Where your tax dollars go

Canadä

INTRODUCTION

Canada has a $400 billion federal debt problem today because, during the 1970s and into the 1980s, the government spent more on programs than it received in revenues. While the deficit and debt grew, rather than cut back, the government spent even more.

Since 1984, direct action has been taken to turn this problem around. Spending on a wide range of federal programs has been frozen, reduced or eliminated. Some tax increases have also been necessary.

Despite this action, compound interest on that original 1984 debt has since caused it to double. As a further measure, we introduced the Expenditure Control Plan in 1990 and expanded it this year. As well, we have brought forward important legislation – the proposed *Spending Control Act* and the *Debt Servicing and Reduction Account* – which will help us balance the budget by the mid-1990s.

We have also set clear inflation targets for the next five years. These are the key to lower interest rates which will reduce the interest burden of the debt and help our economy to grow.

Bringing down the deficit and debt requires discipline and tough decisions. It is important for Canadians to understand how their tax dollars are spent, and the relationship between that spending and our debt problem. In this way, we can continue to build the shared commitment to good financial stewardship by all levels of government that will ensure Canada's future prosperity.

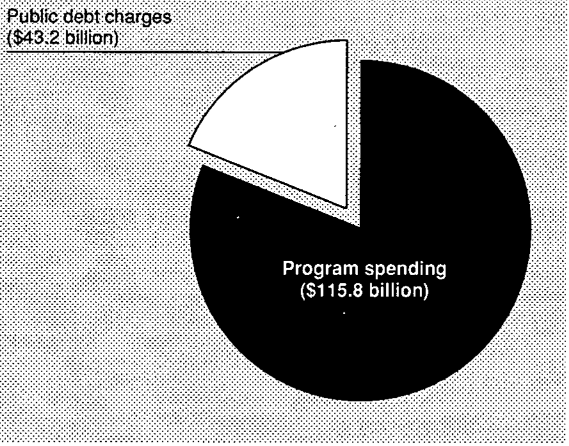
Don Mazankowski
Minister of Finance
November 1991

HIGHLIGHTS

Federal government spending this year[1] will be about $159 billion.

- Interest payments on the federal debt will account for $43.2 billion, or 27 cents of each dollar spent.
- Spending on federal programs and services will be $115.8 billion, or 73 cents of each dollar spent.
- More than half this program spending – $63.6 billion – involves payments to individuals (such as old age security) or transfers to provinces to assist in areas such as education and health care.

Federal government spending: 1991-92



[1] All figures are based on the February 1991 budget for the fiscal year April 1, 1991 – March 31, 1992.

BREAKING THE DEFICIT CYCLE

The deficit – the shortfall when the government's total spending exceeds its annual revenues – is projected at $30.5 billion for 1991-92. This is virtually the same as last year despite the impact of the recession.

This deficit is entirely due to the interest payments on the federal debt.

By comparison, in 1984-85 the deficit was $38.5 billion. This included:

- An *operating deficit* – $16.1 billion borrowed just to pay for programs.
- $22.4 billion borrowed to pay interest on the debt.

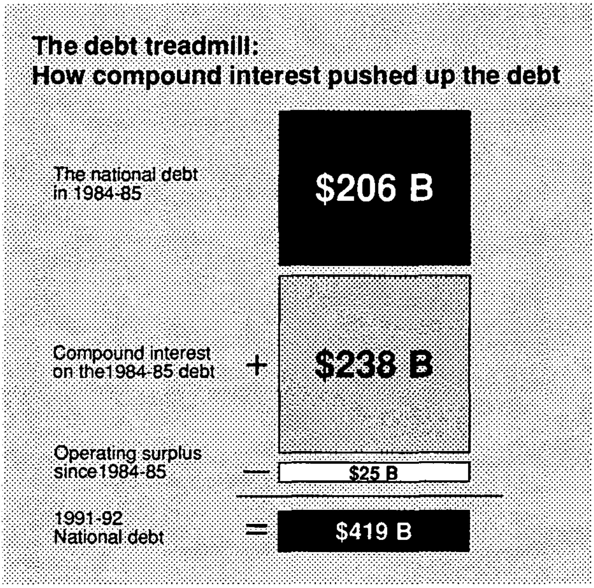
The spending turnaround

Largely due to spending restraint, federal revenues now cover the cost of all programs. In fact, there is an *operating surplus* of $12.7 billion which will be used to pay part of the interest on the debt.

