RUARY 1990

Where Your Tax Dollars Go

Canada

Preface

"Where does your tax money go?"

"Has the government made progress in controlling spending?"

The answers to these questions are important in our understanding of the deficit and how we will be able to bring our large and still growing public debt under control. And this we must do to reduce interest costs and preserve our ability to pay for services important to Canadians.

This booklet will help answer those questions. It is the second edition of *Where Your Tax Dollars Go.* The first, in February 1989, presented basic information on government spending over the period 1984-85 to 1988-89. This is an update, looking at spending through fiscal year 1990-91.

Your tax money goes basically for two purposes: paying for the programs provided by government, and interest on the public debt. *Where Your Tax Dollars Go* shows that a great deal of progress has been made in controlling program spending since 1984.

Through a disciplined approach to government and financial management, we have sharply reduced the rate of growth in program spending. It is increasing only 3.5 per cent a year since 1984-85, a big drop from the double-digit annual increases before 1984 and well below the average rate of inflation. And we haven't stopped working at it.

Inflationary pressures have kept interest rates high, however, and this pushes up the cost of servicing the debt. This makes it all the more important to get the debt under control so that we will be less vulnerable to changes in interest rates in the future.

Strict control over spending, introduced in 1984, must continue. That is why the President of the Treasury Board announced, on December 15, 1989, an additional $1.4 billion of savings over the next three years. In the February 1990 budget, I announced the government's Expenditure Control Plan for a further $2.8 billion in savings in 1990-91, and more than $16.5 billion over the next five years.

Spending control is not easy or painless. But, we have preserved intact the programs Canadians value. Most important, we are taking action to ensure that our young people will not face the prospect of narrower opportunities and a lower standard of living in the years ahead. Our tax dollars are going into a better Canada.

Michael Wilson

The Honourable Michael H. Wilson
Minister of Finance

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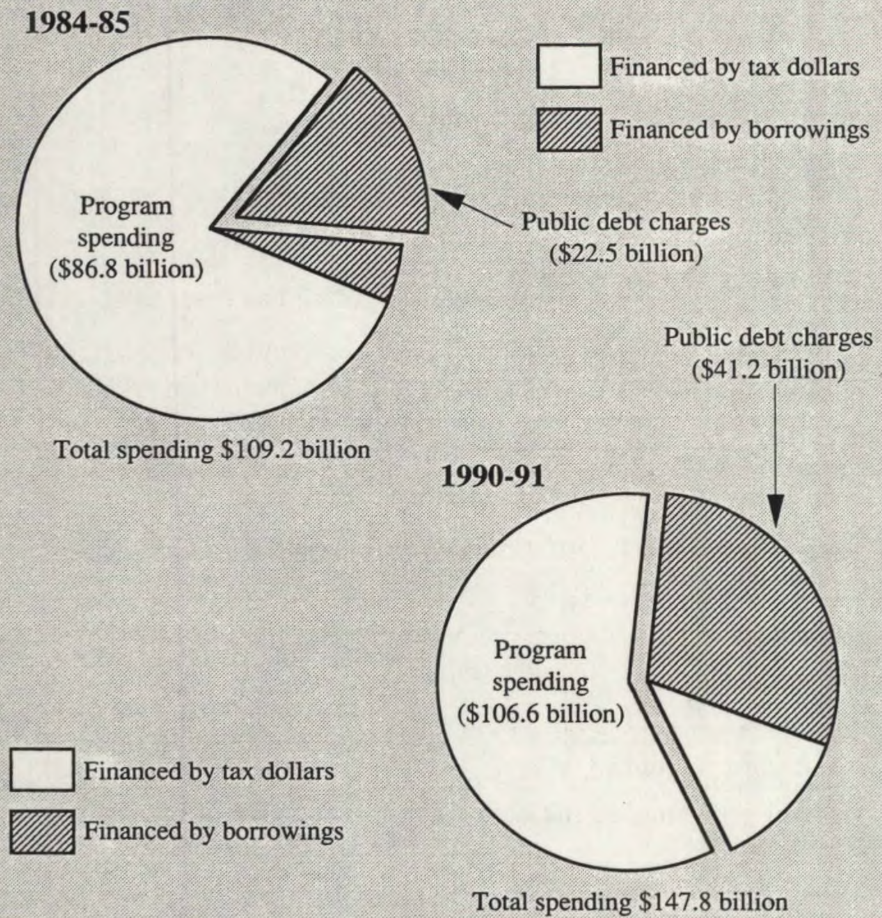
Chart 1

Where Your Tax Dollars Go



- In 1984-85, program spending was $16 billion more than revenues – the government had to borrow to finance a portion of ongoing program spending and all of its interest payments.

- In 1990-91, program spending is $12.5 billion less than revenues – the operating surplus is now financing about 30 per cent of the interest payments.

1. Overview

Where Your Tax Dollars Go

Federal spending in 1990-91 will be $147.8 billion,* or $5,600 for every Canadian:

- Federal programs will account for some $106.6 billion, or 72 cents of each dollar spent.
- Interest charges on the public debt will account for $41.2 billion, or 28 cents of each dollar spent.
- By the end of 1990-91, net federal debt will be $380 billion, or $14,400 for each man, woman and child in Canada.

Since 1984-85, government budgetary spending has risen $38.6 billion:

- Interest payments are up $18.7 billion, accounting for nearly half of the increase. Interest payments on the growing public debt have risen on average 10 1/2 per cent a year since 1984-85.
- Interest on the public debt consumes 35 cents of each tax dollar, compared with 22 cents 10 years ago.
- Program spending since 1984-85 is up $19.8 billion, or 3.5 per cent on average per year.
- As a share of gross domestic product (GDP), program spending has fallen from 19.5 to 15.7 per cent.

Federal revenues in 1990-91 will amount to about $119 billion:

- These revenues will be more than enough to finance the costs of federal programs, so the deficit arises entirely from interest payments on past debt.
- In 1984-85, there was an "operating deficit" – the shortfall between revenues and program spending – of nearly $16 billion.
- The "operating deficit" was turned into an "operating surplus" in 1988-89. This fiscal year, 1990-91, program spending will be $12.6 billion less than revenues – a $28.5 billion turnaround in the structure of government program spending and revenues in just six years.

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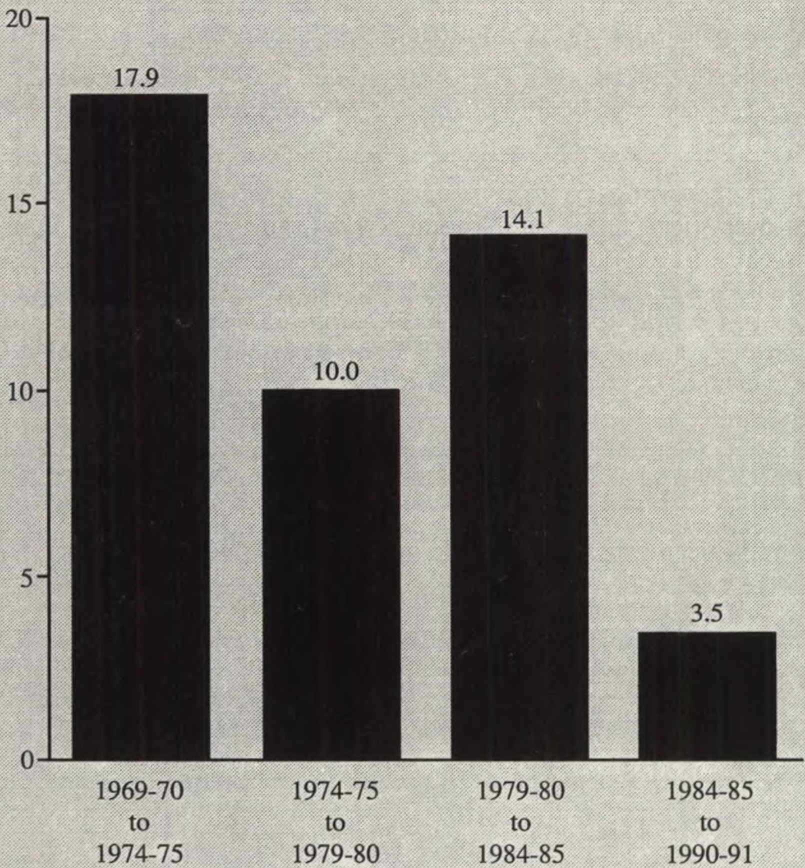
* The amounts in this document are the estimates for fiscal year 1990-91 presented in the February 1990 budget.

