

*Inflation*

economy than the economy itself can produce in the short-run. If the country needs some steel, then you build a new steel mill; but while you are building the mill and waiting for the steel to be produced you have to give up something else. The government has not understood that, and the net result is that we now have continuing inflation and rising unemployment.

The failure of the policy is self-evident. By trying to fight inflation through conventional methods—high interest rates and so forth—the Minister of Finance (Mr. Turner) has actually stopped any increase in supply, something which the government really wanted. One of the major reasons for inflation is the rapid increase in the price of housing and the decline in construction starts. We now find ourselves, after three years of mismanagement confronted with the terrible problems of continuing high levels of inflation and rising unemployment. The way the government has attempted to fight inflation is in fact the cause of most of our problems.

There is a decline in the rate of growth in the GNP. Probably in the next quarter it will be down more than it is in this quarter, and this is a clearcut demonstration of the policy failure that we have seen over the last two or three years. However, I do not particularly want to deal with these failures this afternoon; rather I just want to mention a couple of other things that I think are really more important.

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First, one consequence of the way in which the government is approaching inflation is that we are developing a sort of fatalism about economic policy making in Canada. There has never been a time in Canadian history when the Canadian people had so little confidence in the ability of the government to make economic policy work. As one goes around the country talking with people one finds more and more of them saying, "You cannot do anything about inflation." As a consequence they are not willing to support programs and policies that attempt to fight inflation. As long as the government continues to rationalize and pretend that nothing can be done at all, and tells people that nothing can be done, nothing will be done. The price we may have to pay for this attitude on the part of the government could be very high indeed.

The second thing that is always said, because people want some type of explanation for the situation, is that nothing can be done because inflation is really an international problem. It is true to say it is an international problem, but it is wrong to say that nothing can be done. It is amazing to find secretaries of the treasury and ministers of finance in other countries beginning to pick up the language of the Minister of Finance (Mr. Turner), in the sense that they too are saying that nothing can be done because it is an international problem. George Mitchell, a member of the board of governors of a U.S. federal research group, speaking in Iowa a few days ago, said that the United States could not do too much to stop inflation as it was an international problem.

The only place people have not been saying too much about it being an international problem is in West Germany where the inflation rate is half the rate of inflation in Canada and the United States. It is a tremendous

[Mr. Gillies.]

disservice to the people of Canada to suggest that because inflation is an international problem there are no domestic actions that can be taken to deal with it.

The hon. member for Mississauga said that probably the major cause for inflation was the increase in oil prices. I would ask him to take a look at a chart of the rate of inflation around the world, without any dates on it, and pick out the point in time when the increases in oil prices took place. You just cannot tell. It was a modest item, but not an important one in contributing to the present high rate of inflation.

The point I want to emphasize is that it is not sufficient to say inflation is a world-wide problem, and hope therefore that you can dismiss the problem and not have to do anything about it. The fact is that while inflation is taking place in all countries, it is only when each country decides to do something about it that the problem will be solved. The fatalism and escapism the government is perpetrating on the Canadian people are serious things, in fact some of the most irresponsible things any Canadian government has ever done.

The other thing that is happening in relation to the inflation we have is that some of the traditional views about proper economic policy are being challenged. It is an interesting question as to whether there is still a trade-off between unemployment and inflation. The government has always said it will not fight inflation on the backs of the poor, but in fact that is precisely what it is trying to do by allowing an increase in unemployment. The government hopes that there will be enough unemployment so that the rate of inflation will slow down. This probably will not work out as expected. Aside from the immoral aspects of this approach, it is probably wrong economics.

What we are really going to find is that unemployment will continue to rise, inflation will not drop very much. The old trade-off the government has always counted on is not going to work for us. Similarly it seems possible now that increasing taxes, which used to be thought of as a positive way of fighting inflation, will not work. Taxes now are simply passed on in the economy in the form of higher prices.

It also seems probable that the move toward higher interest rates will not fight inflation. Again high interest rates have been looked at as a means of slowing down levels of investment, but as they rise they are simply passed on in terms of higher prices to the Canadian people. The net result is that the traditional policies we have counted on simply are not working any longer, and the government has given way, passed over, or decided not to use what have always been the traditional policies in relation to economic activity.

In the first report of the Economic Council of Canada it was stated that the goals of economic policy making in this country ought to be the maintenance of reasonably full employment, relative price stability, diminution of regional income disparity and income disparity among people. What has happened to these goals? We now have the Economic Council saying, and the government of Canada accepting the proposition, that the real goal of Canadian economic policy should be to have less inflation than other countries with which we trade. What a cop-out that is. If we adopt that position what we are really saying