

*Economic Conditions*

and put in 65 Progressives. When they came here, they did something about interest rates. They altered the Bank Act and put in a ceiling of 6 per cent. It was only a few years ago that parliamentarians even dared to remove that ceiling.

When you want to unite western Canadians, just bring up this subject of interest rates. I am not just talking on a political level tonight. I think the government sense that we on this side feel very deeply. I imagine they feel just as deeply themselves. However, I want to put before them some quantitative arguments to show that you can have a committee such as the one the government barred from operation in this Parliament. That indicates the seriousness of stubbornly following an economic theory which no longer holds water. Practical common sense is much more superior on this question of interest rates than any amount of theory.

● (2120)

Let me give the House some facts. One of the great arguments used by the bank governors is that if you let the dollar's value fall 1 per cent, it will cost us a little bit more for imported goods. We are importing, as a general rule, around \$50 billion worth of goods a year. Even that 1 per cent adding up to a 1 per cent increase in cost would only come to \$500 million a year, which is admittedly inflationary.

What is the cost if you use the technique of the interest rate to keep the dollar up? Take a 1 per cent increase in interest rates applied to over \$500 billion. That 1 per cent of \$500 billion is \$5 billion. So even though the experts of finance say that the inflationary effect of goods being imported is only .4 per cent or .2 per cent—let us call it 1 per cent and make it five times bigger—which comes to only \$500 million more a year. That is a lot of money but it is very small compared to the \$5 billion it cost each year to raise interest rates 1 per cent. Keep these figures in mind.

I have in front of me a chart showing the bank rate of our central bank over the last four years. Just taking this last year the dollar has probably reached a high point of 87 cents, and a low point of roughly 82 cents, a 5 per cent difference. That 5 per cent times \$500 million means that this depreciation of the dollar down to 82 cents is inflationary and is costing us five times \$500 million, or \$2.5 billion per year. That is a heavy cost and is inflationary.

What is the cost when you apply that same rule to interest rates? Interest rates, according to this chart, have climbed from just above 10 per cent last summer to over 17 per cent now, a full increase of 7 per cent. Remember, every time you raise interest rates 1 per cent it costs the Canadian people \$5 billion a year, and \$5 billion times seven is \$35 billion a year. This route followed by the governor of the bank and by the Minister of Finance has added \$35 billion in the last six months to the annual cost of trying to hold up the Canadian dollar. Even if it had gone down 5 per cent, it would cost us only \$2.5 billion, so if you have to choose between the two you would know the choice to make.

Nine out of every ten economists in the English-speaking world would agree with what I have just said. Why, then, do

we have this stubborn minority, this professional clique that exists in the Department of Finance, holding the view that: By God, that is the theory we learned in school, and by God, that is what you are going to swallow? That is the real crux of the issue.

**Some hon. Members:** Hear, hear!

**Mr. Hamilton (Qu'Appelle-Moose Mountain):** Do not blame this on the bank governor. Theoretically he is independent, but in practice he knows where the power lies in this country. It does not lie with the minister and it does not lie with the Prime Minister (Mr. Trudeau). The governor is forced to be a lackey to these mandarin cliques. I think I have said this in plain terms.

The minister is paying a heavy price for his arrogance and meanness of mind; but in the interest of fair discussion, this view I have just put forward is not only the view of the hon. member for Qu'Appelle-Moose Mountain, it is the view of some of our leading economists and intellectuals in the world.

I hold in my hands a copy of probably the most credible intellectual magazine for economists and serious minded students of government in the English-speaking world. It is called *The Public Interest*. At the present time it is not in the Library of Parliament. There is not too much demand by parliamentarians for intellectual magazines. This is in the national library and certain individuals around town get this publication. I would like to read from a special edition published last month called "The crisis in economic theory". I am turning to an article entitled "Economic theory and policy in disarray". This particular article is written by James W. Dean and is called "The dissolution of the Keynesian consensus".

Remember, Mr. Speaker, I am quoting from a magazine published in, of all places, New York. Very few copies get into Canada, but otherwise it is read in every English-speaking country in the world. The day will come when the literacy of Canada will rise to the point where people will seek out this type of intellectual discussion. I am going to read just six sentences. Remember, as I said before, this magazine came out last month. This is what it says in the opening line:

On December 13, 1979, the Government of Canada fell.

Imagine mentioning Canada in an intellectual magazine; wonders will never cease. The article goes on:

For just six months the Conservatives had governed with a parliamentary minority, and they were defeated on a vote of no confidence. The issue was their first budget—a budget that rejected Keynesian economic policies, replacing them with radically different recommendations. Unemployment and slow growth were to be fought not by increasing the federal deficit but by reducing it.

That was a complete and radical revolution of economic theory. The article states:

This was a turnabout in what the Conservatives themselves had recommended when sitting in opposition just the year before. Their turnabout mirrored that of much of the economics profession throughout the English-speaking world. It was the decade's last dramatic reflection of a dissolving Keynesian consensus.

Whenever I read of an intellectual magazine published in a foreign country using Canada as an example of something new and wonderful that has happened, I know that within a few