

Furthermore, to compensate for Alberta crude oil cutbacks, the federal government has imposed a levy in order to avoid increasing subsidies for imported oil. In April, the CPI was 12.6 per cent higher than for the previous year. Price increases in the last few months are due in large part to energy costs. These increases are necessary and during the adjustment period we can expect the general rate of inflation to be relatively high. What is cause for even greater concern in the long run is the increase in non-energy and non-food components of the consumer price index. We must also be mindful of the rate of salary increases.

Recent increases, Mr. Speaker, show that inflationary expectations are entrenched in the minds of employees, workers, as well as employers. Increased housing starts in many areas of the country, for example, despite record level mortgage rates, also show that this inflationary psychology is firmly entrenched in our views and in our outlook on the economic future of our country. The vigour of our economic activities and the strength of these inflationary expectations could by themselves explain the upward pressures on interest rates. But we must also consider that for the last few weeks another factor has been influencing this trend. Indeed, the increase in interest rates in the U.S. which exerts pressure on the rate of exchange also greatly affects the interest rate situation in Canada.

High interest rates do not seem to have greatly slowed down credit buying in this country. Save for a few weeks in March, the rapid increase in bank loans, which started in the last quarter of last year, continued. According to recent data published by the Bank of Canada, general loans by chartered banks now amount to more than \$100 billion, which means an increase of \$14 billion over the last seven months. Alternatives to bank credit have also increased. All this points to the fact that the demand for credit in Canada is under terrific pressure.

Considering the context which I have just described, we concur in the interest rate policy advocated by the Bank of Canada to support the Canadian dollar. One can hardly argue that a depreciation of the dollar is required to maintain the competitive advantage of Canadian products on world markets as it has been suggested. On the other hand, this very same depreciation could add to the direct inflationary pressures such as those resulting from the increased price of imported products. This same depreciation could also play upon the indirect inflationary pressures which result from the increased capacity of Canadian firms to grant inflationary salary increases.

Mr. Speaker, I would like to turn briefly from the monetary policy aspect to the financial standing of the government. The statement of financial operations for March as published yesterday gives a first indication of the financial requirements for the fiscal year 1980-81. The initial estimate was set at \$10.3 billion, that is almost \$2 billion less than provided for in the budget. This figure would be moderately altered. The

Interest Rate Policy

preliminary figures on the components of the financial standing for 1980-81 will not be available before July. However, we can now estimate that the budgetary deficit will be about \$1.5 billion lower than expected in the budget.

Mr. Speaker, present monetary and fiscal policies are aimed at checking inflationary pressures. They will not cause instant changes, but they can be expected to slow down the growth of expenditures and thus create an atmosphere in which inflation can be reduced further. It is absolutely illusory to believe, Mr. Speaker, as the hon. leader of the New Democratic Party does, that higher interest rates will have an immediate or concurrent influence on inflation rates.

The impact of a monetary policy compounded with an interest rate policy that conforms to inflationary pressures is a medium and long-term process. Any attempt at finding a wonder solution that would bring down interest rates overnight to something like 7 per cent while dispelling inflationary pressures, would be altogether illusory. On the contrary, such a policy would only add oil to the flames of inflation. By and large monetary and fiscal policies that do not contribute to inflation are recognized as absolutely necessary if sustained progress is to be made in wresting down inflation. A marked decline in the inflation rate is known to be a prerequisite to relatively low interest rates.

However, Mr. Speaker, it is also generally agreed that the speed and ease with which those policies will reduce demand, and consequently decrease inflationary pressures, are subject to many factors which are in turn extremely variable. As a rule, if all decision-makers in the field of economics were immediately and totally convinced of the need to pursue the policies I have just described, the path to a lower inflation rate and lower interest rates would be short and relatively smooth. But actually we will probably have to take a much rougher road. The strength of the demand for expenditures and credit may initially push interest rates still higher, especially if inflationary expectations persist, and all the more so if they are compelling. It is very important to stress, Mr. Speaker, that the fight against inflation cannot be waged by the government alone; to win the fight against inflation the efforts of each and every economic agent must be co-ordinated.

The government has an important part to play in directing the fiscal and monetary policies in order to draw up a consistent strategy to fight inflation. However, economic agents from the unions to the employers, the corporations and even the individuals must also be convinced of the need to fight inflation, and also, as economic agents, to take the necessary steps to ease inflationary pressures. Yet, the co-operation of all these agents of the economy is of vital importance and should complement, as I said, the efforts made by the government to contain rising production costs and inflation.

The Conservative spokesman has moved an amendment to the motion of the leader of the New Democratic Party. The purpose of his motion is to call on the government to introduce