One of the factors, not a major factor, involved in those high interest rates is the fact that interest rates are very high in the United States. All of the dynamics involved in flows between Canada and the United States, requiring that our rates be in very close relation to their rates, means that when rates go up in the United States there is additional upward pressure on our rates to stay in line. Therefore, there are three major factors or forces driving up interest rates in this country today, and I have just outlined them.

If you are going to deal with the problem of high interest rates, there is no alternative but to deal with the factors that are causing them. To say that the federal government should reduce interest rates is to say nothing. Neither the federal government nor any other government can step forward and with a wave of a magic wand say that interest rates tomorrow will be 5 percentage points lower than they are today.

Mr. Broadbent: That is precisely what the Bank of Canada does.

● (1700)

Mr. Evans: It cannot be done, and it is not what the Bank of Canada does or is doing. If the hon. member for Oshawa believes that, then he is more misguided than I thought.

With regard to the U.S.-Canada rate situation, the hon. member for Oshawa in his opening comments correctly noted that if we let our interest rates fall appreciably below those in the United States there will be an outflow of capital from Canada which will put downward pressure on the exchange rate. If we do not allow the exchange rate to go down it will put upward pressure on interest rates. So that flow of capital is a factor with which we have to deal.

The hon. member for Oshawa indicates what we could do, and that is put on exchange controls. There are some definite problems associated with exchange controls and I will deal with those in a minute.

Let me ask this question. If we were to have a drop in the dollar and we were to say that interest rates are not going to be related to U.S. rates, and if they go up we will allow the outflows to take place and allow the dollar to drop, what would be the effect of that? Immediately we would have a major inflationary surge caused by the drop in the value of our currency, and the effect of that drop on prices of all the goods we import, food, and at the moment energy and a number of fundamental commodities, would be that they would go up automatically.

People say yes, but that would mean foreign goods would be less competitive and as a result our manufacturers would be able to move in and produce those things. The fact is that in the short term—and by "short term" I mean five years—we are not going to be in a position to replace in any major sense imported oil, and we are not ever going to be in a position to replace fresh fruits and vegetables imported during the winter. These things cannot be replaced in the short term, and in the short term we are not going to replace the importation of machinery or equipment that we bring in which is necessary for the development of the tar sands and other natural resources in Canada. Those things cannot be replaced in the short term. Over the longer term perhaps that could be done.

My contention here is that if you are talking about a major investment expenditure the exchange rate is not going to be the determining factor that causes a businessman to decide to go into a line of business, because in a flexible exchange rate world exchange rates change. If the only reason you are investing in Canada to produce machinery and equipment is because the exchange rate in Canada happens to be 20 cents below the equivalent in the United States, then you are basing your profitability on a factor that is totally unpredictable and one which could be wiped out tomorrow. So that is not a major factor in investment decision-making; there are many other factors.

We are not going to get the kind of import replacement some members believe would occur. The question is, would you get a major stimulus in demand for domestic products and would the prices for those domestic products produced here in Canada be unaffected by the increase in the competitive position and the decrease in the value of the dollar? The answer to that is that if those products are exportable then we are going to have upward pressure on the prices of those commodities, just the same as you have upward pressure on the prices of imports. Because a manufacturer who can sell those goods outside the country at much higher prices will raise the price in Canada as well. You get upward pressure on prices of both imported products and products that are exportable but are made here in Canada. You must have some means of offsetting that effect.

The hon. member for Oshawa has put forward the possibility of exchange controls. It is rather interesting to note that others have suggested this. There was a commentary in a recent editorial in the Regina *Leader-Post*. It is not an eastern paper, not a Liberal paper. It is the Regina *Leader-Post* and it talks about this particular issue.

Mr. Broadbent: It is not an NDP paper.

An hon. Member: It sure isn't a Conservative paper.

Mr. Evans: In any case, it clearly indicates that the impact of this particular policy—

Mr. Broadbent: We just had a vote, John, and it is a Liberal paper.

Mr. Evans: The hon. member for Oshawa says it is a Liberal paper. If it is, thank you very much.

An hon. Member: It is the last Liberal on the prairies.

Mr. Evans: It states:

> Among the possible cures for the high interest rate dilemma is exchange controls, intended to insulate Canada's rates from those abroad.

Then it goes on to say in relation to the possibility of controlling the outflow of oil, for example, which was just