That is not the real problem, however. The really ominous problem about the policy of the Central Bank is the current account deficit. In the first nine months of this year it has gone to $22 billion from $18.2 billion last year. Our trade surplus dropped in the last quarter. Our travel deficit was $1.5 billion in the third quarter. Cross-border shopping has added $4.1 billion to our current account deficit in the first nine months, and our nonmerchandise deficit is now at an annual rate of $33 billion. The current account deficit has gone from 1 per cent of gross domestic product to 3 per cent today. It is the highest among the G-7 countries, and the difficult part to stomach is the fact that most of that money is going for nonproductive purposes; that is, to the government to finance consumption.

If we have this current account deficit, we have to examine how we finance it. Our net foreign debt in Canada is $280 billion. That means that $27 billion was paid to foreigners last year as compared to $4 billion in 1980. Foreign debt is up by $23.3 billion in 1991 alone. Eurobond issues in 1991, so far, equal $14 billion as against $4 billion in 1990. It has been estimated that by 1995, if we maintain the dollar at the current level, we will add $50 billion to the foreign debt as a consequence.

Mr. Mazankowski was in Japan the other day. He promised the Japanese the continuation of a high, if not higher Canadian dollar. He said we will not lower interest rates. His policy is not to confiscate foreign assets by having the dollar adjust to a lower rate. I can understand the Japanese being very pleased with that statement, for they hold $44 billion in federal and provincial debt. Indeed, the Japanese have been attracted to buy our debt because they have low interest rates and the Americans have low interest rates. The high Canadian yield accompanied by the promise of the Minister of Finance that there will be an even higher yield by virtue of appreciation of the Canadian dollar naturally creates a market for our indebtedness.

So what do we have? The government's and the governor's objective is price stability. He has reduced inflation, which will result, as he says—and he is right if inflation is lower—in lower interest rates over the longer term. He proposes that that will cause a containment of costs and result in increases in the competitiveness of our industries. At that point, he says, the Canadian dollar will stabilize with the American dollar because our rate of inflation will be lower than theirs and our efficiencies will be equal to theirs. There are problems with that policy. First, it is a long and painful process. It will involve bankruptcies, layoffs and downsizing of many firms. If the maintenance of the dollar goes on at the present level without cost improvements, we will destroy the trade sector of this country. So what we have is the possibility of permanent losses of industries and of jobs.

As our deficit grows, our foreign indebtedness increases, and our interest payments to foreigners increase. So what we face, then, is a vicious circle. It does not matter that the indebtedness is denominated in Canadian dollars. All that means is that there is no exchange risk for the issuer. The money still has to be paid out to the foreign holder and translated into the currency of that holder. So what we are doing here with an increasing current account deficit that is caused by an inordinately high dollar is mortgaging the future of this country.

● (1550)

I believe the Canadian dollar will, on that account, adjust in any event. In the first place, there is no indication that the cost of government, as related to the taxes paid by people, will decrease. There may be more efficiency within industry itself, but I see no indication that the incidence of tax on industry will be lower.

It is a fact that a 12 per cent cut in pay would be required right now to justify a dollar at $.88 and remain competitive with the United States. The current account problem is very large now, and it is growing. One asks, then, is there another route? At the present time, inflation is below the target rate of 3 per cent. In fact, it is below the inflation rate of the United States, if we do not take into account the one-time effect of the GST.

What is the purchasing power parity of the Canadian dollar? That is to say, how much money in terms of American dollars will $1 Canadian buy in goods and services? The answer is $.80. That is the purchasing power parity. That is as good a proxy as any for what the value of the dollar should be.

Honourable senators, we must bring the current account deficit under control. In the past, we have achieved equilibrium in Canada, as, indeed, the Americans have achieved equilibrium, by adjusting exchange rates. In the 1983 to 1986 recovery, the change in the monetary conditions index was achieved by an 11 per cent depreciation in the Canadian dollar.

I contend that the climate is right for that adjustment. We have a low inflation rate. We are suffering from low output. The budgetary deficit as opposed to the current account deficit requires less borrowing. I predict that the budgetary deficit will fall faster than has been expected, if for no other reason than that there is a saving in our budgetary expenditures on account of interest of $1.8 billion for each 1 per cent decline in interest rates. If we make an adjustment now in our currency, it would be a one-time adjustment. It is true that we will have to increase the money supply to do it, and there is some risk of inflation involved, but we are talking about a one-time adjustment which I believe in today's climate can be accommodated. In any event, I think it will happen regardless of what the government does, purely and simply because the higher dollar is creating a larger current account deficit. The outflows to service that debt to foreigners will increase and increase.

I would like to deal for a moment with the Free Trade Agreement in this context. There is no doubt that in order to accommodate the Free Trade Agreement a restructuring has to take place. But, it would be easier if industry in Canada were making profits out of its exports so that investment money is available. If there is no adjustment in the Canadian dollar, we are talking about an adjustment in industry that will