nomics for others and protection for themselves. But this is Parliament and this is where the decisions must be taken. The buck stops here. It is no longer acceptable to make demands which are inconsistent. The challenge of government is to provide a balanced program of equity and restraint to ensure that we have both security and growth. And I once again congratulate the minister for meeting that challenge.

[*Translation*]

In conclusion, Mr. Speaker, there is no doubt that under the present economic circumstances in this country as in the whole world, a budget is the most difficult working paper which a government is called upon to bring down. Due to the pressures brought to bear on a government, a budget introduced under the theme of restraint, equity and economic renewal is to the advantage of all Canadians.

[*English*]

Mr. Jim Peterson (Parliamentary Secretary to Minister of Justice and Minister of State for Social Development): Mr. Speaker, I am pleased to be speaking today because the budget presented by the Minister of Finance (Mr. MacEachen) represents an expression of confidence in the ultimate strength of the Canadian economy. This budget sets its sights on the future and is laying the groundwork for the massive capital investment we will need in this decade and throughout the next to realize our development potential. The goals of this budget are not short term. The hon. Minister of Finance did not sacrifice long-term economic stability in Canada on the altar of short term political gain.

There can be no mistake. The major thrust of this budget is to meet the challenge of inflation, inflation which unfairly prejudices those on fixed incomes, inflation which erodes savings, inflation which exacerbates wage demands, inflation which decreases our productivity and international competitiveness, inflation which keeps interest rates high and which itself is fuelled by higher interest rates, each feeding voraciously on the other.

● (1730)

The single objective of this budget is to curb inflation and thus bring down interest rates. It does this by taking a large amount out of the budgetary deficit and thus out of the federal government's borrowing requirements. Last year the deficit was $1.5 billion less than had been predicted which, considering the high interest rates that we were required to pay, was welcome news to all Canadians. This year the deficit will be $0.4 billion less than predicted last year. It will decrease steadily in absolute dollar terms in the ensuing years. This means that as a percentage of our gross national product, the deficit will decline from a high of 4.4 per cent last year to 4.0 per cent this year and 2.8 per cent next year.

The leader of the New Democratic Party elaborately indicated to the House our major concerns about interest rates. The majority of his speech concerned the problems created by high interest rates. I had the impression that he was resigned to having high interest rates prevail in this country because he believed that we should artificially force interest rates down and as enormous amounts of money flow out of the country we should stem the tide by imposing exchange controls and stopping it at our border. This approach has been tried in the past. He mentioned that it had been successful in the United States. In fact it did not work in the United States. First they tried the interest equalization tax, then in 1965 they tried the voluntary guidelines approach, and in 1968 they tried the mandatory guidelines approach. They finally had to abandon these measures in 1972. It has been tried in England and has not worked. It was tried in France—

An hon. Member: They are going to do it again.

Mr. Peterson: —and it has not worked. Let us not think there is a magical solution which can bring down interest rates overnight, set up barriers and create a watertight capital market in order to protect us. What the government is doing in this budget is attempting to bring interest rates down by bringing down inflation.

The reduction of the government deficit will have an even more important impact on our financial requirements. The actual amount of money we will have to borrow will decline more rapidly from $10 billion last year to $9.7 billion this year. Next year the reduction will plummet to $6.6 billion. This represents a real reduction from 3.5 per cent to 1.7 per cent of our gross national product. I believe this is a responsible approach to take to deal with the deficit.

[*Translation*]

Mr. Speaker, substantial results are made possible thanks to two procedures. The first is a more adequate control of government expenditures. As it was pointed out by a few members, our economy is at a standstill. Consequently, it would be neither wise nor advisable to try to reduce the deficit by chopping drastically at government expenditures. It is essential that the rate of increase of most of our expenditures remain lower than the rate of growth of our economy.

That is why our expenditures will show a slight drop—in line with our economy—from last year's 20 per cent to 19 per cent in 1985-86. One reason why the public debt could not be reduced more substantially this year was the high interest rate which caused an increase in the public debt of $2.3 billion projected for last October. We must fight high interest rates, and we are using this budget and our monetary policy to do so.

The second means of reducing the deficit will be to increase revenue. Before the effects of the energy agreement are felt in two years' time, tax increases provided in the budget will generate additional revenues of $1.4 billion in 1982-83 and $2.1 billion in 1983-84, dropping to $1.2 billion in 1985-86.

[*English*]

These additional tax revenues are being derived in an important way. Reduced tax rates will apply to individuals with an income in excess of $11,120. Reduced rates plus a continuation of indexing will mean, for example, that a family of four with an income of $15,000 or less will pay no income tax. At the