annual deficit, a dollar which steadily declined in value. This would have made Canadian goods cheaper in world markets, and imports into Canada more costly, so that currency market forces would have driven us to import fewer consumer goods. In such a condition our standard of living would have been adversely affected. If we had begun to produce for ourselves the goods which we were importing, their cost would have been greater because we lack the national market to achieve economies of production on an economic scale. We might have achieved such economies of scale by finding international markets for our manufactured goods, but this would have been difficult because of the international protectionism of the high tariff walls which have existed to protect foreign domestic markets from manufactured goods.

We might have scaled these walls, but only if our consumer goods production costs, which are largely labour in the final analysis, had been kept low. The problem, as you can see, becomes a circle and supports my original view that such a situation would have meant a lower standard of living for Canada. Fortunately, Canada never had to face this economic scene because our balance of payments was not made up only of the trade account. There was the capital account as well, which historically always offset our trade deficit. This account reflects the balance of capital inflows and capital outflows. Here we always had a positive balance to offset the negative trade balance. This account reflected the willingness of the outside world to lend money to Canada and to buy and invest in Canadian assets and businesses. This capital inflow has developed our economy, brought resources to market and put Canadians to work. Of course, foreign capital has been supplemented by a growing contribution of Canadian capital.

• (4:00 p.m.)

Much is being said these days about foreign capital versus local capital. Political careers are being built on this issue, and judging from the experience of Hon. Stan Randall, the former minister of trade and development in Ontario, careers are also being destroyed over it. I do not want to take time in this debate to repeat my own position, which I have already put on record in *Hansard,* but for this monetary argument I have to note that no one I have heard speak on the subject, from the most fervent ideological continentalist to the most desperate provincial premier representing a depressed region and seeking only to produce work opportunities for his province, feels it is better to use foreign capital than to use local capital.

The sum of what is said at the extreme right of the spectrum of opinions is that there is no difference between foreign and domestic capital, or that if there may be a difference we need foreign capital anyway because we do not have enough domestic capital to produce economic growth. The point which I am trying to develop is that there is indeed a difference between foreign and domestic capital, an extremely important monetary difference and one which is quite apart from any arguments based on nationalism.

Economic Growth and Employment Situation

Getting back to my review of the three elements which make up our balance of payments, there is, thirdly, the invisibles account. This reflects international travel and shipping costs, but for Canada it is largely made up of interest payments, dividends, royalties and management charges. Here the balance has always been negative. That is to say, we pay out more than we receive from abroad. Fortunately, because of our continuous economic growth invisibles never fully offset our positive capital balance. Foreign capital has continued to flow into Canada at a far greater rate than the return paid on capital already invested here. Contrast our position with some Latin American countries where foreign debt service alone exceeds all other international transactions. In summary, the invisibles account represents a small offset to the positive balance in our capital account.

Summing up so far, the Canadian dollar did not constantly fall in response to our trade deficit because of the capital account positive balance. It was the continuous capital inflow which permitted us to pay for our imports which, I noted, have tended to be largely consumer goods for which our own production could not be economically substituted.

The remarkable development which has occurred in the last two years has been the disappearance of the traditional Canadian formula for balancing payments. I believe that few people in Canada recognize the implication of our new situation. I suggest that the government has not yet adequately come to grips with it. The new situation has been referred to as a "reverse exchange" crisis. The source of this crisis is that our balance of trade has finally become positive, an event which any eighteenth century mercantilist would regard as an absolutely good thing. The business community is proud of it and the government is very proud of it.

Judging from market predictions for our natural resources in world markets, there will continue to be a positive balance into the future so long as we want one. But in coming to this point we have run up against an inexorable monetary law. When the balance of payments is positive in capital and trade, and not fully offset by invisibles, the Canadian dollar goes up. We are today in exactly the position we were in when the dollar was released from 92.5 cents Canadian. The government has, again, a $5 billion investment in keeping our dollar below U.S. parity. This investment is a subsidy to exporters and to domestic manufacturers of goods which compete with imports. But I do not see how the government can hold the tide of pressure caused by the net inflow.

There was an article this morning in the *Globe and Mail* which called for the dollar to be pegged at somewhere close to 92.5 cents. This request is sadly naïve. It is asking the government of this small country, in effect, to risk all our resources to support the United States dollar. It would make our dollar the biggest bargain in the world, and foreign speculators would descend in hordes to take advantage of the government subsidy. It is impossible to fight the fundamental, long-term prospect of disequilibrium with a subsidized dollar.

I propose to the government an approach toward solving this disequilibrium crisis based on the analysis I have