

the dollar, which was worth about 91 cents American, and which now is worth about 99 cents American, meaning that the Canadian dollar is worth about the same as the American dollar. Why did we unpeg it, since it means that when we export goods, they will cost more to other countries and, as you say, cause us to lose markets. The answer has to do with international trade and the whole problem of the value of currencies. The way in which you can decide the value of your dollar, or of your franc or of your pound or of your lire, is determined in the world by the amount of things you sell to other countries and the amount of things you buy from other countries. If you sell to them more than you buy from them, it means that your dollar or your currency will tend to increase in value, because you can't go on forever selling more than you buy, can you? Because they will never be able to pay for what you sell to them. Or conversely, when Canada buys more from other countries than it sells to other countries, it means that: how can we pay for what we buy? You know, we are exchanging goods with other countries in the form of currency and if we buy more from the others, how can we pay it back — with what? With dollars, which are based on gold or on some other standard; but you have to pay for it somehow. If you buy more than you sell, it is like an individual who buys more than he had in his pocket, he goes into debt and the value of himself as an economic unit decreases....

Because we have been, in a sense, selling more and buying less, the currencies of the world adjust so that we can buy a little more by lowering the prices of other countries and sell a little less by increasing our own prices. And this is what happened. The Canadian economy was too strong; we were selling more than we were buying; Canada had succeeded more than its competitors in combating inflation, in keeping its costs under control, and therefore, we were, in a sense, too successful in the world and in order to adjust this, the value of the Canadian dollar was pushed up, it was freed, and right away it floated up to the equivalent of the American dollar. Now, this is an automatic adjustment. As long as you are going to live in a world and trade with it, as Canada does — as you know, we are one of the largest trading nations in the world — we have to make sure that our currency adjusts, to make sure that we can buy and sell to all parts of the world. Now, that is the theory of what happens. It does mean that when the dollar floats up, it will be a little more difficult to sell some of our goods in other countries....

UNEMPLOYMENT AND INFLATION

Q: Mr. Trudeau, we are all aware of your heroic fight against inflation in which you deliberately caused unemployment to fight the battle. But as it

has turned out, you have not beaten inflation, and we are now faced with the two problems, that of unemployment and inflation. Do you have any more good ideas to account for this?

A: Well, before I tell you about my other good ideas, I will have to perhaps slightly correct two facts there. When you say that we set out to deliberately create unemployment, that is not a fact, and when you say we didn't beat inflation, that is not a fact either. Let me start with the easier of the two facts. We brought down the rate of inflation from something in the area of 4 to 5 per cent to something in the area of 1 to 2 per cent. Nobody ever said we would come to zero inflation. The important thing is that we have done better in our fight against inflation than any other industrial country in the world and this, incidentally, is the explanation to the previous question. It is because we have done better in our fight against inflation than any other country in the world, that the Canadian dollar is so strong, that our economy is attracting currency and investments from other parts of the world. Therefore that part of the idea was a good one, in the sense that housewives now and businessmen who want to borrow and people who want to build houses, no longer have to borrow money at 12 or 14 per cent but can borrow it at 8 or 10 per cent, or 6 or 8 per cent, depending on the kind of risk they have. Indeed Government treasury bills have fallen down to 3 and something per cent rate of interest. So, as I say, this is better than any other industrialized country in the world. It means that the businessman who wants to invest can borrow money at a much cheaper rate of interest and therefore he can create industries which will create jobs, and the workers who want to buy their houses can now borrow at reasonable rates rather than the very high previous rate. So, in a sense, the fight against inflation was successful.

But, you are right. As a result of this fight against inflation, the economy was slowed down and the rate of unemployment did go up. Now, how did this happen and why? Well, when inflation overtakes us, as it had a couple of years ago, it really means that the prices of goods are rising so fast that the housewife has to continue paying more and more money to buy whatever she is buying at the supermarket or at the corner store and therefore, in order to get more money, her husband has to earn more and therefore he has to, either as a professional man or as a merchant or as a member of a trade union or as a worker, he has to get more and more money from his boss or from the customer, in order that he may give more to his wife so that she can spend more, and so on. And this is inflation. When prices and costs go up very fast, and therefore the rate of interest goes up very fast, the value of the Canadian dollar, the value of our economy is slowly