This turnaround – from a $16 billion operating deficit to a $12.7 billion operating surplus – has helped cut the deficit in half as a share of the economy: to 4.4 per cent against 8.7 per cent in 1984-85.

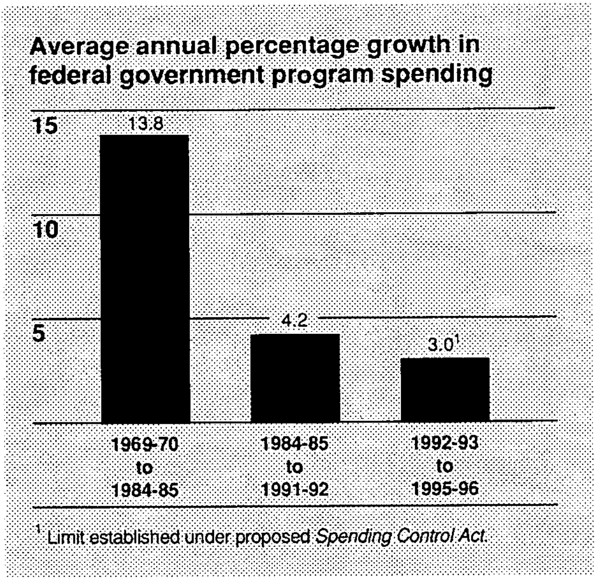
Slowing the growth of the debt

By the end of this year, the national debt will reach $419 billion. It represents the money borrowed to cover past deficits.



Between 1969-70 and 1984-85, the debt increased by nearly 25 per cent a year. Since 1984-85, however, the growth of the debt has been slowed to about 10 per cent a year. This was made possible by cutting back program spending growth to an average of just 4.2 per cent – less than a third the rate of the previous 15 years.

- The growth of the debt since 1984-85 is *entirely* the result of compound interest on the original 1984-85 debt (see chart).
- Without the operating surplus achieved since 1987-88, the debt this year would be $25 billion larger.



CONTROLLING THE GROWTH OF PROGRAM SPENDING

Program spending is all government spending except interest payments on the debt.

- From 1969-70 through 1984-85, program spending grew at an average rate of 13.8 per cent a year.
- Since 1984-85, however, the government has held the growth of program spending to a yearly average of just 4.2 per cent.
- This figure includes unemployment costs due to the recession, agricultural support due to depressed world grain markets, and defence costs related to the Gulf War.

- Without the impact of these temporary factors, the average annual growth in program spending between 1984-85 and 1991-92 would be just 3.6 per cent.

Further action on spending

As part of the Plan for Economic Recovery, the 1991 budget took steps to expand the Expenditure Control Plan introduced the year before. These included:

- restraining wage increases for all federal employees, Members of Parliament and Senators;
- freezing overall spending on the internal operations of government at last year's levels;
- extending limits on the growth of certain transfers to provincial governments for an additional three years.

These measures to control spending will help the government meet critical goals for debt control.

- The deficit will fall below $25 billion next year – the lowest in a decade.
- The need for new government borrowing on financial markets will be eliminated by 1994-95 – the first time in 25 years no such borrowing is needed.

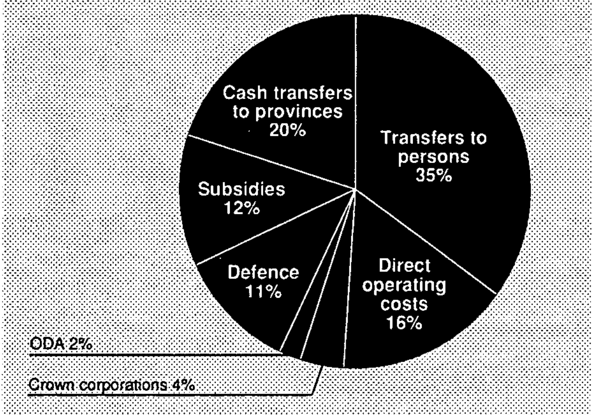
1991-92 PROGRAM SPENDING

This year, about 73 per cent of total government spending – $115.8 billion – will go to the programs and operations of government. This spending falls into seven major categories:

- **Transfers to persons**
- **Transfers to other levels of government**
- **Other major transfers**
- **Crown corporations**
- **Defence**
- **Official Development Assistance**
- **Other government operations**

Highlights of each program area are reviewed in the following pages.

