many people and the government entertain funny ideas about this; their conception of money is very vague. For instance, they often feel that money is automatically created by economic activity. This is far from being true. For example, the owner of a cattle herd is not in fact creating its financial value. We are convinced that a great many of them would be willing to testify in this connection. In fact, the production of goods and that of money are the results of two quite different processes.

Money is a banker's creation. In Canada, the Bank of Canada exerts total control over the money supply. It controls the reserves held in chartered banks. Because of these reserves, chartered banks can issue financial credits which are used by the people in the community. Considering that they put in circulation as financial credits something like 16 times the amount of money they hold in reserve, these institutions play a determinant part in deciding the conditions under which the community will obtain its purchasing power.

If the community can obtain financial credits, it is in part because it will eventually reimburse these credits with interests. Because they must reimburse both capital and interests, people end up paying for products a lot more than the original price. Just as a family may have to pay in interests as much as three times its purchasing price before it can call it its own, likewise governments generally pay for public works three or four times what they are worth, not to mention certain dredging of navigable waters.

So, high interest rates are a direct cause of high prices. If interest rates were reduced to reflect the administrative cost of a loan, it is evident that the current tendency towards higher prices would be considerably curtailed. Moreover, if the chartered banks refuse to issue credits at reasonable interest rates, nothing prevents the Bank of Canada from taking their place. Its main responsibility is to administer the money supply in the best interests of the Canadian population. Inflation is directly opposed to these interests. It can therefore be said that the Bank of Canada has the responsibility to remove this obvious cause of price increases.

We can therefore see, Mr. Speaker, how the present monetary system is responsible for inflation, at least as concerns interest rates. However, it is also responsible for inflation at a level which does not necessarily concern the question of interest rates. When we realize this, when we think about the real causes of the present economic situation, we are already on the way to finding a solution. In other words, we come back to the true logic, which is only common sense, of organizing an economic policy based on something which, even though it is elementary, as I said at the beginning of my speech, is still most logical. When Canadians are told that they cannot get such or such a product because of inflation, that they cannot buy even food products because the prices are too high, it is a scandal and a sacrilege in a country as large as ours, as wealthy and as full of all kinds of riches, to have to tighten our belts and put up with inflation. If the suggestions of the Social Credit party were accepted, this phenomenon simply could not exist since, if all our activities and the whole economic administration were concentrated on this common sense equation between production and consumption, prices would never be too high since all consumers would have sufficient purchasing power to buy the products. When these products become too expensive for one reason or another, you simply have to use—and this is one part of the motion that we are studying today—compensated prices so that the consumer may still obtain essential consumer goods.

When we analyze the costs of production which go into present prices, we see how the system is upside down and how it could be put right side up.

● (1530)

Let us suppose, for instance, that a company decides to build a new plant, what happens? To finance the project, it gets a bank loan to buy building materials and hire workers. When the workers start receiving wages, the loan money, which at first represented an increase in the money supply when it was given to the company by the bank, is now being transferred to the employees.

Now, let us suppose that there was a balance between the prices of available products and the money held by consumers before the plant was started. This balance is now being destroyed. The wages of the workers who are building the plant, wages which are generally spent on receipt, form a surplus of money in relation to the commodities and products available. In conformity with the principle of supply and demand, merchants realize that they can get more for their products and raise their prices to take advantage of the situation. Workers had more money in their hands, but they do not get any profit from it, since that money is immediately taken from them because of the higher prices of products they could have got anyway. This explains why inflation accompanies the expansion of industry and public works in the present economic system. This also shows the uselessness of government measures to fight inflation by increasing production.

Mr. Speaker, a choice must be made. The problem is not caused so much by excessive profits by employees or employers. In fact, that is only the present operation of the monetary system currently in use.

Consequently, the choice that must be made by such industrialized countries as Canada is the following: they can simply continue to use the present system going in turn from economic crisis, recessions, to overgrowth, while extreme situations become increasingly tragic with time, or they can change their monetary system to issue new credits that will go directly into the hands of consumers without also being registered in prices. This will also have the effect of avoiding those credits being prematurely snatched from the population at arbitrarily inflated prices.

It is indeed strange to see that no country has yet turned to the other alternative though it contains obvious and impressive advantages. Not only would it eliminate obvious defects in the monetary system and the price system currently in use but it would also have the effect of promoting increased independence and security for all members of society.

Why, Mr. Speaker, could Canada not be the one to show leadership in the world? It so happens there is another scandal in Canada. In a country whose resources have barely begun to be tapped, a rate of unemployment of 5, 10,