ducing surpluses in order to make up for the short-falls in private investment. Instead it is employing the savings of foreigners on top of our limited domestic savings to finance excessive public sector expenses. Not surprisingly, dividends paid to non-residents more than doubled in the second quarter to $10.5 billion, from $4.3 billion in the first quarter, aggravating the problems of foreign indebtedness.

More important still, high levels of government spending over the past six years have served to over-stimulate an economy which at least in central Canada was already heated. This is the fiscal policy from a government which pursues the goal of dampening inflation through a single-minded preoccupation with high interest rates.

Concurrently, the inflationary impact of the government's tax increases has further damaged our economy. Partly because tax increases and real wages in Canada have failed to match the cost-of-living increases, leading to recent demands in both the private and public sectors for higher wages. The implementation of the GST will only aggravate this situation. Wage settlements are outstripping productivity gains, leading to a rise in Canadian production costs and an erosion of our national competitiveness.

Thus the government finds itself in the ironic situation of fighting inflationary pressures, which to an extent it has itself created. As I have already noted, it has used one tool and one tool only, the sledgehammer of higher interest rates, to attempt to achieve its goals.

Under the circumstances, monetary policy alone cannot exclude inflationary pressures from our economy. Indeed, in many respects monetary policy actually serves to fuel the problems that Canadians are facing today.

What fundamentally undermines the government's efforts to curb inflation is, as I have noted, the national debt. Every time interest rates increase, the government has to spend more to service its debt, and it has to raise taxes to finance its other spending. In short, monetary and fiscal policy have become inseparable, and we have a vicious circle from which the government seems wholly unable to extricate itself.

It is worth asking whether this government's monetary policy, that is to say high interest rates, is serving the ends for which it was intended: presumably economic growth, economic well-being and jobs for Canadians. The purpose of tackling inflation is to ensure price stability, which in turn enhances the long-term health of the Canadian economy.

Yet, the Canadian economy today is visibly suffering. We are in a recession. Monetary policy is inequitable across regions of Canada. What is euphemistically described as slowing the economy or taking the heat out of the economy really translates into pursuing slow growth and, more important, unemployment.

High interest rate policy is undermining Canadian exports. High interest rates also increase artificially the Canadian dollar by increasing demand for Canadian dollars to purchase of short-term paper.

We must keep in mind what inflationary policy really means. Our level of government spending has accelerated through high interest rates. Our productivity and competitiveness have been undermined, and our economy is passing into a recession.

Indeed, if the problem is that consumption is outpacing growth, it is time that the government realized that the solution does not lie simply in curbing or limiting demand—the goal of monetarists everywhere—but in increasing our national productivity. High interest rates cannot further that goal. On the contrary, we must reduce interest rates. We must reduce the costs to Canada if we are to compete internationally.

We must look at ways of improving labour mobility. We must look at many more ways of increasing labour productivity such as through education, through social security or through human resources development. In that way, we shall create the circumstances in which a motion, such as I have had the honour to table today, would not be needed in this House.

• (1140)

Mr. Mac Harb (Ottawa Centre): Mr. Speaker, I want to start by congratulating the hon. member on an excellent presentation. Also I want to commend him on his motion and, in pàrticular, the fact that he is relating the issue of