Chart 2

Average Annual Percentage Growth in Federal Government Program Spending Since 1969-70



- Program spending has been held to an average annual rate of only 3.5 per cent over the period 1984-85 to 1990-91.
- Throughout the 1970s and the early 1980s, program spending rose at double-digit rates.

The Growth in Government Spending

Throughout the 1970s and early 1980s, rapid increases in federal government program spending pushed up the deficit, and contributed to the explosive growth of public debt.

Federal spending rose 17.9 per cent a year in the first half of the 1970s, and 10 per cent per year in the second half.

In the five years ending in 1984-85, program spending rose at an average annual rate of 14.1 per cent.

One of the government's first objectives in the fall of 1984 was to regain control over spending. Since November 1984, government fiscal actions have severely restrained the growth in program spending:

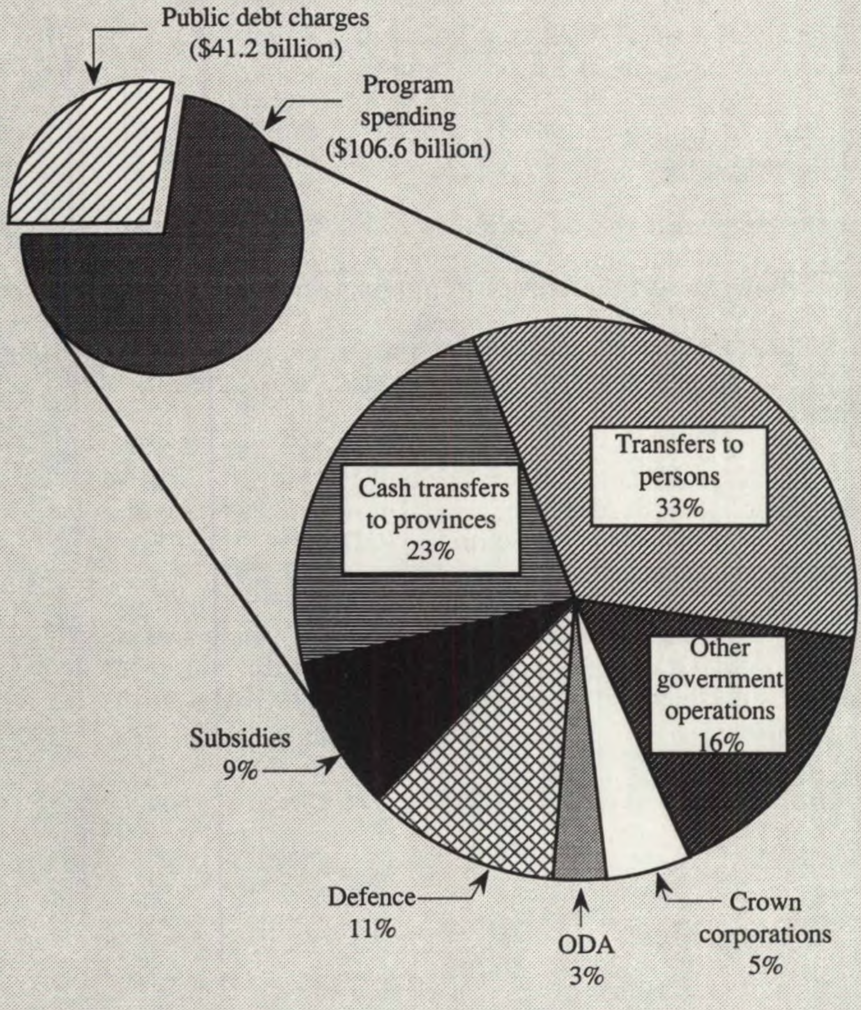
- Over the period 1984-85 to 1990-91, program spending is being held to an average annual rate of only 3.5 per cent, below the rate of inflation.

- This rate of growth is less than one-half the growth in the economy over the period. Consequently, federal program spending as a proportion of gross domestic product (GDP) fell from 19.5 per cent in 1984-85 to an estimated 15.7 per cent in 1990-91.

- This 3.8 percentage points decline in program spending as a proportion of GDP is the main factor in the reduction in the deficit, which has declined by 4.4 percentage points of GDP over the same period.

Chart 3

The Structure of Program Spending



- Of total budgetary spending, public debt charges consume $41.2 billion.
- The government will spend about $106.6 billion on programs in 1990-91.
- More than half of all program spending is in the form of financial support to individual Canadians and to provincial governments.

The Structure of Spending in 1990-91

Federal spending for programs and debt interest now accounts for roughly 20 per cent of economic activity.

Program spending is divided among seven categories:

- major transfers to persons (33 per cent);
- major cash transfers to other levels of government (23 per cent);
- major subsidies and other major transfers (9 per cent);
- payments to major Crown corporations (5 per cent);
- defence (11 per cent);
- Official Development Assistance (3 per cent); and
- other government operations (16 per cent).

Table 1

Total Spending

	1984-85	1990-91	Absolute change	Annual average growth
	(billions of dollars)			(per cent)
Major transfers to persons	25.1	35.0	9.9	5.7
Major cash transfers to other levels of government(1)	19.7	24.0	4.2	3.3
Cash and tax transfers to other levels of government(1)	(25.6)	(36.1)	(10.5)	(5.9)
Major subsidies and transfers	9.1	9.9	0.8	1.4
Payments to Crown corporations	4.6	4.7	0.2	0.6
Defence	8.8	11.9	3.1	5.2
Official Development Assistance	2.1	2.6	0.5	3.5
Other government operations	17.4	17.3	−0.1	−0.1
Reserves net of lapse(2)	–	1.3	1.3	–
Program spending	86.8	106.6	19.8	3.5
Public debt charges	22.5	41.2	18.7	10.6
Total spending	109.2	147.8	38.6	5.2

Note: Details may not add due to rounding.

(1) Certain transfers to other levels of government are made as a combination of cash and a transfer of tax points. Program spending includes the cash transfer component and prior-year entitlement adjustments.

(2) Reserves are necessary to provide a margin for changed economic circumstances and to deal with contingencies.

Spending Restraint Since 1984-85

Between 1984-85 and 1990-91, total government spending increased by $38.6 billion.

About half of this increase is due to public debt charges.

- Public debt charges have grown on average by 10.6 per cent a year, compared to program spending growth of only 3.5 per cent a year.

- Soaring debt interest charges are limiting the government's progress in controlling total government spending and in reducing the deficit.

Of the increase in program spending since 1984-85:

- Fifty per cent is due to higher spending on transfers to persons: elderly benefits, unemployment insurance payments and veterans' pensions and allowances.

- Twenty per cent is due to increased transfers to other levels of governments: mainly Established Programs Financing, Equalization, Canada Assistance Plan.