The structure of program spending: 1991-92



TRANSFERS TO PERSONS

The government will spend $40.5 billion on direct income support to individuals in 1991-92. Further support is provided through the tax system, primarily in the form of tax credits.

These transfers are the largest portion – 35 per cent – of all program spending. While action has been taken to control the growth of these transfers, such as taxing back benefits paid to higher-income Canadians, they were not affected by the Expenditure Control Plan.

The elderly

This is the largest and one of the fastest growing areas of program spending. More than three million seniors will receive $18.9 billion through old age security payments, the guaranteed income supplement and spouses' allowances.

Since 1984-85, this spending has grown an average of 7.5 per cent a year. This is due to the growing number of seniors and the indexation of benefits to inflation.

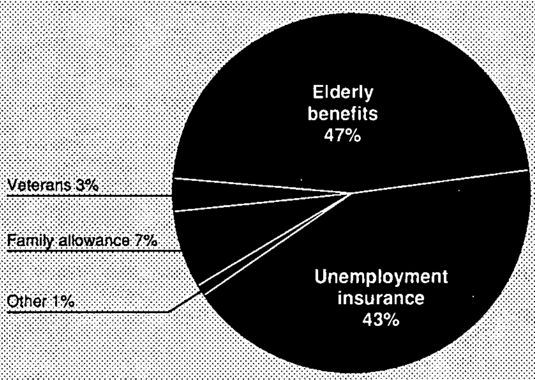
The unemployed

Unemployment insurance payments will be $17.2 billion in 1991-92. Benefits go to eligible Canadians who are seeking work, people absent from work due to sickness or maternity/paternity leave, and individuals in eligible job-training programs. The current spending compares to $10.1 billion in 1984-85 – representing average annual growth of 8 per cent.

Child benefits

The family allowance is paid monthly to families with dependent children under 18 years old. This year, payments of $2.8 billion will be sent to some 3.7 million families – representing an average yearly growth of 2.1 per cent since 1984-85.

Transfers to persons



Veterans' benefits

Direct spending on veterans' disability pensions and other veterans' allowances and benefits will total $1.4 billion. These payments have grown at an average rate of 2.5 per cent since 1984-85.

The GST Credit

This year, the government will also make cash payments of $2.4 billion to approximately eight million Canadian families and individuals as a result of the introduction of the GST Credit. Because these quarterly payments are subtracted from GST revenues, they are not included in program spending.

This cash credit ensures that modest-income Canadians are better off under the GST than with the Manufacturers' Sales Tax it replaced.

TRANSFERS TO OTHER LEVELS OF GOVERNMENT

The federal government will provide $37 billion in cash and tax transfers to provincial, territorial and municipal governments.

- $23 billion represents cash payments that are included in program spending.
- $13.8 billion is in the form of tax transfers. These allow provincial governments to receive a portion of taxes that would otherwise go to the federal government.

These transfers have grown by 5.4 per cent a year since 1984-85 – higher than the 4.2 per cent rate of growth in overall program spending.

Like other program spending, these transfers have contributed to our national debt problem. They are simply too large to exempt from the commitment to bring the debt under control. That is why the government has introduced measures to limit future increases in some transfers. **They will continue to grow, but at a slower pace.**

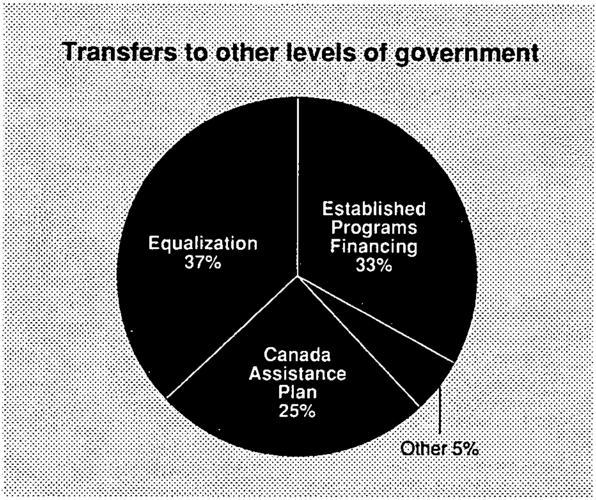
Established Programs Financing (EPF)

Through EPF, the government provides equal per capita financial assistance to the provinces. This year, cash funding will be $7.7 billion. As well, the transfer of tax points under EPF will bring the total federal contribution to $20.3 billion.

