• (1550)

The decline in currency toward 80 cents, which could follow from a lower interest rate policy, would help exports. Of course, they might continue to be hindered by any softness in the U.S. market given the degree to which we have tied ourselves to that particular market.

The fact remains that the government has placed Canada in a position where the government's financial requirements have continued to absorb a large share of our domestic savings pool, putting upward pressure on interest rates and forcing other, mainly private, borrowers offshore. Unprecedently large international capital flows have been needed to supplement the domestic savings shortfall, placing Canada in greater debt to foreign countries than we have seen for a very long time.

If the government is truly interested in price stability, if that is their goal—not zero inflation as such, but rather price stability and a strong Canadian economy—it must now turn to solutions other than monetary policy alone.

First, the cost of servicing Canada's national debt must be reduced, if the government is going to extricate itself from the vicious circle that I have described.

Second, if the government's goal is indeed price stability, it must investigate, as a matter of urgency, other means of dampening demand and curbing wage increases.

Third, the government should attempt to encourage domestic savings and investment as a means of reducing our reliance on foreign capital. The most obvious route here is to reduce its debt, thus reducing the government's demand for indigenous savings which then can be utilized by private borrowers.

Finally, the government must not lose sight of the fact that low or zero inflation is not a goal in itself, but only one step toward achieving economic stability and growth.

If, in pursuing an anti-inflationary policy, these goals are not furthered, then surely the policy itself is seriously flawed.

The Acting Speaker (Mr. Paproski): On questions or comments, the hon. member for Kingston and the Islands.

Mr. Peter Milliken (Kingston and the Islands): Mr. Speaker, the hon. member for Etobicoke North made an excellent speech. I know that his knowledge of financial matters is profound. He, of course, speaks with authority as our past critic on financial matters and is particularly knowledgeable, in my submission, as a former minister.

He is aware of the way government policy is formulated. Is he of the view that the government has responsibility for interest rates in the country? Can the government dictate policy to the Governor of the Bank of Canada in respect of interest rates, and should we really be regarding the Minister of Finance as the person responsible for the high interest rates that we are now suffering from in Canada?

Mr. MacLaren: Mr. Speaker, the answer to the hon. member for Kingston and the Islands is, clearly, yes. The government is responsible for interest rate policy, as well as monetary policy and fiscal policy, in the country.

The Governor of the Bank of Canada is, by his own definition, the agent of the government. The hon. member may recall that some decades ago a Governor of the Bank of Canada pursued policies which were contrary to those sought by the government of the day. In the aftermath of that disagreement between the governor and the government, the policy was clearly established that the government is responsible for monetary policy. The ultimate responsibility resides with the Minister of Finance. If there is disagreement between them, there is a procedure provided whereby the government informs the Governor of the Bank of Canada of its dissatisfaction with the policies he is pursuing and the Governor has the choice to conform with the policy outlines of the government or to resign.

In the case of today, we see a government that clearly is in full step with the Governor of the Bank of Canada. Let us not fool ourselves for one moment that the Governor of the Bank of Canada is acting in some independent fashion, pursuing his own monetary policies. Failure of the government to pursue a monetary policy which is integrated with a fiscal policy, which is essentially the problem we are facing today in Canada, is the fault of the government, not the Governor of the Bank of Canada. The Governor of the Bank of Canada is essentially the agent of the government.