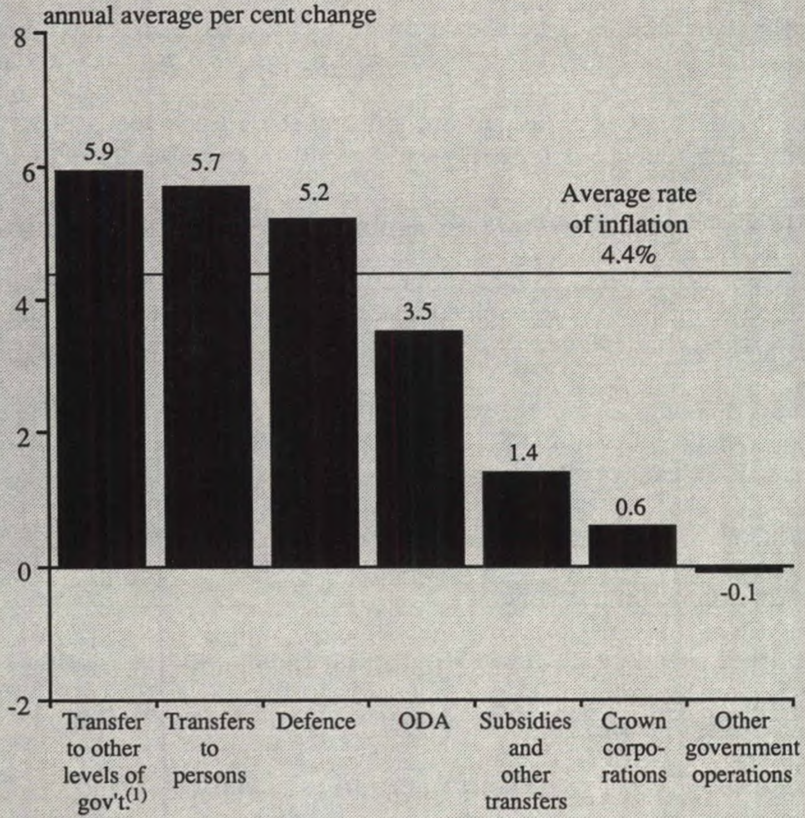
- Another 20 per cent is due to defence spending and Official Development Assistance to developing countries, reflecting the government's international commitments.

- All other spending has been strictly constrained: major subsidies and other transfer payments, and payments to major Crown corporations, all rose at average annual rates well below the rate of inflation.

- The costs of other government operations actually fell.

Chart 4

Growth in Program Spending 1984-85 to 1990-91



(1) Includes cash and tax transfers.

- Most of the growth in program spending over the period 1984-85 to 1990-91 has been concentrated in transfers to persons, to other levels of government, defence and Official Development Assistance.

- Spending on other programs has been strictly restrained.

The Expenditure Control Plan in the February 1990 Budget

Spending control is the cornerstone of the government's deficit-reduction strategy.

- Programs have been eliminated or reduced. A more business-like approach to government management has been adopted in order to reduce costs and waste, and to increase efficiency.

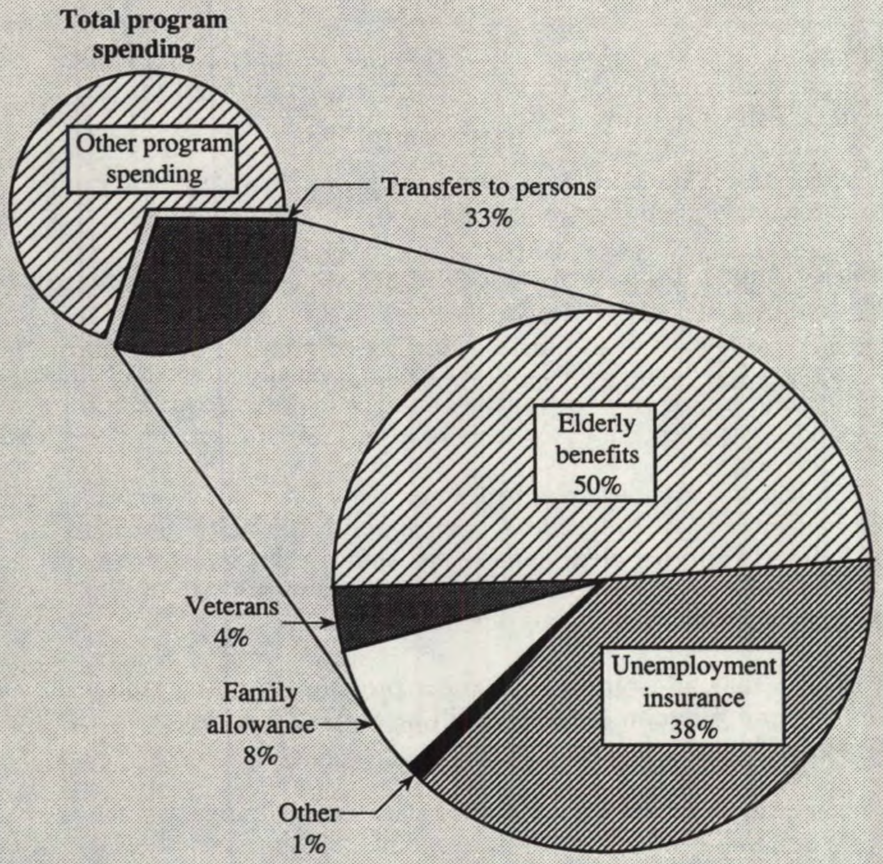
The Expenditure Control Plan, announced in the February 1990 budget, builds upon previous budget initiatives.

- It is a comprehensive two-year approach to expenditure control which yields substantial and ongoing fiscal savings;
- It exempts a limited number of programs - federal transfers to persons and certain major federal transfers to the provinces (equalization and Canada Assistance Plan payments to equalization-receiving provinces);
- It constrains spending growth to 5 per cent a year for two years for a selected number of programs - science and technology, assistance to Indian and Inuit peoples, Canada Assistance Plan transfers for provinces that do not receive equalization payments, Official Development Assistance, and defence;
- It ensures that, in aggregate, all other program spending (about 40 per cent of total program spending) will be $800 million lower in 1990-91 than in 1989-90.

The Expenditure Control Plan, coupled with earlier budgetary actions, limits the annual average growth in program spending over the 1984-85 to 1990-91 period, to 3.5 per cent.

Chart 5

Major Transfers to Persons



	1984-85	1990-91	Annual average change
	(billions of dollars)		(per cent)
Elderly benefits	11.4	17.5	7.4
Unemployment insurance benefits	10.1	13.3	4.7
Family allowances	2.4	2.7	1.6
Veterans' pensions and allowances	1.2	1.3	2.0
Other	-	0.2	-
Total	25.1	35.0	5.7

2. Restraining the Growth in Program Spending

Major Transfers to Persons

The government will spend $35 billion in 1990-91 on direct income support to individual Canadians. These programs are not affected by the restraint measures in the Expenditure Control Plan.

The Elderly

The elderly benefit system consists of old age security, the guaranteed income supplement and spouses' allowances. This is the largest – $17.5 billion in 1990-91 – and fastest growing component of program spending. Cheques are mailed monthly to about 3 million elderly persons; benefits are increased four times a year to reflect changes in the consumer price index.

- The increase in payments to the elderly reflects the increases in the number of people eligible for such benefits, higher average benefits indexed to keep pace with inflation, and the extension of spouses' allowances.

- To better target these benefits to those most in need, beginning in 1990, higher-income Canadians will repay the old age security pension at a rate of 15 per cent of individual net income exceeding $50,000. This measure is to be phased in over three years.

Major Transfers to Persons (Continued)

The Unemployed

Unemployment insurance benefits, amounting to $13.3 billion in 1990-91, account for over one-third of direct payments to individuals. Recipients are persons who have been laid off, are absent from work due to maternity or adoption leave, or are on government-sponsored work-sharing or training programs.

- Despite the substantial declines in the number of unemployed since 1984-85, spending on unemployment insurance benefits has continued to grow, reflecting increases in average benefits indexed to the growth in average wages.

- In April 1989, the government proposed sweeping structural reforms in the unemployment insurance program, which will redirect support to respond to the needs of the unemployed.

Families

Family allowance benefits, totaling about $2.7 billion in 1990-91, are available to all families with dependent children under the age of 18. About 3.7 million households are currently receiving family allowance cheques. Benefits are increased annually in proportion to increases in the consumer price index above 3 percentage points.

- The limiting of the indexation of average benefits, introduced in the May 1985 budget, along with a smaller population base, has slowed the growth in family allowance payments.

- To better target these benefits to those most in need, beginning in 1990 higher-income Canadians will repay the family allowance benefits at a rate of 15 per cent of individual net income exceeding $50,000. This measure is to be phased in over three years.

