

Borrowing Authority

growth expected for 1979-80, we would have had a small surplus this year. This is very different from what we find to be the case in the United States, where the congressional office of the budget indicated that the American deficit, with no recession, would be in the area of \$90 billion. A Wall Street estimate puts it at \$60 billion. It would be a long-term, structural deficit. The University of Toronto study indicates that our deficit would not be a long-term, structural deficit.

It would be interesting to look at the statistics for 1979-80 when the deficit was 4.8 per cent of the Gross National Product; by 1981-82 it had gone down to 2.5 per cent of Gross National Product. Then the recession came along.

One of the interesting things about the recession is that the real reason for the growing deficit is not major Government spending—although it is perhaps a factor in 30 or 40 per cent of it—but declining revenues as a result of so many people being unemployed.

If the study is correct—I think it is, and certainly the size of the deficit as a percentage of GNP between 1978 and 1982 would indicate that the study is correct and that we would have a surplus today if we had not had a recession—then we are talking about a relatively short-term type of deficit and not a structural one. That being the case, the economists are saying that it is not a dangerous thing for us to increase the deficit if we do so in order to create work.

This is the fact that I think the Minister of Finance (Mr. Lalonde) ought to consider very carefully. The deficit, as a function of the Gross National Product at this point, would be somewhere in the area of 8 per cent. During World War II it ran as high as 25 per cent in one year, so 8 per cent is not an undue amount, given the strains on the economy. If the deficit were allowed to rise to 10 or 11 per cent of GNP, in the short term only, it would not be a very dangerous thing. I think a lot of economists might say that it is necessary at this time.

There is another factor that is related to unemployment and the deficit and that is the rate of personal savings. Personal savings as a function of gross personal earnings are something in the order of 13 per cent, about double that of the United States where it is about 6.9 per cent. If it is of some consolation to those concerned about inflation and higher interest rates that this figure is so high and that gross personal earnings are about three-quarters of the GNP.

With this large amount of saving, there is some room for manoeuvre in terms of putting pressure on the economy as far as inflation or interest rates are concerned. The very high level of savings is a significant factor in slowing the economy down. So much money is going into savings and not into consumption at this time that I think most economists would say that the problem is that not enough of the GNP is going into consumption. People are not buying. We will not get increased growth in the economy until there is growth in consumer spending.

I think there are two basic reasons why the personal savings ratio is so high. In the sixties it was about 3 or 4 per cent; now it is 13 per cent. One reason is that real interest rates are very high. If you subtract the inflation rate of 8.3 per cent from the prime rate of 11.5 per cent, you get a real interest rate of 3.2 per cent. That is not very realistic, of course, because inflation

is much lower than that. For the last six months it has been running around 6 per cent, so you have real interest rates in the order of 5 and 6 per cent which are inordinately high. They would normally be below the 3 per cent level. Because real interest rates are high, people tend to put money into savings rather than spend it.

The other reason for the savings ratio being so high is that people are afraid of losing their jobs, so they are paying off their bills or reducing their mortgage at a faster rate. All these things point to personal insecurity.

It seems to me that the Government has to demonstrate to people who are afraid of losing their jobs that it will create more jobs. I suggest that we could do so by increasing the deficit. If people had the feeling that their job was not going to disappear or that there would be another one for them, then I think some of that insecurity would be dispelled. People would tend to feel they could consume more durables, such as cars, refrigerators or housing.

● (1430)

Again, lower interest rates would stimulate the housing market. What are the options open to the Minister? I know there is a reluctance among many Canadians to expand the deficit, but more and more members of the business community are saying that this may be necessary. I think we should keep in mind the situation which I mentioned, that the deficit is a relatively short-term one, not a structural deficit. Therefore, it can be expanded without creating some structural problems if we do it on a short-term basis. I am suggesting a fairly massive amount of spending to create fairly short-term jobs.

There are some factors which should be taken into consideration in the area of spending to create employment. The projects on which we spend should be fairly large in labour content. This is pretty obvious. Perhaps many of them could be in the public sector, but they should trigger a great deal of activity in the private sector. Again I am thinking of things such as the construction of homes. The projects should be valuable. I am not talking about make-work projects; I am talking about infrastructure in terms of sewage and what communities need; valuable things which must be done. As a matter of fact, if we think about this over a long period of time, we should have a good inventory in the country of the kind of things which could be done when unemployment rises.

A few days ago when I asked the Minister a question, he replied by indicating that these should be very short-term projects. We are not talking about long-term megaprojects because we do not want to create long-term structural increases in the deficit. We want to ensure that these are fairly short-term. Assuming that the world picks up—and things appear to be doing so both in Canada and in the United States; our foreign trade picture is very good at this point, indicating that this is happening—in the long term all of us must share a great deal of concern about the whole unemployment problem. If we had a growth picture of 4 per cent to 6 per cent in the