inflation will simply add, as the budget points out, to the very problem that we are attempting to solve.

Further on in the budget speech, at page 9, the minister said:

Such a retreat ... would damage our prospects for sustained economic growth in the future. I have been urged by some to worry less about inflation and minister to unemployment and growth. There are siren qualities to these entreaties that could well lead us onto the rocks.

Mr. Speaker, in my riding there seems to be a misunderstanding about the connection between some of these forces that work in the country. I would like to answer some of those misunderstandings. I would like to answer really three or four simple questions from my constituents. They ask me why we cannot lower the dollar. They ask why we cannot have a 75 per cent dollar; if we are stuck with the influence of American rates, why do we not set our rates free and let our dollar drop. Other constituents say that inflation is not important to them, that it is interest rates that are causing them harm, not inflation. There are other constituents again who, like the NDP, are arguing that we should beef up our economy again, put a real emphasis on growth, and get going.

Mr. Speaker, as you well know, our interest rates are tied both to the American interest rates and to our own rate of inflation. We know that if American rates drop drastically and our inflation does not drop, then our interest rates will stay up. We will be keeping them up all on our own. At the same time, if we are able to reduce our inflation, we will have at least some greater ammunition to fight with, if American rates stay high or go even higher. These are true facts, but they both point to the simple fact that Canada is part of a larger world, that that larger world is experiencing great trouble from inflation and high interest rates, and that we ourselves are experiencing that trouble as well.

The C.D. Howe Research Institute brought this fact out in its Policy Review and Outlook, 1982, saying:

Inflation must be lowered in the short term. Failure to do so, in light of lower U.S. inflation, will result in a rapid loss of international competitiveness of Canadian exports ... Lowering inflation is also a necessary precondition to ensuring robust economic growth in the longer term.

Mr. Tom Shoyama wrote, in the *Policy Options* magazine, Volume 3, March-April, an interesting article which I recommend to the NDP, entitled "The Economics of Gradual Improvement". He points out there:

Clearly the overriding and most intractable problem has been the stubbornly high, persistent and seemingly uncontrollable rate of general price inflation.

Further on in the article, he says:

—there is no doubt that they (interest rates) reflect the persistently high rates of inflation, and the entrenched expectations of continued inflation.

A little further on again he says:

—the recent peaks (of interest rates) have represented quite unprecedented real rates. But the question is how and why it is that there remain borrowers both willing and able to pay these rates ... The answer clearly lies in the psychology of a deeply entrenched inflation ...

I think that the member for Ottawa Centre (Mr. Evans) brought to our attention the most important fact, that we in this government have to defend the right not only of borrowers but of savers. We have to defend the rights of the whole economy. Why? We must remember that in this economy our interest rates will always sit above inflation. Over a short time we will find them below inflation, but in the long run borrowers will always pay a profit to lenders, borrowers will always pay an interest rate above the cost of living. Money must earn a profit, as the hon. member from Ottawa Centre pointed out. Money must have a rate of return above the cost of living.

Mr. Speaker, in my riding mortgages a few years ago were available for less than 12 per cent. It is common now to find mortgages that are being renewed from a 10 per cent rate up to 16 per cent, 17 per cent, 18 per cent. When those very low rates were made a few years ago, the lenders very quickly discovered that they were losing money, that they were locked into five-year mortgages at 10 per cent—and the cost of living went past that rate. Not only did it stay even with the mortgages but it went past them. In effect, therefore, the home owner was getting a real break from the lender. Today that point has turned over. The lender has learned his lesson from that. Today mortgages are available, only for a much shorter term. I understand that there is only one bank now that offers five-year mortgages. They are not only shorter, but they are much more expensive. People renewing their mortgages are finding that they are going from a situation where they had a profit at the expense of the lender to a situation, a more traditional one, where the lender again is earning a return on his money. It is obviously in the interest of both the lender and the borrower, it is obviously in both their interests, to get the rate down. The lender will still make a proper and traditional profit, the borrower will have his money available at a much cheaper rate. Both of them will profit if the rate comes down; and the rate will come down only if the cost of living comes down, if the inflation rate comes down.

The second part of this issue is the great influence of American rates on our own experience. Of course, recently, American rates have been very, very volatile. The hon. member for Etobicoke Centre (Mr. Wilson) indicated that he thought that American rates were lower than ours. In fact, American rates are much higher. The prime rate in both countries is 16.5 per cent, but in our country the real rate of interest is around 4.5 to 5 per cent, whereas in the United States the real rate of interest is 6 per cent. There is no sign that American rates are going to relax. There is every sign that these rates are going to react on ours and that lenders will be influenced by the high level of U.S. rates.

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Our friends in the NDP indicated earlier that they thought that exchange rates would work. The hon. member for Don Valley East (Mr. Smith) made a very telling point when he told the story about a mother living in Arizona wanting more money out of someone in Canada so that the NDP member would soon be coming to the government asking for an exception on behalf of his mother. That is exactly what would happen politically. Economically though, such a scheme simply would not work.

I refer anyone who is interested in a somewhat impartial way in this to read the article "Can we have made-in-Canada