

The Address—Mr. Gillies

I need not dwell on the cost to Canada of this unemployment. There is the cost in terms of human misery, as we were told so eloquently yesterday by the Minister of Finance (Mr. Turner). The fact is that there are almost 600,000 Canadians who are not working now and many of them were not working a year ago. That is a national shame. The other cost to the country and to the government, is the cost entailed in the lost production that we can never recover. No one knows exactly what that loss may be. According to present estimates, it probably lies between \$7 billion and \$8 billion a year. In addition, of course, because of this high level of unemployment, many Canadians are not paying taxes who otherwise would pay them and the tax burden on Canadians fortunate enough to work is that much higher, because they must support the various schemes for helping those who are unfortunate enough to be unemployed.

As if our unemployment rate was not sufficiently shocking, we are also faced with the problem of inflation. We will not see the new inflation figures for another two days, yet it appears that the inflation rate in Canada this year will probably be at about 5 per cent and that it is apparently rising. Again, there is a cost to Canadians in terms of the erosion of their savings, and the suffering of those on fixed incomes is practically incalculable. What is also devastating is that our present inflation rate is higher than the inflation rate of the United States. There, the rate of inflation appears to be about 3 per cent, while ours will be at about 5 per cent. That differential may be of enormous and serious consequence to the future development of the Canadian economy. We all know that about 25 per cent of the Gross National Product of this country is generated through foreign trade and about 75 per cent of our foreign trade is with the United States. If we are priced out of the American market because of the rise in prices in this country as compared to those in the United States, the effects on unemployment could be enormous.

In short, the performance of our economy is perhaps as poor as that of any industrialized country in the world. We suffer from a high level of unemployment and a high level of inflation.

How did we reach this situation? Clearly by following wrong policies. The first great mistake made in Canada was in accepting the proposition that there is some sort of trade-off between unemployment and inflation; that the way to solve inflation is to create unemployment in our economy. This is a proposition that is based on the idea that the reason you have inflation is that you have an excess demand in your economy. One could argue for some time the morality of accepting the idea that you are going to cure inflation by having high levels of unemployment. Aside from that, the fact of the matter is that over any extended period of time it just does not work. The analysis is wrong, the application was wrong and the results have been disastrous. Inflation in this country is not the result of excess demand. In fact, even though inflation could be the result of excess demand, when you have a 6.5 to 7 per cent unemployment rate it makes no sense at all to think that the way you will solve the inflation problem is by cutting down demand. Such a view is simply preposterous.

[Mr. Gillies.]

• (1640)

The cause of inflation in this country is a cost-push situation, and we have to attack the problem on that side if we are to have any sort of success. We can see today the results of accepting the trade-off proposition as a basis for economic policy. We now have in our country rising prices and rising unemployment. We have both inflation and unemployment at the same time, and this is a new phenomena for Canada as it is for most industrialized countries. It is a great mistake to think that we can solve this new type of problem through the traditional use of monetary, fiscal and exchange rate policies.

The second mistake we made in the last few years, a mistake which the Minister of Finance alluded to the other day, was in respect of the time it takes economic policy to work in Canada and what the lags actually are. There is no question but that the government waited far too long to move from a policy of restraint to a policy of expansion after it was clear that the unemployment rate was not going down in the way the government hoped it would. Even today, with an inflationary rate of 6.8 per cent, there is still some debate as to just how expansionary the economy is at the present time. There is a debate as to whether or not we still have some fiscal drag in the economy.

If you take the budgetary surplus for the first eight months of 1972-1973 on a public accounts basis we find it is \$759 million. A year ago it was \$172 million. I realize there is a difference between public accounts and general accounts, but even so, the fact that there could be any sort of debate as to whether or not there is a budgetary surplus when we are operating in an economy with 6.8 per cent unemployment seems almost incredible. It seems to me we must find ways in order to interpret much more intelligently what the lags in the economy are and how we are going to be able to overcome them.

The third mistake was a failure to recognize the great structural changes taking place in our economy over the past few years. I have heard, as I am sure everyone in this House has heard, that the reason we have high unemployment in Canada is the great rate of growth in the labour force. We have a great rate of growth in the labour force, but it was very apparent in the 1960's that in the 1970's we were going to have this growth. People were already born, so it was very evident they were coming into the labour force. Moreover, we have known that in the past few years we have become a society of cities. We are one of the most rapidly urbanizing nations in the world. We knew the type of jobs people would need in the 1970's would be a great deal different from the type they needed in the sixties. We knew the labour force being developed for the 1970's would be one with a great deal more education than in the past. All of these things should have been recognized and something should have been done about them, but nothing was.

Similarly, we certainly should have seen by 1970, or even before, that we had to consider the impact of foreign investment in this economy and what its impact on employment opportunities was. We certainly should have recognized the role of subsidiary corporations in the Canadian economy and what they were contributing as