Major Transfers to Persons (Continued)

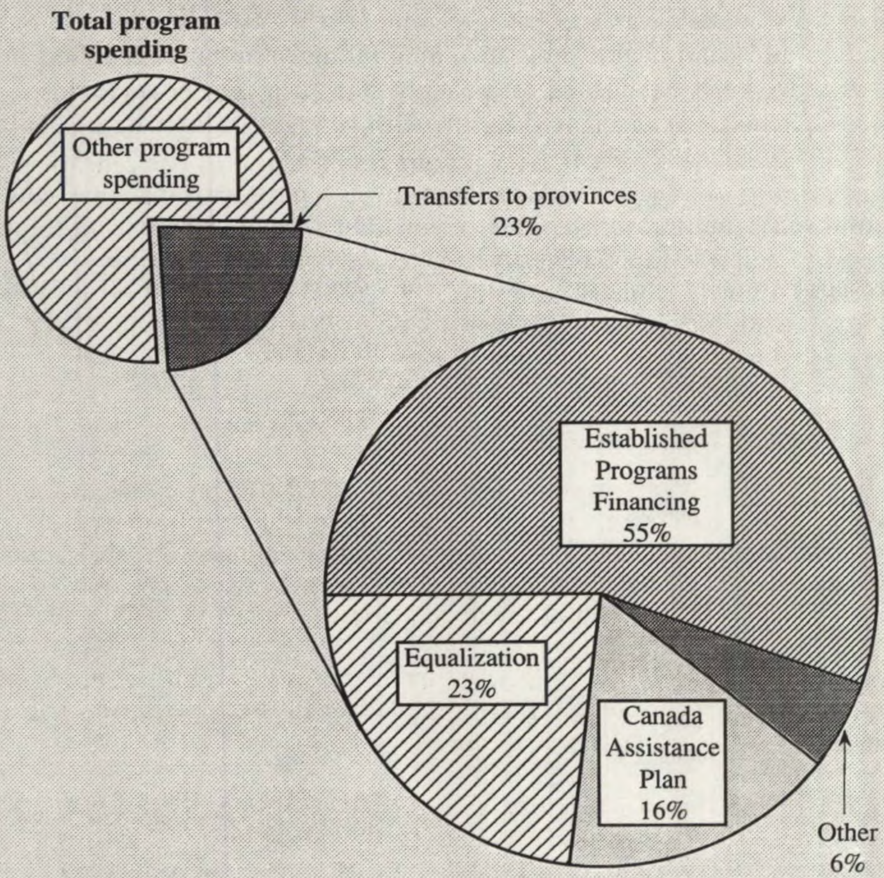
Veterans

In recognition of the unique contribution made by veterans and certain civilians to Canada's war and peacekeeping efforts, various pension, income-support and health programs, amounting to about $1.3 billion in 1990-91, have been established for veterans and their dependants and survivors. Benefits are increased in line with changes in the cost of living.

- Increases in average benefits indexed to keep pace with inflation, and improved benefit coverage, have meant that federal spending on total pension and allowance benefits to veterans is unchanged since 1984-85, despite reduced numbers of veterans.

Chart 6

Major Transfers to Other Levels of Government*



	1984-85	1990-91	Annual average change
	(billions of dollars)		(per cent)
Established Programs Financing*	14.6	20.0	5.4
Equalization	5.4	8.2	7.1
Canada Assistance Plan*	4.0	5.8	6.5
Other	2.6	2.1	-3.5
Total	26.6	36.1	5.9

* Includes both cash and tax transfers.

Major Transfers to Other Levels of Government

In 1990-91, the federal government will provide $36.1 billion in direct financial support to provincial, territorial, and municipal governments. Major transfers to other levels of government have increased at a 5.9 per cent rate annually since 1984-85.

About $24 billion is in the form of cash transfers and $12.1 billion in tax transfers (federal tax revenue foregone to allow provinces to increase their tax revenues). Federal cash transfers alone account for 23 per cent of federal program spending, making them the second largest category of program spending.

Three large transfer programs account for over 90 per cent of all federal support to other levels of government: Established Programs Financing (EPF), Equalization, and the Canada Assistance Plan (CAP).

Established Programs Financing

Under EPF, the federal government provides equal per capita financial assistance to all provinces. In earlier years, these transfers were tied to funds spent by provinces to carry out their responsibilities for health care and post-secondary education. Since 1977, provinces have been able to use the funds according to their own priorities.

Up to 1986-87, total EPF entitlements increased in line with the economy and population. Such rates of growth could not be sustained given the seriousness of the federal fiscal situation.

- Beginning in 1986-87, the annual rate of growth in EPF entitlements was reduced by 2 percentage points. In the April 1989 budget, this was reduced by an additional percentage point beginning in 1990-91.

- Under the Expenditure Control Plan, the growth in entitlements, in both 1990-91 and 1991-92, will be restricted to changes in population only.

Major Transfers to Other Levels of Government (Continued)

Equalization

In addition to EPF, the federal government also provides substantial additional assistance to lower-income provinces through the equalization program. Its purpose is to enable all provinces, rich and poor, to provide reasonably comparable public services, including health and post-secondary education, at reasonably comparable tax levels.

- Equalization transfers are exempt from the Expenditure Control Plan.

- Transfers have increased, on average, 7.1 per cent a year and, in 1990-91, will exceed $8 billion.

Canada Assistance Plan

Under CAP, the federal government reimburses provinces 50 per cent of eligible expenditures for social assistance payments and services to persons in need.

Growth of federal expenditures under CAP is a direct consequence of the increase in eligible provincial spending. This reflects both enhancements to social assistance support, and increases in the number of Canadians receiving such assistance.

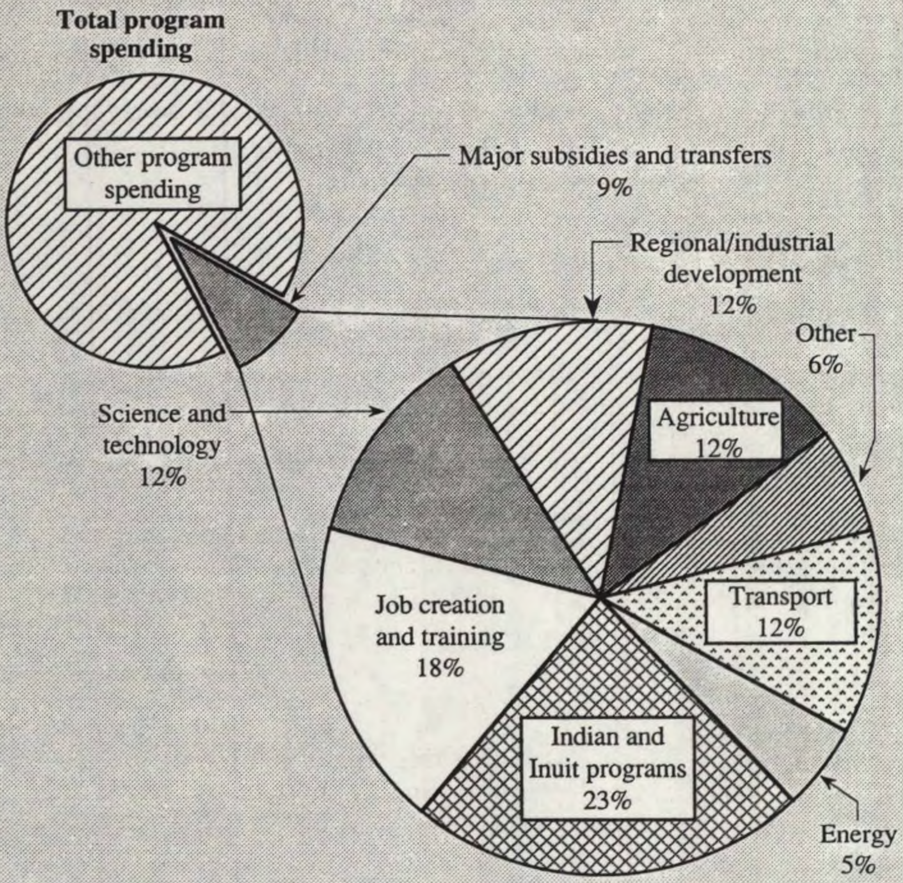
- As part of the Expenditure Control Plan in the February 1990 budget, growth in transfers to the provinces not receiving equalization will be limited to 5 per cent annually for two years beginning in 1990-91.

