his cabinet refuse even to discuss it, let alone put forward positive policies to deal adequately with it. Thus, because of the state of petrified immobility which the government insists on maintaining it is up to the members of the Official Opposition as usual to put forward positive suggestions for dealing with this serious problem in the hope that the government may be pushed into taking action which is so long overdue.

First of all, what has brought about this steadily increasing inflation which has reached such alarming proportions and gives every indication of getting worse and worse as the years go on? Primarily it is the fact that during the past four years the Bank of Canada, on the instructions of this government, has increased the money supply, which is the amount of currency in circulation plus the deposits held in chartered banks, from $28 billion to $48 billion, an increase of 70 per cent, while real growth in the economy, which is the level of production, has increased by only 23 per cent or less than one-third of that amount. This very large excess of purchasing power over the volume of goods available for sale has been the primary reason why the level of prices has risen at such an alarming rate during that four-year period.

In addition to this demand-pull inflationary pressure on prices, we have also had a cost-push pressure which has been brought about by a very natural demand by workers for higher wages in order to meet the ever-rising prices of the products they have to buy in order to live. Both kinds of pressure have pushed up price levels at an ever-increasing rate with nobody really gaining and those on fixed incomes being hurt very severely.

Although the government last year introduced increases in family allowances and old age pensions in an attempt to ease the burden of those most severely hit by rising prices, we all know very well that these periodic corrections lag far behind price increases and therefore do not deal adequately with the problem. The only real answer to this problem is a reasonably stable price level which does not increase by more than 3 per cent a year, the average yearly increase in the cost of living during the past 75 years, an increase with which we have learned to live both personally and also with regard to our ability to sell our products competitively in the Canadian market against foreign competition and in the export market, on which we rely so heavily, against foreign competition. The most important reason why we must control our rapidly rising prices is that if our price level increases faster than those of our principal trading partners, our products will become less and less competitive with foreign goods being offered in Canada and in the export market, with the very obvious serious results that are bound to follow.

So I think it is clear that we must take very definite steps to keep prices in this country from rising at a greater rate than 3 per cent a year. I think it is also obvious that the only practical way to do this is to bring production up to a level where the demand for and supply of products are approximately equal.

How can this be done? It can only be done by the government offering incentives to industry and agriculture which will persuade producers that it will be worth their while to make the usually heavy expenditures necessary to expand production by the very considerable

[Mr. Hees.]

amount necessary to do the job. As we know, most producers are reluctant to make these expenditures because of the uncertainties of the future, and they need worthwhile incentives to persuade them to do so. Most producers today will say: Unless you make it worth my while to go out and expand my plant and my equipment and pay the heavy interest charges of today in order to make those expenditures, if later, in two or three years time, I am to find that demand falls off and I am left holding the bag and cannot pay those high interest charges on machinery and plant that are not being used, then I will not make those expenditures. But, Mr. Speaker, if the government makes it worth while for producers to make those expenditures, then they will be made.

● (1230)

Because we cannot sit idly by and watch the present spiraling inflation continue during the considerable period of time it will take to bring production up to the desired level, controls must be introduced to keep prices within reasonable bounds during that interval. The Official Opposition has urged a 60 to 90 day prices and incomes freeze, during which guidelines will be established for prices and incomes to keep them from rising at a greater rate than that required to hold the cost of living to an annual increase of approximately 3 per cent. It is estimated that these controls will need to be maintained for between 18 months and two years while the government's incentive program for bringing production up to the desired level is brought into being and made effective. Once this has been accomplished and production is brought up to or approximately up to the level of purchasing power, then, of course, the control program will no longer be needed and will be discontinued.

Let us ask ourselves what kind of incentive program should the government bring in to induce production to rise to the necessary levels? The Minister of Finance (Mr. Turner) says that the measure which he introduced in his budget on February 19, 1973, is the incentive that is needed to do the job. That measure, as we know, reduced corporate income taxes for manufacturers and producers from 49 per cent to 40 per cent. But, instead of requiring those who receive this tax benefit to spend it on expanding their operations, the minister greatly reduced the effectiveness of his incentive by allowing the recipients to dispose of it in whatever way they wish. They can expand their operations, put the money into the company's reserve, or pay it out in extra dividends.

The ineffectiveness of the minister's program has been demonstrated by the fact that during the year before the minister introduced his incentive this country imported $4.3 billion more of manufactured products than we exported, but during the year following the introduction of the minister's incentive the country imported $5.9 billion more of manufactured products than we exported. So we see that in one year imports increased by nearly 40 per cent over what they had been during the year before the minister introduced his manufacturing production incentive. We see that other countries have greatly increased their sales of manufactured products to this country while our proportion of sales of these products declined considerably. With that kind of economic planning by govern-