

some time the Economic Council of Canada has said that our goal should be to have an inflation rate not more than that of our trading partners. I have never accepted that. It is an absolute surrender to accept that sort of proposition. But the fact now is that our inflation rate is much higher than that of our trading partners.

However, the real issue is not what our inflation rate is compared with Japan, the United States or Great Britain: the real issue is what inflation is doing to hundreds of thousands of Canadians right now. They are seeing their savings destroyed because of the amount of inflation, 10 per cent this year, 10 per cent last year, and no one yet knows how much it will be this year. Hundreds of thousands of people are finding it hard to live on fixed incomes when faced with the rapid rises in the cost of living. The escalation in social security payments does not begin to compensate for increased price levels. Since last July the average hourly increase in wages has been less than the rate of increase in prices. For the first time in recent Canadian history, the average Canadian workman is falling behind because of inflation.

The Minister of Finance likes to talk about disposable income. Of course he knows it includes profits, dividends and other things. Real income is what concerns the man who is working and it is being wiped out by what is happening in our economy at the present time. The Prime Minister likes to say he is worried about what might happen to the low-income group because of some type of incomes policy. Yet he is presiding over a government that has allowed a massive redistribution of income against low-income groups because of inflation. This is a situation that is really intolerable.

Not only are individuals being badly hurt, but we are reaching a stage in this country where many of our institutions, many of the things that are fundamental for the well-being of the country are beginning to break down and be destroyed. Has there ever been a time before when industries such as the steel industry have had to open up their collective bargaining agreements in the middle of a contract to pay their employees more because inflation was so great? What will become of general collective bargaining agreements if this continues? Have we ever been in a situation in this country where the government has had to pay a bonus to people to get them to buy Canada Savings Bonds? At traditional interest rates the government has not been able to sell these bonds.

We are in a situation in which one of the most important institutions in the country, the whole institution for the channelling of savings into the investment market, is gone. Today in the stock market, price earnings ratios are as attractive, if you can imagine it, in terms of investment as at any time since the thirties, yet nobody is buying common stocks. Why? It is because no one has any faith that the government can get inflation controlled.

● (2130)

Clearly, we cannot ask people to pay 11½ per cent for housing loans and 14 or 15 per cent for consumer loans. Yet last night the Minister of Finance brought down a budget which, in its basic policy prescriptions, in its basic approach to inflation is precisely the same as the budget brought down a year ago; and that budget is one of the

The Budget—Mr. Gillies

massive failures in economic policy implementation in Canadian history. It was a budget that failed in any way to halt the increase in inflation in the last year.

The minister is correct when he says that the solution to inflation has to be an increase in supply. Everyone realizes that is the critical problem, although we sometimes forget that prices are set by supply and demand and excessive demand in an economy can create problems as well as a shortage of supply. But even here the logic is somewhat mixed. The minister says that our inflation all comes from abroad and we will solve it by increasing domestic supply in Canada. I do not believe we can increase our domestic supply sufficiently, Mr. Speaker, to solve the inflation problems of the world, and I am sure the minister would agree.

The critical problem, the reason that we are in difficulty in regard to inflation in this country today and the reason the policies put forth by this government will not work, is simply that the policy for increasing supply involves placing demand into the system. What we have now is an increase in aggregate demand, but the supply it is expected to generate will not be for some time. The problem is, how do you bridge the gap? Everyone knows that if supply improves, the inflationary situation will improve. But what happens in the meantime? That is why you need a policy for the short run.

It is foolish to deny that is the situation. Examine housing. In the city of Toronto prices are increasing 20 per cent to 30 per cent and the amount of new housing being constructed is equivalent to new family formations. There is no way you need increases of 20 per cent or 30 per cent to stimulate housing supply. Prices are escalating because of the decline of investment opportunities in other areas, and particularly with the rise in inflationary expectations people are investing in the real estate market. You cannot advance any reason why housing is rising as it is, except for inflationary speculation. Such price increases do little to generate more supply in the economy, and unless you are willing to deal with the problem of inflationary expectations now, no policy will work. This country is full of inflationary expectations today, creating one of the major problems of the economy. Why else is the price of gold at \$200, if it is not for inflationary expectations?

The second thing that is equally true is that once you have inflationary expectations, all kinds of imperfections develop in the market. The basic premise under which the budget was brought down a year ago and under which the budget was brought down last night is that we have normal expectations and we have perfect competition in our markets. Neither is true, Mr. Speaker. As long as neither is true we will not be able to solve the inflationary problem in the economy unless we deal with the two things directly and completely. If we had perfect competition in the marketplace, one could easily see that rates of increases in profits would be equivalent to rates of increases in sales, times past profit margins, plus increasing costs and productivity changes. The present rate of increase in profits is an indication of the imperfections in the marketplace and of groups being able to capitalize on the basis of the situation as it exists now.

What is the government going to do about the situation? Ignore it? Something must be done to prevent non-com-