growing country such as Canada the government should be forcing industry to slow down on normal expansion programs. I think it is obvious to any thinking Canadian that it should, instead, be introducing policies to increase industry's capacity to produce and thereby keep pace with the growing demand for goods both at home and in the export market.

As a result of the government's negative and shortsighted policy we are losing sales which should be ours and which may be difficult or impossible to regain later. If this country is to meet foreign competition both at home and in the export markets we must make our prices increasingly competitive. Lower costs, as we know, are made possible by the economies of scale and those economies are made possible by increased production, not the reduced production which this government is forcing on industry today.

I think all hon. members would agree that one of the strongest inflationary pressures results from low productivity which forces up costs and thereby selling prices. During the five year period between 1960 and 1964 inclusive, productivity in Canada increased at an average annual rate of 2.9 per cent per year. But last year Canadians generally were alarmed to learn that productivity increased by only 2 per cent, or two-thirds of the average annual rate of increase for the previous five years. This is one of the principal reasons why the wholesale price index in Canada increased last year by 3.2 per cent over 1964 and was 50 per cent higher than the increase in the United States during the same 12 month period.

I think it is obvious that we need financial incentives to induce increased productivity so that our wholesale price index will rise at a reasonable rather than an excessive rate as it is doing today. I find it difficult to understand why, in the face of the drop in productivity that took place during the past year, the government did not introduce and has not yet introduced incentives to increase productivity and thereby make our products more competitive at home and abroad.

Another reason why incentives to encourage greater productivity should have been introduced by this government is that high prices are slowing down the annual rate of increase of our export trade. The industrial trade crusade which was introduced by the Conservative government at the end of 1960 produced, during the first year of operations in 1961, a 10 per cent increase in exports over the previous year and our first positive commodity trade balance in nine years.

Some hon. Members: Hear, hear.

Mr. Hees: Since that time our exports have increased at a higher rate each year and our sales abroad in 1964 were 19 per cent greater than in 1963. However, last year our exports increased by only 4.6 per cent over 1964, or one-quarter of the rate of increase during the previous year. Higher prices of Canadian goods made them less competitive abroad and our sales drive slowed down accordingly. It is obvious that incentives to increase productivity are urgently needed to make possible a satisfactory yearly increase in our export trade.

I think it has now become obvious that in order to keep our economy healthy four definite things are needed. First, a greatly accelerated and expanded program to train the skilled workers which this country needs to carry out its normal industrial expansion. Second, an immigration policy which will attract the skilled workers that our training program is unable to provide. Third, incentives to promote increased productivity and thereby enable Canadian industry to compete successfully in the home and export markets.

• (3:50 p.m.)

Fourth, I urge that the government's tight money policy be replaced by a policy which will provide industrial loans at reasonable rates of interest so that Canadian industry can expand to keep pace with world demand and enable the country to reach its full economic potential.

I should like to deal now for a few moments with the acute shortage of mortgage money which is causing a serious slowdown in the building of houses, particularly those for people with modest incomes. One of the main difficulties is that the federal government has not been able to keep insurance and trust companies interested in lending on a low interest, long term mortgage basis, particularly in the case of individual homes. This was partly due to the government increasing the interest rate. When the rate rose above 6 per cent the banks, of course, were eliminated from N.H.A. financing.

This condition has been aggravated by the steady increase in the amount of maximum loans under the act to $18,000 which, of course, absorbed the available supply of funds into fewer units and brought many purchasers who in reality did not need N.H.A. financing into the N.H.A. mortgage