The experts also noted that deficits raise the interest rate and therefore lower investment, economic growth and home construction. These effects are due to the fact that every year there is only a limited amount of savings generated by the economy. Lenders who use their money to buy government bonds cannot lend it to firms that want to build factories or to Canadians who want a mortgage to buy homes.

• (1305)

Future generations of Canadians will be hit by a double whammy: lower capital stocks and productivity, as well as tax burdens to pay the interest on the debt.

One of the most serious concerns expressed by the experts was that continuing deficits raise the probability of a financial crisis. We have all heard about the problems which face New Zealand, Sweden, Britain and Italy when international investors lost confidence in the ability of their governments to restrain deficits.

No one can predict what might set off such a crisis in Canada. The Minister of Finance's economic experts were almost unanimous in their judgment that the probability of such an event is increased the longer the deficit persists.

The second major point on which there was overwhelming agreement among the economic experts was that it will be impossible to eliminate the deficit without substantial spending cuts. An economic recovery cannot generate enough revenue to reduce a deficit to 3 per cent of GDP, no less eliminate it. The rate of economic growth required to achieve this goal simply is without historic precedent and virtually unachievable.

At the same time, it is clear that the deficit cannot be eliminated by higher taxation, either through higher rates or a broadening of the base. Any such attempt would further stimulate the growth of the underground economy or tax evasion and therefore is unlikely to raise sufficient revenue.

The third point of major agreement among the experts was that the deficit could not be eliminated by inflation. Until the 1970s, perhaps inflation could be used to depreciate the real value of government debt. However, in today's world of integrated and highly sophisticated capital markets neither national and especially not international lenders will buy Canadian bonds whose purchasing power is depreciated by inflation unless they are compensated by a corresponding increase in the interest rate.

It is easy to see what the public demand for such higher interest rates will do to the size of the deficit. Every one percentage point increase in the interest rate quickly translates into an increase of $5 billion in debt payments and therefore the deficit.

For this reason I hope that Gordon Thiessen, the new Governor of the Bank of Canada, will continue to pursue price stability in the tradition established by his predecessor, John Crow.

I should further note here that inflation also cannot be used to decrease unemployment and raise economic growth. The idea that this is possible represents a theory that was found invalid as a result of the experiences of the 1970s and later in Canada and elsewhere.

As the last point in my contribution today I would like to note that the economic experts assembled by the Minister of Finance offered a wide range of suggestions for spending cuts. However, none had so many supporters in principle as did the suggestion that spending cuts should be achieved through the so-called restructuring of social programs. To the best of my memory, only Michael Walker of the Fraser Institute elaborated on the term restructuring. Mr. Walker's suggestion was based, much like that of the Reform Party during the election campaign, on the realisation that vast amounts of government transfers go to families with high incomes.

Without further elaboration let me just note here that in 1992 families in the upper decile with incomes over $100,000 per year received $2.5 billion and $1.5 billion in UIC and old age security benefits, respectively. Similar large amounts were received by families with high incomes by any other standard.

From these facts follows a clear and precise definition of restructuring of social programs. It means the elimination of transfers to those who do not need them. Would the hon. members of this House please note this important point that needs repeating. In the Reform lexicon, restructuring of social programs does not mean reduction to payments to the poor. It means eliminating payments to those families that by a wide consensus do not need them.

• (1310)

During my election campaign the vast majority of high income earners I met expressed their willingness to forego their receipt of these benefits if other Canadians made similar sacrifices to balance the budget.

In summary, I remind the members of this House that finance minister's economic experts urge the government to take prompt action in eliminating the deficit with spending cuts, not tax increases or inflation, and that the spending cuts be achieved predominantly through a restructuring of social programs.

Mr. Bill Blaikie (Winnipeg Transcona): Mr. Speaker, I have just a couple of comments to make on some of the things the hon. member had to say.