Budget Cuts Spending by $25 Billion Over Three Years

The Canadian government introduced a budget in February that makes deep cuts in government program spending, the federal civil service, and business and agricultural subsidies. It is "the largest set of cuts in any budget since demobilization after World War II," Finance Minister Paul Martin told the House of Commons.

"This budget sets this country on a sure course of fiscal responsibility and government renewal," Mr. Martin said. "We are bringing government's size and structure into line with what we can afford."

Despite rising interest rates, the budget meets the government's interim deficit targets established last year. The deficit for 1994-95 is expected to be $35.3 billion, $4.4 billion lower than forecast. It will drop to $32.7 billion in 1995-96 and $24.3 billion the following year. This last figure fulfills Prime Minister Chrétien's pledge to reduce the deficit to 3 per cent of gross domestic product by 1996-97. The budget includes substantial contingency reserves ($2.5 billion or more) against higher interest rates for each of the three years.

The ultimate goal is to eliminate the deficit, Mr. Martin said. "We will continue to set firm short-term deficit goals—rolling two-year targets—until the deficit is erased."

He said that budget balance can only be achieved "if we redesign the very role and structure of government itself."

The budget's spending cuts of $25.3 billion over three years will reduce the scope of federal government operations significantly. Programs will be merged, consolidated and privatized, and 45,000 civil service jobs, 14 per cent of the total, will be eliminated. Spending by government departments will fall by almost 19 per cent over three years, with some departments—natural resources, regional development and transport—seeing their budgets reduced almost by half.

Business subsidies will be cut by 60 per cent. Agricultural subsidies will also be substantially reduced: direct support to dairy producers will drop by 30 per cent, the century-old grain transportation subsidy will be eliminated and overall agricultural safety net funding will go down by 30 per cent.

The government will also turn some operations over to the private sector by selling off its stakes in the oil company, Petro-Canada, and the Canadian National Railways, and privatizing the air navigation system.

The system of federal transfers to the provinces and territories for social programs is being reformed, Mr. Martin said, to make it "more in line with the actual responsibilities of the two levels of government." Beginning in 1996-97, transfers for health, post-secondary education and social assistance will be replaced by a block grant. The provinces will receive slightly less money in block grants than they would have received under the old cost-sharing system—4.4 per cent less in 1996-97 than in 1994-95—but they will be subject to fewer rules and have more flexibility in designing their own programs.

However, Mr. Martin said, "Flexibility does not mean a free-for-all," and certain national goals and principles will still apply. He reiterated the government's commitment to the fundamental principles of Canada's health care system: universality, comprehensiveness, accessibility, portability and public administration.

Although the budget did not include any changes to benefits for the elderly, Mr. Martin said that later this year the government will outline "the changes required in the public pension system to ensure its affordability." It also plans to have unemployment insurance reforms in place by July 1996 that will focus on improving the employability of recipients while saving $700 million in 1996-97.

The budget contains $7 in expenditure cuts for every $1 in revenue increases. New revenue will flow from a $975-fee on adult immigrants; higher taxes on airline tickets, gasoline, large corporations and banks; and elimination of some tax reductions. Personal income taxes were not raised.

Financial markets responded favourably to the spending cuts. Immediately after the budget was made public, the Canadian dollar rose to its highest level of the year. Bond prices also rose and major banks lowered their prime lending rates one quarter of a point to 9.25 per cent. The Toronto Stock Exchange 300 composite index jumped more than 30 points.

The Canadian public also gave the budget a warm reception. An Angus Reid poll taken on the night the budget was presented showed 69 per cent of those polled believe the government "is on the right track" with the budget.

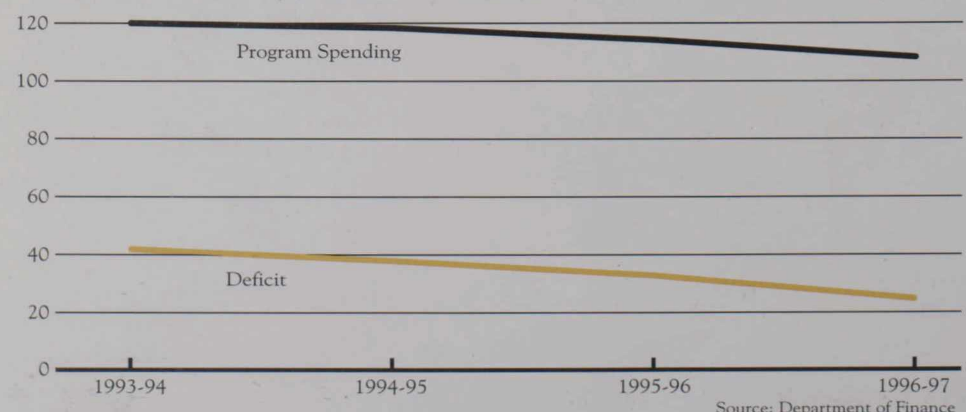
1994 Economic Update

	1994	1993
Unemployment Rate*	10.3%	11.2%
Real GDP growth	4.5%	2.2%
CPI inflation rate	0.2%	1.8%
Canada-U.S. merch. trade	$321.8b	$268.9b

**467,000 new full-time jobs were created in 1994.*

Source: Statistics Canada

Federal Program Spending and the Deficit
1993-94 to 1996-97, In Billions of Canadian Dollars



Source: Department of Finance

All figures are in Canadian dollars. The official noon exchange rate on March 24 was US$1 = C$1.4014.