



WHY DEFICITS MATTER

Notes for remarks by

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Debt Freedom Conference National Meeting

Congress Centre
Ottawa
March 20, 1991

I offer my heartiest congratulations to the organizers of this Debt Freedom Conference, and I very much hope that this first national meeting will lead to similar gatherings of concerned citizens in communities across this country.

I have been asked to explain "what public sector deficits and debt mean to John Q. Public". A simple task, some might think, but not really. Over the years, attempts to communicate the meaning of deficits and debt at the grassroots level have met with little success. But John Q. Public is in good company. Attempts to get many of our leaders to listen have been equally unsuccessful.

Undaunted by this, the members of the Vancouver Board of Trade had an inspired idea. They constructed a "Debt Clock" which has been unveiled here this morning and which second by second, hour by hour, and day by day, displays how Canadians are plunging deeper and deeper into debt.

Wait a minute, says John Q. Public -- what is public sector debt anyway? Let me begin with an explanation of what a public sector deficit is. Very simply it is the difference between what governments spend and what they receive in monies -- assuming that they spend more than they receive. The debt is the accumulation of deficits over time; or to put it another way, the piling up of bills which are owed to someone, which have to be financed, and which eventually will have to be paid.

As the Debt Clock shows, the federal government debt is soaring towards a stunning \$400 billion! Ten years ago, it was only \$86 billion. In a decade, it has risen more than four times.

And this is not the whole story. Did you know that the combined debt of the federal and all provincial governments is close to \$600 billion -- or some \$24,000 for every man, woman, and child in Canada?

Alright, alright, says John Q. Public -- I get the picture, and I know it's not a good one. But how is all this affecting my day-to-day life? In many ways. Let me offer you five examples.

1. Deficits and debt drive up interest rates

First and foremost, deficits and debt have helped to drive up interest rates to very high levels. The reason is that government deficits absorb most of Canadians' savings. Think about it: it is not a coincidence that Canada has been particularly prone to higher interest rates since 1980 -- the federal government's debt more than quadrupled over this period.

When it runs a deficit, government is competing literally with private sector borrowers -- both business and household -- for the available pool of national savings. As we all know, when demand for anything increases but supply remains unchanged, its price rises. The same is true of our savings.

Don't forget that the price of our savings is measured by the interest rate. Think about the role of government deficits and debt in pushing up interest rates the next time you renew your mortgage or pay your credit card bills.

And what about growth, investment and jobs? High interest rates are a most serious threat to all of these. What better example than the serious recession gripping the country now where high interest rates stand out as a major culprit.

2. Deficits and debt lead to higher taxes

A second example of how deficits and debt have a direct effect on our daily lives is the relationship between deficits, debt, and higher taxes. Since 1985-1986, for example, personal income taxes collected by the federal government -- the kind of taxes that you and I see being deducted from our regular paycheques -- have risen by almost 70 percent. During this same period, federal sales and excise taxes have jumped 74 percent, and with the GST they will rise further still. All of these increases have taken place in order to finance further spending and to help carry the soaring costs of servicing the debt. Higher and higher taxes mean fewer and fewer dollars in your pockets, and steadily diminishing incentives to save.

According to the Fraser Institute, Tax Freedom Day, which represents how far into the year Canadians must work to pay their entire tax burden, has been advancing steadily in recent years. In 1990, Tax Freedom Day was June 30 -- the half-way point in the year. If the current federal deficit were being fully financed with taxes, Tax Freedom Day would move ahead to July 25.

Higher taxes are the inevitable result of undisciplined fiscal policies, rising government spending and our inability to get our deficits under control. It has been said that the only certainties in life are death and taxes. At the rate we are going in Canada, that should read "death and higher taxes"!

3. Deficits and debt increase our economic vulnerability

A third example of how deficits and debt have a direct affect on our daily lives is the degree to which we must rely increasingly on foreigners to finance our spending. This happens in two ways. First, because the federal government is using up most of the available national savings, private sector borrowers, crown corporations, and provinces increasingly must borrow from foreign lenders. Second, because of the sheer magnitude of its appetite for borrowed funds, the federal government itself is borrowing more and more money from foreigners.

The bottom line result is that our overall debt, held by foreigners, has grown steadily in the 1980s and now stands at \$230 billion. Canada now has the unenviable distinction of being the second biggest debtor nation in the world -- far ahead of Mexico, Brazil, Argentina and other developing nations. What does this mean to you and me? Our voices count for less in the shaping of our national economic policies -- and the voices of our foreign creditors increasingly count for more.

4. Deficits and debt impose a burden on future generations

A fourth example of how deficits and debt have a direct effect on our daily lives is that they are causing us to punish in a most selfish and irresponsible way future generations of Canadians. As a society, we are in effect consuming government services today which our children and grandchildren will be forced to pay for tomorrow. Through our failure to address the deficit problem, we are ensuring that our children will pay more taxes, and receive fewer government services, than we do. This is no mere arithmetical observation that I am making

here. I am raising what I believe is one of the more important moral issues of our times. And by the way, do our children and young people really understand the terrible fiscal mess which our generation expects them to clean up when they become adults? I don't think so. Otherwise they would be much more vocal.

5. Deficits and debt undermine present and future government programs

A final example of how deficits and debt have a direct effect on our daily lives is with regard to the viability of present and future government programs and services. Take the current recession as an example. After seven years of overall strong national economic growth, many Canadians are again facing hard times. Are we able to call on our national treasury to help cushion the impact of the recession? Not without plunging the country further into debt. We did not save for a rainy day in the good times, and now, as a consequence, the hard times will be longer and carry a heavier cost.

And what about the future? As the debt continues to soar, the interest on the debt soars with it. In his February budget, Finance Minister Michael Wilson reminded us that the interest on the federal debt alone "will eat up more than \$43 billion next year -- more than we spend on old age security, unemployment insurance, and family allowances combined". If this juggernaut continues, the consequences will be unavoidable and very painful -- governments will be forced to cut back dramatically on social programs, programs to protect the environment, equalization payments to poorer regions, and support for maintaining and building the country's economic infrastructure.

John Q. Public by now should conclude that we are in a hell of a mess, and that deficits and debt do matter very much. It is of little use to point a finger of blame at our politicians and to expect that they will lead us back to fiscal responsibility. Their leadership is extremely important, but the task before us will require much more.

It will require a broadly-based understanding and acceptance among citizens in every part of Canada that deficits and debt do matter. Today we are far from achieving this understanding.

Canadians will have to develop a keen appreciation of the link between high levels of spending, taxation, interest rates, and public debt, and the fact that all these feed upon one another to our detriment.

As a country, we must realize that the goals we long for -- greater prosperity, equity, and political harmony cannot be achieved if our public treasuries are empty and confidence in our financial managers is wanting.

John Q. Public -- all of us -- have helped create the problem. John Q. Public -
- all of us -- must participate in the search for solutions. Solutions do exist.
Mobilization, idealism, and collective leadership are the only missing ingredients.