sions, electronic goods, shoes and clothing which decreases the flow of low-priced imports and allows higher pricing of domestic goods. This may be good for our domestic industry but it also increases the price of goods our people must buy.

In the United States there are today higher taxes on business for purposes of social security, jobless pay or what we call UIC, and an increase in pension insurance premiums. Of course, the United States has a larger federal budget and a larger deficit, with so-called tax cuts to offset tax increases. This is certainly a classic combination to cause inflation. As in Canada, all things done in the United States are done with the public good in mind, and to satisfy constituents that government feels its cause is just and reasonable. The result, whether in the United States or Canada, is to push up business costs, which in turn are passed on.

We also have the pervasive indexing of wages and pensions which is particularly important in the Canadian economy because so much of our expensive public service employment is locked in to the automatic indexing of wages.

● (2052)

The President of the United States does not intend to use forceful action in controlling inflation; he intends to have moral suasion by government, by business and by labour. In the short run, at least, this is not going to work any better in the United States than it would in Canada or in any other country. Perhaps, in the long run, it may well help to halt and contain the forces of inflation but it will not be of immediate value. So with the expected rise of inflation in the United States, how can anyone, least of all the Minister of Finance (Mr. Chrétien), expect our inflation rate will moderate from over 9 per cent at present to his own estimated 6 per cent? Certainly other trading partners are in the same situation. How can the minister expect to have an inflation rate of 6 per cent when our trading partners and the people we do business with are expecting increases in their rates, and where will our exports go?

In so many fields, Canada's performance is lacklustre, and this is evidence of our financial malaise. For instance, the rapid and continuous increase in Canada's external debt is such that we must give serious thought to the country's ability to cover the interest charges. A review of what has happened in our foreign debt is interesting. It has climbed from $26 billion at the end of 1968 to $46 billion at the end of 1976, and it is estimated to reach $58 billion at the end of 1978. Certainly the increment in the foreign debt is increasing by leaps and bounds. The interest and dividend components of the current deficit have increased from $900 million in 1968 to an estimated $3.6 billion this year.

It seems that as a result of the higher deficits in the interest and dividend items Canada is moving increasingly in the direction of a balance of payments problem, due to our inability to earn sufficient foreign exchange to pay the interest and dividends on outstanding foreign debt. In other words, large future borrowings will be necessary just to cover the service payments of past borrowing. Even with the merchandise trade surplus in 1977, the current account deficit is predicted to increase sharply from last year to over $6 billion for this year. In 1970 we had a surplus in our commodity trade of $3 billion, whereas in 1977 it was certainly less than $3 billion.

Much of this can be ascribed to the failure to sell to the United States the crude oil that we were selling in other years. It brings into question the disastrous situation whereby the federal government has been involved in a tax dispute with the provinces which has dampened exploration in the petroleum industry. It is significant to note that there seem to be ample gas supplies once again, largely on the initiative of the governments of Alberta and British Columbia, when changes were made in the tax structure so that drilling resumed. It seems to me, Mr. Speaker, that we are short-sighted in our assessment of restricting energy trade, particularly on a continental basis.

Our troubles are even greater in the manufacturing sector. The deficit in manufactured goods has climbed in eight years from $3 billion to $10 billion. This massive deficit has been due to the deterioration of the competitive position of Canadian manufacturing. A prime factor here has been the rapid increase in unit labour costs. There has been some restraint in the rise in wages in the manufacturing industry, but most important is the reduction in the rate of increase of labour costs due to a cyclical improvement in the output of the workers.

The lower value of the Canadian dollar and some reduced pressure on labour costs may bring about an improvement in the trade deficit, but this will be accomplished mainly through displacing imports rather than increasing exports. The lack of buoyancy in world trade will certainly diminish significant improvement in Canada's exports of manufactured goods. Unless industries have had some profits they will not be able to expand or to increase their efficiency so as to take advantage either of the home market or the export market. The operation of the tax system has meant that taxes were levied on fictional profits so that for many firms it was difficult to maintain an adequate level of capital investment or even to maintain the present level.

There are a good many reasons to believe that the home market for manufacturers will not be as buoyant as in years gone by. Travelling has introduced many Canadians to new levels of consumer wants and needs. Many Canadian manufactured goods are now realized to be of average or mediocre quality, not the worst but far from the best in the world. I notice western Canadians especially are looking south of the border for many of their goods, and many are not so keen on the traditional stylings of a textile industry based in eastern Canada. The western farm machinery industry is looking increasingly across the border for its machines as well as to sell agricultural and other products made by local industry.

No doubt the government would like to take great credit for the wage and price controls moderating inflationary pressure. But it is doubtful that controls have had any significant success considering the fact that conditions would have moderated the rate of inflation in any case. I think that the government's experience will cause all governments to weigh