

Budget Speech

delivered by

the Honourable John N. Turner
Minister of Finance and
Member of Parliament for
Ottawa-Carleton

Monday, May 6, 1974



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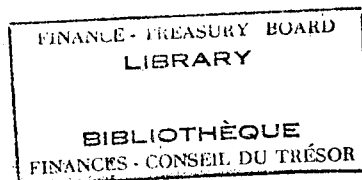
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Mr. Speaker:

We Canadians today have reached a threshold of great challenge and great opportunity.

We are thriving as seldom before in our history. Our growth of output, employment and real income surpasses that of virtually every other industrial country.

But we are confronted by the scourge of inflation, world-wide in its origins and impact. No other issue more deeply disturbs our country, this government or me, as Minister of Finance. While we have suffered less from inflation than most other nations, we can and must do better to overcome it and alleviate its burdens.

The challenge facing the country is to break the inflationary spiral. But we must do this in ways that will not erode our prosperity nor damage our growth. Let no one think that this can be done easily or quickly. It will take time and effort. And until we have brought inflation under control, it is imperative that the burdens it inflicts be equitably shared and that those people who are most vulnerable be decently protected.

An opportunity is at hand to strengthen the Canadian economy and to improve the standard of living of every Canadian. This will require the wise development of our unique storehouse of resources -- both material and human. In doing this, we must not allow ourselves to be diverted by ill-considered and illusory policies that would prejudice our long-term interests as a nation.

This budget has three main purposes. The first is to reinforce our attack on inflation through encouraging increased supplies of goods and services. This we will do by maintaining the strong expansion of the economy and by increasing the productive capacity of our farms, fisheries and industries. The second is to act directly against high prices where that is practical. The third is further to alleviate the adverse impact of rising prices on all Canadians, particularly those with lower incomes.

International Developments

The problem of inflation is clearly world-wide in origin. The Economic Review that I tabled last week deals with this at some length, and documents the leading role which accelerating international prices have played in our domestic price experience. Indeed, world inflation can be traced to the enormous buildup in international liquidity associated with the massive deficits in the

U.S. balance of payments which ultimately resulted in the breakdown of the Bretton Woods exchange rate system. More recently, the concurrence of economic expansion in most industrial countries, coupled with major crop failures, led to an explosion of commodity and food prices. Last December, the world was hit further by a cutback in the supply of oil and staggering increases in its price. With so many nations facing massive shocks to their international balances, the world community is threatened by fragmentation and protectionism.

These developments constitute a menace to all countries, and not least to Canada, given our dependence on international trade and investment. No country can long prosper in a world of unsettled international financial and trade arrangements. This is clearly a time for renewed co-operation and strenuous efforts by all countries to rebuild a viable international trade and payments system. Let me stress that Canada has been playing a full role in the broad international effort to achieve this objective.

This government came early to the conclusion that under the conditions of great uncertainty emerging in the world, floating exchange rates were appropriate. Indeed, Canada adopted this policy four years ago. This approach has now been widely adopted and seems in these troubled times to be serving us all well.

In the pursuit of international monetary reform, Canada has persistently urged that the discussions should concentrate on matters of immediate importance where progress is possible. Last January, this approach of making progress where we could was endorsed by world finance ministers at their meetings in Rome.

Canada has also urged, and will continue to urge, that the International Monetary Fund, the key international financial institution, be strengthened in order to play an increasing role in maintaining world monetary order. We support the proposal for a new council of the IMF, composed of Ministers, to meet frequently to tackle directly the major international financial issues, especially world inflation.

On the trade side, we have been concerned, as the energy crisis emerged, that countries might individually take restrictive action to relieve their balance of payments deficits. I have stressed this danger at many international meetings. I therefore welcome and support the efforts being made in the Organization for Economic Co-operation and Development, and in the work begun at the Washington Energy Conference, to ensure that countries avoid beggar-thy-neighbour policies. Recent actions in Europe make it all the more urgent that we proceed with this initiative without delay. God and this House willing, I will be in Paris in two

weeks' time to offer Canada's full co-operation in an appropriate pledge to avoid such destructive policies.

Looking further ahead, it is important that the Tokyo Round of trade negotiations proceed on schedule. We will need to address ourselves to removing unjustifiable trade barriers, improving the GATT rules governing international trade, and dealing effectively with problems of security of supply for key international commodities. If timely progress is to be made, it is critical that the United States take the required legislative action that will enable it to play its essential role in these negotiations.

