The federal fiscal situation is directly tied to the outlook for the economy as a whole. I want to touch on how our economy has evolved since the last budget.

Last February the budget projected an economic slowdown as high interest rates weakened the U.S. economy. Unfortunately that slowdown came much sooner than anyone anticipated. Today however we seem to be back on the right track. The U.S. economy is poised for a moderate expansion through 1996 and beyond, a growth that will contribute directly to Canada's growth.

Domestically, interest rates have been falling. They are almost down 2.5 percentage points from the early 1995 highs. This contributes not only to spurring consumer and business confidence and investment, but also eases the cost of our debt charges.

Another harbinger of renewed growth is the fact that our cost competitiveness continues to rebound strongly vis–à–vis the United States. It is now the best that it has ever been in the 45 years that we have kept data on this particular issue. In turn, our merchandise trade balance, exports over imports, stands at $34.6 billion, an all–time high in September.

As we can see, our economic fundamentals are strong but as the finance minister warned our committee and all of us, the challenge is to keep them strong, to take the further budgetary action that will translate those basic strengths into more jobs for Canadians. That takes us to the fiscal challenge and the relationship between public debt and the economy.

Twenty years ago for the federal government the debt to GDP ratio stood at 19 per cent, ten years ago it stood at 50 per cent and today it is close to 75 per cent. The issue is not simply excessive government spending. The very nature of the ratio is the relationship between two variables. The debt to GDP ratio reveals the two things on which we believe very strongly we must concentrate. One is to keep our spending under firm control. The other is the necessity to maximize the nation's potential, its productivity, its capacity to grow and its capacity to create jobs.

I agree with the Minister of Finance. Our strategy must be based on synergy. Neither growth nor deficit reduction is sufficient alone but pursued together they can do the job.

● (1135)

This brings me to the heart of our approach, the steady pace approach based on rolling two year targets that we have adopted. In my view, these do not undercut our commitment to ultimate deficit elimination. Instead, they are a credible strategy to make sure that we get to where we have to go without throwing the baby out with the bath water. Of course we could lighten our load further, just like we could lighten a car by throwing out the engine or removing the brakes, but that would not likely take us to where we want to go.

Our government knows where it wants to go: to the destination Canadians have set for us which is to bring down the deficit firmly and consistently but in ways that sustain and enhance economic growth. That is what we are doing.

By 1996–97 with our 3 per cent interim deficit target secured, we will have halted the growth of the debt to GDP ratio. However that simply sets the stage for the next challenge which is to ensure that this ratio continues to track downward, year after year, cycle after cycle.

Meeting that challenge means more jobs. It means enhanced economic sovereignty as we free ourselves from being beholden to foreign lenders. That is why our government has mounted the largest assault on the federal deficit in Canadian history.

In the 1994 budget we took action to deliver a three year savings of $20 billion. In the 1995 budget we took even more dramatic action for a further $29 billion in budget turnaround. In both budgets the vast majority of our action items were spending cuts.

The results are already becoming clear. Last month the finance minister announced that the deficit for our first full year in office was $37.5 billion, $2.2 billion below the target set in our first budget and $4.5 billion lower than the previous year.

In 1993–94 the deficit stood at 5.9 per cent of GDP. It went down to 5 per cent last year. This year the deficit will continue to decline to 4.2 per cent of GDP, on its way to 3 per cent in 1996–97.

In order to maintain that progress, the finance minister announced last week that the deficit for 1997–98 will be brought down to 2 per cent of GDP. This is estimated to be approximately $17 billion. This means that we will have cut last year's deficit by more than half. It also means that the debt to GDP ratio will be on a downward track.

Furthermore, this means that the government's new borrowing requirements on credit markets in that year, which is the way that many other governments, including the United States, calculate their deficit, will be less than $7 billion, less than 1 per cent of GDP. This means that by 1997–98 new borrowing requirements in relationship to the size of our economy will be at their lowest level since 1969.

I have emphasized our action on the spending side of the fiscal equation but I want to reiterate that there is a second track, which is the redesign of government itself and its programs to play a better part in creating jobs and growth. It is jobs and growth and the revenue they bring to government which will also help us to ultimately eliminate the deficit.

That is why we have made improvements to the unemployment insurance program which have been the most profound in the last 25 years, bringing it into line with the labour market realities of the 1990s. It is why we are encouraging small businesses to invest and hire by lessening the regulatory burden and by improving their access to capital. It is why the govern-