SIZE OF DEFICIT—EFFECT ON POLICY FLEXIBILITY

Hon. Michael Wilson (Etobicoke Centre): Mr. Speaker, the Minister has indicated by his response that his hands are tied. He has no other option, no independence of action.

If the deficit in Canada were much lower than it is today, would he have more flexibility and independence of action? In other words, interest rates would be lower than they are today and he would have room within his Budget either to decrease taxes or direct specific funding toward those people who are being hurt by higher interest rates. Would he have that increased flexibility?

[*Translation*]

Hon. Marc Lalonde (Minister of Finance): Mr. Speaker, I have no trouble answering the Hon. Member. The answer is no. There is no indication that if our deficit were lower than it is at the present time, interest rates would be lower as well, for the simple reason, and I repeat, that our interest rates are very closely linked to those prevailing in the United States. Again, we must keep our interest rates competitive if we are to keep investment and money in Canada. This has no connection with the present level of the deficit in Canada. The Hon. Member knows that in spite of the deficit we have now, there is no pressure on financial markets inside Canada, or, as the Governor of the Bank of Canada said, there are no domestic reasons that would justify an increase in the interest rates. The reasons are external, and they are particularly linked to what is happening in the United States.

• (1425)

[*English*]

GOVERNMENT'S INTEREST RATE POLICY

Hon. Edward Broadbent (Oshawa): Mr. Speaker, my question is for the Minister of Finance and it is on the same subject as the previous question. A minute ago the Minister was once again linking growth in the Canadian economy with his high interest rate policy. This is the same argument which the Government made a couple of years ago for its high interest rate policy then. Instead of having growth we had a record number of business bankruptcies, a record number of Canadians losing their homes, and the highest debt load for farmers in any period since the Great Depression. That is the kind of growth we had with his high interest rate policy.

Since we had all these negative effects in the past few years from a high interest rate policy which was undertaken not that long ago, why does the Minister think things will be any different now? Why does he think things will get better instead of worse with this high interest rate policy? Everyone in the country, except the Minister, knows very well that this will not be the case.

[*Translation*]

Hon. Marc Lalonde (Minister of Finance): Mr. Speaker, the Government does not have a high interest rate policy. The Government's policy is to keep interest rates in Canada as low as possible. In fact, during the last two years, we succeeded in eliminating the gap between interest rates in Canada and the United States. The Hon. Member will recall that there was a difference of up to 5 per cent, when interest rates in Canada were 4 to 5 per cent higher than they were in the United States. We have succeeded in eliminating this gap. We have been able to bring about a substantial decrease in interest rates in Canada, but I am sure my hon. colleague will admit that if interest rates in Canada are lower than they are in the United States, even the most dogmatic members of the New Democratic Party will be the first to move their funds to the United States where they can get a better rate and a better return on their investment. We are in a situation where we remain competitive with the American market, and I am referring to both the financial and other markets. That is the Government's policy. We are not out to have high interest rates. Our policy is to bring down inflation, to increase growth, to reduce unemployment and to have the lowest possible interest rates compatible with our North American context.

[*English*]

EFFECT OF HIGH INTEREST RATES ON FARMERS

Hon. Edward Broadbent (Oshawa): Mr. Speaker, as the Minister himself said just over a week ago, the reality is that if we let our dollar assume a more realistic level instead of imposing high interest rates on Canadians who cannot afford it, we would have increases in the number of jobs in Canada because we would increase our exports. That is the reality.

Apart from the job implication itself, in the past couple of weeks, because of the Government's high interest rate policy, farmers on typical farms have experienced increases of $3,000 in their costs this year. These increased costs to the farmer will result in increased profits for the banks. Why is the Government continuing to favour a high interest rate policy, which means more profits for the banks and more bankruptcies for Canadian farmers?

[*Translation*]

Hon. Marc Lalonde (Minister of Finance): Mr. Speaker, it is rather difficult to answer the Hon. Member's question because it is based on a false premise, namely that the Government has a high interest rate policy. I spent several minutes after the Hon. Member's first question explaining that this was not the Government's policy—anything but. Our policy in Canada is to have the lowest possible interest rates in this country. However, we are also interested in a degree of stability in prices and in our economy, and we do not want a resurgence of the inflation we experienced at the beginning of the eighties, which brought us into our recent recession.

Therefore, the Government's policy is not aimed at keeping interest rates high, as the Hon. Member is alleging. As far as his allegation regarding bank profits is concerned, again I would say he is mistaken, because there is no guarantee that increased interest rates will necessarily be reflected in