

agree, whether you are for or against controls, that they distort investment patterns and the very perception that there may be controls can start off, as it may be doing today, a new round of price and wage increases. Once you get into controls—and we found this the last time—you either have to abandon them and return to inflation rates that are probably higher than the ones you started with, or you have to make them more and more stringent and run the risk of gradually strangling a free economy. We are presented with this TIP idea which is made to look extremely attractive by its proponents and which looks very simple because it uses the tax system. I suggest to you that, as simple as it looks, when it is put into operation it will be complex and suffer from every defect of the control system. I do not believe that any control system should be used except in the most serious of circumstances and certainly should not be used as a threat, for all it does is accelerate price and wage increases.

There are also those who say we can get through this without pain if we have what are called “supply-side measures.” They say, “What you want to do is increase the supply to meet the demand. If you do that, nobody is going to be hurt; everybody is going to be happy.” They suggest measures to increase investment; measures to ensure the efficient operation of the economy; and measures to improve productivity. There is a school of economists now in the United States who have great influence on American policy. They are the supply-side economists and they are saying that if you put supply policies into operation you can lick the inflationary problem.

I agree that supply policies are absolutely necessary to achieve an efficient economy, but they may take a long time to be effective since their one quality is that they operate in the medium to long term, and they do not operate in the short term. I do not believe they will be effective in controlling inflation, although they are necessary for other reasons. I think it is a cruel hoax to suggest that, through supply policies, it will be possible to control the rate of inflation. I do not think it is true.

There are those who suggest we can get through this by what they call “gradualism”—we can do what we must, but we will do it over a long period of time and it will not hurt very many people. The fact of the matter is that we have been doing that now for four or five years. It has not worked, and the agony is being prolonged. Gradualism very much contributes to the “stagflation” that we are suffering from today and, in the end, as the gradualism becomes more and more stringent, it eventually works and the very crunch that you try to avoid you are confronted with.

Finally, there are those who say, “Really, what we need to control inflation is a combination of all of these measures.” That sounds very effective. Why not employ all of the measures? It seems to me that if we do, we will get the feeling that everyone is being treated equally and that nobody is being made to suffer by having to pay more than the other fellow. It is fine to use all the measures, providing you are not using all the measures in a way that causes you to misuse the one effective policy available to you.

[Senator Everett.]

Running through this whole problem of our economy is the great difficulty of expectations. Expectations of continuing inflation are extremely high. That is one of the reasons for “stagflation.” It is one of the reasons that some of the best brains in the country are not spending their time trying to analyze how they can increase investment in productive resources. They are spending their time trying to analyze how they can beat inflation by buying collectables, land, gold, and so forth. That is what the brains are doing, and they are doing it, for the most part, fairly successfully, but it is not doing much for the economy of the country.

How people feel about an economy is crucial to its operation. We have to destroy those inflationary expectations. We have to convince people that, when they invest their money in anything, there are winners and there are losers. People today are convinced that, if they put their money into Vancouver real estate, they cannot do anything but win, and until they are convinced that their investments can result in losses as well as profits, those expectations will continue. In doing this, somehow or other we must maintain public buoyancy—that is, the feeling that the economy is sound and growing—and we must try, if possible, to avoid public panic and despair. This is a tall order, and the question is: How should we go about it?

A number of policies are available to us. It seems to me that what is important is to know just how they are effective. In generic terms, it seems to me that there are two types of policies. There are those that will improve the general operation of the economy such as incentives to encourage productive investment; the reduction of regulations; measures to improve the functioning of our labour markets such as manpower training programs; even balancing the budget; and reducing the size of government. All of those policies can contribute to a more efficient economy, but they take time to be effective, and they are only effective if they are applied evenly over the medium-to-long term.

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They will assist our economy to grow and through growth we can provide greater benefits to society and, indeed, they will reduce the inflationary tendencies in our economy. But they will not reduce inflation. The only way to reduce inflation is to reduce demand, and the only way I know to reduce demand is a restrictive monetary policy which works by slowing down the economy. I admit it is uneven in its application. It has the potential to go too far. When we find every country in the free world applying restrictive monetary policies, there are real dangers. But it will do the job and it will do it in the short-to-medium term.

I believe our stance should be one of recognizing that a restrictive monetary policy applied over the necessary period of time is absolutely essential to destroy expectations and to destroy inflation. We should support the governor and encourage him to continue the policy until it does work. We should not confuse the idea that because we balance the budget, reduce taxes, conclude an energy agreement with Alberta, spend money on manpower training, or adopt all the other supply policies that are available to us, that we are going to