

restraint wherever possible without hurting our citizens who are in need. Deficits such as we have in Canada today call for the maximum of efficiency in all our government operations.

We have a servant of the House who is quite capable of advising us on how to be more efficient. In his reports the Auditor General has indicated a number of ways in which the Government can enjoy significant savings and therefore help somewhat with the size of the deficit. Mr. Speaker, when there is a call for an all-out massive attack on the deficit, I think such a statement of public policy must be backed up with some hard facts. For example, if we wanted to spend much more money on national defence, give a great deal more money to post-secondary education, provide the provinces with more money for medicare, or significantly increase the expenditure directed to research and development, all of this while still trying to reduce the deficit, then we would have to ask ourselves where the cuts will take place.

● (1540)

During the recent recession, which was the worst setback for the entire western industrial world in 50 years, there were only two countries — Sweden and Canada — that maintained the so-called safety net. These two countries did not alter, cut-back or reduce their social security systems.

Today, governments in Europe are paring down their social programs. The provincial Government of British Columbia is following that example, as we well know from its recent Budget. As these cut-backs in social security measures are taking place around the world, there are workers, students, mothers, unemployed and disabled veterans who are taking to the streets in protest. I am proud to say that the federal Government of Canada rejected such an approach during the period of economic recession. We knew that recession impacted in a negative way most seriously upon those with the greatest needs. It is never easy and it is never inexpensive to hold back the tides of poverty.

Between 1969 and 1981, thanks to federal Government programs, the number of Canadians living in poverty was cut in half. Now, when there are wild charges made in the House that this is a Government that is profligate in its spending, that it spends with abandon and irresponsibility we should remember that the number of people living in poverty was reduced by 50 per cent. A lot of money had been spent but a significant step forward was taken toward having a much better society.

Regrettably, during the recent recession some of the gains that were made from 1969 to 1981 were lost, especially with two groups of people. One group was elderly single women. They lost ground and as a group in Canada today they are the poorest of the poor. That is why one of the very first actions of this Government, when it took office in 1980, was to increase the guaranteed income supplement by \$35 a month. That is why the Minister of Finance announced last week another increase of \$50 a month in the guaranteed income supplement for single pensioners.

Also hard hit were single parent families headed by women. I believe the time is at hand to consider very carefully whether

The Budget—Mr. Penner

we should do more targeting with our social assistance dollars. But that will have to be the subject for another debate at another time.

It is no easy task to launch a massive attack on the deficit. It is no easy task when so much of our spending is already locked in and there is so little—only about 15 per cent of expenditures by some calculations—that is actually discretionary.

Although many governments today, those in Europe and some of our provincial Governments, are being spooked by deficits, perhaps we should be more analytical and objective in understanding what deficits are. Professor Bellan of the University of Manitoba very recently wrote an insightful article in *The Financial Post* in which he examined how deficits are financed and what the effects of these deficits are upon the economy. With respect to deficits he reminded us that in order to finance its deficits the Government of Canada sells bonds. Thirteen per cent of those bonds are sold to the Bank of Canada. Eighty per cent of those bonds are sold to Canadian business firms and individuals. Only 7 per cent are sold to non-residents.

Since the Government of Canada owns the Bank of Canada, that bank returns to the Government all of its revenues minus its operating costs every year. That is the first point.

The second point is that Canadian business firms and individuals who buy these government bonds pay federal tax on the interest they receive. What they retain, they retain as Canadians and much of it is spent in Canada. Therefore, except for the small fraction of some 7 per cent that is received by non-residents, what Ottawa does not get back is not lost to Canada but is received by Canadians. So when we talk about deficits and the national debt, I think we have to keep in mind the geography in which these dollars are being circulated. We are not accumulating a huge international debt. We are not going into the hole with respect to our trading partners. We are providing the services that Canadians need within Canada itself and circulating the dollars among ourselves.

Nevertheless, it is still claimed that deficits have certain negative impacts upon the economy, such as causing inflation, sharp rises in interest rates and crowding out private borrowers from the money market. Professor Bellan tells us to look at the facts. From 1981 to 1983, the federal deficit increased significantly from \$10 billion to \$30 billion. Let us see what happened to inflation at the same time. It went from 12.5 per cent to 5.3 per cent, which seems to fly in the face of the proposition that inflation is caused by deficits. The average prime interest rates in Canada during that period went down from 19.3 per cent to 11.2 per cent.

There is no shortage of money for borrowers. It is true that there is not a great deal of borrowing taking place for expansion, but that is simply because the present plant capacity is sufficient to provide the demands that exist in the marketplace. There is no need to go into the market to expand when additional capacity is unnecessary.

Nothing that I have said should be misunderstood. Deficits cannot be argued or wished away, but the way to reduce them