

family or individual, it happened when Canada started living beyond its means.

At first it started small. Early government deficits were not seen by some as much of a problem. But the deficits began to grow each year. By the early 1980's the deficit soared out of control so that by the time this government had come into office, the \$18 billion debt accumulated over the first century of Confederation had ballooned to nearly \$200 billion. At the same time the annual deficit was \$38 billion.

The country had been placed on a treadmill. The enormous national debt began feeding on itself because of the sheer size of the interest that had to be paid every year.

This government did not stand idly by in the face of this enormous fiscal problem. From 1984 to 1989 this government introduced several important measures to bring government expenditures under control and to increase the yield from federal revenues.

The spending record of the last years demonstrates conclusively the success of our expenditure management strategy. From 1984-85 to 1988-89, total budgetary expenditures increased at an annual average rate of 5 per cent. In contrast, in the previous four years, expenditures rose an average of 15 per cent.

Nearly 45 per cent of the increased expenditure was due to higher public debt charges. The treadmill of debt we inherited is illustrated by the fact that by 1988-89, public debt charges were the single largest component of government expenditure.

This government has faced up to the debt problem over the last four years. To improve costs and improve government efficiency, we introduced measures to reduce operating costs. To remove inefficiencies, payments to Crown corporations and various subsidies were reduced. At the same time however, measures were taken to help those most in need and to help individuals adapt to changing economic and social circumstances.

Even so, the combination of expenditure management and continued economic growth were not sufficient to assure continual reductions in the annual deficit. Revenue-increasing actions were also required.

The yield from the tax system has been declining since the late 1970's and has contributed to the increases in the deficit experienced to 1984-85, this was due to actions instituted in the mid 1970's as well as the effect of the recession of 1981-82.

Supply

However, since 1984, even before the 1989 budget, this government has introduced tax measures that have resulted in budgetary revenues increasing from 15.9 per cent to 17.4 per cent of GDP from 1984-85 to 1988-89.

The 1989 budget takes this effort further, necessarily. It is important to understand all the benefits that come from debt control.

First, debt control reduces the burden imposed on the future of our children. From 1981-82 to the time this government took office, the public debt per household rose from \$12,300 to \$23,100, an increase of almost 90 per cent. Since that time the growth of public debt per household has slowed despite the treadmill of high interest payments. Nonetheless public debt per household still stands at \$34,200.

Second, debt control provides fiscal flexibility. The high cost of servicing the debt, projected to reach over \$39 billion in 1989-90 or 35 per cent of all budgetary revenues, reduces the government's ability to respond to changes in the economy and to provide public programs. Furthermore, in order to achieve ongoing reductions in the deficit, combinations of program expenditure reductions and revenue increases are required just to offset increases in interest payments on the debt.

Third, debt control contributes to a healthy and prosperous economy which is the foundation for the maintenance of our system of social programs. Sustained economic growth requires low and stable interest rates, low inflation rates and a high degree of investor confidence. Debt control reduces demand and increases savings. Along with changes in the structure and functioning of the Canadian economy in areas such as trade with the U.S., deregulation of energy and transportation, privatization of Crown corporations, the replacement of the Foreign Investment Review Agency with Investment Canada, and personal and corporate tax reform, debt control has been a significant factor in the strong economic record of achievement since 1984.

Fourth, debt control will raise the living standards for our children. It promotes high rates of investment by providing an economic environment conducive to growth and by reducing the shares of national savings absorbed by government to finance consumption. Ultimately this leads to higher productivity, more and better jobs, higher incomes and results in an enhanced ability to finance needed social programs.