

[English]

Mr. Stevens: Mr. Speaker, my supplementary question is also addressed to the Minister of Finance. Could he indicate if he agrees with his own official, Dr. Hood, who has indicated before a committee of this House that he estimates that every reduction of one cent in our dollar would result in inflation of .3 per cent over a two year period, which would mean that as a result of the 13 cent reduction we already have in the Canadian dollar there is approximately a 4 per cent inflation factor built into our economy for the next two years?

[Translation]

Mr. Chrétien: Mr. Speaker, of course Dr. Hood expressed his own views, but he also invited hon. members to be cautious. As to his interpretation, he said that all other factors being equal, which is not the case, the effect would be felt over a period of two to three years and not necessarily during the first year. As I said, Mr. Speaker, it is absolutely impossible to determine exactly the inflationary effect of the devaluation of the Canadian dollar. However, I must admit that it is an inflationary factor.

[English]

ALLEGED USE OF RESERVES OF UNITED STATES DOLLARS TO STABILIZE CANADIAN DOLLAR

Mr. Sinclair Stevens (York-Simcoe): My question is again for the Minister of Finance. As the minister told us on Monday, "the governor of the bank is not intervening with regard to the floating of the Canadian dollar", and as the Bank of Canada published figures show that our U.S. foreign exchange reserves have fallen 27 per cent so far this year, would the minister indicate where the funds have disappeared if they have not been used in exchange trades?

● (1417)

Hon. Jean Chrétien (Minister of Finance): Mr. Speaker, I think that the hon. member has not made the proper distinction. Intervention would mean that the governor would have received instructions to peg the Canadian dollar, and there has been no such thing. Everyone knows that the governor of the bank is involved with the market in order to make sure that the operation of the market is carried out normally. Everyone knows that he is, but he is not intervening in order to stabilize the dollar.

REASON FOR MISCALCULATION OF REAL GROWTH IN THE ECONOMY

Mr. James Gillies (Don Valley): Mr. Speaker, my question is also to the Minister of Finance. Given the fact that only six months ago the government predicted that the real growth of the economy would be 4 per cent and that it is only going to be 2 per cent, why was there such a gross error in the calculations?

Hon. Jean Chrétien (Minister of Finance): Mr. Speaker, I think everyone knows that the economies of all nations are

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faced with the same problem. When I was in Washington international organizations like the IMF and the OECD predicted that the growth in the world would be 5 per cent. They have reported to all the ministers that the growth was to be only 2 per cent, exactly the same proportions we are facing in Canada.

ALLEGATION FALSE INFORMATION ON REAL GROWTH IN ECONOMY PROVIDED PROVINCES—GOVERNMENT ACTION

Mr. James Gillies (Don Valley): Mr. Speaker, if the Minister of Finance would take time to check private forecasts, he might find that the degree of error there was much less than that of his own department. This is not an academic question because the provinces have made their budget calculations on the basis of the forecasts made by his department. These forecasts have been very wrong. What is the minister going to do for the provinces which are in difficulty now because they budgeted on the basis of false information provided by the federal government?

Hon. Jean Chrétien (Minister of Finance): Mr. Speaker, every level of government is affected by this problem. In fact, the federal government is affected more than the provinces because of the stabilization programs for revenue. The slow growth of the Canadian economy will cost the Canadian federal taxpayer \$400 million more which we will have to accommodate within our budget.

Mr. Gillies: Mr. Speaker, I think the minister misses the purport of the question.

An hon. Member: What is that noise?

An hon. Member: Hold it, Jim.

Mr. Speaker: I think we should wait until we get the technical difficulties corrected.

An hon. Member: Your horn is stuck, Chrétien.

POSSIBILITY OF ACTION TO IMPROVE ECONOMIC FORECASTING

Mr. James Gillies (Don Valley): The problem I am trying to isolate and the problem with which I want the minister to deal is not the fact that the economy has slowed down, although that is the responsibility of the government. Much more importantly, a serious problem has plagued this government for a long time in policy making, and that problem is caused by gross errors made in his department. Since the minister has become the Minister of Finance has he taken any measures to try to improve the technical operations within his department with relation to forecasting and prognostications about the way this economy is operating?

[Translation]

Hon. Jean Chrétien (Minister of Finance): Mr. Speaker, it is rather complicated to make predictions on the economic level, and if you look at the predictions made by economists, you will see that they seldom agree unanimously. In any case,