

The Budget

more Canadians have jobs today than in 1984. Average family and individual incomes have steadily increased, both in total dollars and in real, after-tax income. There are now 750,000 fewer Canadians living below the poverty line.

Some hon. members: Hear, hear!

Mr. Loiselle: Despite these successes, more remains to be done. This brings me to the second element of our policy—gaining control of our national finances.

Let me remind you that in 1984 the government was living far beyond its means. It was spending more on programs and services than it was taking in through taxes and other direct revenue. Because of this, it had to borrow \$16 billion to cover the difference between revenues and program spending. In addition, on a separate track, the \$200 billion debt was generating over \$22 billion in annual interest charges.

We recognized that the first task was to tackle the deficit on program spending, and launched a broad and sustained effort to reduce expenditure. Our first priority was cutting the cost of government operations, that is, the day to day costs of running departments, including salaries, travel, equipment and maintenance.

In the five years since 1984 these have been cut from \$17.4 billion to \$16.8 billion. Government is functioning with less money despite a larger workload.

Thus, in December 1989, the President of the Treasury Board announced further steps to eliminate waste and improve efficiency. We are continuing with the job of lowering government's overhead costs.

We then tackled government program review. We undertook a major effort to reform and improve them. Some outdated programs were eliminated, and others were restructured or restrained.

With tight discipline and good management, program spending has been reduced from 19.5 per cent of the economy in 1984 to 16 per cent this year. That is equivalent to a \$22 billion reduction in spending.

Some hon. members: Hear, hear!

Mr. Loiselle: Obviously, our financial problem was not caused just by too much spending. We were also very much aware that revenues had declined as a share of national income. Special tax breaks and flaws in the sales tax system were contributing to this decline. By eliminat-

ing tax breaks and loopholes, and reforming the tax system, we have increased revenues. As a proportion of national income, revenues have now returned to their average level for the 1970s.

[*English*]

In 1987-88 we passed a major milestone on the road toward financial soundness, when the operating deficit on programs was turned into a slight surplus. That operating surplus now stands at \$9 billion. It results from a fundamental structural change in the balance of spending and revenues. And 70 per cent of the progress is the result of expenditure restraint, not revenue increases.

Having a surplus on program spending means we are working our way toward also dealing with the second component of the deficit problem. Despite the fact that the annual growth of the debt has fallen from 24 per cent a year in 1984 to less than 10 per cent, it is still growing faster than the economy—faster than our ability to pay.

The deficit of \$200 billion we inherited in 1984 has grown by \$150 billion. Over 80 per cent of the increase has been due to the compounding interest on the original debt. This demonstrates clearly how urgent, and how difficult, it is to break the debt cycle. It also helps to explain why our annual deficit is still at \$30 billion, despite the reduction in spending and increased revenues.

[*Translation*]

Yes, Madam Speaker, the \$200-billion debt cost us \$22 billion a year in interest for which we did not have the money because we had been left with a deficit that did not even allow us to pay for current expenses— We changed this negative situation—\$16 billion—into a positive one, with a \$9-billion surplus this year.

[*English*]

So 80 per cent of the increase has been due to the compounding interest on the original debt. How can you pay a debt without paying the interest on the debt and where do you take the money when you have a deficit? The growth in the public debt will ultimately consume the opportunities we seek for our children if it is not brought under control. We have a responsibility toward all future Canadians to protect their future. The most effective way to deal with this problem is to deal with high inflation. Only in that way will interest rates decline