

*Government Orders*

That would seem to be what Mr. Crow is trying to do to the Canadian economy. He is trying to make it worse in the hope that the punishment will make us achieve the target for which he is reaching.

He is trying to get inflation down to zero by increasing interest rates. He might just as well be trying to control a forest fire in British Columbia by pouring gasoline on it. There is no more effective way of increasing inflation than to increase interest rates. Interest rates immediately impact on the cost of everything in the country.

Take as an example businesses producing goods for sale in this country. Every one of those businesses, every one of the suppliers of those businesses, everybody in the whole production line is borrowing money somewhere along the way for capital construction, for inventory or even to finance their accounts receivable. Every time the cost of borrowing goes up they have to increase the cost of their product to recover that, or they do not pay any corporation tax and we lose out that way as well.

The impact of an increasing interest rate on business is to increase their costs. They pass those costs on to the public generally and that is one of the ways in which inflation is measured.

It increases the value of our dollar. Of course that is the real purpose, I believe, of increasing the interest rates but, nevertheless, it does increase the price of our dollar. Increasing the price of our dollar makes it more difficult for us to export, more difficult for us to compete with other countries. So it cuts down on our exports which again cuts back on employment and makes our economy just that much worse off.

It increases imports because, relatively, the cost of goods that are imported into Canada goes down as our dollar goes up relative to other currencies. It is easier then for us to buy from abroad so we import more and export less and that, again, hurts our total economy and makes for inflation. It does not bring inflation down to zero; it makes it worse.

It increases budget deficits, and we certainly know the history of that. Year after year the budget deficit is in the neighbourhood of \$28 billion to \$30 billion, all of it going for interest. Although you cannot allocate the dollars and say this dollar goes to interest and that dollar goes to

something else, certainly we know the amount of the deficit is almost as much as we are paying on financing the current debt of Canada.

Of course if increases unemployment. All of these things have a detrimental effect on inflation and defeat the very purpose as announced by the Governor of the Bank of Canada.

It encourages higher taxes. Of course when the government starts running into trouble financing its deficit, financing its programs, when taxes fall off because of unemployment, because of cut-backs in business, the government is inclined to increase taxes in order to try to recover some of the lost revenue to meet the bills that it still has. Of course we all know that that is just as inflationary as anything else that can be done. Inflation is fuelled by increases in taxes.

It affects the balance of payments, increases interest rates, brings the dollar up to a higher value and cuts down on our exports. There is any number of industries from one end of this country to the other complaining about the effect of the increase in the dollar and how it has hurt their position in world markets.

• (1130)

We talked about free trade and the benefits we were supposed to get from that. Everyone will agree—and I do not think anyone would deny for one moment—that the increase in the value of the Canadian dollar has many times wiped out whatever advantages we might have had to date from the free trade deal with the United States. Any reduction in prices from the Americans has been more than taken into account by the increase in the value of the Canadian dollar.

When we affect the balance of payments negatively—that is when we reduce our exports and increase our imports—we have to increase our borrowing abroad. We did not have to do it before, but we do now. I have seen figures anywhere from \$50 billion to \$200 billion representing what we owe abroad right now. That is bad business. We should not be borrowing from abroad. We should be able to finance everything we are doing in Canada from our own resources. Otherwise we are simply borrowing trouble for the future.