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1990

February 20, 1990

*the*  
**Budget**  
*in Brief*

Canada

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Since 1984, this government has been following a consistent and comprehensive plan to ensure that Canadians can benefit from a rising standard of living and a quality of life second to none in the world.

As a vital part of that plan, we have been striving to gain greater control over our nation's finances.

We have attached a very high priority to this objective. Because as we achieve it, we will gain greater flexibility and independence of action to meet the priorities of this government and of Canadians.

I am asking Canadians to join in a broadly based program to reinforce our efforts to control government spending. This program will keep us on a track that will allow us to achieve the goals that I set out in my last budget:

- We will reduce the deficit to \$28.5 billion next year.
- We will cut it in half to \$14 billion in three more years.
- We will reduce it further to \$10 billion in the year after that.

This will mean that within five years the government will begin to buy back its bonds and Treasury bills. The country will be on a clear path of substantially reducing the burden of debt.

Canadians know that this kind of progress does not come easily. There are no painless ways to reduce spending and solve the deficit problem. We understand that, in this effort, we have asked a lot of Canadians.

But by persevering, we will attain greater control over our destiny, and a greater ability to devote our resources to supporting a rising standard of living and a better quality of life for all Canadians.

A handwritten signature in black ink that reads "Michael Wilson". The signature is written in a cursive style with a large, sweeping initial 'M' and a long, horizontal tail on the 'n'.

The Honourable Michael H. Wilson  
Minister of Finance

# **Building the Foundation for a Better Future**

## **The Economic Management Plan**

To ensure a strong economic foundation for the future, the government is moving forward with its long-term plan, *The Agenda For Economic Renewal*, set out in November 1984. The plan has two main thrusts: to put the government's financial house in order; and to foster a dynamic, innovative and competitive private sector.

## **Initiatives to Strengthen the Economy**

The economy's potential to expand and respond to change has already been strengthened by the implementation of the Agenda plan. Initiatives such as the Canada-U.S. Free Trade Agreement, deregulation of the energy and transportation sectors, privatization of Crown corporations, income tax reform, the proposed sales tax reform, and the new Labour Market Development Strategy are increasing economic efficiency, improving competitiveness and encouraging investment. These economic advances are leading to higher living standards than Canadians would otherwise be able to achieve.

## **The Inflation Risk**

After seven years of strong economic growth, demand for goods and services has exceeded the economy's capacity to produce. This has fuelled inflation. The current slowing of the economy is helping to ease the strain, but underlying inflation pressures remain too high.

## **Controlling Inflation**

Inflation pressures must be controlled and inflation reduced for Canada to achieve the strong potential growth that the government's economic initiatives have made possible. The government remains committed to this objective. This is the only way of getting interest rates down, keeping them down, and putting the economy on a firm and sustainable footing.

Reducing inflation depends crucially on keeping costs under control. Responsible price and wage behaviour is essential. The government is committed to wage and spending restraint.

## **Keeping the Deficit Going Down**

In 1984, the government faced a critical fiscal situation. The deficit had tripled to over \$38 billion in just four years. Public debt was growing by more than 20 per cent a year. Public debt charges were consuming a rapidly increasing proportion of federal revenues. The government acted quickly to gain greater control over the fiscal situation.

## **Progress in Reducing Spending**

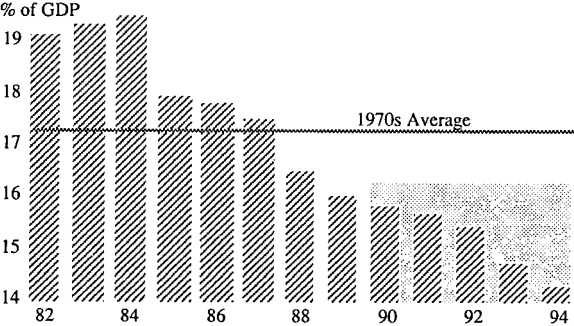
Significant progress has been made in restoring health to the nation's finances by reducing government spending and eliminating waste and inefficiency in government operations.

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. For example, federal

construction in Ottawa has been frozen, travel restrictions on Members of Parliament and public servants have been imposed, some parliamentary restaurants are being closed, two government jets are being sold and a number of government agencies are being amalgamated or closed.

Program spending has grown by less than the rate of inflation since 1984. Relative to the size of the economy, program expenditures are at their lowest level in almost 20 years.

### Controlling Spending



### From Operating Deficit to Operating Surplus

When the government first came to office, federal spending on programs – everything except interest costs – was \$16 billion more than was being collected in revenues. Today, program spending is \$9 billion less than revenues. The government has turned an operating deficit into an operating surplus – a turnaround of \$25 billion in just five years. Almost 70 per cent of this progress results from expenditure restraint.

## Progress in Reducing the Deficit

As a result of expenditure actions and revenue measures, the deficit in 1989-90 has declined to \$30.5 billion from its peak of \$38.3 billion. The growth of the debt has slowed dramatically and is now in line with the growth of the economy.

