month, a sure indicator that our economic growth is faltering.

High interest rates have also done precisely what one expected them to do in inflating the value of the Canadian dollar. As short term money flows into Canada seeking higher returns, it contributes to an exaggerated value for the Canadian dollar. The Canadian dollar has in fact increased by almost 20 per cent against the U.S. dollar, with devastating effects on our export trade. Ask anyone in the business community whether they feel they can effectively export from Canada with that sort of penalty.

In effect, the costs of many Canadian goods and services has increased by 20 per cent, while the cost of many imports has declined by a like amount, leaving the Canadian exporter at a real disadvantage. The result of course is the loss of markets abroad and indeed the loss of jobs at home.

The irony is that this government, which promised the people of Canada increased prosperity in the years ahead largely on the basis of the United States–Canada Free Trade Agreement, has itself created the very circumstances in which the agreement cannot work for Canada's benefit, if it can at all.

Mr. Speaker, if you were so foolhardy as to enter a free trade agreement, a bilateral agreement, with only one other partner much bigger than you are, the last thing that you would do is saddle yourself with interest rates that are many points higher than that of your principal competitor. In the case of Canada's free trade agreement with the United States, our interest rates are five to six percentage points higher than those of our trading partner. Our dollar is today inflated well beyond its real value in terms of Canadian productivity.

• (1130)

Mr. Speaker, all those who supported the free trade agreement must now be wondering why they did so in the face of plant closures and transfers to the United States. They must wonder how a government which was so committed to a bilateral free trade agreement could be the same government that has created the very circumstances in which the free trade agreement will bring no net benefits to Canadians, whatever the intrinsic merits or demerits of the agreement itself may be.

In keeping with other so-called monetarist governments around the world, the present government has viewed the control of money supply, largely through the manipulation of interest rates, as the key to Canada's greater economic growth. It is a central feature of monetarist theory that inflation is caused by too much money chasing too few goods. Inflation, in turn, destabilizes the economy, undermines investors' confidence and handicaps a nation's exports.

The theory is, of course, that the manipulation of interest rates controls the money supply in two ways; it can dampen borrowing which in turn dampens investment and consumer demand, and it can slow over-all growth and employment which can, in turn, dampen wage demands. Increasingly, this idea, this simple preoccupation of the government, this sole policy it pursues with such single-minded intensity, is being called into question. Specifically, it is now everywhere evident that inflation cannot be combated through monetarist policy alone without inflicting severe damage on Canada's over-all economic performance.

Let me say a word about why this government's policy has failed. Its economic prescriptions can be traced, at least in part, to the fact that its fiscal and monetary policies are out of step. The government has consistently failed to reduce its deficit at a time when there was an upswing in our business cycle, which should have led government to pursue counter-cyclical fiscal measures.

Governments' mounting deficits themselves have emerged as a significant brake on our economic growth. At a time when domestic savings should have been employed to finance investment in our private sector, the domestic savings have instead been used to finance excessive consumption in the public sector. The private sector, therefore, has been forced to go offshore for capital, leading to higher foreign indebtedness. That is on top of the high levels of offshore borrowings recently undertaken by the government itself to finance its continuing deficits.

At present, $41 billion flows out of Canada each year simply to pay interest rates on our growing foreign debt. The problem has become acute. Ideally, at this downward turn in the business cycle, as we cross the threshold into recession, the government should have been pro-