Under the Expenditure Control Plan, EPF funding will grow only with an increase in each province's population.

Equalization

Equalization funding helps lower-income provinces to provide public services – including



health care and post-secondary education – that are comparable with those in richer provinces. All but three provinces – Alberta, British Columbia and Ontario – receive equalization payments.

Cash transfers for Equalization this year will be about $8.4 billion. This program is not affected by the Expenditure Control Plan.

Canada Assistance Plan (CAP)

Federal CAP contributions assist provinces in providing social assistance benefits and services to needy Canadians. Total cash and tax-point entitlements will be about $6.4 billion.

Under the Expenditure Control Plan, the growth of federal CAP contributions to the three richest provinces – Alberta, British Columbia and Ontario – is being held to a ceiling of 5 per cent a year for five years, beginning in 1990-91.

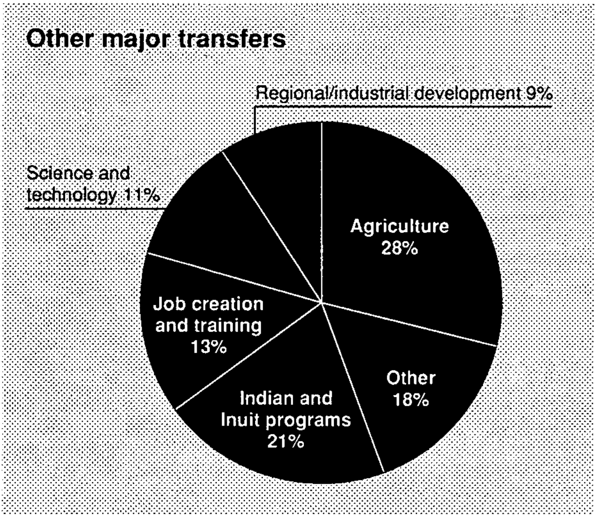
For the other provinces, the government will continue to match all eligible social assistance spending on a dollar for dollar basis.

OTHER MAJOR TRANSFERS

The government will spend about $13.5 billion this year on other major transfers. The largest portion of these transfers goes to agricultural support and Indian and Inuit programs.

Since 1984-85, total spending on this category has increased by 3.4 per cent a year – below inflation – despite much higher rates of growth for agriculture and Native Peoples. This is mostly due to absolute cuts in transfers to business.

- **Industrial and regional development** funding this year will be $1.2 billion, including spending by the Atlantic Canada Opportunities Agency and the Department of Western Economic Diversification. Under the Expenditure Control Plan, most support to business now must be re-paid, rather than take the form of unconditional grants and subsidies.
- **Science and technology** spending will be $1.5 billion, and is provided through national research councils and other programs. Funding has grown at an average yearly rate of nearly 10 per cent since 1984-85. However, under the Expenditure Control Plan, growth in this funding has been held to 5 per cent a year for 1990-91 and 1991-92.
- **Energy and transportation** transfers this year will total $800 million – down sharply from $3.2 billion in 1984-85.

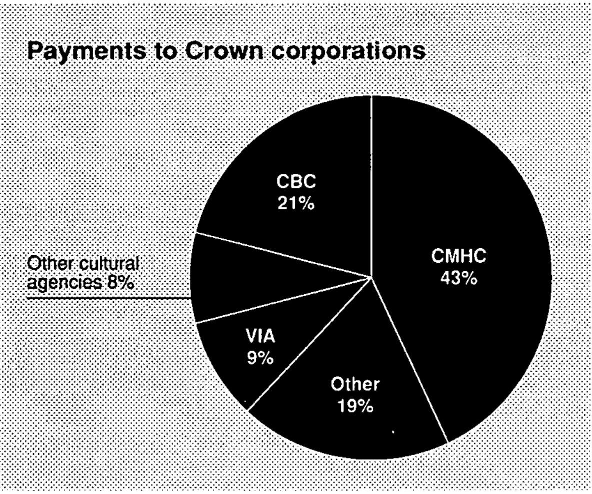


- **Agricultural support** in 1991-92 will reach $3.8 billion, reflecting assistance for grain farmers affected by depressed world markets. Most of this support is provided through cost-sharing programs with provinces and producers.

