resulting from changes in tax rates and directly through changes in the level of government expenditure. Government lending programs also affect the level of total spending in the economy. The management of demand is of central importance and, as I have already indicated, if the halting of inflation were the sole concern of public policy this could be achieved by fiscal and monetary policies alone. What other kinds of policies can be followed to supplement demand management and to minimize the impact on unemployment and unused capacity? The list is very short if we are to maintain the market character of our economy. They are mainly measures to improve the supply side of the picture. They include steps to improve the mobility of manpower, the training of the labor force, including the provision of greater educational opportunities, and also certain other measures such as reductions in tariffs. In recent years governments have placed much more emphasis on supply policies of this kind and this is greatly to be welcomed. However, it has to be remembered that such measures can only have their effects over a relatively long period of time. They are the kind of policies which should be pursued at all times but cannot be used to bring a serious degree of inflation under control within a relatively short period.

After demand and supply policies have been covered I think the only ground left is the area of public response to inflationary pressures. Much depends on public attitudes and public understanding. Given our productivity performance over a long period of time, it is clear that average annual increases in income (all types of income) cannot exceed 3 or 4 per cent in money terms if reasonable price stability is to be achieved. While this annual rate of increase may not seem particularly large in an impatient age like ours, if an increase in real income per person of 3 per cent is projected it means a doubling of the standard of living every 23 years. But the important point to bear in mind, the ball on which we must keep our eye, is that it is real production and not the number of money counters turned over which determines the standard of living of the community. No matter how large the average increase in incomes in money terms, the increase in real terms cannot be any larger than what is permitted by the productivity of the economy. This is an inescapable guide-line that is not established by government but by the performance of the economy itself.

It is to be expected that when inflationary pressures emerge, when there are shortages of certain types of goods and labor, and when there is some rise in the cost of living, demands for increases in money incomes that tend to exceed increases in real productivity will occur. But the degree of moderation in the response to this situation is crucial. Will producers whose products are in short supply react by exploiting their positions to the full and raising their prices as high as the traffic will bear? Will labor unions try to establish a pattern of wage increases far in excess of increases in productivity?...

GLIMMER OF LIGHT

Mr. Chairman, the problems of inflation and inflationary psychology have become so serious that we must, in my judgment, continue on the present course of economic policy until they are finally dealt with. We need not only to continue to use strong monetary and fiscal policies but we also need all the help we can get from supply policies and attempts to improve public attitudes....

As I have already indicated, I believe that our major economic policies are now on the right track. I am also hopeful that we can expect more help from developments in the United States, where the fight against inflation has been seriously engaged. I know that there is a danger of wishful thinking in these matters, but in the past few weeks I have on occasion thought that I could detect some faint glimmering of light on the horizon. There are indications of some alleviation of demand pressures in certain sectors of the economy, both here and in the United States. We may be witnessing the beginning of some healthy uncertainty regarding the inevitability of continued inflation. One is even beginning to hear warnings about the danger of overkill. This is all to the good. What we need more than anything else at this time is to break the inflationary psychology. We must, of course, watch the situation carefully and examine the evidence day by day, but if at the first signs that our policies are achieving some success we take fright and abandon them, we shall be back at Square 1 in the fight against inflation and inflationary expectations. No one should expect the road to price stability to be short; we have too many cost increases already built into the system. And no one should expect it to be painless. But this country has a great potential for economic growth and for improving the quality of life for all its citizens if we can break the hold of inflation. For my part, I am confident that we can muster the determination and persistence to finish this job.