

*Borrowing Authority Act*

● (2010)

Let us carry that illustration just a little bit further. The son starts to pay more and more money in interest, so he cannot take that trip out of the country or he cannot buy that new car. Then it starts to cut into his ability to spend money on the necessities of life. That is the point we are at right now. There has been a total misallocation of federal resources as a result of the very high level of interest payments in the country.

This year it will amount to 19 per cent; that is nearly \$1 in \$5 of federal government expenditures, or to put it another way, \$1 in \$4 of federal government revenues will be spent on interest. That is just interest alone; no repayment of the debt, no reduction in the size of the government debt. That is the point we have reached right now. We cannot redirect that money to other more worth-while uses than the payment of interest and we cannot use that money to reduce the government deficits.

Mr. Speaker, \$12 billion or \$14 billion is a very large amount of money. It is hard to understand how much money that is. But it is very hard to understand that because of that deficit today we are spending 30 per cent more than we are taking in revenues? That figure is lower than last year. It is hard to know what it will be this year because we have not had any figures from the government. Clearly it will be of that order of magnitude. That is the problem we are facing today, and until some action is taken, we will be facing that problem for years ahead. This is why we are concerned about passing this bill at this point in time.

Another aspect of the deficit worth noting is that the federal government is borrowing far too much just to pay current bills. This is not for capital expenditures, but for the bread and butter daily expenses of government. The C. D. Howe Research Institute estimates that from 1975 to 1979 the federal government borrowed \$30 billion more on the current expenditure. That is over and above the deficit from capital outlays. A recent analysis of the United States federal budget indicates that current revenues in recent years have financed all the current outlays plus half of the capital outlays. That is the difference right now. That is the difference between the fiscal position of the Government of Canada and that of the United States.

Is this prudent financial management? Let me illustrate my point in a basic way. This type of borrowing to cover current spending is like taking out a bank loan to buy food and the other basic necessities of life. That is the reason we cannot use Chargex at the supermarket or the liquor store, because normally, the use of Chargex results in a loan. This is one more reason why the government should not be borrowing on a continuing basis just to finance spending on day to day expenditures.

Recently we had two statements by the governor of the Bank of Canada which I think are very important. We received a clear message from the governor of the Bank of Canada in his statement to the Senate Standing Committee on National Finance and in his 1979 annual report. I should like to briefly paraphrase what he had to say in his statement. He

said that what he wanted to register was that the way in which the real economic variables in the economy respond to changes in financial flows, which are heavily dependent on other policies and practices throughout the economy about which the Bank of Canada can do very little. He indicated there is little doubt that the key reason for this slide toward even more inflation was the result of an effort by public policy in most countries to achieve and maintain more output and employment from their economies than was consistent with price stability. This view should have been discredited long ago by logic for it implies that people can be fooled indefinitely.

It has now been discredited by events. The governor of the Bank of Canada is clearly linking excess government spending to inflation. He also made the point I made earlier that the government is trying to fool people by giving them something now with the feeling that they are getting it for nothing. But there is no such thing as a free lunch, to paraphrase a statement that has been made many, many times before. He also indicated that people have learned to be sceptical about public promises to reduce inflation, for the fulfilment of such promises would require a radical break from a long-established inflationary bias in public policies. The inflationary bias on the part of people in this country is so ingrained it is very, very hard to break the inflationary spiral.

Let me just look ahead to what the governor said later on in his statement about the spiral. He indicated that there is a clear need for leadership in the country. He said the Bank of Canada certainly has a central role to play and that it was trying to play it, but that governments at all levels have a major role to play and the role of the federal government is clearly of crucial importance. It is important that those policies and practices throughout the economy which are inflationary—and clearly he identified the federal government deficit as inflationary—should be modified, that all policies and practices should be reviewed in this light.

I should like to refer briefly to the annual report of the governor of the Bank of Canada which reads as follows:

But if large fiscal deficits are continued when the economy has little more effective capacity to increase output they will discourage such investment. The restraint on investment is felt through various channels. One of them is that the fiscal deficits absorb savings that could otherwise be channelled by financial markets into financing the expansion of plant and equipment. This can militate against the increases in productivity and income that capital formation makes possible.

He pointed out that governments can crowd out private sector investment. He made the point further on in his report that private sector investment can be crowded out and into international markets. I will come back to that later.

Governor Bouey provided an eloquent illustration of the link between economic growth and the low inflation rate. He stated clearly that the tax policy and the level of the deficit is important to increasing the amount of productive plant and equipment in the economy. We must have this to avoid shortages of supply of goods and bottlenecks in our lines of supply, both of which will cause great pressures. The message is clear. The governor of the Bank of Canada has put the government on notice, that there must be greater spending control and a