All of these international efforts are especially vital to the poorer countries of the world. Many developing countries are in desperate straits because of the sudden escalation of oil prices. They need help, and they need it quickly. Canada supports the efforts of the IMF to establish a new lending facility to help countries, particularly the developing ones, to meet this major crisis. We have informed the Fund that Canada is prepared to lend to the Fund for this purpose under the authority of the Currency and Exchange Fund Act.

We are also revising and improving our own aid program to meet these new circumstances and new requirements. You will recall that in addition to our \$549 million already allocated to foreign aid for this year, the government has recently announced that an additional \$100 million will be made available this year in fast-disbursing forms of aid, mainly food and fertilizers.

In addition, the government, through the Estimates, is seeking parliamentary authority for the advance commitment of Canada's contribution to the Fourth Replenishment of the International Development Association. This Association is a subsidiary of the World Bank, specializing in the provision of low-interest and interest-free loans to the most needy countries.

The Canadian Economy

The shadows of international events have fallen less darkly on us than on others. The outlook for the Canadian economy is bright. Output, employment and income are all continuing to increase. I don't underestimate the plague of rising prices but even here we have been less afflicted than have other countries.

Ours is a diversified economy, capable of producing a wide range of primary products as well as manufactured goods. In particular, unlike other industrial countries, we are not on balance dependent on foreign supplies of energy, especially oil. In fact, we are a microcosm of the world as a whole in comprising both oil-producing and oil-consuming regions. But the strength of our federation has enabled us to avoid massive increases in oil prices. Such increases would have had disruptive effects on the level of output and employment as well as accelerating the rate of inflation. The agreement negotiated by the Prime Minister with the provincial Premiers on March 29 with regard to the price of oil, the export tax and the subsidy to eastern consumers struck a reasonable compromise and strengthened our national unity and purpose. We kept within bounds the increase in the price of oil to Canadian consumers. At the same time, substantial benefits are flowing to the oil-producing companies and the provinces in which they operate to encourage the development of new sources of supply.

In my last budget, I predicted that in 1973 the real growth of the economy would amount to 7 per cent. This was derided by the opposition as wildly optimistic. In fact, we achieved 7.1 per cent, the largest increase in 17 years and, Japan aside, the highest in the industrial world. My first priority has been the creation of permanent satisfying jobs for our rapidly growing labour force, to ensure that those who want and need work can find it. In 1973, there were 430,000 more Canadians at work than a year earlier. The expansion in employment was 5.2 per cent, a record achievement for Canada by a substantial margin, and the fastest rate of increase among the industrial nations.

I take particular satisfaction from the fact that over one-third of this increase occurred in manufacturing and construction. Manufacturing employment alone rose by 111,000 or 6 per cent, after many years during which it had been almost static. Some of this achievement comes from good fortune. Much of it comes from the enterprise of Canadian business and the efforts of working men and women. But a good deal is due to the sound economic management and budgetary policies of this government.

It is also a source of satisfaction to me that employment in the Atlantic Provinces and in Quebec increased more rapidly in 1973 than in the country as a whole. The reduction of regional disparities -- or better put, the growing equality of economic opportunity -- has been a high priority of this government. The policies pursued by my colleague, the Minister of Regional Economic Expansion, are bearing fruit. But we have always recognized that an essential condition for satisfactory growth in the less prosperous parts of this federation is sustained growth in the economy as a whole.

The growth of Canadian output and employment in the early months of 1974 has contrasted sharply with the experience of the United States. In that country, unfortunately, real output dropped at an annual rate of almost 6 per cent in the first quarter. On the other hand, in Canada the production of goods and services rose strongly in the first quarter by at least 8 per cent in annual terms over the fourth quarter of last year. This was accompanied by new job creation in the same period at 7 per cent. We are now at the limits of our physical capacity in many industries. Many products, including such critical industrial items as steel, construction materials, agricultural implements, machinery and chemicals, are in short supply.

Despite the record growth of our labour force, the rate of unemployment has been brought down to $5\frac{1}{2}$ per cent. I know that this is higher than at times in the past when the economy was operating at peak levels. It is certainly a higher rate than I would like to see. The fact remains, however, that the labour market is generally tight across the country, with many jobs remaining unfilled for lack of qualified workers.

Looking to the future, Mr. Speaker, I forecast that real output in 1974 will be 5 per cent higher than in 1973, assuming always that we are not plagued by serious strikes and adverse weather at home, or crises abroad. Given the fact that there is no significant amount of slack to take up, this is about as much as we are physically able to do this year. The most dynamic element of demand is now business investment. The recent survey of investment intentions indicated that business is planning to raise capital investment this year by 19 per cent, manufacturing investment by 28 per cent. These increases are on top of the substantial gains of last year. New capacity is already coming on stream to relieve shortages and to create new jobs, and this will gain momentum as the year goes on.

