measures designed to ease the burden of high interest rates on various sectors of our society, more specifically on farm producers, manufacturers, small businessmen and home owners, by subsidizing interest rates in some way. Mr. Speaker, I have just stated that these high interest rates were due to the over-all economic situation in Canada and in particular to the strong inflationary pressures that are presently at work. If, through government intervention we tried to cushion the negative effects of these interest rates, we would totally cancel the expected results, namely to reduce inflationary pressures and expectations. This would be tantamount to cancelling the desirable effects that are hoped for. I think, as I said earlier, that there is a price to pay and that all economic agents and all citizens must band together if we really want to improve the situation in the long run; that is, to actually reduce the inflation rate, inflationary pressures and, hence, interest rates. It is such an effort of co-ordination and commitment on the part of economic agents and all citizens that the Minister of Finance has asked us to make in his last budget when he created the conditions designed to reach this objective.

Mr. Speaker, in this difficult economic context, the government has tried, in keeping with its basic philosophy, to protect those who are hardest hit by these economic hardships and rising interest rates. It is a fact that the Progressive Conservative opposition made a big issue of the idea of retaining the indexing of exemptions in our tax structure before the October budget was brought down. It stressed the importance of going on indexing the personal income tax in the trying times we were going through. Well, the Minister of Finance acknowledged that it was appropriate to retain indexation with regard to personal income tax in order to alleviate the burden of low-income groups in a period of economic hardships, high interest rates and high inflation. The retention of income tax indexation meant that an additional $1.6 billion was left in the pockets of taxpayers. Furthermore, Mr. Speaker, large families are aware, for instance, that the indexing of family allowances has enabled them to be compensated in some measure for the hardships they experience as a result of these inflationary pressures and high interest rates.

There are other groups which are also seriously affected, namely, elderly people. The basic allowances paid to elderly people are also indexed. It is also well known that the government increased the guaranteed income supplement as soon as it returned to power, precisely because the economic situation was difficult and because it knew that those people were the most affected. Those guaranteed income supplements are also indexed.

Mr. Speaker, if we want lower interest rates, we must fight inflationary pressures together and reduce our inflationary expectations. Then the population may be sure that the government is determined to carry on the fight and to protect the most sorely tried in our society.

• (1630)

[*English*]

Mr. Bill Kempling (Burlington): Mr. Speaker, I want to add something to this debate about the effects of high rates of interest, particularly on small businesses. I particularly choose that aspect because I have a personal connection with small business and know how it is affected.

Reviewing how the rates have jumped around in the last few months, I see a great danger that if this problem is not resolved, thousands of small businesses will not survive. When I speak of small businesses I include farmers and fishermen. We face the danger of their not surviving the high interest rates that are before us today.

A 19.06 per cent central bank rate is shocking, Mr. Speaker. It means that most small businessmen will probably be paying in the 25 per cent bracket for funds from chartered banks. In this situation most small businessmen find that they are bracketed as far as gross profit is concerned. They sell something and make a gross profit, but the price at which they sell is pretty well set by the marketplace. They are not in the position where they have an exclusive product with no competition so that they can set the price at will and make an unusual gain. That is not the situation. Their gross profit is bracketed.

In the meantime costs go up. Costs that they cannot control, such as Bell Canada, municipal taxes, provincial taxes, federal taxes, workmen's compensation, are increasing and gross profit gets slimmer and slimmer, until the profit available at the bottom line is equal to the rate of interest paid to the bank for the use of money. That is the position they are in today.

Some measures must be adopted to ease the pressure on the small business sector. A mechanism must be developed to follow venture and operating capital into small business. It should not be a single instrument such as the small business development bond, which is welcome relief but is too limited in application.

Who is the largest employer in Canada, Mr. Speaker? It is the small business sector. Who is the most stable employer in Canada? It is the small business operator. Who keeps his employees on when the market turns down? It is the small businessman. Why does he do this? Perhaps because he is a little more human and is closer to his workers. Another reason may be that he has to compete with the large employer and one of the levers he has is to keep his employees on when the market turns down. His employees know they have a steady job so that is one of his levers. He imparts a tremendous stability to the economy which is not imparted by any other entity. We must never forget those basic principles, Mr. Speaker.

The concept of the small business development bond is good, but the repayment terms should be extended to ten years. There should be a series of variations to the small business development bond to allow it to be used for refinancing small business.