Major Transfers to Other Levels of Government (Continued)

As a result of the Expenditure Control Plan, the three major transfers to provinces - Established Programs Financing, Equalization and the Canada Assistance Plan - are expected to grow by about 3 per cent in 1990-91, roughly the same rate as total program spending. Average growth for the three highest income provinces will be 2.3 per cent in 1990-91; average growth for the equalization-receiving provinces will be higher, with 4 per cent average growth for the four Atlantic provinces.

Chart 7

Major Subsidies and Other Transfers



	1984-85	1990-91	Annual average change
	(billions of dollars)		(per cent)
Indian and Inuit programs	1.3	2.3	10.1
Regional/industrial development	0.6	1.2	9.9
Science and technology	0.8	1.2	7.0
Job creation and training	1.8	1.8	-
Energy	2.5	0.5	-24.7
Agriculture	0.9	1.2	6.2
Transport	0.8	1.1	6.0
Other	0.4	0.5	6.7
Total	9.1	9.9	1.4

Major Subsidies and Other Major Transfers

The government spends about $10 billion a year to provide social assistance to Indian and Inuit peoples, to stabilize and protect farm incomes, to encourage regional development, to develop job skills, and to support research and development. This assistance is provided to individuals, businesses, associations, and universities.

Although growth in this area of government spending has been restrained to an average annual increase of 1.4 per cent over the last six years, the composition of subsidies has changed significantly.

Indian and Inuit Peoples

The largest component of this area of spending, as well as one of the fastest growing, is transfers for Indian and Inuit programs. The government provides a wide range of services and programs to status Indians and Inuit; these include spending for health, education, land claims, housing, public works, band management, and economic development.

- The Expenditure Control Plan does not affect spending on health, education, social assistance and land claims. Spending on other grants and contributions is limited to growth of 5 per cent in both 1990-91 and 1991-92.

Regional and Industrial Development

Financial support totalling $1.4 billion this year is being provided for industrial and regional development, primarily through the Atlantic Canada Opportunities Agency, the Department of Western Diversification and programs administered by the Department of Industry, Science and Technology.

- As part of the Expenditure Control Plan, beginning in 1990-91, the government is instituting a policy that will, with limited exceptions, result in assistance to business being repayable rather than being straight grants or subsidies. This will place the emphasis more clearly on investing in economic development rather than subsidizing the private sector.

Major Subsidies and Other Major Transfers (Continued)

Science and Technology

Direct cash transfers to support initiatives in the area of science and technology are provided through the Medical Research Council, the National Research Council, the Natural Sciences and Engineering Research Council, as well as through other special programs.

- Overall funding for science and technology grants and contributions will be limited to 5 per cent annual growth in 1990-91 and 1991-92. This funding includes grants and contributions through the National Research Council, Canada's space program and the Defence Industry Productivity Program.

Job Creation and Training

The government also provides funding for job training and employment creation initiatives through the Canada Jobs Strategy. This funding has been held constant since 1984-85.

Energy

Over the last six years, energy subsidies have been cut by $2 billion, or 80 per cent.

- This reflects the elimination of the Petroleum Incentives Program, the Canadian Home Insulation Program, the Canadian Oil Substitution Program, and the Petroleum Compensation Program.

- In the April 1989 budget, the government announced the termination of the Canadian Exploration and Development Incentive Program.

- As part of the Expenditure Control Plan, the Canadian Exploration Incentives Program has been cancelled and the government has decided not to offer assistance for the construction and operating costs of the OSLO project.

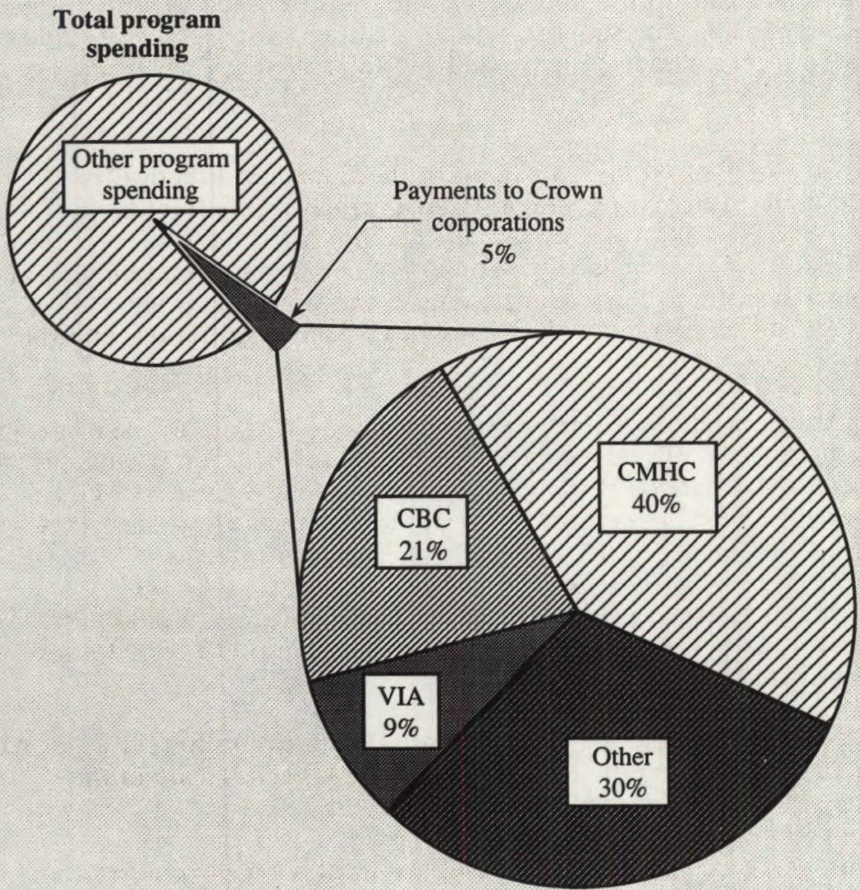
Major Subsidies and Other Major Transfers (Continued)

Other

Subsidies are paid to the railways for the transportation of western grain, to farmers for income support, and to qualified post-secondary students in the form of guaranteed loans and subsidized interest payments.

Chart 8

Payments to Major Crown Corporations



	1984-85	1990-91	Annual average change
	(billions of dollars)		(per cent)
CMHC	1.5	1.9	4.0
CBC	0.9	1.0	1.4
VIA	0.5	0.4	-3.2
Canada Post Corporation	0.6	0.2	-16.0
Atomic Energy of Canada	0.3	0.1	-14.1
Other	0.8	1.1	5.4
Total	4.6	4.7	0.6

Payments to Major Crown Corporations

Transfer payments to Crown corporations, totalling $4.7 billion this year, will be only $163 million higher in 1990-91 than in 1984-85.

Nearly 40 per cent will go to the Canada Mortgage and Housing Corporation (CMHC), primarily to assist lower-income families to obtain shelter.

Payments totalling $1 billion will go to the Canadian Broadcasting Corporation to help it provide a national broadcasting service.

The federal government actively supports the cultural community through various payments to the Canada Council, the Canadian Film Development Corporation, the Canada Museum Corporation, and the National Arts Centre.

- In the Expenditure Control Plan, funding to CMHC for new housing commitments will be reduced 15 per cent in both 1990-91 and 1991-92. The capital budget of the CBC and grants to the Canadian Film Development Corporation are to be frozen for the next two years.

