[*English*]

This government came into office because it believes that the nation's priority must be jobs and growth. And it is because of that, not in spite of that, that we must act now to restore the nation's finances to health.

As the Prime Minister has said: "The time to reduce deficits is when the economy is growing. So now is the time". Not to act now to put our fiscal house in order would be to abandon the purposes for which our party exists and this government stands: competence, compassion, reform and hope.

• (1640)

The debt and the deficit are not inventions of ideology. They are facts of arithmetic. The quicksand of compound interest is real. The last thing Canadians need is another lecture on the dangers of the deficit. The only thing Canadians want is clear action. Therefore let me go directly to the bottom line.

Last year, in our first budget, we laid out a firm course of action. We said that we would reduce the deficit in this fiscal year, 1994–95 to no more than $39.7 billion. We now estimate that the underlying deficit for the current fiscal year will be about $35.3 billion, or $4.4 billion below our target.

[*Translation*]

We will still be well under the target, even after booking certain one-time charges related to some of the major reforms contained in this budget.

Looking ahead, we pledged in our last budget that the deficit in 1995–96 would not exceed $32.7 billion and would be reduced to 3 per cent of GDP—now estimated to be $24.3 billion—by 1996–97. It is now evident that unless we take further direct action, those deficit targets will not be met.

[*English*]

This is because interest rates are higher today than anyone thought they would be. Therefore based on prudent economic assumptions and with very sizeable contingency reserves in place, we could face shortfalls of $5 billion from our deficit target in 1995–96 and $10.6 billion the year after. Those gaps must be closed. With this budget, we are closing them.

We will hit our deficit target for 1995–96. We will hit our target for 1996–97. And of equal importance, the downward track established by the actions taken in this budget will continue in the years thereafter.

Taking the next two fiscal years together, this budget delivers cumulative savings of $15.6 billion, with spending cuts for $13.4 billion. Going beyond to 1997–98, the reforms we are introducing today will continue to pay off with further savings totalling $13.3 billion.

Over the next three years, the actions in this budget deliver almost seven dollars of spending cuts for every one dollar of new tax revenue. This budget will deliver cumulative savings of $29 billion over the next three years, of which $25.3 billion are expenditure cuts. This is by far the largest set of actions in any Canadian budget since demobilization after World War II.

These measures will have a very significant impact on the level of government spending in the future.

By 1996–97 we will have reduced program spending from $120 billion in 1993–94 to under $108 billion. Relative to the size of our economy, program spending will be lower in 1996–97 than at any time since 1951. The impact of these measures on the fiscal health of this country will be significant and substantial.

By 1996–97, our financial requirements, that is, what we actually have to borrow from the markets, will be down from $30 billion last year to $13.7 billion, or 1.7 per cent of GDP. That percentage is lower than what is projected for the United States, for Germany, for Japan. In fact, it is lower than what is projected for all of the national governments of every country of the G–7.

• (1645)

Perhaps most importantly, in that same year the debt will no longer be growing faster than the economy. The debt to GDP ratio will have begun to decline and we are committed to keeping this ratio on a permanent downward track.

We face a historic challenge in this country and this is a historic response. We have always said that meeting our targets was the least we could do, not the best we would do. That is why it is so important that this year we will have beaten our deficit target by a substantial amount. And looking ahead, building on the advice of the finance committee of this House, for which I am very grateful, we have deliberately chosen economic assumptions that are once again more cautious than those of most private sector forecasters. Once again, we are backing up our assumptions with substantial contingency reserves of $2.5 billion in 1995–96 and $3 billion the year after.

This means that even if interest rates go up next year by almost one and one-half percentage points, more than our already cautious assumption, our fiscal position will be fully protected. But it means something else which is very important. If we do not need our contingency reserve, it will not be spent. It will go to reducing the deficit further. This is what happened in 1994–95. And because of our prudent economic assumptions, one should not be surprised if it happens in 1995–96 and 1996–97 as well.

If interest rates and income growth conform to the average private sector forecast, the deficit in 1996–97 could be brought down below $19 billion, in fact some $5.5 billion less than this budget projects.