As a major international trader, a country heavily involved in world capital flows, Canada has inevitably been more vulnerable to these global inflationary pressures than most other countries.

Mr. Grafftey: Blame the world.

Mr. Turner (Ottawa-Carleton): Whether the hon. gentleman admits it or not, there is simply no way in which we can effectively isolate ourselves from such forces and at the same time still expect to reap the considerable benefits that have come to us from international capital flows.

Despite our exposure to these forces, the fact is that Canada's price performance record, both over the long term and more recently, compares extremely favourably with that of other countries.

Some hon. Members: Oh, oh!

Mr. Turner (Ottawa-Carleton): I think I am entitled, with the indulgence of the House and with Your Honour's permission, to put these facts before the House. Let us just look at what these facts are. Throughout the 1960's Canada, together with Germany, experienced the lowest rate of increase in consumer prices of all the western industrial nations. Between 1970 and the middle of this year, the increase in the cost of living in this country was the second lowest among the eight leading industrial nations, namely Canada, the United States, the United Kingdom, Japan, France, Germany, Italy and Holland.

In the 12 months ending in June, the rise in the Canadian consumer price index ranked third lowest among the eight nations. The hon. member for York-Simcoe (Mr. Stevens) some time ago mentioned the yearly increase in food prices in Canada and said it exceeded in June that of the other seven nations. That does happen to be true, but the increase in Canadian food prices over the period mid-1970 to mid-1973 was lower than that of any other of the seven countries except for Holland.

The increase that has taken place in the level of interest rates in Canada is certainly not a welcome development and is something that every member of this House deplores, regardless of partisan or political considerations.

Again this is part of a worldwide pattern, although interest rates in this country have not gone up nearly as much as in other countries, particularly the United States, the United Kingdom and Europe.

The fact of the matter is that short-term interest rates in this country are anywhere from three to five points below those prevailing in the United States and Europe, in sharp contrast to the historical record of generally higher rates in this country. The volume of credit has also continued to grow rapidly. The Leader of the Opposition talked about a tight money policy, but, as I say, the volume of credit has continued to grow pretty rapidly, perhaps too rapidly. He knows as well as I do that bank loans have increased at an annual rate of 24 per cent in the second quarter, and the total money supply has increased at a rate of 15 per cent. That is not a tight money policy and the hon. gentleman knows it. If indeed there is any risk, the risk is on the other side.

The fact is—and I hope hon. members will recognize this—that if we in this country allow interest rates to get too far out of line with those abroad, we run the risk of an outflow of funds and a reduction in the supply of capital available to finance continued expansion of the Canadian economy. Such an outflow would also tend to reduce the exchange value of the Canadian dollar and increase the cost of all imported goods, thus putting further pressure on prices in Canada. It is all very well for hon. gentlemen to blame the lowering of the value of the dollar on rising interest rates, but that is not the case.

It has been suggested that we should try to isolate ourselves from international capital markets, access to which has generally been of great benefit to Canada. Some members of the opposition have suggested that we should impose some form of foreign exchange controls. In my view, controls of this nature are no answer: they would distort our capital markets and jeopardize economic growth. They would invite the danger of damaging retaliation by other countries and they would be extremely difficult to administer effectively so as to prevent leakage of funds through all sorts of loopholes.

● (1550)

I am well aware of the fact that Canada's relatively favourable price performance is of small comfort to Canadians who find themselves faced with sharp increases in the price of food and a number of other goods. I receive as much mail as anybody else, including the Leader of the Opposition and I understand and sympathize with the feeling of anger and frustration experienced by many Canadians in this situation and their understandable concern that the government should do something—

Some hon. Members: Hear, hear!

Mr. Turner (Ottawa-Carleton): —even if they are unsure of what that something should be. I want to assure the House that the government is prepared to adopt any measures that it is convinced will be of some lasting benefit in stemming inflationary pressures without at the same time endangering our prospects for the continued strong growth of production and employment. But we are not prepared to adopt policies that offer the prospect of