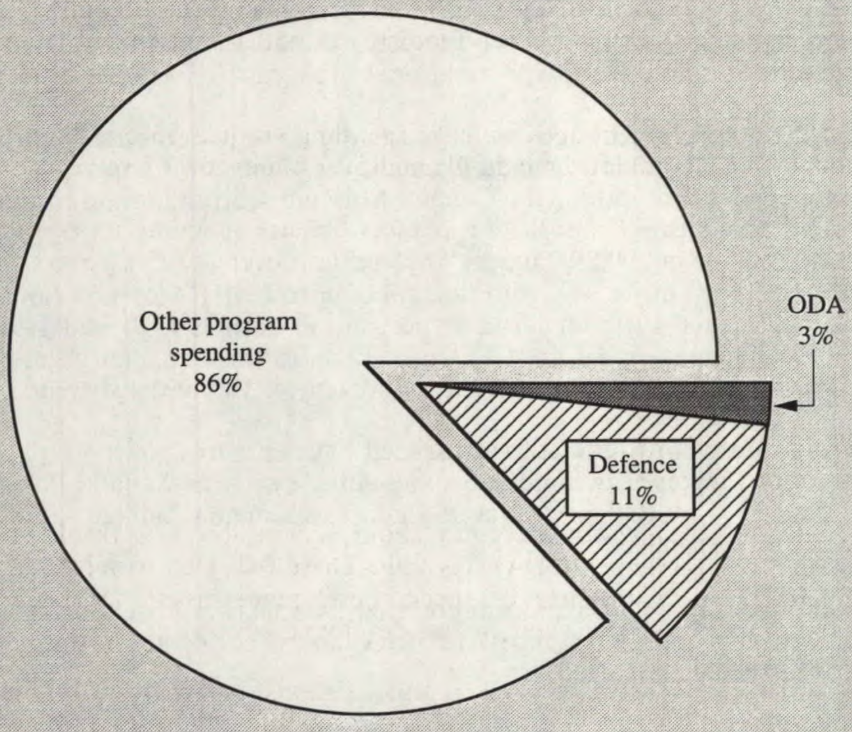
The government has dramatically reduced payments to Crown corporations involved in commercial activities - such as Canada Post Corporation, VIA Rail, and Atomic Energy of Canada Limited - by making them more self-sufficient.

In addition, it has sold, or has announced its intention to sell, all or part of 22 Crown corporations and 11 agencies have been, or are in the process of being, dissolved.

Actions affecting Crown corporation have already resulted in over 75,000 Crown corporation employees being removed from the public payroll. Over half of this reduction has come from the privatization of Crown corporations and the remainder through productivity and efficiency gains.

Chart 9

Defence and Official Development Assistance



	1984-85	1990-91	Annual average change
	(billions of dollars)		(per cent)
Defence	8.8	11.9	5.2
Official Development Assistance	2.1	2.6	3.5

Defence

Defence spending in 1990-91 will total $11.9 billion. About a quarter of defence spending is allocated to capital acquisitions, while the remainder is primarily for personnel costs, the operation of bases and for supplies.

Defence spending growth averages 5.2 per cent over the period 1984-85 to 1990-91. This growth exceeds the rate of inflation over this period, and reflects the government's commitment to refurbishing the Canadian Armed Forces. However, defence funding has not been excluded from spending restraint:

- In the April 1989 budget, defence spending was cut $575 million in 1989-90, $611 million in 1990-91, and $2.7 billion over five years.

- The Expenditure Control Plan reduces defence spending an additional $210 million in 1990-91 and by $658 million over the five years to 1994-95.

Official Development Assistance

The federal government will provide about $2.6 billion in Official Development Assistance (ODA) this year. These funds go to bilateral and multilateral aid, food assistance, special development assistance, and international emergency relief for less developed countries.

Official Development Assistance funding, established on a formula basis that linked it to the growth in the economy, had grown at an average annual rate of almost 7.5 per cent between 1984-85 and 1988-89.

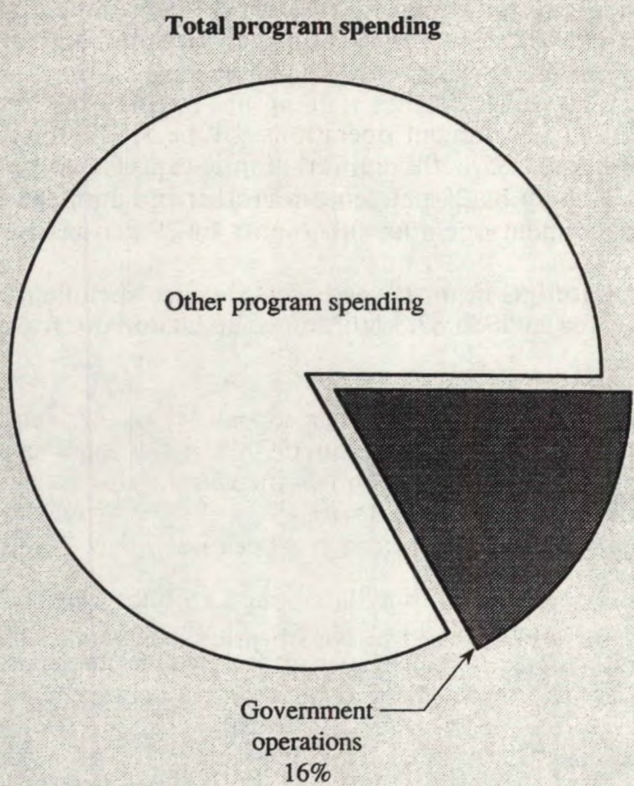
- In the April 1989 budget, funding was reduced by $360 million in both 1989-90 and 1990-91, and by $1.8 billion over five years.

- In the Expenditure Control Plan, ODA funding has been reduced by an additional $116 million in 1990-91 and by $558 million over five years.

- The principle of formula funding of ODA as a percentage of GNP is maintained. The ratio will reach 0.47 per cent by fiscal year 1994-95, as established in the April 1989 budget.

Chart 10

Other Government Operations



	1984-85	1990-91	Annual average change
	(billions of dollars)		(per cent)
Total	17.4	17.3	-0.1

Cost of Other Government Operations

The cost of other government operations is basically the cost of running the government. It includes the personnel costs of the public servants administering government programs, with the exception of defence and Official Development Assistance, and the costs of utilities, materials and supplies, repair and maintenance, rentals, transportation, communications, and capital expenditure. In 1990-91, this will amount to $17.3 billion, or about 16 per cent of total program spending.

The cost of other government operations will be $100 million less in 1990-91 than in 1984-85, although inflation is expected to be up 29.7 per cent, real GDP is up by 23 per cent, and other program spending (excluding government operations) is higher by 29 per cent.

The public service has been reduced. Personnel reductions of 2 per cent were implemented in 1986-87, with annual reductions continuing to 1990-91.

- There are now 12,377 fewer public servants than there were in 1985-86. The number of public servants in 1990-91 is the same as in 1973-74, while the Canadian population has increased by over one-fifth.

