

However, the large and growing existing debt has left Canada vulnerable to rising interest rates, and that risk has now become a reality. We have seen interest rates increase dramatically around the world and Canada has not escaped this phenomenon as concern has increased about renewed inflationary pressures.

Reducing fiscal deficits, particularly in North America, is a key element in reducing inflation risks and easing pressure on interest rates. Lower deficits will help reduce inflationary pressures and will leave monetary policy more room to manoeuvre in easing interest rates. In turn, lower interest rates will reduce the cost of servicing government debt, thus further reducing the deficit. This is the road that the Canadian Government has chosen to follow. The alternative is higher inflation, rising interest rates, higher debt service costs and still larger deficits.

Canada is committed to adjust in order that it can grow from a basis of renewed strength. I know that many of the governments which you represent have had to take difficult economic policy decisions in recent years, often, at some real, immediate cost in terms of government programs.

We are convinced that by taking the steps we have outlined in the Government's budget, we will lay the basis for a stronger Canada. We will be building for Canada's future.

At the same time, we will be making our contribution to a healthier world economy. Besides the benefits to our own citizens, we and other industrialized countries see this as our first responsibility internationally to developing countries. Sustained, non-inflationary growth in the world economy provides the solid basis on which growth and development in developing countries can proceed. Industrialized and developing countries alike affirmed this earlier this month in Washington.

There are costs to these fiscal adjustments, and we have to make some difficult choices. One important area which relates to our international role is defence spending.

As with other programs, there will be reductions in this area. You know that Canada will not be proceeding with the acquisition of nuclear powered submarines. Rather we will examine alternatives for rebuilding our Navy.

The Government will also cancel a number of other defence projects, including acquisition of additional long-range patrol aircraft and of additional CF-18 aircraft. The project for the main battle tank will be put on hold.