

*Government Orders*

Canadian people, with the Canadian taxpayers, that in asking them to meet this additional tax burden we shall make a determined and visible effort to reduce government spending". Then the tax might have been received not with enthusiasm but with at least a little less consternation than it did receive.

At no time when introducing its new tax did the government speak of segregating its revenue into a separate fund for debt reduction. It in fact envisaged, as the minister so often acknowledged, that the revenue would simply be part of general revenue and would go toward paying the ongoing expenditures of the government.

Unless one believes that paying one-third of every tax dollar to cover interest on the national debt does not matter there are only three ways to cut the debt and the deficit. The government can either increase taxes or reduce spending or do both.

In his budgets the former finance minister made some cuts. He cut some military spending, some foreign aid I regret to say, and some other programs. He rejigged unemployment insurance. But who can show where this government has acted decisively to curtail operational expenditures? Initially, the Conservative government did make some limited spending cuts, but by 1986 it had clearly lost heart, despite a booming economy generating new levels of tax revenue.

Re-elected in 1988 the government spoke a lot about reducing the deficit but it did not in fact do so. The deficit today is just as high as it was several years ago. The government failed to reduce spending significantly and relied almost entirely on tax increases to generate more revenue to move toward meeting government expenditures. It did so presumably in the belief that Canadians would rather pay more taxes than see expenditures cut.

If that were ever true it certainly is not true today. Canadians know that we are more burdened with excessive federal and provincial taxes than at any time in our history, compared to the standards of our trade competitors.

There are many disadvantages to using tax increases as a means of generating revenue rather than countering

the debt problem with spending cuts. The most problematic is the public perception that governments are not serious in their goals of attempting to reduce deficit and debt. They find it easier to raise taxes, but, among other things, the government in so doing has contributed to the inflationary pressures of which we have been uncomfortably aware in the recent years.

Sales tax increases are inflationary. Organized labour will understandably respond by demanding higher wages furthering inflation. The replacement of the manufacturers' sales tax by the goods and services tax pushed inflation above 6 per cent. Not only did inflation move above 6 per cent in 1991, but it was well advertised to move that high at least a year before. It is not therefore surprising that in such circumstances labour contracts throughout 1990 and again this year were based upon expected high inflation rates above the 6 per cent level.

At the same time that there has been inflation generated in part by wage demands which anticipate inflation. The Governor of the Bank of Canada, supported fully by the government, has assured Canadians that he will continue to use high interest rates to counter inflation setting the stage for continued high interest rates and a high value for the Canadian dollar. This completes a vicious circle where high interest rates increase the deficit by increasing debt service costs.

If the government has been intent on following the tax route when it introduced the goods and services tax to make a real dent in the deficit, it might have appealed to taxpayers then to accept a comprehensive retail sales tax and match that new tax with a very real commitment to address the excessive government spending that has marked Canada's recent history.

We have all seen how the tax has failed significantly because the federal government itself failed to do what might have made it more palatable by demonstrating austerity in its own spending in an effective way as part of a bargain in which the tax would have been accepted as an essential part of a greater national commitment to reduce both the debt and the deficit.

What has happened is that the size of the national debt has almost doubled. Unacceptably high interest rates and exchange rates have been maintained in spite of repeated warnings and have contributed to the recession.