The cost of government operations has been restrained in many other ways:

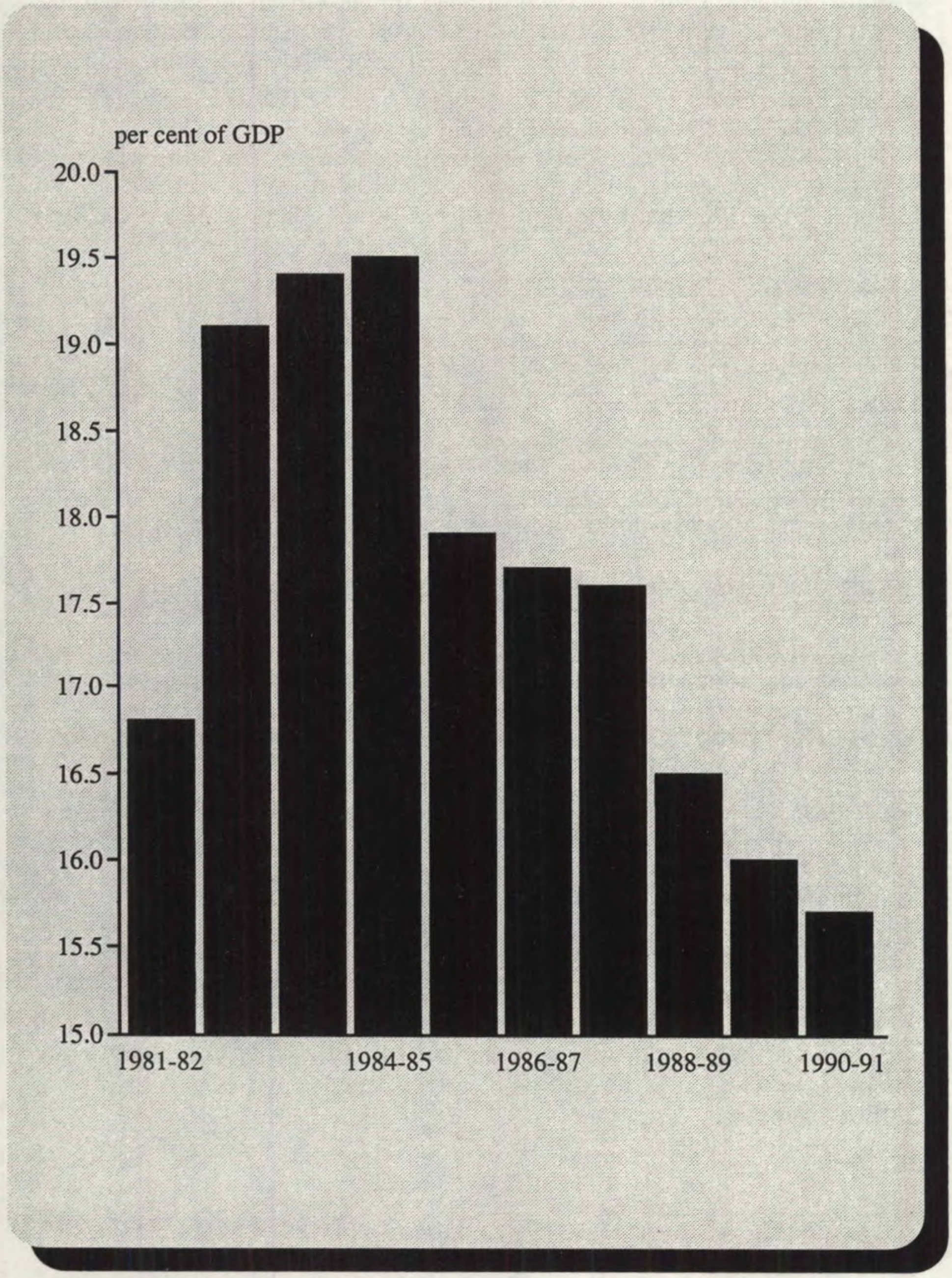
- Departments were required to absorb price increases within their non-salary operating maintenance budget for five consecutive years beginning in 1987-88. This measure was extended for an additional two years to 1992-93 by the President of the Treasury Board in December 1989 and the Expenditure Control Plan extended it to the end of 1994-95.

- Particular types of spending on advertising, information services, and travel have been reduced, and access to contingency reserves has been restricted.

These measures have resulted, and will continue to result, in a comprehensive examination of government priorities within departments, requiring efficiency gains in order that departments live within their restrained budgets.

Chart 11

Program Expenditures Relative to the Size of the Economy



Conclusion

Restraining the Growth of Program Spending

The Expenditure Control Plan announced in the February 1990 budget, coupled with the expenditure reduction and management initiatives in previous budgets, will ensure that program spending will remain constrained in 1990-91 and beyond.

As a percentage of the economy, program spending has declined from 19.5 per cent in 1984-85 to 15.7 per cent in 1990-91. Without this decline, program spending in 1990-91 would be $26 billion greater than forecast.

Because program spending has declined as a percentage of the economy, Canada now has an "operating" surplus - the difference between budgetary revenues and program spending - of $12.6 billion.

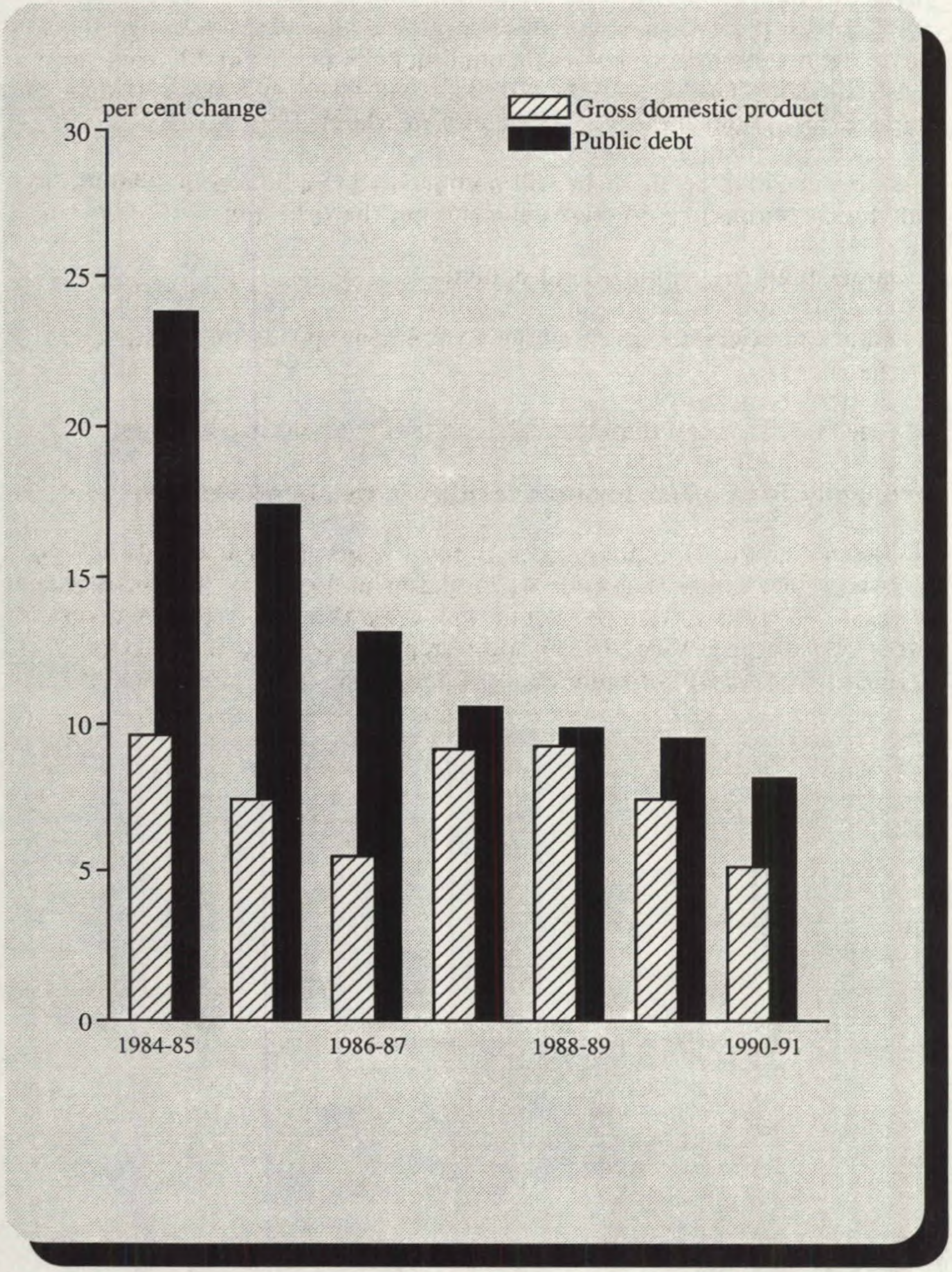
- There was an operating deficit of $15.9 billion in 1984-85.

Of this $28.5 billion improvement in the deficit, only $9.8 billion has been available to reduce the deficit.

