have seen it happen. All one has to do is to open one's eyes and look at the historical situation—what happened in the last five years and what the government is trying to do right now. It is trying to bring down inflation.

The proposal put forward today by the NDP flies in the face of reality. We will not have low interest rates because someone says, "Tomorrow there will be low interest rates." The world does not work that way.

Mr. Riis: Who says that?

Mr. Evans: We will not have low interest rates by decree. I hear the hon. member for Kamloops-Shuswap (Mr. Riis) asking, "Who says that?" In part, the opposition motion reads:

—this House calls upon the government to demand that the Bank of Canada reduce interest rates—

It reads "demand"—do it, wave the wand, that is how it is done! The world does not work that way. One thing hon. members in the corner seem to forget is that there are more savers than borrowers in society. Contrary to what they believe, there are more people who save money than who borrow it. Every time we hear cries from the corner, they are "subsidize borrowers". Do they know whom they are asking to subsidize those borrowers? They are asking little people who are saving for retirement, for example the lady who is now saving slowly but surely to accumulate enough money to live decently in retirement. Those are the people who will subsidize the borrowers.

The marketplace sets interest rates worldwide.

Mr. Riis: It is the Bank of Canada.

Mr. Evans: I hear the hon. member for Kamloops-Shuswap referring to the illogical jump which would be taken by someone who thinks there is a magic wand solution to the problem of high interest rates.

Mr. Riis: Governor Bouey sets interest rates.

Mr. Evans: Governor Bouey does not set interest rates any more than the hon. member or I do. The market sets interest rates. It is what the public demands to be paid on their savings. It is what people who are saving money or putting money aside are demanding in the form of a rate of return for not consuming today and saving to consume some time in the future.

I believe the hon. member for La Prairie (Mr. Deniger) indicated earlier that many studies of this nature were conducted. They looked at the relationship between money supply growth, inflation and interest rates. No economist in this country or in other countries questions the fact that a rising money supply at a rate higher than the growth rate or the real output of the economy is what causes inflation over the long term. There are arguments concerning the effect of slowing or increasing the rate of money growth on reducing or increasing inflation and the lags in the system, but no one argues the facts that if the money supply is allowed to grow too fast, the result is inflation or, if it is allowed to grow slower, inflation will be beaten. The only questions are how long it will take and how much output loss and unemployment will result in the process of slowing down inflation.

There can be no doubt that if we slow down the growth rate in the money supply, we slow down the rate of price increase. Also there can be no doubt that if, at the same time as we are trying to slow down the growth rate in the money supply to remove inflation from the system, we run bigger and bigger federal deficits, the output loss and unemployment will be higher than otherwise. That is the logic of the policy of fiscal restraint applied at the same time as the policy of monetary restraint. We can remove inflation from the system faster and with less pain if we follow fiscal restraint at the same time as we follow monetary restraint. In other words, if we are restraining the growth of government spending at the same time as we are restraining the increase in the money supply and the available purchasing power, inflation can be wrung out of the system. These are the facts—monetary restraint coupled with fiscal restraint.

The budget which was brought down in November implements fiscal restraints to complement monetary restraint. We must reduce inflation. We must follow responsible, realistic, workable policies which will reduce inflation. By doing so, we will change confidence levels in society. This will mean that there will be greater confidence, which will lead to renewed investment, which will lead to faster economic growth, which will lead to higher levels of productivity, which will lead to higher wages and higher levels of employment. This is the manner in which the system must operate. We must start with the fundamentals and work from them in order to achieve the objective we want. We cannot start with the objectives and attempt to find policies out of the blue, such as the ones suggested by the New Democratic Party, to move us somehow from a difficult situation to the desired result overnight with the snap of a finger or a wave of a wand.

Basically, it is dishonest to build up in Canadians expectations and hopes day after day. The leader of the NDP repeatedly indicates that his party has a five-part solution. He says that if we do those five things, our problems will disappear overnight. It is dishonest and cruel because it builds expectations. Members of the NDP indicate that if they were in government they would solve all the problems—Canadians would be back on easy street, with prosperity around the corner, money coming out their ears, and mortgage rates at 2 per cent. Time and time again we hear the pie in the sky of the NDP. It is absolute nonsense. We have to deal with difficult problems and difficult economic challenges by applying realistic and sometimes difficult solutions. It is not an easy free lunch world, and the sooner that group in the corner over there gets it straight that there is no such thing as a free lunch, the sooner we will be able to come to grips with our real problems and get ourselves back on track again. That is the reality.

• (1600)

Mr. Riis: Check the budget in Saskatchewan.

Mr. Evans: I hear talk about the budget in Saskatchewan.