

The Budget

• (1700)

[Translation]

Our public debt has grown from \$200 billion to \$350 billion in five years. Fully \$120 billion—more than 80 per cent—of this increase consists of the compounding interest on the original \$200 billion. That shows dramatically how important it is to get off the treadmill of borrowing money to pay interest on the past debt. It also helps to explain why the deficit is still at \$30 billion in spite of the reduction in spending and increased tax revenues over the past five years.

[English]

This year alone, interest payments will cost us close to \$40 billion—equal to \$1,500 for each and every Canadian. That is ten times higher than 15 years ago.

A public debt growing faster than national income does more than feed on itself. It consumes more and more of the dollars we need to maintain existing programs, meet new priorities and keep taxes down. Ultimately, it consumes the hope and the opportunity that should be the legacy we pass on to our children. Instead, a runaway debt becomes our legacy.

The children of today and tomorrow do not have a vote in this matter. We do, and with it comes the responsibility to protect their future from a crippling burden of debt.

With the expenditure control actions in this budget, we will ensure that our operating surplus continues to grow. This is essential. But we also need to ease the burden of rapidly growing interest payments. And to do this effectively we must continue to deal firmly with the greatest single threat to our continued fiscal and economic progress: high inflation.

CURRENT FISCAL AND ECONOMIC CHALLENGES

After seven years of strong economic growth, the economy has exceeded its productive capacity. This has fuelled inflation. The current slowing of the economy is helping to ease the strain, but underlying inflationary pressures remain too high. We must lower inflation as quickly as possible. This is the only way to get interest rates down so that we can put the economy back on a sustainable path of expansion and make further progress on the deficit.

The prospects for lower inflation and interest rates depend crucially on keeping costs under control. If we try to take more out of the economy than it is capable of producing, our inflation problems will worsen and the economy will suffer. Responsible price and wage behaviour will speed the process of getting inflation down.

Federal government wage increases have been below the inflation rate and below the pace of wage increases in the private sector since 1984. The government is today reaffirming its commitment to wage restraint. I have asked my provincial colleagues to join me in that commitment.

This will be a testing year for the Canadian economy. The economic news will not be encouraging in the months ahead. Growth will be slow. Employment is expected to continue growing, but not as quickly as the labour force, and the unemployment rate will rise.

In these circumstances, we can expect to hear increasing demands for quick-fixes, particularly for sharp, sudden reductions in interest rates. The frustration that people feel about the persistence of high interest rates is understandable. I feel it too. But experience makes clear the futility and the danger of trying to solve economic and fiscal problems by dealing with the symptoms rather than the causes. Experience also supports the need for the kind of firm, inflation-fighting monetary policy that the Bank of Canada has been following.

I want to underline the point: High interest rates are the symptom, inflation is the cause. A firm monetary policy helps to ease the demand that is straining the capacity of the economy and creating inflationary pressure. It is dealing with the cause of the problem. Premature easing of credit would lead to an increase in borrowing and demand pressures. This would make the inflationary problem worse, and lead to even higher interest rates in future.

• (1705)

The measures in this budget will work with monetary policy to ease inflationary pressures. They will help to harness the benefits of lower inflation, lower interest rates and lower deficits. They will reinforce each other and lead to a smooth return to strong, sustained growth and job creation. They will help ensure that the greater economic output made possible by our structural reforms will in fact be achieved.