

This leads me to one of the "perils" we face today. All governments in the industrialized world are under pressure to abandon their medium-term focus in the face of the current economic weakness. There are strident voices who want us to spend our way out of the recession, drop the commitment to stable prices, or reverse the movement toward liberalized trade and open competition.

This is particularly true in countries like Canada, where the recession has masked the benefits that the medium-term strategy helped deliver through much of the 1980s. The simple fact is that it sustained one of the longest periods of economic expansion since the Second World War.

If we are to restore sustainable growth, we must not lose hold of this medium-term policy anchor. It represents nothing less than the best way that governments can contribute to a successful, competitive business climate in today's globalized environment.

As business executives -- and especially as financial officers -- you understand intimately the crucial importance of controlling costs in maintaining a competitive edge. You will also understand the key role that inflation plays in driving up interest rates and the cost of capital. It was no accident that during most of the 1980s, the countries with low inflation, Japan and Germany, also enjoyed the lowest rates of interest and, coincidentally, among the best rates of growth and lowest rates of unemployment.

But to effectively control inflationary expectations, we can't rely on monetary policy alone -- not unless we are willing to live with the risk of further recessions and the wrenching dislocations these involve. We must partner disciplined monetary policy with the disciplined fiscal policy that restrains government spending in order to reduce deficits. This is the only way to stop the rise in tax burdens while freeing up savings for productive business investment rather than paying interest charges on public debt.

This is the policy framework that has guided our own economic policy-making in Canada. In 1984, when our government took office, we faced a serious fiscal challenge. Our deficit was the second highest of the G-7 countries, and rising, and total federal government expenditures had reached almost 25 per cent of the Gross Domestic Product (GDP). For every dollar raised in taxes, the government was spending \$1.33 on programs. Since then, I am glad to say that we have made significant progress.

Both Canada and the United States have deficit problems. In Canada, we have made some meaningful progress. Since the present government came into office in 1984, on a comparable accounting basis, Canada's deficit has gone from about 6.8 per cent of GDP to around 4 per cent this year. In the same period, the U.S.