## Continuing Action

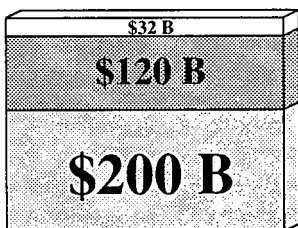
Although substantial progress has been made, the task is not yet complete. Despite the fact that the annual growth of the debt has been cut from 24 per cent to less than 10 per cent since 1984, the national debt has grown from \$200 billion when the government first came to office to \$350 billion today. Fully \$120 billion – more than 80 per cent – of this increase consists of the compounding interest on the original \$200 billion. This helps to explain why the deficit has not gone down further in spite of the expenditure reductions and revenue increases since 1984.

## The Debt Treadmill

Debt from operations,  
since 1984

Compound interest  
on the 1984 debt

The debt in 1984



The enormous build-up of debt over the last 15 years has put the nation on a treadmill of growing debt and debt servicing costs.

Since the April 1989 budget, stronger-than-expected inflation pressures have resulted in interest rates remaining higher than expected. This has increased interest payments on the debt.

Further action is required to hold to the deficit track set out in last year's budget.

## **The Expenditure Control Plan**

*The budget sets out a two-year expenditure control plan that will enable the government to achieve the goal of cutting the deficit in half by 1993-94 – and with no increase in taxes.*

The Expenditure Control Plan, together with measures announced by the President of the Treasury Board in December, will produce savings of \$3 billion in 1990-91 and almost \$4 billion in 1991-92. Total expenditure savings of well over \$19 billion will be achieved over the next five years.

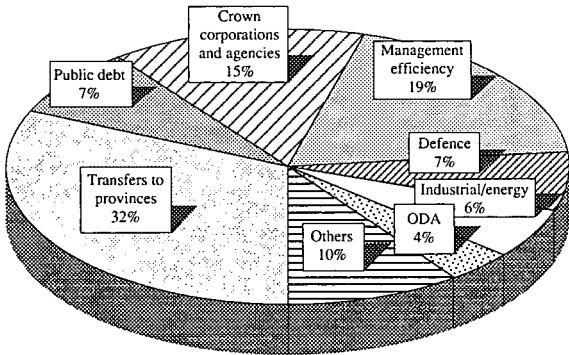
The plan affects a wide range of programs with the exception of major income support programs for people and most transfers to lower-income provinces.

After several years of restraint, there are no painless ways to cut spending. In developing the measures, the government has been sensitive to the financial circumstances of individual Canadians as well as governments. The restraint



# \$3 Billion of Savings

1990-91



measures will help ensure that the deficit-reduction goals of the April 1989 budget will be reached.

## Key Elements of the Expenditure Control Plan

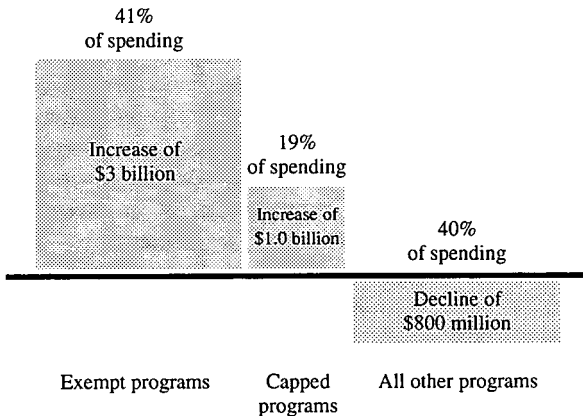
- *Major transfers to persons have been exempted.* These include elderly benefits, family allowances, veterans' pensions and allowances and unemployment insurance benefits. Also exempted are the equalization program and Canada Assistance Plan transfers to lower-income provinces.

- A number of programs have had their *spending growth capped at 5 per cent per year*. These include Canada Assistance Plan payments to the fiscally stronger provinces of Ontario, British Columbia and Alberta; and certain expenditures for science and technology, Indian and Inuit programs. Foreign aid and defence expenditures, which were subject to substantial reductions in the 1989 budget, will also be held to the 5-per-cent growth rate.
- For a number of programs *spending has been held at 1989-90 levels for the next two years*. Total per capita cash and tax transfers to the provinces under Established Programs Financing will be held constant. These transfers, in total, will continue to grow with population.
- *A number of programs have been reduced or eliminated*. The government will not proceed with its offer of assistance for the construction of the OSLO oil sands project. The Canadian Exploration Incentives Program and the Polar 8 icebreaker project are cancelled.
- With limited exceptions, grants to businesses will be eliminated and financial assistance will be repayable on more rigorous terms. This will reinforce the government's emphasis on investing in economic development rather than subsidizing the private sector.

- A wide range of other measures will be taken to *increase efficiency and reduce the cost of government operations*. Additional Crown corporations will be privatized, including Petro-Canada and Telesat Canada. The 2-per-cent annual limit on the growth of government operations and maintenance budgets is being extended until 1994-95.

