petitive devaluation, or both, with implications of catastrophe that cannot be overstressed. Foreign trade is a relatively small component of the United States gross national product, but Mr. Ball saw no conceivable means by which that country could immunize itself against the world depression that might follow. If this is true of the huge American economy, it is more true and more terrifying in the case of smaller and more vulnerable nations like Canada.

With this in mind, it is to be hoped that the strategy of Mr. Nixon to employ the lever of an import surtax to force nations to realign parity of their currency in relation to the dollar will in fact reflect the real purchasing power of that currency. The result should be to restore the United States balance of payments equilibrium. But this will require the full co-operation of powerful interests outside the United States, and the approval of the American people and Congress which in the end makes tariff policy.

All the measures taken by the American government so far are to be jettisoned once the balance of payment is restored, but they may well develop a life of their own and temporary measures have been known to continue for years. This situation is made even worse by the fact that high-cost American industries will like being shielded from foreign goods by import restrictions and will not want to abandon them, especially at a time of high unemployment, and an election year would make them very susceptible. But Mr. Ball remained optimistic about the self-defeating nature of economic warfare, bearing in mind the destruction in the thirties as a result of the tariff wars of that era.

At six o'clock the House took recess.

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AFTER RECESS

The House resumed at 8 p.m.

Mr. Ritchie: Mr. Speaker, when the bell sounded at six o'clock I was attempting to show that the new tax measures were based on an error and that we are now faced with a new set of circumstances which will make them somewhat unworkable and not nearly as useful as they might have been.

In the annual report of the International Monetary Fund which was published this week the situation has been likened to a world map drawn in 1944. It describes accurately and in detail a monetary system which no longer exists. There is no doubt that after the industrial nations have passed through a period of negotiation and adjustment, new formally structured monetary systems will be adopted, but it will certainly not be the Bretton Woods system with its rigid parities and weak adjustment mechanisms and its heavy dependence on the United States dollar as a reserve medium and reference currency. On March 7, 1969, while speaking in this House on the proposed amendments respecting the International Monetary Fund and exchange fund account I suggested that greater exchange rate flexibility might be attained by use of the so-called crawling peg. I suggested that Canada should be in the forefront of change in the international monetary system. The collapse of the monetary system resulted from the massive $16 billion rise in international reserves in 1970; two-thirds of the 1970 increase in global reserves was concentrated in four countries, West Germany, Canada, Japan and France. This was largely the result of the U.S. balance of payments deficit. One method which might have helped to prevent this would have been the introduction of greater exchange flexibility over a period of time to allow currencies to be in better relationship one to another.

I do not feel that the bill will help those industries which will be affected by the surtax. The bill, as evidenced in the committee, is an open invitation to favouritism and regionalism. Payments are to be made on a plant by plant basis. It seems quite obvious that the plant which gets the ear of the board will end up with the money. This is not a good situation. The bill is designed to concentrate industry in a region which politics decides is most opportune. It would have been much better if the government had attempted to take the thrust of our exports away from the United States and reinforce companies in areas wherein we could make significant inroads. The new currency rates should increase our ability to compete in the western European and Japanese market especially. Rather than this bill, it seems to me an export incentive tax rebate would have been a proper tool to use to stimulate export growth to these countries. The effect of the United States action is to reduce their own expenditures in order to improve the internal economy. One interesting provision is the deferral for one year of welfare reform.

Speaking on the general tax question I should like to point out that Canada faces many problems. The most urgent at the present time are in fields in which this government has been least successful—economic growth, and in some sense Canadian participation in the world at large. As to the latter, its relationship to economic growth is obvious particularly in Canada, the sixth largest trading nation in the world where the equivalent of one-third of everything produced is exported.

In these tax reform changes the government has opted for equity rather than in favour of economic growth. We should remember that in the past 20 years we have seen significant changes in our population growth. We are still experiencing the massive birth-rate of the fifties and the entry into the market of these people. When one considers that in 1957 approximately 500,000 children were born in Canada, compared with some 360 thousand last year, it is appreciated that for some years to come we will be involved in providing jobs for this growth in population.

I believe the tax reforms are being brought in too soon. I think the idea of achieving complete equity before growth could well have been deferred for some years. In order to promote economic growth we need to encourage savings. By definition, savings and investment can be obtained only from what is remaining after spending. A person has to spend less than he earns. Capital investment, the main determinant of growth, can be financed only by saving.