GETTING OFF THE DEFICIT TREADMILL

To achieve our potential for greater economic growth and job creation, we must build on the hard-earned fiscal progress we have made.

Let me explain clearly the deeply rooted nature of the problem we are facing, and why it can be solved only with patient, determined, year-by-year effort.

In a real sense, we have had to fight not one deficit, but two.

In 1984, the federal government was living far beyond its means. It had to borrow $16 billion just to cover the difference between spending on programs and services and the revenues it collected. That was the first deficit—the operating deficit.

At the same time, a $200 billion mountain of debt was generating more than $22 billion in annual interest charges. Every penny of this interest was paid by additional borrowing. This was the second deficit.

Before we could even begin to deal with this second problem, we had to eliminate the operating deficit that was caused by too much program spending and eroding revenues.

REDUCING GOVERNMENT EXPENDITURES

As part of a measured, long-term plan to restore a better fiscal balance, we immediately launched a broad and sustained effort to reduce expenditures.

The first priority was spending on government operations—the cost of running the government. In 1984, this cost $17.4 billion. We have cut this to $16.8 billion in spite of a larger workload.

In December, the President of the Treasury Board announced further steps to eliminate waste, improve efficiency and save $1.4 billion over the next three years. We have imposed a freeze on federal government construction in Ottawa and travel restrictions on Members of Parliament and public servants. We are closing some parliamentary restaurants, selling two government jets and amalgamating or closing some government agencies.

Waste is being eliminated. Productivity has been improved; it will be further improved by measures in this budget. We will continue to seek out ways to eliminate waste and inefficiency in the months and years ahead.

We also eliminated outdated programs and restructured or restrained others. We eliminated energy subsidies, closed heavy water plants, reduced the VIA subsidy and eliminated the Canadian Exploration and Development Incentive Program. With tight discipline and good management, the program spending that amounted to 19.5 per cent of the economy in 1984 has been reduced to 16 per cent this year. That is equivalent to a $22 billion reduction in spending.

But the problem we faced in 1984 was not just too much spending. Federal government revenues had been declining as a share of national income since the mid-1970s. This happened for a number of reasons, including the growth in special tax breaks and the flaws in the federal sales tax. We eliminated those breaks, closed loopholes and increased revenues. Revenue, as a share of national income, is now back to the average level of the 1970s.

In 1987-88, we reached the first major milestone in the battle against the deficit when we turned the operating deficit into a surplus which now stands at $9 billion. This is major progress. It is a fundamental structural change in the balance of spending and revenues.

SOLVING THE DEBT PROBLEM

Because we now have an operating surplus, the total deficit today is less than the borrowing required to pay the interest on the debt. The reason for the rapid increase in borrowing costs needs to be better understood.

Compound interest—the interest paid on interest—is a great friend when you have money in the bank. Money invested at a compound rate of 10 per cent doubles in about seven years. It quadruples in about 14 years and grows to almost eight times its original size in 21 years.

But the same thing happens in reverse when you have to keep borrowing to pay the interest on a debt. In the time it takes a newborn child to reach the age of 21, a $200 billion national debt at a compounded rate of 10 per cent would grow to almost $1.5 trillion, all on its own.

Despite the fact that we have cut the annual growth of the debt from 24 per cent to less than 10 per cent since 1984, the debt is still growing faster than the economy—faster than our ability to pay.