

[would] hasten economic recovery in the U.S. thereby improving trade prospects for America's trading partners, particularly, of course, Canada. Lower U.S. interest rates would also allow other countries to reduce, at least somewhat, their own interest rates, which have been kept high in order to encourage investment and to protect currency values. In addition, lower American interest rates and a less-strong American dollar would greatly help the Third World in servicing its debt and paying for its oil. For these reasons the outcome of the U.S. budgetary process continues to be of crucial importance, not just of course for the United States, but for all of its economic partners.

An agreement has recently been arrived at between both Houses of Congress and accepted by the Administration but it is seriously flawed by the size of the deficit, which may well foster further lack of business confidence in the policies of the Reagan Administration. In case you're tempted to ask how a member of a government which just a week ago reported a larger-than-expected budgetary deficit can criticize the deficit in another country, let me point out that the growth of our Canadian budgetary deficit has occurred by reason of the operation of economic forces, of automatic stabilizers which reflect in government expenditures and government revenues what is happening in the economy. The larger American deficit, on the other hand, is deliberately chosen, in that it results from a conscious choice simultaneously to decrease taxes and greatly to increase military spending. Furthermore, in relation to the best criterion, which is the personal savings rate (12.4 per cent of disposable income in 1981, compared with 5.3 per cent in the U.S.), the Canadian budgetary deficit has very much less effect on private sector investment than that of the United States.

Returning to my main theme, I fear that the pressures from the prolonged recession are spilling over into trade relationships, generating demands for new – and indeed old – forms of protectionism. Manifestations of these protectionist demands include a call for reciprocity of fair trade from the U.S. Congress, and increasing use of restrictive measures outside the General Agreement on Tariffs and Trade (GATT) framework. In some cases, especially between the United States and the European Community, serious trade disputes have erupted which threaten to prejudice long-standing economic and political relations. In this particularly difficult situation it is crucial that the industrialized countries work together, not only to achieve recovery but also to defend an open multilateral trade and payments system which will allow the benefits of that recovery to be passed from one country to the other.

**Versailles
declaration**

At the Economic Summit in Versailles, the leaders of the seven Summit countries, with our Prime Minister playing an important role, clearly recognized the scope of the difficulties facing all our countries. They endorsed a declaration that stressed the need for a further reduction in inflation and a return to higher levels of growth and employment. They specified that these goals were attainable only if, in addition to the individual efforts of each country, Summit countries joined forces and were sensitive