

his simple theorem, "Reduced deficits will, in themselves, produce economic growth."

I repeat: The fiscal problem has to be addressed on its own merits, but why hold out the hope that the pain surrounding deficit reduction is going to produce the jobs and growth we want in Canada? Of course, we want to know what will happen in this economy after 1986. The minister was quite categorical on this point in his economic statement of last November. He stated that over the second half of the decade, growth would increase an average of about 3.4 per cent while inflation would stay at or about 4 per cent for the remainder of the decade and that unemployment would remain unacceptably high—11 per cent through 1984 and then declining gradually to about 7 per cent by 1990. In November of 1984, the minister was saying that the 11 per cent unemployment rate would be reduced to 7 per cent by 1990.

In May, he is much less sanguine and much more tentative. He is no longer prepared to say that we will have a 7 per cent unemployment rate by 1990. He has made a very rapid retreat from that economic situation. In fact, he tells us quite clearly that what will happen to the Canadian economy after 1986 will depend principally on what happens in the United States.

In November, the Minister of Finance foresaw a budgetary action in the United States which would lead to lower real interest rates and better economic growth.

You may remember, honourable senators, that in my speech on that economic statement I drew attention to the very heavy reliance the minister was placing upon the movement of interest rates in the United States. In fact, in May, he recanted the position he took in November and is not now prepared to tell us that there will be a 7 per cent unemployment rate by 1990. In fact, so uncertain is he that, instead of a clearcut projection for the years beyond 1986, he has now asked us to choose amongst three plausible scenarios, each of which is dependent entirely upon what happens outside of Canada. The ranges of unemployment are from 7.3 per cent to 10 per cent. The minister makes it very clear in his document, "Canada's Economic Prospects 1985-90," tabled with the budget, that the course of the Canadian economy will depend not on what he does in his budget or in his next budget but on what happens in the United States. That is clearly stated. The following quotation, I think, is quite revealing. He said:

At the present time there is a high degree of uncertainty as to whether or not the United States will be able to achieve a reduction in the U.S. federal deficit sufficient to create the conditions that would allow for sustained economic growth over the medium term.

There is a high degree of uncertainty that the United States will take the policy measures that will lead to sustained growth over the medium term.

The minister then went on to state:

To reflect this uncertainty, three medium-term projections have been developed which differ in the degree to which necessary policy adjustments are assumed to be adopted in the United States over the medium term.

[Senator MacEachen.]

The minister, of course, has let the cat out of the bag. Whether we have 7 per cent unemployment or 10 per cent unemployment in Canada depends on what happens in the United States and not on what happens in the way of deficit reduction. That is all from the minister's own budget papers. It would have been much better for all of us if the minister had come clean and put this reality up front in his budget instead of putting it in documents carrying his own imprimatur, documents which not every citizen of the country reads but about which, if they read, they would say, "After 1986, the minister is telling us that what happens to unemployment in Canada depends entirely upon what happens in the United States."

Instead of doing that, the minister, in order to gain support for his massive tax increases and savage expenditure cuts, has made the premise that this "short-term pain", to use the expression of his predecessor, "will lead to long-term gain." A careful reading of the documents tabled by the minister reveals that what we are getting is short-term, medium-term and long-term pain. Again, that will be determined not by the extent of Canadian sacrifices but by the development of policy in the United States. That is the reality of the budget presentation.

When the minister states in his budget speech, "We have restored Canada-United States relations to the status worthy of two sovereign nations," he is obviously engaging in meaningless rhetoric because he has clearly demonstrated in his own series of plausible economic scenarios that for the years 1986 to 1990 sovereignty rests entirely with the United States and that what happens to the Canadian economy will depend on what happens in the United States. The policy options selected in the United States will determine the Canadian level of output, incomes and jobs. The policies of the Minister of Finance will have a secondary effect.

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That is why I say that, despite the merits of controlling the deficit, it is a great mistake to put it in the context of economic growth and jobs. The facts argue greatly against that premise. The facts presented by the minister argue against it. After two full years, after what he regards as a Herculean effort to reduce the deficit, economic growth will be less in Canada in 1986 than it was in 1984; the number of unemployed at the end of 1986 will be only slightly less than the number of unemployed in Canada today.

The economic strategy advanced by the minister is bound to lead to frustration and disappointment. His economic views are uncertain and tentative. He told us in March that a tax increase would dampen aggregate demand. He told us that. But in May he introduced massive tax increases, to which he added additional amounts today.

I suggest, honourable senators, that the major revision of policy announced today by the government is the first step along the road of discovery yet to be travelled by this government.

**Some Hon. Senators:** Hear, hear.