Finance said on a number of occasions, better reflects our trade relationship with the U.S. We should look at one reason which has not been explored fully this evening, although the hon. member for Waterloo-Cambridge (Mr. Saltsman) alluded to it. We are all aware that U.S. multinationals control a great deal of our economy, I believe about 85 per cent of our oil and gas industry, and 60 per cent of our manufacturing industry. Because of this extensive U.S. control, much Canadian money is being transferred to the U.S. in the form of interest and dividend payments. Interest payments are necessary because there is much borrowing in the U.S. for Canadian purposes, or at least there has been. Dividend payments are necessary because many U.S. companies operating in Canada are only listed on the New York stock market.

This extensive flow of Canadian dollars into the U.S. is increased by the fact that Canadian tourists spend more in the U.S. than U.S. tourists spend in Canada. Although we have a surplus of trade with the U.S., it is not sufficient to cover this services account deficit.

A year ago our interest rates were 4 per cent higher than those of the U.S. This higher interest rate attracted U.S. capital into Canada for safe investment. This capital more than balanced the deficit we have from interest payments, dividends, tourism, etc. Hence, our dollar was worth more than the U.S. dollar, about $1.03. Today the U.S. has raised its interest rate so that there is only a 1 per cent point spread between the rates in the U.S. and Canada. This has had the effect of drying up U.S. currency flowing into Canada. As we have switched from an over balanced account to an under balanced account, our foreign exchange reserves are low and the dollar hovers at 90 cents U.S.

To display confidence in the dollar, the Bank of Canada has borrowed on the open market. In case it slips too low, the bank can support the dollar by buying up Canadian dollars from the U.S., as it has done in the past few days.

Interest rates are a valuable tool for controlling the national economy. A high interest rate set by the central bank will discourage inflation by encouraging investment from speculative channels into long term yields. Hence, Canada's relatively high interest rate is part of an intentional policy of the central bank to keep inflation down.

Throughout the time our dollar was high, foreign borrowing exacerbated the foreign capital surplus. Lending rates were lower in the U.S. and provincial governments were borrowing extensively in New York, Zurich, and throughout the world, in fact perhaps too much. This borrowing increased the flow of U.S. capital into Canada and kept the dollar high.

Having mentioned this one aspect, which I believe is a new aspect in tonight's discussion on the decline in the value of the dollar, I want to take a general look at our economy which has been attacked on the other side all evening and which was reflected in the value of the dollar at around 89 cents or 90 cents. As we know, Canada moves into 1978 with the expectation that the worst of the recent economic slack is over and that solid economic growth will resume this year. There are increasing signs that the economic recovery has begun in the first quarter of 1978. Most economists believe that in 1978 we shall see better results than last year.

This optimism does not overlook the fact that rates of unemployment and inflation are far from satisfactory. It is not enough for representatives like me merely to talk confidently about the future. What is needed is constructive action to stimulate the economy without contributing to inflation, and measures to aid those who have been dislocated by the economic slowdown. I believe that the government has done that in a series of policy decisions last fall and early winter providing tax incentives to business and consumers. The government has also decided not to wait for the expected recovery to begin but to attack the unemployment problem directly by putting up the money to create jobs now.

The basic dilemma that is facing this country at the moment is one that should be looked at closely. There are many people who believe that the government should adopt similar policies to those developed in the 1930's both in the U.S. and in Canada. Critics of the government such as the Conservatives, the New Democrats, and elements of the media such as the Toronto *Star* in my city, to name but a few, offer a Keynesian approach which perhaps had some value but which is not the sole answer in the particular economic circumstances in which we find ourselves in 1978. They advocate the cutting of taxes, the stimulation of consumer demand, and spending on massive public works projects. This approach was successful in the 1930's because of high unemployment, which was around 20 per cent in Canada at that time, and massive deflation, in other words falling prices and values of goods. However, today we have a high unemployment rate of 8.5 per cent, but we also have continued inflation of 8 per cent or 9 per cent which we did not have in the 1930's. Therefore, I think it follows that pump priming by the federal government can only be a temporary measure and can only be an incomplete solution to the problem.

● (2332)

The federal government is not the only player in the economy. We saw the truth of that last week at the first ministers' conference here in Ottawa. Since we are not the only player in the economy, it would be foolish to expect that the federal government alone has all the answers. The official opposition advocates federal income tax cuts while telling the government to cut government spending. Hon. members ridiculed the President of the Treasury Board (Mr. Andras) this afternoon when he brought in the estimates for the next fiscal year. It is quite evident that the official opposition is trying to have it both ways.

Hon. members opposite are talking out of both sides of their mouths, to use an old cliché. The approach they offer belies a great inconsistency. Cutting taxes means less revenue to the government, which forces higher deficits. The other aspect of cutting government expenditures is that with less revenues generated as a result of tax cuts, some government services must be cut.