run a surplus and hold down spending in order to take some of the heat out of the economy.

● (1430)

Probably more important is the fact that the Keynesian idea of deficit financing for growth is fundamentally inflationary. It has an inflationary bias because it works on the concept of putting out more money to stimulate demand which brings on more supply; supply increases to satisfy demand; that brings on jobs, economic growth and so on. The reality is that if you increase demand the price goes up and, as a result of that price increase, more people get into the business of supplying the goods. The price increase itself is inflationary. We all know that prices do not go down; they go up. The Keynesian approach is fundamentally wrong. I should not say it is fundamentally wrong but it is not the most appropriate because it has that inflationary bias.

I should like to consider now the question of how this deficit is financed. We have a borrowing bill which authorizes the government to borrow domestically and to borrow foreign savings. There are three ways available to the government and two of them are available to you or I.

Mr. Knowles: You or me!

Mr. Andre: To you or me, Mr. Speaker. I apologize to the hon. member.

Mr. Knowles: That is worse than splitting an infinitive!

Mr. Andre: That is right, and I could have committed that error. The deficit can be financed through borrowing from you and me who have saved our money. The deficit can be financed by borrowing the savings on the foreign market which is money that non-Canadians have saved. The deficit can also be financed by the federal government borrowing from the Bank of Canada, in other words, by printing money.

None of these methods is cost free; every one of them carries a burden. Every one is an obligation that has to be borne by those who come after us, the next generation of Canadians, the next government.

The same rules apply to the Government of Canada as apply to Chrysler, Massey-Ferguson, or the Andre family. The only difference is time. Because it is so large the government has the inertia that can carry it on. It moves at glacial speed. When standing still it is difficult to recognize what is happening without fine instruments. For individuals it can happen quickly and they can feel it. Business has a little more inertia than individuals but less than government.

In borrowing the savings of Canadians to finance this deficit, the Government of Canada is almost involved in a fraud. Let us consider what is happening today. To finance part of this deficit the government is selling savings bonds to provide the needed cash. Canada Savings Bonds pay roughly 12 per cent per annum interest. A rough average marginal tax rate in this country is 33 1/3 per cent. Let us take one third of income as being a rough marginal tax rate. Today the inflation rate is 10 per cent.

If you start the year with $1,100, an inflation rate of 10 per cent will leave you with $1,000 at the end of the year; otherwise you are going backwards. If you put that $1,000 into Canada Savings Bonds you will have $1,120 at the end of the year, but the government designates that $120 as income, as so it is taxable. If your marginal tax rate is the average, that means you pay $40 tax on the $120 interest, so you are left with $80. You have actually lost $20 of your capital to the government. It has defrauded you of your capital.

It is absolutely amazing to me that we Canadians save as much as we do. We are very good savers so the government is fortunate. It is able to continue with its profligate ways and spend, spend, spend, because millions of Canadians are willing to save their money and let the government use it. The government is defrauding them because at the end of the year they have less than when they started.

That is immoral to begin with, Mr. Speaker, but it is also extremely dangerous, and that fact is becoming widely known.

Mr. Evans: The first $1,000 of interest is tax-free.

Mr. Andre: The hon. member said that the first $1,000 is tax-free. Let us then take savings of $100,000 as an example. I am sure that as a responsible economist the parliamentary secretary would not argue with the fundamental premise I was putting forward. I notice he is shaking his head affirmatively.

It is very dangerous for the government to rely on people being willing to have their capital taxed away year after year after year. It is immoral, but it is also dangerous and that danger is being recognized.

In the Public Accounts the amount of Canada Savings Bonds is shown to be decreasing. In 1979, $19 billion worth of Canada Savings Bonds was outstanding; in 1980, $18 billion was outstanding, and I have forgotten the latest figure but I know it is less. The public is starting to wise up to the fact that the government is defrauding it of some of its capital, and the amount of money being put into that debt instrument is decreasing. The government then has to pay more interest for money, and in turn that means that debt management becomes much more difficult.

Foreign savings are worse in many ways than domestic savings as a means of financing the operations of government. When the interest is paid on foreign savings, it leaves the country altogether. The cash is collected in this country, it leaves, and so is not available to finance projects that would provide jobs and growth in the country. We are suffering considerably right now—

An hon. Member: Let the multinational oil companies take over.

Mr. Andre: The hon. member talks about national oil companies. What about a national automobile company? What is sauce for the goose is sauce for the gander. Recently I received a letter from an individual which I hope to put on record one