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levels relative to our own income. As the saying goes, we are then in danger of living beyond our means.

It seems probable that the current account deficit explosion of 1985 to 1992 is in the latter category. Unlike investment booms of the 1950s, 1960s and 1970s the spurt of domestic investment of the last five years was much less intense. Two-thirds of it was in housing as opposed to productive plants, equipment and structures.

Most important, over-all domestic investment has experienced a long-term decline. The late 1980s investment peak is about the same magnitude as the early 1970s investment trough. National savings are even more depressed. At 15 per cent of gross national product in 1992 they stood at the lowest point since the Great Depression.

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Part of the problem is with the recession induced collapse of corporate and government saving. Even the 1989 savings peak at 20 per cent of our gross national product was at a historically low level comparing unfavourably with the 24 per cent average rate of saving of the early 1970s. The savings decline like the investment decline is a long-term not a short-term phenomenon.

It should be noted that all of this also carries a significant financial market risk as well. Lower interest rates are part of the official solution to the deficit problem. If federal and provincial governments show no sign of decreasing their demand for offshore borrowing, unfortunately international investors already sensitized to exchange rate risks because of last year's extraordinary turbulence in currency markets, are likely to view the absence of meaningful fiscal improvements as adding to concerns over the credit quality of domestic securities. This raises the risk premium on such investments and limits the potential for durable interest rate relief.

The second weakness of the government's approach to Canada's debt problem is really the first writ large. If the government has found it politically difficult to reduce spending over the last nine years, it is largely because it has failed to develop a comprehensive plan for restructuring and redefining the way in which government operates in this country.

After all, this issue concerns more than some abstract figures termed "the national debt". It is about the size,

the role and the efficiency of government, a sector which, as many competitive experts all too easily overlook, now accounts for no less than 50 per cent of Canada's gross domestic product. It is about the allocation of resources in a way which promotes productive investment and physical and human capital rather than the kind of spiralling consumption we have witnessed in Canada over the last decade.

Instead of devising ways in which government might work better and smarter, to borrow from the Clinton lexicon, the Conservatives chose to leave the old structures and programs in place while attempting to cut and trim around the edges. The fact that the deficit remains stuck at \$35 billion after nine years of such trimming underscores the real limits to this approach.

The first priority in tackling the debt crisis should have been to attempt to engineer a national solution to what is manifestly a national problem. Without real and binding co-ordination between Ottawa and the provinces, there was simply too much scope for unproductive shifting of spending among governments or for wasteful duplication of activities and conflicting policies.

The Conservative government offered up instead a unilateral reduction in provincial transfer payments, accompanied by pious admonitions that the provinces should follow Ottawa's lead in getting their fiscal houses in order. Faced by a sudden shortfall in revenues the provinces predictably reacted by ratcheting up their own deficits and occupying any tax room vacated by the federal government.

Another obvious target for reform was the bewildering and overlapping web of individual transfers and tax exemptions which has passed for a comprehensive social safety net for the last three decades. Even those aspects of our social security system that are more targeted have tended to evolve as *ad hoc* political and social expedients. It has been an accumulation over time of responses to special demands and not a co-ordinated approach to human resource development.

The present system of tax deductions and exemptions, for example, has often proven to be a less than successful means of targeting social assistance, if only because benefits tend to rise with the increase in income, often turning such provisions into tax shelters and loopholes.