- The remaining $18.7 billion must be used to pay the increased interest charges on the public debt.

Chart 12

Gross Domestic Product and Net Public Debt



3. The Rise in Debt Interest Payments

The public debt is the sum of the annual shortfalls between what the government spends and what the government takes in, commonly known as the deficit.

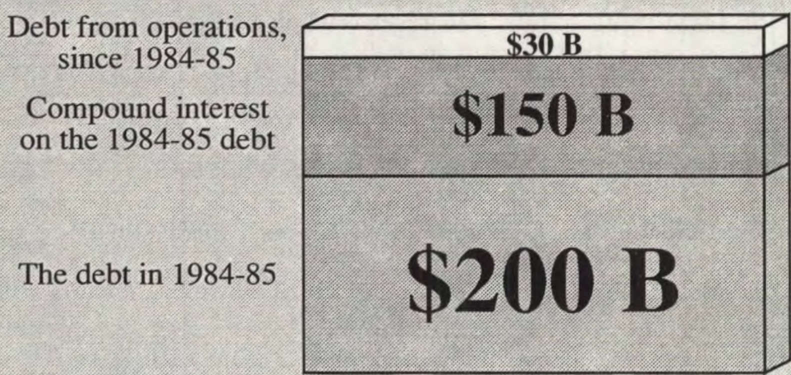
The federal government has had annual deficits in all but 22 years since Confederation. The sum of these deficits will result in a stock of debt of about $380 billion, measured at the end of March 1991.

Interest payments on the debt will amount to $41.2 billion in 1990-91. To put this in perspective, interest payments on the debt are:

- larger than the entire federal deficit;
- more than twice as much as the government spends on assistance to the elderly;
- fifteen times more than the value of family allowance cheques;
- more than all major transfers to other levels of governments.

In 1990-91, nearly 28 cents of each dollar the government spends will go to service debt rather than provide programs and services to Canadians; 15 years ago, debt service payments took only 11 cents of each federal dollar of spending. Viewed from a different perspective, debt service payments in 1990-91 consume almost 35 cents of each revenue dollar.

Chart 13
The Debt Treadmill



- In 1984-85, the net public debt was just under $200 billion.
- It is expected to reach $380 billion in 1990-91.
- Of the $180 billion increase in net public debt since 1984-85, $150 billion, or 80 per cent, is due to the interest payments on the 1984-85 debt.

The Rise in Debt Interest Payments (Continued)

The rapid rise in debt interest payments reflects the large and growing stock of debt. And with the large stock of debt, the costs of servicing the debt become more and more sensitive to changes in interest rates.

- 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.

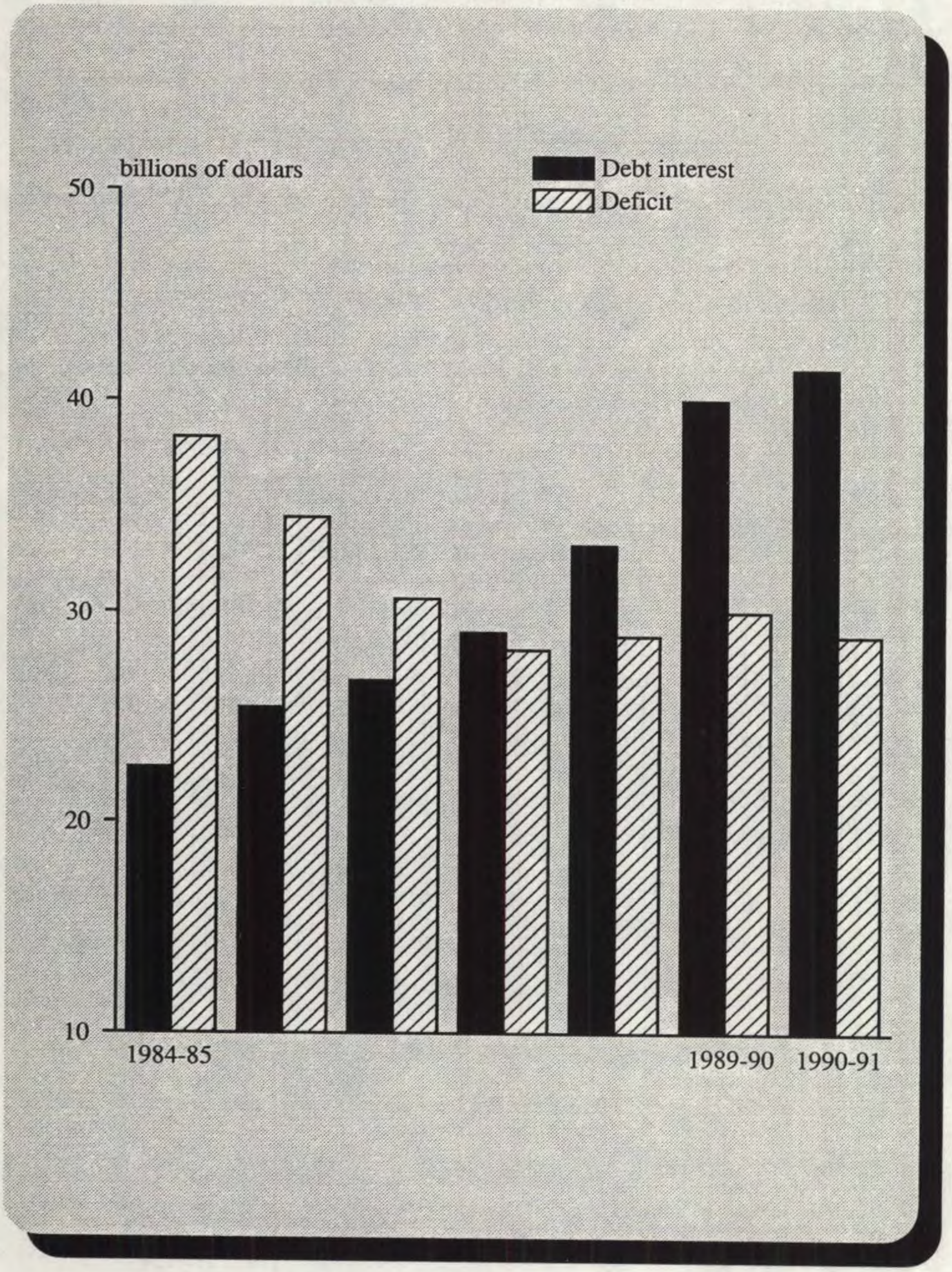
- But the same thing happens in reverse when you have to keep borrowing to pay the interest on a debt. In the time it takes a newborn child to reach the age of 21, a $200 billion national debt at a compounded rate of 10 per cent would grow to almost $1.5 trillion, all on its own.

- Despite the fact that we have cut the annual growth of the debt from 24 per cent to about 8 per cent since 1984, the debt is still growing faster than the economy - faster than our ability to pay.

- Our public debt has grown from $200 billion to $380 billion in six years. Fully $150 billion - more than 80 per cent - of this increase consists of the compounding interest on the original $200 billion. That shows dramatically how important it is to get off the treadmill of borrowing money to pay interest on the past debt.

- This year alone, interest payments will cost us $41 billion - equal to $1,500 for each Canadian.

Chart 14
Debt Interest and the Deficit



4. A Record to Build On

The expenditure restraint actions taken by the government will hold the growth of program spending to less than the rate of inflation since 1984-85.

Financial management has been improved and a strongly cost-conscious climate has been established throughout government. The government has succeeded in reducing its spending on programs to $12.6 billion less than it receives in revenues – a substantial turnaround from the situation in 1984-85 when program spending exceeded revenues by about $16 billion.

Even with this progress, the public debt continues to grow. Rising debt interest payments have limited the solid progress already made in controlling the national debt.

The only way to slow the growth of the debt and reduce the size of debt interest payments is to take the actions necessary to keep the government's deficit falling year after year. That challenge must be met.

- Actions taken since the fall of 1984 – and the Expenditure Control Plan is an important further step in the government's medium-term approach to the fiscal problem – will meet this challenge.

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