erode the competitive position of our industries both at home and abroad.

The major cause of this increase in costs has been the accelerating rise of wages and salaries, which account for some 70 per cent of our total national income. It is quite true that the rate of wage and salary increases in Canada has been exceeded in many industrial countries overseas. But we can never forget that the United States is our major competitor and our major market, buying and selling some 65 per cent of all the goods we export and import. And it is in relation to the United States that our competitive position is being most seriously undermined.

Mr. Speaker, some supplementary material that I shall table later provides a detailed picture of wage and salary developments in Canada and the United States. I recognize fully the defficulty of making precise comparisons of this kind. The preponderance of the evidence, however, is that wages and salaries, whether fringe benefits are included or not, are rising much more rapidly in Canada than in the United States.

In spite of this more rapid rise in wage and salaries, the increase in labour costs per unit of output has been only moderately higher in Canada than in the United States because productivity declined much less in Canada than in the United States. As the U.S. economy begins to pull out of its present deep recession, however, it is likely to experience a much greater improvement in productivity than our country. Under those circumstances, the gap between our unit labour costs and those in the United States will progressively widen and our competitive position progressively deteriorate.

It is perhaps not surprising that wages and salaries in Canada over the past several months should have been rising more rapidly than in the United States. Like the increase in our current account deficit, that is a consequence of the relatively much stronger performance of the Canadian economy since the beginning of last year. What is surprising and disturbing is the size of recent increases in Canadian wages and salaries and their continuing acceleration in a period of slow growth and high unemployment.

I very much understand the concern of working men and women everywhere to maintain and improve their standard of living. It was natural that they should have pressed for increased wages and salaries when faced with rapidly rising costs for almost every purchase and when corporate profits were apparently soaring to record levels. But the increase in corporate earnings, much of which was generated by temporary and illusory gains from inventory profits, has been sharply reversed during the past six months. The share of wages, salaries and supplementary labour income in the national output declined significantly in the earlier stages of the inflation, but the balance has since been fully restored. Wage and salary increases are now running well above the increase in the cost of living. These increases in large measure reflect the effort to restore or improve relative positions, and the widespread fear and expectation that inflation will continue or even accelerate. But a number of recent wage and salary demands appear to bear little relationship to economic reality.

There are some who believe that the surge of wage and salary increases has crested and that we can now expect a substantial reduction in the rate at which we add to our costs. I very much hope that this will be the case, but there is little evidence yet that it is happening.

There are others who point out that we have a flexible exchange rate and if our cost increases continue to exceed those of our major trading partners, our resulting competitive disadvantage can be overcome by a depreciation of the Canadian dollar.

The weakening of our balance of payments has already produced some depreciation. But a continuous depreciation of the Canadian dollar over any length of time is no substitute for bringing the spiral of our costs and prices under control. Indeed, it would aggravate the inflationary process by driving up the prices of the billions of dollars worth of goods and services we buy from abroad. Further, depreciation of our dollar raises the domestic prices of some products which we both export and consume at home. Unless we as a nation are able to conduct our affairs in a way that will maintain confidence at home and abroad in the soundness of our economy, we risk paying a heavy penalty in terms of lower capital investment, lower output, lower employment and lower real income.

Thus we are brought back to the central question of the emerging trend in cost increases.

If the rate of increase in our costs does come down, we will be able to look forward to a sustained expansion of output and employment, supported by the major new investment projects which lie ahead of us. But I cannot overlook the danger that our costs may continue to rise both in absolute terms and relative to our major trading partners. In that event, growth and employment will be impaired. The outcome will depend on whether we are moderate in the claims which all of us will be making in the coming months.

[*Translation*]

## Policy Choices

Let me discuss now the question of policy. In doing so, I recall that my first words to this House as Minister of Finance were that my most urgent priority was jobs. I continue to believe that our greatest challenge is the creation of productive and satisfying jobs for the rapidly growing numbers of Canadians who want to work. One million more Canadians are at work today than when I took this office. But statistics alone are not a measure of human fulfillment. This achievement must be measured by the new opportunities for our young people to pursue their chosen careers, for students to help pay for their education, and for increasing numbers of women to enrich their lives in a meaningful way.

The policies of this government have played a crucial role in making this happen. We have used fiscal and monetary policy, but have never believed this alone to be sufficient. We have stressed the necessity of a high level of business investment and encouraged it by tax incentives and a wide variety of other policies. We have launched new direct employment programs. We have broken new ground in the training of workers and in aiding those who have had to move to other parts of the country where jobs