

Government Orders

years. But, if you are a debtor, the gold turns to dust and you have to keep borrowing to pay interest on interest.

This is precisely what is happening in the case of our public debt. It has grown from \$200 billion to \$350 billion in five years. Fully \$120 billion, or more than 80 per cent, of this increase consists of the compounding interest on the original \$200 billion.

These stark figures help to explain why the government's deficit for this year is still \$30.5 billion despite the spending cuts and the tax increases we have brought in. They also explain the urgency of breaking the vicious circle of growing debt and debt service costs.

[Translation]

There are those who say we shouldn't worry about getting our deficit down any further. I say to hon. members that I don't accept this position, for several reasons. This year alone, interest payments will cost us \$40 billion—equal to \$1,500 for each and every Canadian. This amounts to 35 cents for every dollar the government collects in revenue—money we could otherwise use to get taxes down, maintain existing programs and meet new priorities such as environmental protection, research and development and skills training. By reducing the deficit, we can get that 35 cents down and gain much greater control over our destiny.

Another reason is that, having turned the corner with our operating surplus, we are already a good part of the way there. Now is not the time to back off. We have done well. We need to keep on. Let's look at our record compared to other major industrial countries. In 1984 Canada's deficit on a national accounts basis was 6.8 per cent of GDP. That was 2.4 percentage points above the Group of Seven average. This country was definitely in trouble.

Mr. Milliken: That's nonsense.

Mr. Loiselle: Now it is down to 2.8 per cent of GDP, or seven-tenths of a percentage point above the G-7 average. So we dropped from 2.4 above to seven-tenths. On the expenditure side, our performance in reducing program expenditures is better than that of both the U.S. and the United Kingdom. Achieving an operating surplus is a considerable milestone. It marks a fundamental structural change in the balance of spending and revenues.

In 1991-92, we will reach another milestone when we stabilize our debt-to-GDP ratio—our debt will no longer be growing faster than the economy. We're doing well. We know we must go further.

The government's new expenditure control plan will ensure that our operating surplus continues to grow. It must, to offset the growth of the debt. And to ease the burden that interest payments impose on our freedom of action, we must continue to deal firmly with the greatest single threat to our continued fiscal and economic progress. That is the threat of inflation.

• (1150)

As Canada's strong economic expansion of the last seven years has matured, demand has increasingly outstripped the economy's productive capacity. This has fuelled inflation. A slowing economy is helping to ease the strain, but underlying inflationary pressures remain too high. Only by lowering inflation can we get interest rates down, keep them down and put the economy back on the path of sustainable expansion.

The prospects for lower inflation and interest rates depend crucially on responsible price and wage behaviour. Prices have consistently been inching upward. The consumer price index, or CPI, rose from 4 per cent in 1988 to 5 per cent last year to 5.5 per cent in January. The appreciation of the Canadian dollar in 1989 restrained inflation. Without it, the CPI would have been above 6 per cent.

On the wage side, federal government wage increases have been below the inflation rate and below the pace of wage increases in the private sector since 1984. In 1989, federal wage settlements averaged 4.2 per cent. However, the combined settlements of other levels of the public sector averaged 5.6 per cent.

[English]

Hon. members will be aware that provincial finance ministers have been asked to join in a commitment to responsible restraint. I urge leaders of the business community to recognize this need as well in both price and wage policies. I urge labour to do the same. Quite simply, if we try to take more out of the economy than it is capable of producing, we will all pay the price of higher inflation.