

Honourable senators, overnight I contemplated the fact that the rate of unemployment in Cape Breton Island is 20 per cent, and in the maritime provinces and Quebec it is much higher than six or seven per cent. Surely Senator Everett is living in an unreal world, and he should familiarize himself with what is, in fact, happening.

Does Senator Lamontagne agree with Senator Everett's comments, and was Senator Everett speaking on behalf of the government? On the one hand, Senator Everett states that people can be unemployed at their option and, on the other hand, he says that he is not trying to be cruel or ignore the plight of people who are unemployed. He also stated that six to seven per cent unemployment is probably as low as it is reasonable to expect.

However, in a small island such as Cape Breton, there are over 3,000 applicants for work with the Cape Breton Development Corporation alone. Those are men who are eager to get work in the coal mines. The same situation prevails with applications for employment in the steel mills in Sydney and throughout Quebec, excluding the metropolitan area.

Does Senator Lamontagne agree with the statements of Senator Everett and was he pronouncing government policy that the unemployment rate should be six or seven per cent?

Senator Lamontagne: I believe that the honourable senator is, perhaps unconsciously, misinterpreting what Senator Everett meant. I think he was answering a question that was posed by Senator Murray, and he started by referring to the definition by economists of "full employment" immediately after World War II when most economists were agreeing that a rate of unemployment of about 3 per cent corresponded to what we could call "full employment." He went on to say that since the post-war period things had changed drastically, and he listed a number of factors to show that what corresponds to the 3 per cent then may be significantly higher today. I am quite sure that Senator Everett would agree with me and with Senator Muir that a rate of employment in the region of 15 to 20 per cent is really intolerable.

● (1540)

Senator Muir: Honourable senators, I thank the honourable gentleman for his fine answer, and I agree with him that it is completely intolerable. I also thank him for trying to get Senator Everett out of the mess he has got himself into, because I would like to invite Senator Everett down to Nova Scotia and take him into the areas where the unemployment rate is 20 per cent, and he can then tell them that 7 per cent is wonderful.

Senator Lamontagne: You should take him fishing; it would be much more amusing.

Hon. Lowell Murray: Honourable senators, I think it is fair to conclude from what Senator Everett said last evening that he feels an unemployment rate of 6 or 7 per cent could represent full employment.

Hon. Royce Frith (Deputy Leader of the Government): Honourable senators, Senator Everett said that he agreed with Governor Bouey when he said that.

[Senator Muir.]

Senator Murray: Senator Frith says that in saying that Senator Everett was agreeing with the Governor of the Bank of Canada. That may be so.

The observation I want to make is that the experts cannot seem to agree whether we are operating now at our potential in economic terms or whether, in fact, there is a great deal of slack in the economy. Senator Everett, in answer to a question asked following his speech, indicated that 6 or 7 per cent represented reasonably full employment and he said earlier that the economy is functioning considerably below potential. He also indicated that the relatively rapid rate of growth in the first quarter of this year was really an aberration and that everybody expects activity to slow down considerably.

The Governor of the Bank of Canada not only thinks that we are functioning very close to potential, but that the potential itself is very low. Although the governor of the bank says the difference is more apparent than real, I read the Department of Finance as indicating that, in fact, we are operating considerably below potential.

What is Senator Lamontagne's view of the state of the Canadian economy at the moment? Are we functioning considerably below potential, or are we in a situation close to full employment?

Senator Lamontagne: The first part of my speech dealt very clearly with that subject. I am convinced that at the moment our economy is operating well below its potential. I have given the most recent official statistics that I could find, and, in spite of the recovery which occurred during the first quarter of 1981, it is still a very slow recovery. I believe that all the forecasters agree with Senator Everett when he said the first quarter was an aberration. I would not call it an aberration, really.

Senator Murray: That was my word.

Senator Lamontagne: It is quite normal as the economy moves from the bottom of a recession to grow quite rapidly, on a percentage basis, at the beginning of the recovery, and then the rate of growth starts to stabilize.

Senator Frith: The figure it is based on is low to start with.

Senator Lamontagne: I disagree with the assessment of the bank. I agree with the assessment of the Economic Council and the others.

Senator Murray: If I understood Senator Lamontagne correctly, he also said that monetary policy is much too blunt an instrument, and that fiscal policy should be our main weapon in the fight against inflation.

Senator Frith: He did not say that at all.

Senator Lamontagne: I said that monetary policy and fiscal policy were in the category of what we usually call demand management policies. These policies are effective when we fight demand-pull inflation and when the economy reaches its potential corresponding more or less to full employment. Then, of course, those demand management policies can be effective. Under such conditions, my claim is that fiscal policy can be much more effective than monetary policy, because monetary