

The Address—Mr. Gillies

putting more money into the system, and if you keep on increasing government expenditure.

No one, least of all the party to which I belong, has any interest in trying to control inflation by creating unemployment. This would be a stupid and a morally improper policy; bad economically, bad socially and bad politically. But this does not mean that the government has to throw away one whole aspect for dealing with inflation as this government has done. The government is afraid to slow down any sort of excess demands in the economy and, as a consequence, inflation continues. It will continue in Canada this year even if it drops in other countries; it will continue because of the policies the government is following. It is creating inflation; you have to have some demand management policy or inflation will grow.

● (1230)

With a 10 per cent rate, it is inconceivable that we do not have some sort of demand-management policy. We have no supply-management policy, no demand-management policy, no exchange rate policy, no monetary policy and we wonder why we have inflation. The government is creating it and it will continue this year at a rate equivalent to last year.

My final point is that the inflation problem will not be solved in Canada unless we try to perceive Canada and the economy as it really is. Unless you perceive the nature of the structure of the economy within which you are operating, there can be no solution. It is important to see reality. What are the realities in the Canadian economy at the present time? What is the first reality? We are in the middle of enormous inflationary expectations in this country. Does anybody at all believe that we are today in an economy with normal expectations? Why is the price of gold at \$185? Why is the cost of houses in Toronto increasing at the rate of 27 per cent or 30 per cent per year? We are in an economy that is operating on inflationary expectations. If you try to apply policies in this economy that are based on the assumption that expectations are normal, they will fail.

The first thing any government has to do is try to break such inflationary expectation? That is imperative. But the evidence we have had in the last two days gives no confidence that the government will even try. Anyone who reads the Speech from the Throne will have to conclude that it is a program for more inflation, not less. The Prime Minister says it is inevitable.

Second, it is imperative to look at the realities of the structure of the economy. We have made economic policy in this country, and other countries too, since the end of 1945 in terms of monetary policy, fiscal policy and so on, on the basic assumption that we are operating in a truly competitive economy. The reaction is anticipated from policies is the reaction expected in a competitive economy. We have not had that type of economy for a long time and we do not have it now. In a period of inflationary expectations where prices are established not primarily by operation of supply and demand but by administrative pricing decisions, what is going to happen? You are going to have escalating prices that perform no economic function in the system at all.

[Mr. Gillies.]

Does anybody in this House really believe that an increase in the price of housing in Toronto this year of 27 per cent generated a greater increase in the supply of housing this year than a 5 per cent increase in price would have? Does anybody believe that the profit reported today by corporations are necessary to generate new investment in the future? No. Why are these things coming about? It is because there is no competitive force operating in many areas of the economy. Whether we like it or not, large portions of price setting are done on an administrative basis. There is no countervailing power. If we do not recognize this in the making of economic policy, there is no chance that economic policies will work.

What do you do under these circumstances? The first thing is to break the expectation and give an indication that the government is serious about fighting inflation. That is why in our party we have said that one of the first essentials is to try to gather everyone into the effort against inflation. We believe it is essential to have a short-term freeze on elements of the Canadian economy in order to indicate to the Canadian people that we are serious about doing something about inflation.

Yesterday the Prime Minister said that such a short-term freeze could operate successfully in the short run, although it created problems for the long-run. The director of the program in the United States confirms this view. No one really suggests that a short-term freeze is not successful in slowing down expectations and bringing a slowdown in the rate of inflation in a country. But everyone says that if you do not follow it with an incomes policy, an economic policy, a competition policy and so on, it will not work. They are right. At the same time, it is quite clear that if you follow only a monetary policy or fiscal policy alone, it will not work. What you need is the combination in the economy of an incomes policy, a monetary and fiscal policy, and an exchange rate policy developed together. A question is, are you better off to try to deal with the profit situation with an excess profit tax or some sort of incomes policy? It is quite clear that you are better off with an incomes policy, not only because of the fact that sometimes you can hide taxable costs, but primarily because what you are trying to do is not collect more revenue for the government but to keep prices down.

I was astonished yesterday when the Prime Minister said that he did not know what an incomes policy was. It is quite clear what an incomes policy is. You establish in your economy a permissible level for profits, a level high enough to permit continuation of investment in the economy. It is as simple as that. You do not have to have rates of profit increase by 30 per cent or 40 per cent in your economy to get new investment.

It is unfair for the government to say that they are going to ask everybody to do something about inflation when the government itself is not doing anything about it. It is spending more. It is not going to get effective action through voluntary controls. What you have to do if you want to get inflation under control is establish an incomes policy in conjunction with the private sector and in conjunction with labour and consumer groups.

Mr. Speaker: Order, please. Perhaps the hon. member might indicate what his conclusion will be because his time has expired.