It is obvious to anyone who follows the question that more borrowing, the level of borrowing that we see before us today, will only add fuel to the real engine that is driving the increase in public deficits in our country, our current high interest rates.

Every percentage increase in interest rates adds a further $1.7 billion to the government's debt servicing costs. The recent policy of borrowing short term has only further exacerbated what is already a major problem, the huge cost of servicing our debt.

The government's projection in its last budget of a deficit of $28 billion, which is no major change from the deficit that it insisted it was going to reduce during its term of office, hinges on an interest rate forecast of an average of 11.1 per cent. Yet since January alone, interest rates in Canada have continued to rise from 12.4 per cent to 13.8 per cent, an increase of an astonishing 133 basis points. And there is no sign today that interest rates will decline. International rates, on the contrary, continue to rise, driven both by the spectre of inflation in Japan and in Europe and by the competition for capital in world money markets.

Moreover, the Canadian inflation rate remains at about 5.5 per cent, prompting the Bank of Canada to use that one blunt instrument available to it, interest rates, to attempt to achieve its self-proclaimed goal of zero inflation.

It is now predicted with some confidence that if current interest rates trend upward, debt service charges will absorb all the spending cuts from February's budget, leaving the government's deficit closer to $31 billion or $32 billion rather than the $28 billion it projected in its budget. Of course, an increase of that magnitude will necessitate further spending cuts, further taxation and further government borrowing simply to finance the growing public debt.

Interest rates are clearly driving the government's fiscal agenda. The government's fiscal agenda is not controlling interest rates in Canada, but rather is a victim of interest rates.

It is time we asked whether interest rates are serving the purpose for which they were intended. According to monetary theory, inflation is caused by too much money chasing too few goods. Thus, in its pursuit of zero inflation, the Bank of Canada has consistently raised interest rates in an effort to shrink the money supply and to induce an deflationary period in the Canadian economy.

Yet the fact is that the consumer spending is remarkably resilient to the Bank of Canada's harsh monetary medicine. Since interest rates began to escalate in 1988 after five years of relative stability, inflation has also risen from around 4 per cent to today's 5.5 per cent.

What fundamentally undermines the bank's efforts to curb inflation is the national debt. Every time the bank increases interest rates, the government has to spend more merely to service the debt and to raise taxes to finance its own spending. It seems clear that persistent increases in excise taxes are one of the major causes, if not the major cause, of our rising inflation in Canada. In short, monetary policy and fiscal policy have become inseparable. This government has placed itself in a vicious circle from which it seems unable to extricate itself.

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I refer to a report by the C.D. Howe Institute which well summarizes the box in which the government has placed itself. The institute notes that as the national debt grows, a vicious circle develops. At present, the size and the short average term to maturity of the federal government's debt are magnifying the Bank of Canada's difficulty in controlling inflation since a 1 per cent rise in short-term interest rates over a year tends to increase federal expenditures by more than $1.7 billion, adding further to the pressure of demand. The bank's task of controlling inflation would be considerably easier if fiscal policy were more restrictive.

Not only do we need to ask if interest rates are working to curb inflation, we must also ask whether it is worthwhile to risk recession in pursuit of what is called zero inflation.

Surely the purpose of tackling inflation is to help ensure price stability. Surely price stability is the goal of any government, not zero inflation as such. Price stability can enhance the long-term health of the Canadian economy, but can the current government's reliance on monetary policy alone serve that end? Is it achieving price stability as it pursues its single-minded goal of zero inflation?

Inflation is largely limited to central Canada. Atlantic Canada and parts of western Canada have barely extricated themselves from the last recession. Those regions