[*Translation*]

Honourable senators, I intend to make a fairly lengthy statement on our monetary policy, which may seem quite academic at times, and I certainly apologize for that at the outset.

Hon. Martial Asselin: Quite scholarly.

Senator Lamontagne: First of all, I want to congratulate Senator Everett on his vigilance as chairman of the Standing Senate Committee on National Finance. In presenting the latest report of his committee last night, Senator Everett expressed several views which I share entirely, and this will become obvious as I proceed with my statement.

Senator Everett spoke as a Liberal and according to the dictates of his conscience, of that I have no doubt. I intend to follow his example, although my views will be completely opposed to his on one basic point, because I am firmly opposed to the present monetary policy. This difference of opinion will only serve to prove, once again, that it is possible and even normal to have differing views on specific points within a democratic party, and that one does not have to seek refuge in an isolated corner of this chamber to live with one's conscience and to defend one's personal convictions.

Senator Asselin: To defend our point of view.

[*English*]

Senator Lamontagne:

MONETARY POLICY ON TRIAL

In recent years, monetary policy has become one of our most controversial subjects. The conversion of the Bank of Canada to monetarism in 1975 was seen by many people as a novel experiment. This so-called new theory, in its simple form, merely reaffirms the old proposition that inflation results from too many dollars chasing too few goods. Therefore, the remedy, is obvious. The growth of the money supply has to be reduced and the level of interest rates must be increased. Recent years have shown quite clearly that the medicine, even applied at high doses, does not work in today's world. But we are told to be patient, that inflation has become chronic, and it will take more time and more doses before the patient is cured.

I, like many others, do not share this belief. Monetarism is new only in name. It is an old prescription that has failed in the past when it has been applied to conditions such as ours. This was the case in the late 1950s. In an article published in 1960, Nobel Prize winner Professor Paul A. Samuelson presented the following report card for the U.S. monetary authorities:

> —the performance of the Federal Reserve over the last few years, its laboratory work so to speak, would rate only a B; the Fed's rationalization of what it is doing, its essay questions, earn for it, I fear, a bare gentleman's C.

If I were making my own report card for the Bank of Canada today, I would give it a D for its performance because, as I will claim later, its remedy is applied to the wrong disease, but I would give it an A for the rationalization of what it is doing because the arguments it has used for its justification have convinced an impressive number of people, including two consecutive Canadian governments.

Before I deal specifically with current monetary policy, I would like to review recent economic trends and to make a distinction between demand-pull inflation and supply-push inflation because this distinction, in my view, is absolutely essential to an understanding of what is happening today.

Stagflation and Demand-Pull Inflation

The industrialized countries of the western world experienced a long period of economic growth and stability between 1950 and 1970. Towards the end of the 1960s, this rapid and sustained growth was perceived as normal. In 1970, for instance, the Economic Council of Canada was urging the government to abandon its role as a "balance wheel" in the economy because it was thought that serious slowdowns were something of the past.

The 1970s caught most observers by surprise. A recession in 1970 was followed by a boom, then by a more severe recession in 1974-75, a mild recovery and another recession in 1979-80. In spite of these three rather serious downturns in a decade, high inflation persisted throughout the 1970s; the consumer price index rose by 113 points during these 10 years, compared with only 34 points during the preceding 20 years.

● (1440)

A new word, "stagflation", that was mentioned by Senator Everett yesterday, was invented to characterize this paradoxical situation. For the conventional wisdom, the new expression represented really a contradiction in terms. Indeed, it claimed that there was only one type of inflation, namely demand-pull inflation, caused by an excessive effective demand and an overheated economy, accompanied by a rapid expansion of the money supply. Hence, persistent rising prices could not coincide with stagnation and excess productive capacity. In its puzzlement, the conventional wisdom explained the inflation that took place in the first part of the 1970s as a temporary consequence of so-called "accidental" factors such as crop failures and the oil embargo.

These unusual events certainly had a significant impact at that time, but stagflation had existed before and has survived since. It was detected, for instance, during the major economic slowdown of 1957-1961 when prices continued to rise although at a slower rate. The same phenomenon re-appeared with more vehemence during the 1970-1971 recession. As the 1970s unrolled, prices became more and more insensitive to economic downturns. During the 1950-1975 period, the average annual increase in real GNP exceeded 5 per cent; yet prices were relatively stable during that period. Since 1975, the annual increase in real GNP has averaged only 2.5 per cent, which is significantly below the potentialities of the Canadian economy, but the consumer price index rose by 72 points.

More recent figures reveal the same situation which worried Senator Everett last evening. During the last recession of 1979-80, the consumer price index continued to climb at an accelerated rate: 8.9 per cent in 1978, 9.1 per cent in 1979, 10.2 per cent in 1980, and 12.3 per cent last month. But in the