Consumers will be stepping up the volume of their buying as fast as the economy expands. Net farm income, which rose by 89 per cent last year, is headed for another buoyant year. Exports will grow less rapidly this year because of the international oil crisis and the slowdown in world growth. Housing starts reached a record level of 269,000 last year, well in excess of the rate of family formation. So far this year, starts are running at still higher levels but this rate may prove unsustainable in the face of the shortage of supply of labour, materials and especially of serviced land.

I expect that on top of the massive increase of 430,000 jobs in 1973 we will have a further increase in 1974 in excess of 300,000.

The Issue of Inflation

I turn now to the issue of inflation. We all know the harsh facts. The consumer price index rose by 7.6 per cent in 1973 and by 10.4 per cent in the 12 months ending March, 1974.

I have stressed that the inflation is world-wide in origin with the major source of upward pressure being the explosive upsurge of prices of agricultural and industrial commodities in international markets, as a result of rising demands and limited supplies. Since mid-1972, international commodity prices have doubled. The increase in the price of oil, which quadrupled, is only the most spectacular example of the general problem. Other commodities which have more than doubled in price during the past two years include wheat, barley, corn, soybeans, coffee, cocoa, sugar, hogs, rubber, tin, copper, zinc and lead. Only recently have they shown any tendency to peak or turn down. All countries have been affected, most to a greater extent than Canada because they have been less able to protect themselves against the rise in oil prices. According to the latest figures available to me, in the 12-month period ending February, the cost of living rose by 12 per cent in the OECD countries as a whole. It was up by 26 per cent in Japan, 13 per cent in Australia, Italy and the United Kingdom, 11½ per cent in France and 10 per cent in the United States. For Canada the comparable figure was 9.6 per cent.

In our fight against inflation, I have rejected two possible approaches. One is the deflation of demand by severe measures of fiscal and monetary restraint. The effect of this would be stagnation and rising unemployment. In my judgment, such a cure would be worse than the disease.

The second approach, urged upon us by the official Opposition, is to impose a general system of price and wage controls. This would be totally ineffective in overcoming the kind of inflationary problem we have been and are still facing. What we need, still, is not controls but an increase in supply. The United States, Britain and other countries have found to their frustration that controls disrupt supply. In these countries the enthusiasm of even the strongest supporters of controls has been cooled by the hard realities of their recent experience. I am not saying that general controls over prices and incomes would be a cure worse than the disease. I am saying that in the present circumstances where the prime causes of inflation are shortages of supply, controls are no cure at all.

A variant of the general controls advocated by opposition members is selective controls reinforced by a two-price system for those internationally-traded commodities of which Canada is an important producer. This approach would have us control the prices for these commodities in Canada while leaving their export prices free to rise to world levels. Quite clearly, such a system would lead quickly to the drying up of supplies in Canada unless backed up by a battery of export controls. This would not only jeopardize markets we have built up at great effort over many years but it would invite retaliation through imposition of controls on imported goods we require. For Canada, so dependent on trade, to lead the world into this kind of protectionism would be the height of folly.

This government has not reached for the bludgeon of deflation or for the illusory magic of controls. We have not played either draconian or cosmetic politics with the Canadian people.

In my view what we have to do is this. First we have to keep this economy rolling ahead and pouring out the goods and services our people need. Second, we have to reduce the strains reflected in particular market prices where this can be done in a practical way without harmful side effects. Third, we must help those Canadians least able to protect themselves from the hardships of inflation. My purpose tonight is to propose policies and measures which will round out and reinforce all three facets of this strategy.

Fiscal and Monetary Policy

The development of this strategy must be carried out within the framework of an over-all monetary and fiscal policy. Let me therefore explain here, my views of the kind of framework we need.

The forecast I have given earlier tonight anticipates that demand in the economy will expand in line with our capacity to produce. In terms of the total demand required to keep the supply of goods flowing at capacity rates, we are on the right course now. We do not require additional stimulus. Neither do we need any severe contraction of demand. I agree with the Governor of the Bank of Canada that the rate of monetary expansion should now be moderated to the pace just sufficient to sustain continuing growth at the levels of our physical capacity. Rates of interest are painfully high, but the way to bring them down is to slow the rate of inflation. This will take time. Meanwhile, I expect the

banks to continue to give preference in their lending to small businesses, mortgage finance for housing, and borrowers in the less-favoured regions of the country.

