

Senator Kirby: Senator Gigantès, in light of the economic data which you are now reading, would you care to comment on the following issue? Today, I had a chance to meet with several leading economists who are among the leading economic forecasters in the country. While economic forecasters do not always agree precisely, they certainly agree on the broad outlines of the likely economic future that this country will see in 1991 and 1992.

Depending on which of the leading business economists you talk to, they will tell you that the current recession is going to last until at least the middle of 1991. That is what the more optimistic ones say. The more pessimistic ones say that the recession will continue into the spring of 1992.

Moreover, when you ask them what the cause of the recession is or, in particular, what action needs to be taken to reduce the effects of the recession and to get Canada out of it, they make two fairly telling observations. The first is that the recession will be longer and deeper the longer interest rates stay up. As they point out, it is the reluctance of Canadians to borrow in uncertain times when interest rates are at current levels which is maintaining the recession.

The second item these economists point out is that it is the policy of the Bank of Canada to keep interest rates high until inflation has been wrung completely out of the economy. Again, I point out to honourable senators that these remarks were made by a reasonably representative cross-section of senior industrial and bank economists. Their belief is that the impact of the GST on the rate of inflation will be somewhere between 2 per cent and 2.5 per cent.

In light of the material that you have been reading to the house, would you comment on the fact that we seem to be caught in the following, what some might call, illogical or irrational situation? That is to say, the government proposes to take a policy action which will increase the rate of inflation by 2 per cent to 2.5 per cent. Faced with that increase and the rate of inflation, the Governor of the Bank of Canada maintains the position that he has to keep interest rates high in order to reduce inflation. The fact is that in the opinion of all these leading economists the high interest rate policy is one of the key factors causing the recession, one which will, in fact, lengthen the recession. Therefore, we are in a situation in which the implementation of the GST, combined with the policy of the Governor of the Bank of Canada, will lead to a recession which is likely to be longer and deeper. Indeed, in those circumstances, it is likely to spread into at least the beginning, if not the middle, of 1992. In other words, it will continue for some 15 to 18 months from now.

In light of the data you were reading with respect to marginal tax rates, would you care to comment on the apparent inconsistency of the Minister of Finance pushing a policy which is designed to decrease inflation, the Governor of the Bank of Canada pushing a policy which is designed to decrease inflation and the Prime Minister saying that the purpose of economic policy is to end the recession? Could you attempt to make some sense out of those three fairly contradictory statements? It is fairly clear from talking, as I did earlier today, to

these 15 economists that they are unable to make any sense out of the situation.

Senator Gigantès: Thank you for your question, senator. Your economist friends are perfectly right. We are in a recession and the government is increasing taxes. It is taking more money out of the economy. The people who buy have less money with which to buy. Therefore, sales will fall in various industries. Profits will be less. If profits are less, there will be less money to invest. Borrowing for investment is prohibitive, which is one of the causes of the recession. Interest rates are too high.

Because interest rates are too high, our exports have suffered tremendously with a considerable loss of jobs. All these people who have lost jobs in the manufacturing sector, jobs which have disappeared perhaps forever, are truncated customers. Therefore, there is less money coming into the hands of business, less money with which to do more business. That accelerates the recession.

When economists say that the recession might last until the middle of 1991 if they are optimistic, or to the end of 1991 if they are average, or until the end of 1992 if they are pessimistic, what they are saying is that statistically we will see a shift in two successive quarters from decreasing economic activity to increasing economic activity. However, that does not mean that when the time comes to declare the recession over the economy will be back to pre-recession times, or that jobs will be created, and that those who lost their jobs and who do not have money to buy the necessities of life, the luxuries of life or to invest in houses or anything at all will be reabsorbed. In consequence, they drag the economy down.

Just for argument's sake let us say that it gets to the point where it has fallen for several quarters at a total of 6 percentage points of gross domestic product. Then, in two successive quarters let us say it stops falling and grows by one-tenth of 1 per cent in each of those two successive quarters. That signals the end of the recession, but we are still 5.8 percentage points below what we were before. We are growing again, but we are growing from the bottom of the well, and it is a very difficult circumstance.

• (1720)

You asked me how to reconcile the contradictory policies of the government, and Senator Simard laughs and I can well understand. If I were in his place, I would laugh. He has been a Minister of Finance. He thinks it is very funny that anyone is being asked to reconcile the irreconcilable. I can fully understand. If he were still Minister of Finance for New Brunswick, he would be meeting with his fellow provincial Finance Ministers and saying, "Michael Wilson and John Crow and Brian Mulroney have been collectively mad. Démonciel, as he says in French, and it is. Here is the Minister of Finance about to take money out of the pockets of consumers with a new tax. You do not do that in a recession because it accelerates the recession. Nevertheless, he is about to do that with a new tax that will be inflationary.