Real interest rates are now higher than they have been in five years. There is little evidence, after two years, that higher and higher rates are in fact countering inflationary pressures. On the contrary, higher interest rates can actually increase inflation in high growth areas such as Toronto and Vancouver.

The Government acts as if somehow it had nothing to do with high interest rates, that they are the fault of undefined international pressures or possibly of the Governor of the Bank of Canada. Who is ultimately responsible for high interest rates in Canada? It is not foreign countries. It is not the Governor of the Bank of Canada. Ultimately, it is the Government itself. The people of Canada know that. They are not fooled by the Government's portrayal of itself as an innocent bystander who has been run over by a bus.

The Government has so driven up interest rates that they now stand two percentage points above those of the United States. A recent report of the Canadian Labour Market and Productivity Centre urged rightly that "the spread between Canadian and U.S. interest rates has been excessive, reducing our competitiveness. The result has been slower employment growth and more difficult adjustment to change. Part of the solution is an interest rate policy appropriate for full employment. This requires a recognition—that control of inflation cannot be the sole objective guiding interest rate policies".

• (1320)

Another result of the Government's tight money policy is that the United States and other foreign countries and other foreign funds, have come to Canada seeking higher returns than they would earn at home. In doing so the foreign lenders have bought Canadian dollars. This means that the exchange rate of the Canadian dollar has become less stable, more vulnerable to decisions made outside Canada.

Canada's trade performance has been adversely affected by the appreciation of the Canadian dollar as confirmed by recent merchandise trade figures which show that our monthly trade surplus tumbled in February to its lowest level in nearly a year.

With a high accumulated debt, the Government's financial planning and its Budget has become too sensitive to interest rates. A straight-jacket has been put on programs that should be available to assist Canadians. The Government itself recognized this in 1984 when it announced that the high level of interest payments "limits a Government's ability to meet priority needs".

Four years later, having made no real progress in reducing its deficit, all the Government can find to say now is that these same high interest payments: "put pressure on the Government's ability to meet other priorities".

This is something that they said four years ago and they are saying the same thing today. That is exactly what the Government said four years ago. In short, the Government admits that it recognized a problem then, but it did nothing about it. It now declares in its Budget that the Canadian people must pay for its ineptitude and its profligacy.

Some Hon. Members: Hear, hear!

Mr. MacLaren: The high interest rate policy the Government is pursuing has had additional unfortunate social results. Higher income Canadians have been the beneficiaries of higher interest rates. The affluent, the *rentiers*, are the inevitable and invisible winners in the high interest rate stakes. There is, in fact, a regressive redistribution of income when high interest rates are imposed by the Government. Net savers, that is high income people, receive the earnings of net borrowers, generally lower income people. Is it fair to transfer money from the poor to the rich? Is that what the Government means when it says that it will be fair to all Canadians?

Instead of these and other contradictions in yesterday's Budget, what Canada needs today is a new mix, a new balance between taxation and fiscal policy. This balance cannot be reached overnight. It takes time. The process should have begun four years ago. It did not. Now it has become imperative. It must begin by a reduction in interest rates.

The Governor of the Bank of Canada hinted in his recent annual report that should the Government decide to control its spending, he would consider reducing interest rates. To avoid a recession, the Government should now deliver and reduce interest rates. The sooner the better.