can hardly be considered overheated or inflationary. Yet interest rates fail to discriminate among these differing levels of growth across our country, differing levels of inflation across our country, with the result that beyond southern Ontario the regions are being driven farther into recession.

It is not merely in regions of Canada that the indiscriminate impact of high interest rates is felt. It is felt unevenly in the various sectors of the Canadian economy. The impact on the manufacturing sector, the impact on the resources sector can be especially severe, vulnerable as they are to borrowings and high levels of interest on those borrowings. On the other hand, the service sector may largely escape from the impact of higher interest rates, so that both a regional and a sectoral impact is felt as the government pursues its single-minded policy of high interest rates to achieve what it calls zero inflation.

Is a 5.5 per cent inflation rate really such a threat to price stability and economic growth? The Bank of Canada praises the goal of zero inflation, but in an increasingly interdependent world economy it is impossible to see how Canada can reach zero inflation when its trading partners, particularly the United States, have inflation rates well above that level.

Above all, we must realize what an anti-inflationary monetary policy entails. What is euphemistically described as slowing the economy or taking the steam out of the economy really translates into recession.

The goal here is twofold: The government sets out, first, through the Bank of Canada, to reduce demand by increasing the cost of money; and, second, to reduce wage demands by increasing unemployment, thereby restricting labour's bargaining power. Both these goals, by definition, entail recession and a decline in living standards for the average Canadian.

To achieve zero inflation, which is the stated goal of the Bank of Canada with the full support of the government, a government would have to forgo inflationary tax increases like the goods and services tax. Average wage increases would have to decline to the point where they would be roughly equal to the average increase in real output per member of the labour force. That would mean about a 2.8 per cent increase in 1988, 1.1 per cent increase in 1989, and probably less than that in 1990 as productivity declines due to recessionary pressures. Does anyone really believe that wage increases of such a low level will be achieved through interest rate policy? I doubt it very much.

A tight monetary policy alone is not achieving the goals for which it was intended. It does not appear to be limiting even the moderate inflation and is certainly not leading to zero inflation. The high interest rate policy of the government is undermining the very thing that it was intended to protect, the living standards of Canadians. It is not working because the government's fiscal policy is working at cross-purposes with its monetary policy.

High levels of government spending have both fuelled inflationary pressure in the economy and have incurred an unprecedented national debt. Countering those inflationary pressures with higher interest rates has forced the government to raise taxes which further fuels the economy by paying greater interest on its debt. This inflationary pressure in turn leads the Bank of Canada to raise interest rates. Here, again, we are in the vicious circle which is familiar to all those who have followed the economic policies of the government.

What has complicated this dilemma even further is the fact that the government increasingly has been forced to go off-shore for its capital, meaning that Canada is now tied more closely to rising international interest rates than it has been in a very long time. Canada's off-shore debt, both public and private, is now about $200 billion and growing. Each year Canada now looks to foreign lenders for almost $60 billion, unprecedented levels in Canadian experience and placing real restrictions on our ability to participate in the rapidly evolving international economy.

The policy of high interest rates in Canada has had a major adverse impact on our exports. High interest rates typically drive up the value of a currency. We have seen the value of the Canadian currency increase rapidly from the 70 cent level up to more than 85 cents today. The adverse impact on Canadian exports is substantial. It is not surprising that Canada has demonstrated a deteriorating trade position. Canada's merchandise trade surplus fell below $5 billion in 1989, half the level reported a year earlier, and about one-quarter of the peak Canada achieved in 1984.