

speculation. Everybody expects prices will rise. Something must be done to break such expectations.

My second point is that it is folly to think we have a perfectly competitive economy. We do not. I have argued many times that we have a large portion of administered prices in our society today. You have to do something about this situation, particularly in periods of inflationary expectations. The government must also believe this, because otherwise they would not go after the bread industry, the milk or the oil industry in the way they have.

I was astonished to hear the Secretary of State for External Affairs say that the government is opposed to selective price controls. That is precisely the policy the government is following. The minister made a very good argument on why selective price controls will not work. I agree they will not work. They are an ineffective way of tackling the problem. The fact remains that when you have an economy which has high levels of inflationary expectations and some administered prices, there is only one solution: you must have some type of incomes policy. It is folly to think you are going to reduce inflation without it.

Historically, the reason we did not have to have such a policy is that in the past governments were prepared to eliminate excess demand by creating unemployment. No government will or should do that today. We are in a new situation. Throughout the forties, fifties and sixties, when the economy was heated government slowed it down in order to keep inflation under control. Throughout the fifties and sixties that policy worked reasonably well in checking inflation, but at a terrible cost. There was 2½ per cent to 3 per cent inflation. Today, governments all over the world are not prepared to slow down the economy and they are wrong if they try to do so. Obviously, with the great need for goods and services it would be absurd to slow down production. However, if you are not prepared to check demand, you need another policy tool to deal with inflation, otherwise it will escalate and get out of control.

In the fifties and sixties we talked about inflation of 2½ per cent and 3 per cent in Canada. People said that was all right to live with in terms of a price to pay for full employment. However, we are now talking about 10 per cent inflation and we do not have the necessary instrument in economic policy-making today to get it under control. The policy instrument we must have is some sort of an incomes policy. I would be the first to agree that there have been problems with an incomes policy everywhere, but I also agree totally with Sir Alec Cairncross, for a number of years adviser to the British treasury, that we cannot give up the effort of finding the proper answer—the proper way of making it work—otherwise we will never solve this unending problem of continuous inflation.

Just as we had to find a tool in the thirties to deal with unemployment which was a worldwide problem at that time, we must find an instrument today to deal with worldwide inflation and domestic inflation. It is clear the general monetary and fiscal policy applied in the broad-brush way will not work. It is argued that income policies have not worked well. That is true. However, can anyone name a country where monetary and fiscal policies have

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worked? That is the real question. Can anyone name a place where the use of broad fiscal, monetary and exchange rate policies alone have stopped inflation? That is the real question.

We must find a way of putting a new policy instrument, an incomes policy, into effect. We have argued for a broad-gauge incomes policy. That operates through the profit mechanism. We have said that profits should be limited in periods of high levels of inflationary expectation. Basically, profit margins could be set, for example, at the average of a preceding three-year period. Prices would still vary depending upon the product mix of the particular industry, but we do believe that in a period of inflationary expectations there should not be excessive profits over and above those needed to assure new investment in an industry. We believe that this is a proper and an understandable policy, a very workable policy.

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When the Secretary of State for External Affairs speaks about the wartime price and trade board he has no perception of how a contemporary incomes policy would operate. There has not been a policy such as the prices and trade board proposed for years. Now you control profit margins. This is the kind of policy that we have advocated and in which we believe. It can easily be designed to make allowance for import costs and other defensible costs.

The other side of the coin is that you cannot have a prices policy without a cost policy. You cannot ask one segment of the economy to pay all the price of fighting inflation. This is a problem that must be tackled by the nation as a whole; everyone is involved. If you are to have an equitable incomes policy, you must have a price policy and a cost policy. That is why we have said that you must set general standards for the rate of increase in incomes.

I do not believe it is either possible or appropriate in our society for particularly strong, powerful groups on the labour, as well as business, side to take enormous amounts out of the economy and let the weaker groups get an insufficient income. It is the weaker groups that are suffering from inflation. If you have your pricing policy on the one side and your wage and income policy on the other, both designed to set standards, then although the great majority of people in the economy and the great majority of the transactions that take place in the economy are not directly affected by such policies, at the same time you do prevent any group from taking out of the economy more than they are putting into it.

I cannot emphasize too strongly that in this day and age, when governments are not prepared to use demand management policies, you must have a collateral policy instrument—an incomes policy. The fact that we do not have such a program in this country is causing all kinds of problems. I agree totally with the NDP when they say to us today that we should read the profit figures. There are areas where we do not need profits like this to ensure investment in new activity. We must not have excessive profit margins. But we must have reduced prices. No one particularly likes an income policy. Obviously, it would be preferable if inflation would go away by itself and we did not have to do anything about it. But there is no evidence