We were quite surprised to find out that even if we stood still the deficit would increase next year and would even be higher than this year's, and that the situation would not improve before the end of this decade. All that, even if interest rates were to dip to more normal and more acceptable levels, and if the economic recovery were to be moderately strong. The reason for that is the elementary phenomenon of compounded interests.

Debt service charges rise by about $4 billion every year simply as a result of the annual increase in the public debt. We have reached the point where $25 billion of the $35 billion deficit will be set aside exclusively to pay the interest on the debt in the coming fiscal year, while the debt itself will continue to grow larger.

● (1630)

More frightening still is the fact that, under such conditions, the public debt grows faster than the economy. We have decided to curb the deficit, following a prudent and enlightened approach. The cutbacks and other measures announced in the economic statement will enable us to hold the deficit, at least for a while, at the acceptable or at least tolerable level of $34.9 billion, slightly below this year's level, but still considerably lower than the projected $37 billion deficit we were unfortunately saddled with.

That is only the first step. Our objective is to cut public expenditures down by $10 billion to $15 billion between now and 1990. We think it is a realistic, responsible and commendable objective. Cutting our expenses and reconsidering our priorities in respect of public outlays will not make it possible to create jobs for all Canadians. Once consumer, business and investor confidence is restored, a return to sensible management of the Government's business will contribute positively to a certain growth in the economy.

Of course, the problem of indebtedness could have been tackled differently. One of the easy alternatives would have been the status quo followed by the previous government. But as indicated by the most recent economic projections, we would very soon have been faced with a horrendous debt situation, with all the ensuing calamities. By 1990, public indebtedness would have reached $410 billion, the equivalent of a nominal amount of $54,000 per Canadian family. For obvious reasons that have not escaped your attention, Mr. Speaker, we did not find it very difficult to turn away quickly from that solution.

Another and just as simple solution would have been to use stimulating measures. However, nothing short of huge capital injections into the economy could have had some initial effect on growth or immediate employment. Since this year's deficit already exceeded the $5 billion mark in the February estimates, deliberate and huge economic stimuli would have left us in a rather precarious position. This country would have sunk deeper into the vicious and infernal circle of indebtedness, and the outlook for growth and long-term employment would have been seriously eroded. Loss of consumer and investor confidence would then have resulted in the loss of stable jobs in the years ahead.

Another alternative, just as simple, would have been to reduce the deficit indiscriminately and savagely, with spectacular and pitiless effect right from the outset. But such a drastic approach would have undermined confidence and jeopardized our country's social fabric. The cost of adapting to such a sudden turn-about in the economy would have been high, and our collective capacity to solve our structural problems would have been undermined.

There is a growing national consensus that we have to face our deficit and debt problems. Even the Leader and the financial critic of the Opposition have called for a reduction of the deficit. They support our basic objective without reservations. The previous government left us with a financial situation consistent with the incredible state of our economy.

The economic liabilities which we inherited are high unemployment, inadequate investments, shattered confidence and unwarranted individual concerns. Between the last half of 1981 and the end of 1982, we have suffered the worst recession experienced since World War II. The recovery which began in 1983 was rather moderate compared with other postwar recoveries and considerably less strong than in the United States.

After two years of recovery, or thereabouts, business and consumer confidence is still a bit shaky. Families have become cautious spenders because of the uncertainty of the job market and the low growth in real income, but savings remain at a high level. Faced with surplus capacity, large inventories and high interest rates which make their future uncertain, businesses are reluctant to invest capital and hire employees. Investment rate is 20 per cent lower than before the recession, while employment has just gone back up to pre-recession figures. We can certainly improve our economic outlook, but only if we face this major challenge realistically and responsibly. This means that we shall have to tackle the deficit and the national debt.

A steady increase in the debt to income ratio threatens growth in three ways: first, it exerts upward pressure on interest rates by feeding future inflationary expectations and by promoting competition for personal savings; second, it restricts the capacity of the Government to meet priority economic and social needs; finally, it is symbolic of bad economic management and it undermines confidence and jeopardizes private investments, our only source for creating the jobs needed in Canada. To promote confidence and employment, interest rates must therefore be as low as possible. Confidence must be renewed. This is why action to decrease the deficit cannot wait. We must assure small and big investors in Canada and abroad that the impressive results achieved in our fight against inflation will be consolidated and maintained and that our Federal Government will not subject the domestic capital market to any excessive and prohibitive demand.