## The Expenditure Control Plan

1990-91



### Lower Government Spending

With these measures the federal government has further tightened its own belt. Costs will

continue to be restrained. Total expenditures on programs other than those that are exempt or capped – about 40 per cent of all government spending on programs – will decline next year and will be more than \$800 million below this year's level.

The growth of total federal program spending will be limited to 3 per cent next year, well below the expected rate of inflation. By comparison, total entitlements for the major federal-provincial transfer programs are expected to grow at about the same rate as federal program spending next year. They will average about 2.3 per cent for Ontario, Alberta and B.C. and 4 per cent for the Atlantic provinces. The lower-income provinces will continue to receive proportionately more federal support than the higher-income provinces.

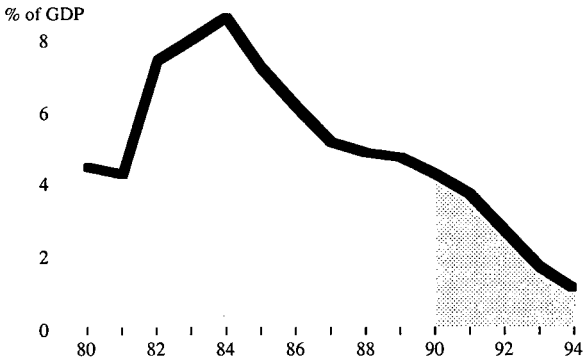
## **How the Budget Strengthens our National Finances**

The budget restores the fiscal track set out in the 1989 budget. In 1990-91, the deficit will be cut to \$28.5 billion. The deficit will be more than cut in half to \$14 billion by 1993-94.

The goal of bringing the growth of the national debt to below the growth in the economy will be achieved in 1992-93.

Public debt charges will consume an ever-smaller portion of each revenue dollar, declining to about 26 cents in 1994-95 from a peak of 35 cents in 1989-90.

## Reducing the Deficit



By 1994-95 the government will begin to pay down its bonds and Treasury bills. Program spending will fall to 14.2 per cent of national income, the lowest level since the late 1960s. The operating surplus (the surplus of revenues over all program expenditures) will grow to \$31 billion.

## How the Budget Strengthens the Economy

The measures in this budget will help to ease inflation and create a better climate for lower interest rates. This, in turn, will help to further reduce the deficit in the years ahead. Lower inflation and interest rates and lower deficits will be mutually reinforcing and lead to a return to strong, sustained growth and job creation.

They will help ensure that the greater economic output made possible by the government's economic reforms will be achieved.

As the burden of the debt declines, the government will regain the flexibility needed to make real choices about the kind of country Canadians want to pass on to their children. And those choices will be made in a climate of lower inflation, lower interest rates, durable economic growth and more jobs and opportunities in every part of Canada.

## **Expenditure Reductions and Management Initiatives – December 1989 and February 1990**

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1990-91  
(millions  
of dollars)

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### **Key exempt programs**

- Major transfers to persons: old age security, guaranteed income supplement, family allowances, veterans' pensions and allowances and unemployment insurance benefits.
- Major transfers to provinces: equalization and Canada Assistance Plan for the equalization-receiving provinces.

### **Programs constrained to 5% annual growth for two years**

- |   |     |
|---|-----|
| • Science and technology  | 38  |
| • Indian and Inuit programs   | 50  |
| • Canada Assistance Plan<br>(non-equalization<br>receiving-provinces) | 75  |
| • Defence   | 210 |
| • Official Development Assistance                                     | 116 |

### **Programs frozen for two years**

- |  |     |
|--|-----|
| • Established Programs Financing<br>(per capita) | 869 |
| • Public utilities income tax transfers          | 16  |
| • Canadian Broadcasting<br>Corporation           | 5   |
| • Telefilm Canada                                | 6   |
| • Export Development Corporation                 | 25  |
| • Marine Atlantic                                | 4   |

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1990-91  
(millions  
of dollars)

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**Programs reduced**

- Grants and contributions
  - Secretary of State 23
  - National Health and Welfare 12
- Small craft harbours 4
- Canada Mortgage and Housing Corporation 16

**Programs/projects eliminated**

- Canadian Exploration Incentives Program 50
- OSLO (savings start in 1991-92)
- Polar 8 84

**Management measures**

- Crown corporations and agencies 401
- Management initiatives
  - Enhanced collection of accounts receivable 167
  - Acceleration of Bank of Canada remittances 400
  - Management efficiencies 12

**Associated public debt charge savings** 200

Total expenditure control plan  
fiscal savings 2,782

**December 1989 expenditure reductions  
and management improvements** 246

**Total fiscal impact of measures** 3,028\*

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\* The measures will result in additional savings of \$3,779 million in the second year and total savings of \$19,495 million over the five-year period.



For further information about the budget or to receive a copy of the budget speech or the booklet "Where Your Tax Dollars Go", call . . .

***1-800-267-6620***  
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