

*Supply—Finance*

As I said at the outset, there is little we can do about international financial developments like devaluation of sterling and the United States efforts to check the outflow of gold. We do have a responsibility to take action to strengthen and buttress our own position in the face of these international developments. There has been concern in recent years over the rise in Canadian prices and costs of production and its possible effects on the competitive position of Canadian industry. There have been more recently uncertainties as to the future action to be expected of the government and of parliament here.

First let me deal with our competitive position. I should like to recall that our trade position last year was stronger than it has been for some years past, and that by the end of the year our trade surplus was running at its highest level in over a decade. Indeed, our over-all current account position on the balance of payments in 1967, which I am told will be published later this week, has been considerably stronger than for several years previously.

While some of this strength derived from the extraordinary receipts that we obtained from tourist trade because of Expo '67, the net improvement on all our other current international transactions was nearly as large. We can reasonably expect that our current account balance this year, though it is bound to widen, will still be better than it was in either of the two years before Expo. It will thus represent an improvement in relation to the average deficit of the last 12 years, both in absolute terms and more especially in relation to our now greatly enlarged national output and volume of international transactions.

The present exchange rate of the Canadian dollar is appropriate to the situation of our economy. We are still experiencing the upward thrust in our economy which began seven years ago and which has continued without serious interruption to the present. Our export performance has been good, especially in the past few months. Imports have not been increasing disproportionately. Our economy is not significantly underutilized; indeed it is still displaying some of the effects of excess demand pressure which had built up over the long expansion.

**Mr. Churchill:** Where is the crisis, then?

**Mr. Sharp:** In these circumstances a lower exchange rate would add to our inflationary problems by increasing the demand on

[Mr. Sharp.]

Canadian production by foreigners, and by reducing the use by Canadians of goods and services produced abroad. Domestic demand would have to be further restrained in order to offset the inflationary consequences of these reactions.

We must also bear in mind the effects of our action upon others and thus upon the world with which we trade and from which we derive so much of both real and financial capital. The international finance system has been under pressure for several years and has recently suffered some serious shocks. We must accept and discharge our share of responsibility for the effective working of the world system of trade and payments. That system, and the mutual assistance it involves in times of stress, provides large resources to meet speculative movements such as we have encountered recently.

• (3:20 p.m.)

Such resources are available to us as they have been to others, as is evident from the use we made of the reciprocal currency arrangements with the federal reserve system in January and the drawing on the fund in February. Further large amounts are available to us from these sources to meet further speculative movements should they occur, quite apart from the new credits which it would be possible for us to arrange if they are required.

I mentioned the influence on markets of uncertainty as to the action to be expected by government and parliament here, and I mentioned that when the tax bill was voted upon adversely there was a reaction in the exchange markets. I think we must recognize the danger of exaggerating political uncertainty in a situation such as we have now. It makes news to keep saying we face a financial crisis, that the government in Canada will be or may be paralyzed by political developments. It is possible to create a financial crisis if people come to believe these allegations about parliament. Yet parliament did not extend unreasonably the debate on the confidence motion. Parliament does want to debate seriously the state of the Canadian economy. I do not believe there is a will on either side of the house to paralyze parliament.

**Some hon. Members:** Hear, hear.

**Mr. Sharp:** The excitement generated in a political crisis such as we had recently, if prolonged, may create that impression, but I believe it is false.