- Spending on services and programs for status **Indians and Inuit** will reach $2.8 billion. This represents yearly growth of more than 11 per cent since 1984-85.

- **Job creation and training** funding this year of $1.7 billion is provided primarily through the Canadian Job Strategy.

- Remaining spending of about $1.7 billion includes funding for student loans; to provinces for official languages; and for athletic and other fitness-related programs.

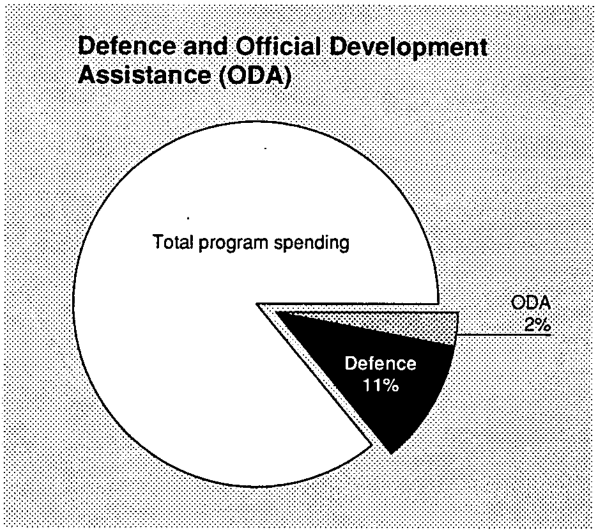


CROWN CORPORATIONS

Support for major Crown corporations should total $4.8 billion – the same as in 1984-85.

- The largest share, $2.1 billion, is for the Canada Mortgage and Housing Corporation. The Expenditure Control Plan has reduced planned funding for new social housing by 15 per cent a year.
- Support to cultural agencies will amount to $1.3 billion – of which $1 billion is for the CBC. The Expenditure Control Plan has reduced or frozen funding for most cultural agencies.
- Funding for Crown corporations in the commercial sector – such as Canada Post, VIA Rail, and Atomic Energy – will total $1.4 billion. This is down sharply from $2.2 billion in 1984-85.

Since 1984-85, the government has moved to privatize some 24 Crown corporations. As a result, there are now 80,000 fewer Crown corporation employees on the federal payroll.



DEFENCE AND OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

- **Defence** spending in 1991-92 will be $12.7 billion – representing an average annual increase of 5.5 per cent since 1984-85.
- The April 1989 budget reduced planned defence spending by $2.7 billion for a period of five years. The Expenditure Control Plan further reduced this by $685 million.
- **Official Development Assistance** of $2.8 billion includes cash and non-cash elements, and covers bilateral and multilateral aid, food, special development programs and emergency relief.
- The Expenditure Control Plan has limited the growth in cash payments to 5 per cent in 1990–91 and 1991-92.

OTHER GOVERNMENT OPERATIONS

Spending on other government operations – $18.4 billion this year – is essentially the cost of running the government itself. This represents less than one-sixth of all program spending.

It includes the wages of public servants (except for Defence and Official Development Assistance staff), the cost of utilities, materials and supplies, repair and maintenance, facilities rental, transportation, communications and capital spending.

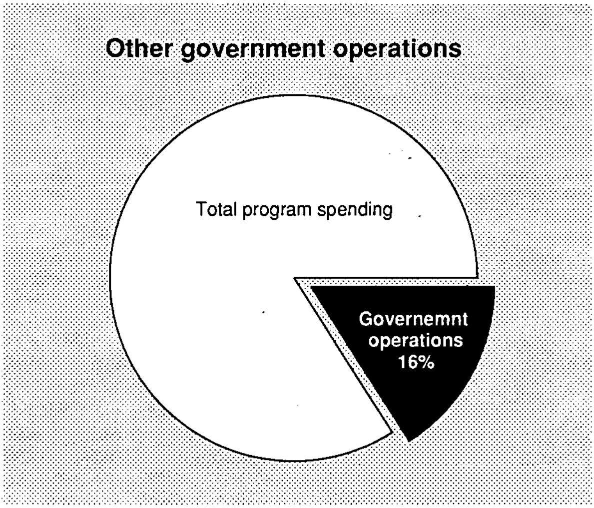
Between 1984-85 and this year, these costs have increased by an average of only 1.3 per cent annually – well below inflation. This means that in real terms, the cost of government operations is now about 25 per cent **lower** than seven years ago.

