

commitment to hit the targets and to base fiscal forecasts on prudent economic assumptions further supported by substantial contingency reserves;

■ Second, to establish an internal process with the authority to allocate spending reductions among departments, reflecting overall government priorities; and

■ Third, to engage in wide-ranging pre-budget public consultations....

Once we set our fiscal target, the thing that matters above all else is our absolute political commitment to hit that target. And the fact that the targets are near-term means that we have had to react immediately to events like (the 1994 Mexican peso crisis).

Looking back in summary on last February's budget, I believe it succeeded despite the tough medicine for basically the following reasons:

■ First and most fundamentally, the majority of Canadians were already on-side with our general objective—in fact, on the fiscal issue, the public was out in front of most governments....

■ Second was the fact that the budget immediately won the approval of opinion leaders thanks to the prudence of its overall set of assumptions and to the structural quality of the measures themselves.

■ Third, the actions in the budget were broadly seen to be balanced and fair and to be generally responsive to the public's overall sense of priorities. Most of the credit for this has to go to my Cabinet colleagues who not only had to make the sacrifices in their own ministries, but then had to sell the overall justification to their constituencies.

■ Fourth, we achieved substantial fiscal savings while keeping new taxes to a minimum and especially ruling out any personal income tax rate increases. The fact that we cut back so heavily on our own activities, rather than putting the burden of deficit reduction on the backs of taxpayers, was a key plus....

■ Finally, we have had reasonable success in communicating why action to deal with deficits and debt had to be the government's immediate priority and why this was not inconsistent with our jobs and growth agenda—in fact, quite the contrary....

The bottom line message here is clear. It is that our commitment to stay the course of fiscal recovery is unequivocal, and the foundations for that recovery are already solidly in place.

...the 1994 and '95 budgets were obviously much more than cost-cutting exercises to get the markets off our back. What we have really launched is a fundamental reappraisal of the appropriate role

of the national government.

The context for such a reappraisal is an increasingly interdependent global economy where no nation, however powerful, can really control even so basic a parameter as the exchange rate of its currency. The truth is that the limits on the ability of government everywhere to decree social and economic outcomes have become starkly apparent....

In Canada's case—a highly sophisticated, yet relatively small and open economy, heavily indebted to boot—these issues have particular salience and urgency. For us, globalization—whether of financial markets or of economic competition—is simply a fact of life. The real challenge we face is to turn globalization to our favour and to maximize our freedom of action.

The only way to do this, it seems to us, is to put our fiscal house in order, and to do all we can to boost productivity....

Seen in this light, our fiscal strategy is also a strategy to safeguard Canada's independence. But it is also true that the restraint associated with the strategy is leading to a government that is smaller, at least by the measures of head-count and spending volume. For some, smaller government is an objective in itself. But for us, it is simply a means to an end. We do believe that government should do only what it can do best—and leave the rest for those who can do better—whether business, labour or the voluntary sectors.

What we must still achieve at the end of the day is a government that is fully capable of assisting the disadvantaged; a government that is unequivocally committed to our publicly-funded national system of health care; a government that is more adept at providing those things the private marketplace cannot—things

such as strategic support for aspects of science and technology; and a government that is focused on getting the incentives right—whether to foster environmental protection, to attract footloose investment, or to spring people from the welfare trap and onto the job ladder....

What is called for here is not only a change in attitude; it is a sea-change in the nature of politics as it has been practised in the affluent democracies over the past five decades....Creating a public sector where it can truly be said that "less is more" is the greatest challenge we face.

Second Quarter Economic Update

Canada's real GDP dropped by an annual rate of 1 per cent in the second quarter, the first decline since the first quarter of 1991.

Statistics Canada attributed the decline to higher interest rates in Canada and the United States. Exports of goods and services fell by 3.4 per cent in volume, with the automotive sector accounting for 80 per cent of the drop.

The annual rate of inflation as measured by the Consumer Price Index rose in the second quarter to 2.7 per cent from 1.6 per cent in the first quarter. However, it fell in July to 2.5 and again in August to 2.3.

The unemployment rate fell in the second quarter to 9.5 from 9.7 but rose again to 9.6 in July and 9.8 in August.

Merchandise trade between Canada and the United States totalled \$90.45 billion in the second quarter, down by 6 per cent from the first quarter but up by 12 per cent over the same period last year.

Canada's Federal Government Deficit As a Percentage of GDP

