

Economic Conditions

not know what to do? They cannot take their capital and go somewhere else. In most cases they must borrow to make their businesses operate. And those high interest rates are killing them.

But it is not only the businesses; thousands and thousands of Canadians have mortgages coming due on their houses since the five-year term, or whatever the original term was, expired. I do not know how we can even estimate the amount of time wasted in worrying and figuring out what to do about one's mortgage on one's home. I know it happens in countless homes. I have seen it in my own office here on the Hill. A secretary in my office, who is a member of a very hard-working Canadian family, spent untold hours and sleepless nights worrying about what to do about a mortgage which was to come due. After all, on an average home mortgage the increase in rates, which is occasioned after a five-year mortgage expires, or comes due, represents an enormous drain on the home owners' budgets. Canadians do not know whether they should be saving their money or spending their money.

I would like to refer now to a column which appeared in the *Ottawa Citizen*. It is an article by Dian Cohen, dated December 2, 1980. Mr. Speaker, it used to be that high interest rates stopped people from borrowing. That was one of the tools which the government used as an economic aid to stop borrowing—high interest rates. This is what Dian Cohen says in her article:

Unfortunately, even at borrowing rates in excess of 14 per cent, people are standing in line to borrow money. So the old saw about why the economy is operating so far below capacity no longer holds true. People borrow money at 14, 15, 17 per cent because they believe it still pays them to do so. Does it? Say you borrow \$1,000 at 15 per cent to be repaid over two years.

At the end of that time, you will have repaid \$1,158.72. Meanwhile, you anticipate an inflation rate of 11 per cent each year.

And that is what we have now. The article continues:

On that basis, the \$1,000 item you wanted in the first place, might have a price tag of \$1,230. (11 per cent of \$1,000—\$110 plus 11 per cent of \$11,010—\$1,020) It pays to borrow—even at 15 per cent.

This is because what they will have to pay at \$1,159, including interest is below the cost that the product would have sold for at the end of two years. They do not know whether they should do that or whether they should say: Look what happens when Canadians save. This is the example that Dian Cohen gives in her article:

Say you have \$1,000 invested at 13 per cent. At the end of a year, you will have earned \$130. But with an inflation rate of 11 per cent, your real purchasing power is only \$20 more than it was a year ago—in other words, your \$1,000 earned \$130, but inflation at 11 per cent ate up . . . \$110 of your earnings. Well, you're still ahead of the game, or are you?

No, you are not, if you are in the taxable region where the tax is not the extra dollars of real purchasing dollars that the taxpayer has made but the whole interest income of \$130 is taxed, assuming you already have some other interest income. So, if the taxpayer is at the 40 per cent marginal rate he will have paid \$52 in taxes. But he has only made a real \$20 on his investment. So, to save \$1,000 for a year his real out-of-pocket-expense is \$32. Well, there is certainly no incentive for Canadians to save then, is there? No wonder Canadians do not know what to do.

What should they do, Mr. Speaker? If they are saving they need higher rates to overcome inflation or else they will not invest their money. So if lending institutions or businesses have to borrow money they must pay higher rates in order to attract the savings of people who might otherwise want to spend their money. The real rate of interest is not much more than 3 per cent. I am sure some members of this House can remember the 3 per cent government bonds—3 per cent perpetuals is what they were called. They were issued in 1930.

We cannot have lower interest rates until we get the expenditure of the government into line. I look at the public accounts from time to time as my colleagues know. Looking at the past four years of government revenues it is evident that revenues were up over a four-year period by 25 per cent from \$28 billion to \$35 billion. But during the same period government expenditures went up 61 per cent from \$29 billion to \$47 billion. With revenues going up 25 per cent and expenditures going up 61 per cent the government must know that inflation will follow. They have people in their offices who advise them with respect to that.

So, Mr. Speaker, there is a very simple message which I wish to give to the government, that is, they must learn the principle that inflation caused by government spending causes high interest rates. It is so simple that I cannot imagine why the government does not understand it.

I do not know how long this debate will continue, Mr. Speaker. It has gone on for some 16 hours now and it looks as if it may continue for another 20 hours, or maybe a little longer. I hope that by simple repetition this government will get my message after all these hours. The message is that it is their policies that are bringing on these interest rates, and they must not try to blame them on some foreign or unseen power.

I am confident, Mr. Speaker, that the Canadian people are receiving the message. I just hope that through repetition which has been going on for hours and hours in this debate the government will get the message too.

Hon. Allan B. McKinnon (Victoria): Mr. Speaker, this has been an unusual and very interesting debate. I think the question we must answer is: how is it that in these many years in which most members have served this is the first time one of these debates has been sustained for such a length of time? I think the answer is that never has the House been in such a state as it is at the present time. The affairs of the country are in a shambles. There is no kinder thing to say than that, whether you are saying it with respect to economy, health and welfare, pensions, inflation, the budget, or lack thereof, or the energy program. Wherever you turn there is uncertainty. This is reflected by the members of this House. None of us know what is in the mind of the government. Very few of us have any idea what direction the government is taking.

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When things started to turn badly since this government took power, the people and the MPs began to question. What upsets us is the cynicism of this bunch which got elected last