in food. I did not know it was as high as 16 per cent. The increase for services is lower, 8 per cent, whereas the increase in most of the other items is between 4 and 6 per cent.

I want to suggest that the first item in table 12 is most revealing on the whole situation. As Senator Croll has said, the problem is certainly concentrated in those two things, and largely in food. I must remark that it is a staggering figure, that food should have gone up nearly 16 per cent in two years. I think we should concentrate on that more than on anything else—and I have no doubt we will.

Mr. OLSON: I would like to ask Mr. Bryce for his opinion or comment on the influence of interest rates on this whole question of price increase. I am talking about the cost of capital, but not as it relates to depreciation—the cost of capital for operating purposes and for construction, and all of the other factors that go into the establishment and the operation of our production establishment.

I suppose it is fair to say that there is a traditional economic theory that by increasing interest rates you can in fact slow down the economy and you are hopeful, as perhaps it has been successful in the past, of keeping prices and the whole price structure from moving hand in hand very rapidly. But I wonder if that is still valid, when we are approaching nearly full capacity and where there seems to be a shortage of capital, whether it is in fact doing what it used to do by increasing interest rates. Or do we have a contradiction here—by attempting to slow down the whole economy and keep prices in line, by increasing the cost of capital; it may be, on the other side of this contradiction I am talking about, it may be that all it does is add additional costs to the whole production cycle and to the distribution cycle, and it really does not do what it used to do and does not do what it intends to do, in this stage of our economic development.

Mr. BRYCE: Mr. Chairman, the role of interest rates, in acting as a restraint on expenditure, relates to the whole question of monetary policy and its role in a situation of this kind, and I understand that you will have the Governor of the Bank of Canada before you in another couple of weeks.

Co-Chairman Senator CROLL: Yes, we will.

Mr. BRYCE: This question can best be addressed to him. I think it is quite clear from what the Minister of Finance has said that he feels that the general mix of our policies has been such that we have left too much of the necessary restraint, which finds expression in higher interest rates, to be exercised through monetary policies and credit policies. That is not simply a matter for us; that is true, I would say, of the United States and Europe as well as Canada. The rise in interest rates has been going on throughout the western world and, in fact, we in Canada cannot get very much out of line with that, because, as you have seen, we are big importers of capital.

I suppose that year in year out we are by far the biggest importers of capital in the world. If we are going to get the capital of the world coming in here to invest and finance our provinces and municipalities and so on, we have got to have interest rates that will pull it in.

We do not, therefore, have too much choice in the matter so long as we are large importers of capital and so long as we are putting the capital to good use and getting our monies worth out of it. However, this is part of the price we pay. Our interest rates have to be related to those elsewhere in the world.

This rise of interest rates reflects nowadays some of the great scarcity of savings in the world as a whole. Other countries, too, are expanding and are pressing against the limits on their capacity, investing at high rates, and this leads to high interest rates. The United States has had quite rapid increases in