reduce inflation. Those initiatives are necessary. They have always been necessary. They will make the economy work better. But to use those policies to avoid doing the right thing to reduce inflation—which is a restrictive monetary policy applied until inflation is brought under control—is to really almost come close to destroying the fabric of this economy. If we do not do it now, then people are going to become so convinced that the central bank and the government do not mean business, that there will be no stopping inflation. I do not think there is any painless way of doing it. I think we have to suffer pain. I think we have to take risks. If there is any stance that the government should take over all the other policies it is to support the Governor of the Bank of Canada in the correct policy for reducing inflation.

Hon. G. I. Smith: Honourable senators, I should like to ask Senator Everett a question relating to the supplementary estimates (A), but before I do so, although I could find many things to disagree with him in his very well thought-out speech, I want to congratulate him on the thoughtfulness and eloquence with which he presented it.

Hon. Senators: Hear, hear.

Senator Smith: My question relates to the last paragraph in the committee's report concerning supplementary estimates (A) which is found at page 2531 of *Hansard* for June 11. It has to do with what I think he referred to as the probability of legislation being introduced to create a revolving fund in relation to the petroleum and special compensation charges. The last sentence of this report reads:

> If it had been applied—

That is the revolving fund idea.

> —to the Main Estimates and these Supplementary Estimates, the total of these two estimates would have been reduced by over $4.81 billion.

That is a very large sum of money. My question is: Does that mean, therefore, the government would be able to spend, if this comes about, $4.81 billion without a vote in the estimates?

Senator Everett: What it means is that the revenue, prior to the legislation that is intended, came from the Consolidated Revenue Fund. Therefore, the expenditure would show in the estimates. What will happen now is the revenues will be derived from petroleum and special compensation charges to the oil industry, and those charges will go into a revolving fund. The petroleum compensation payments will be paid out of that revolving fund. By virtue of the way in which the Financial Administration Act works, all that would be shown in the estimates then is the difference between what goes into the revolving fund and what is paid out.

Senator Smith: I am not arguing the point but only seeking enlightenment, but on the basis of the figure presented in this last sentence of the report, it seems to mean that $4.81 billion would be paid out of the revolving fund without a vote in the expenditure estimates of the government.

Senator Everett: If they balance that probably would be the case; if they do not balance, the amount will appear as an estimate. That is the difference between the payments out of, and the payments into, the revolving fund.

Senator Smith: I appreciate if there was a deficit in the revolving fund it would have to be made up by a vote from the Consolidated Revenue Fund or some other fund, in any event. What I am really asking about is whether this figure of $4.81 billion used here as an illustration of the decreased amount would need to be shown in the estimates. Does that not mean that, using the illustration in the report, there would be, indeed, $4.81 billion that would not have to be shown in the estimates and, therefore, would not require an estimate vote?

Senator Everett: I think essentially, you are correct about the $4.81 billion. I would like to check on that and perhaps give you an enlarged answer at a later date. My understanding is that it would not appear as part of the estimates. The only thing that would appear would be that amount needed to make up the revolving fund.

Senator Smith: I look forward to that answer, and I thank the honourable senator.

Hon. Henry D. Hicks: Honourable senators, I would like to raise a point with Senator Everett which bothers me. I listened to his argument very closely supporting the position taken by the Governor of the Bank of Canada. Although I am not an economist and not as knowledgeable as some other senators in this chamber about econmic matters, I understand the argument that you curb inflation by increasing the cost of money. Hence, people do not spend so much and the cycle comes around and prices do not continue to ascend. What bothers me is that in the present climate, even though interest rates are very high and money is very expensive, people continue to borrow and pay the high interest rates because of the confidence they have in the economy or because of the sureness with which they feel that inflation is going to go on in any case. I think that high interest rates are in themselves inflationary because they add to the cost of money and, hence, add to the cost of goods. Would Senator Everett be prepared to enlighten me in my understanding or misunderstanding of this situation?

● (2150)

Senator Everett: It is my belief that high interest rates are the result of normal jockeying between the supply of money and the demand for money. In a sense it is wrong to say that what the central bank does is say that the interest rate is going to be at a certain level. What is truer is that they try to keep the growth of the money supply, or whatever aggregates they look at, at a certain level. Dependent upon the demand for money at that time that can cause interest rates to increase or decrease.

It is true that they use an interest rate to determine how fast the aggregates grow, but that is a mechanism that is used. In fact, what they are trying to do is target a certain growth for the aggregates, and within that growth there is a demand for money; and if that demand is high it will cause interest rates to be high. It is obviously true that since interest is a cost of doing business in the initial stages, it does add to costs—