

Mr. OLSON: Thank you, Dr. Neufeld. I have one other point, and I asked the same question of the Deputy Minister of Finance yesterday. It has been raised by many people over the past few months, and it is this matter of interest costs. You mentioned it in your brief as well.

Now, I appreciate that in reply to another member earlier today, you said that the interest rates in the capital market, so far as supply and demand, were working, in your opinion, exceedingly well. But the traditional economic theory is that increasing interest rates by imposing a restraint does in fact hold the price structure in line. That is a consequence of the restraint. Do you think that it has succeeded? Never mind the amount of the restraint, but on balance has the added cost of interest rate in fact assisted in holding down prices, or has it contributed to the prices and to the cost of living index during say the last 18 months to two years?

Professor NEUFELD: I think that it has assisted in keeping the cost of living down. I think that had we tried to keep interest rates low, at the levels they were a few years ago, we would have had greater increases in the cost of living than we now have.

I said before that I think the interest rate correctly reflects the supply and demand forces. In that sense it is working well. However, I want to go on now to say that we have found that while interest rates and tight money can make some contribution to controlling excess spending, there is a lot of evidence to suggest that by itself it is not sufficient, and particularly in the area of controlling capital spending by business.

There are times when business seems quite insensitive to interest cost, and this is why I think that the kind of experiment that was contained in the last budget, the experiment with what I would call the "cash flow" tax, is very interesting and very useful.

Why? Because this is an attempt to control the volatility of capital spending through fiscal means, after having quite a lot of evidence that argues that you cannot control it by interest rates and monetary policy alone.

Mr. OLSON: Do you have any other suggestions that should be used with this monetary policy?

Professor NEUFELD: I think that the cash flow tax is a very good start. It may well be that the 5 per cent was not right, because, again, we are entering a new world here. We have had no experience. It might be that it should have been 7 or 3 per cent, for all I know. It might also be that we can do more in terms of changing depreciation allowances in order to encourage business capital spending when there is unemployment, and discourage it when there is inflation.

I think that experimentation in this area must go forward. I think, though, that what we are likely to do is to make variations on these things rather than make quite new departures.

Mr. OLSON: Thank you, Mr. Chairman.

Mr. CAMERON: Mr. Chairman—

Co-Chairman Senator CROLL: Mr. Cameron, Senator Vaillancourt has one quick question.

Senator VAILLANCOURT: If you will permit me, I will speak in French. However, we have bilingual translation.

We have been discussing interest rates since this morning. For my part, I have little experience as an Oxford man or as a student of some other great university, but for sixty years I have lived with the "caisses populaires".

The "caisses populaires" are the equivalent of the credit unions in the United States and in provinces outside Quebec.