Currency Devaluation

Mr. Gillies: They don't know. I can inform the hon. member for Welland that if we were to go to committee and ask such a question, they would not give us an answer. The reason is because they probably do not know or do not have any views on the matter. One view that is very clear is that of the governor of the Bank of Canada when he went before the Senate and said that if the dollar drops any more the inflationary forces that it will unleash will be harmful to this nation.

An hon. Member: Who said that?

Mr. Gillies: The governor of the Bank of Canada. We all know that every time the dollar drops we get more inflation. It is important to determine what we can do to alleviate the situation. I do not think that the government expected the dollar to go under 90 cents, but it did. Nor do they expect it to break 80 cents, but it may or it may not. The current account deficit is very high, and as a result the dollar may go that low.

The government in its position of defending the dollar has taken two approaches. The first position is to borrow abroad, as it has done to the tune of $5 billion unlike any government in Canadian history. The cost, incidentally, to the Canadian people due to the differences in exchange rates alone is well over $170 million. In other words, the amount Canadians will have to repay because of the exchange rate differentials which have taken place since the borrowing is estimated today at about $170 million. The tragic thing is that even by following that policy it does not seem to have stopped the slide in the value of the dollar, but this seems to be the only policy the government has been able to come up with.

The foreign exchange equalization account had approximately $6 billion in reserves two years ago, and the government has almost depleted it. It has replaced it by borrowing abroad with expensive money and we are now faced with the necessity of having to repay those funds and the accrued interest. The government which is best known for following this sort of policy is the British government during the period 1960 to 1965. Essentially, it bankrupted the country. The declining value of the pound created more inflation and the inflation caused costs to rise which nullified trade advantages, and they were soon back in the same cycle. Canada is desperately approaching that same situation, and for a rich country like this to be getting into such a situation is fairly desperate indeed.

The second thing which the government has done is to raise interest rates. Presumably it does not care about high interest rates, high consumer borrowing costs, high mortgage costs, or high costs for starting business. Every economist in this country and, indeed, the governor of the Bank of Canada, have said that a high interest rate policy, given the high domestic economic situation in the nation today, is wrong. The last thing Canada needs right now is a high interest rate policy, yet since the beginning of 1978 the bank rate has gone up 50 per cent, from 7.5 per cent in the beginning of 1978 to the current level of 11.25 per cent. Every time interest rates go up mortgage rates and rates in general go up. It is inflationary.

Why has the government taken the direction that it has on interest rates? Incidentally, it is interesting to compare the bank interest rates of other countries around the world with Canada's interest rates. Here are some interest rates: West Germany, 3 per cent; Switzerland, 1 per cent; Japan, 3.5 per cent, and U.S.A., 10 per cent. The reality is that the countries with strong economies have the low interest rate structures and a strong balance of payments. We are going in the other direction, because the government argues that we have to keep capital flowing into the country or the dollar will fall even further. If one looks at the figures, which some people never presume to do, the rise in interest rates has really not caused a change in the rate of the flow of funds. We have the peculiar situation that even though we have moved the interest rate up seven times, it really has not done anything for the net flow of capital.

Let us look at the argument of not raising interest rates. If interest rates had not been raised, it is argued the net flows would be much greater. But is that true? Another argument which needs to be examined is that in today's world slight differentials in interest rates are not as important to reinforce the international movement of capital as the assessment on the part of investors with regard to the strength of the economy itself. This is a bottom line question on economic policy. If we have moved to a high interest rate policy at a time of high inflation and high unemployment, it is a terrible price for Canadians to pay if it was not necessary to make such a move.

Describing the situation in terms used by lawyers, "there is enough evidence to suggest that it should be investigated". There is enough evidence that interest rate differentials are not that important to the movement of capital right now and that we did not necessarily have to follow this policy. The Canadian people have a right to know whether this is the right policy or not. It is not good enough for the Minister of Finance to assert that he had to do it to keep the differential between the rates of the United States and Canada at their levels. Recently there was a period in Canadian history where our rates were higher than those in the United States. There was also a period when they were lower. The period when Canadian rates were lower than the rates in the United States did not seem to have a deleterious effect on the strength of the current account balance.

Mr. Danson: When was that?

Mr. Gillies: Roughly 1971 to 1974. What is the right policy? What we are trying to get across today is that on issues which are as important and as fundamentally significant to every single Canadian as this one is, we must have the best advice, input, debate, analysis—

Mr. Alexander: And honesty.

Mr. Gillies: —and openness and honesty possible, because it is too important to proceed otherwise. If we do not need in Canada a high interest rate policy because of our foreign exchange situation, how desperate that we should be taken down that road.