A record of restraint

Since 1984-85, the government has undertaken a wide range of measures to control costs and improve efficiency. As a result, in 1991-92, there will be 10,500 fewer full-time positions in the public service than there were in 1985-86.

The government has also established a number of **Special Operating Agencies** to improve the delivery of public services while allowing a greater emphasis on cost recovery. These include the passport office and government printing operations.

The government has also introduced **Public Service 2000** – a program of proposed changes to the administrative rules and regulations governing the public service. These are designed to better equip government employees to provide efficient, responsive service.



Further restraint measures

In the February 1991 budget, the government introduced further measures to restrain spending on its operations in order to control the deficit and debt. These include:

- Departmental operating and capital budgets were frozen for 1991-92, and can only grow by 2 per cent annually in following years.
- Federal wage settlements have been frozen for 12 months and will grow by only 3 per cent in the following year.
- Salaries for Members of Parliament and Senators, and ministerial pay, were frozen for 1992. For the next two years, increases will be limited to either 3 per cent or to inflation less 1 per cent – whichever is less.
- The number of senior managers and executives will be reduced by 10 per cent.

THE PLAN IS WORKING

The government has taken a firm, carefully targeted and consistent approach to spending restraint and deficit reduction. And this approach has been reinforced by further measures brought forward in the 1991 budget as part of the Plan for Economic Recovery.

- Inflation targets have been established to help lower inflation and inflationary expectations. This will make possible a sustained drop in interest rates and better overall economic performance.
- Draft legislation has been released on the *Spending Control Act.* This would impose mandatory limits on program spending except in specified circumstances (such as a national emergency). Spending that exceeds these limits would have to be offset by cuts in other program spending. The targets could not be met by increased borrowing or raising taxes.
- The government has introduced legislation to establish the Debt Servicing and Reduction Account, ensuring that GST revenues go to pay the interest on the debt and, over time, to pay down the debt itself.

These measures, combined with sustained economic growth, will deliver major results for deficit reduction and debt control.

Deficit to fall sharply

In 1992-93, the deficit will fall below $25 billion for the first time in a decade.

The deficit will then decline rapidly – reaching $6.5 billion by 1995-96. This will represent 0.7 per cent of our economy, compared to 8.7 per cent in 1984-85.

The shrinking debt share

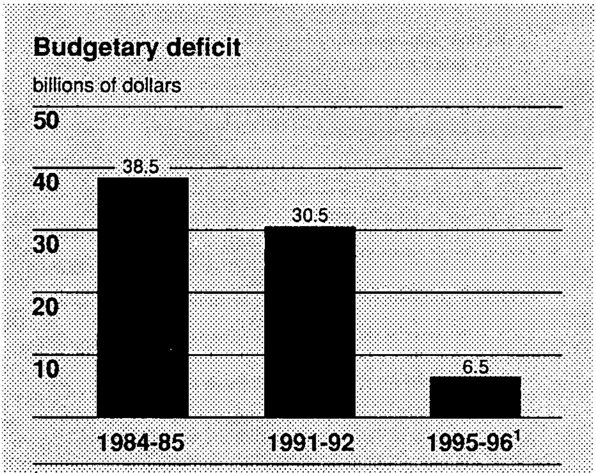
After almost two decades in which the debt has grown sharply as a share of Canada's economy, the tide will turn next year as the economy begins to grow faster than the debt.

In 1994-95, for the first time in 25 years, the government will no longer have to borrow new funds in financial markets. It can then begin paying off Canada's enormous debt.

CONCLUSION

A debt that took decades to build – and the deficits that it now produces – cannot be eliminated overnight. But step by step, Canada's fiscal and economic challenges are being met.

As an essential part of the government's plan to renew and sustain our prospects for economic growth, the debt and deficit cycle must be broken. We are on track to meet this goal.



[1] Forecast.

For more information: Further material is available on government spending, budgetary issues, and the Expenditure Control Plan. If you would like to receive more information, write or telephone:

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