

if we want to do something about inflation we cannot do it because of world-wide problems. The reason we do not do anything about it is that we do not want to do so, we do not want to disrupt some of the patterns and traditions of the past. What we have decided to do is not to isolate ourselves in any way from the international forces that add to inflation in Canada.

● (1220)

What one would have thought would have been done a year ago, or two years ago, essentially was to allow our exchange rate to rise. But we did not do so. We kept the exchange rate floating with the American dollar, but it has been a very peculiar type of float, as the leader of the NDP likes to point out. It was a float designed to maintain parity with the U.S. dollar, because any time capital movements took place that might have changed the exchange rate, the money supply or the interest rates were changed.

When the U.S. dollar was devalued our dollar was also devalued, at a time when any rational policy would have been designed to slow down export demand in the face of rising prices. Instead, we assisted in increasing the demand by following economic policies which assured that the Canadian dollar would stay in parity with the American dollar. What we have done has been to allow the prices of our export products to rise domestically in face of world demand, and the government seems willing with some exceptions, to accept world prices on the domestic market. It has done nothing to slow down the demand situation by operating with a really flexible exchange rate, as one would have expected it to do.

We moreover, have not really looked at the question of whether or not our policy of exporting everything we can export, of trading for trade's sake, is really what we should be doing in this changing world. Surely, the message in the change of the Arab oil policy is that we have to begin to think seriously about the use of our non-renewable resources. Does it make sense in Canada today to sell our resources at the highest price to the highest bidder? Not only does this have enormous inflationary effects but it also raises the question of whether it is a moral position to take. Are we really prepared to let our resources go to the highest bidder? Do we really want the rich countries to become richer and the poor countries to become poorer because we are willing to let our resources go to those countries which can pay for them under any conditions?

The government contends that it will try to solve the inflation problem in Canada over the long run with some type of supply policies. Mr. Speaker, we remember our experience with the government's previous supply policies, with its policy of killing chickens to raise the price of eggs, and with its program in the west to reduce the production of wheat. If the Minister of Finance (Mr. Turner) is really concerned about supply problems, if he thinks supply is the answer to inflation, then why doesn't he do something about supply problems now? Why doesn't he slow down some of the exports of our raw materials? Why does he not have them processed in this country? Why doesn't he have a supply policy right now?

Some hon. Members: Hear, hear!

The Address—Mr. Gillies

Mr. Gillies: It is absolutely wrong to suggest that inflation in Canada is induced entirely by external forces. That is not true. If we want to do something about the problem we can do it if we only have the will, the courage, and the imagination to move.

At the same time as we have had this failure to do anything so far as supply is concerned, we have followed a fantastic expansionary domestic monetary policy. By and large inflation is a monetary phenomenon. I completely and absolutely agreed with the member for York South (Mr. Lewis) yesterday when he made the statement that it is wrong to say that inflation is caused by increases in wage rates. It is not. The increase in the money supply, in the dimensions that we have experienced in the past few years, guarantees that we are going to have increased inflation. Over a period when production is being increased by 17 per cent or 18 per cent, you cannot increase the supply of money by 50 per cent without having an inflationary situation. You have to make a distinction between fiscal and monetary policies, a big distinction. But the government has never been prepared to make a distinction, to recognize that the impact of monetary policy is primarily on prices, and that the impact of fiscal policy is primarily on output.

It is quite conceivable that monetary and fiscal policies can work in opposite directions, but we have had inflation induced in this country by an increase in the money supply unmatched by any other industrialized nation in the world in modern times.

Finally, Mr. Speaker, the government asks people across this country to be restrained in their expenditure patterns and policies. But today, depending on how you work out the figures we find that the government, in a year when the inflation rate is 10 per cent, is increasing its expenditures by—pick your own figure—20 per cent.

Mr. Stanfield: Be fair; it is only 19.6 per cent.

Mr. Gillies: By 19.6 per cent. It defies the imagination. Doesn't the government really want to do something about inflation? To increase expenditures by that dimension in an inflationary period makes no sense at all.

The reason we have so much inflation in Canada is government policy. The government's own policy has created most of the inflation that we have in our economy. The question is, why do we have these absolutely ridiculous things going on? It is almost a psychological problem, but actually I suspect it is more of a political problem.

When you think about it, Mr. Speaker, the reason has to be that the government was so bruised by the policy it followed two or three years ago, a mistaken policy, of slowing down the economy to try to fight inflation—in the process creating 7 per cent unemployment, the highest unemployment rate in the industrialized world at that particular time—that it has frightened itself into following another mistaken policy. There is no question that inflation did slow down at that time, but as a consequence of that policy the government apparently has decided it can do nothing at all about the demand-management side of the inflation problem. It is so frightened that something may happen to the unemployment rate that it will not act. This makes no sense. If the economy moves up, with reasonably full employment, you get inflation if you keep