On the fiscal side, what is required is that we hold our cash requirements, excluding foreign exchange, to much the same effective level as last year. Given our programs of government lending, this implies a reduction in the budgetary deficit and in the deficit computed on the national accounts basis. In the absence of new policy initiatives, my fiscal forecast indicates broadly this result. In choosing tonight's measures to extend our specific policy thrusts against inflation, I have therefore had to find additional revenues to pay for the costs of new initiatives.

Revenue-Raising Measures

I propose to find those revenues in ways that hurt least, and I propose to apply them to help people most in need. This must be done without damaging the over-all thrust of the government's budgetary policy. Clearly, additional revenues cannot be obtained without imposing a burden somewhere. I have selected measures which will give us the revenue required, but which will not in my judgment contribute to price increases on essential goods or impede the expansion of supply.

Petroleum and Mining Corporations

The major revenue-raising measures are in the field of corporation taxes. The most important of these relates to the taxation of the petroleum and mining industries.

In the tax reform of 1971 a new regime was established for the taxation of these industries. Since then there have been dramatic changes in the world and in Canada affecting the fortunes of these industries. For one, with respect to oil, I do not have to recall the phenomenal price increases and their potential for profit during the last year. The response of governments around the world has been to review their taxation policies and to strike a new balance appropriate to these changed circumstances. In mining, less dramatic but major price increases have occurred due to shortages and inflationary expectations. Here too, a re-examination of tax regimes is called for.

In Canada our provinces have adjusted royalties, mining taxes and other arrangements to derive what they perceive to be a fair share for the benefit of their people. However, a provincial resource is also a national resource, and the federal government has a responsibility to see that a reasonable portion of this gain is shared by all Canadians. In these circumstances the federal government has had to reassess its over-all taxation policy with respect to this key sector of the economy. In doing so, we have had the following objectives in mind.

First, it is essential that this sector bears a burden of tax on profits that is reasonable relative to the share borne by other sectors of the economy. Second, it is essential to ensure that all the people of Canada derive a fair share of the substantially increased revenues that flow from the higher value placed by the world on these resources. Third, the federal government should recognize the special position of the provinces with respect to the taxation and charges on resources within their boundaries. Fourth, the federal government must ensure that provincial royalties, provincial mining taxes and other arrangements having similar effects do not unreasonably erode the corporate income tax base. Finally, over-all Canadian tax policy must have regard for the position of these industries in terms of international competition and in terms of the financial resources they require to bring forward the supplies needed in the years ahead.

Taking all these considerations into account I have the following proposals to make for a revised regime of taxation for these industries.

First, I am proposing that the basic rate of corporation tax applicable to production profits from minerals, oil, and gas be increased to 50 per cent. Because of the gradual reduction in the corporate rate under the tax reform schedule this will mean an increase of 2 percentage points of tax for the balance of 1974, 3 points in 1975 and 4 points in 1976 and thereafter. I believe that a 50-per-cent rate of corporation tax for this type of income is appropriate to the new circumstances, rather than the 46-per-cent rate which otherwise would have applied by 1976.

Second, I am proposing that revenues derived by provincial governments in respect of production from a petroleum or mineral resource should no longer be deductible in computing the income of the operator of the resource. At the same time, in recognition of the special position of the provinces in relation to natural resources, I am proposing that, effective immediately, there be an extra abatement from federal income tax in respect of taxable production income derived in Canada. The extra abatement will be 15 points in the case of mineral profits and 10 points in the case

of petroleum profits. For mineral profits, the combination of the new abatement, together with the standard provincial abatement of 10 points, will reduce the effective statutory federal rate from 50 to 25 per cent. In the case of petroleum, the result will be to reduce the federal rate to 30 per cent.

The question of the provincial abatement with respect to mining income requires some elaboration. In August, 1970, at a time when the basic corporate tax rate was 50 per cent, the then Minister of Finance announced that commencing in 1977 the federal government would abate 15 points of corporate tax in respect of mineral production income. At the same time he indicated that commencing in 1977, provincial mineral taxes and similar payments would not be deductible for corporate tax purposes. Provincial mining royalties were not mentioned because provinces traditionally relied at that time on mining taxes to derive revenues from the industry.

Subsequently, many important changes have occurred in provincial tax policies. In particular, provinces have begun to make use of royalties of many different kinds to increase their revenues. I am not opposing this. But these developments are making it almost impossible to arrive at a meaningful distinction between mining taxes and the varying types of royalties or arrangements which have similar effects in terms of what is or is not allowed as deductions for corporate income tax purposes.

Hence, I propose that with regard to the taxation of mineral resource profits, none of these payments to provinces be recognized as deductible in determining corporate tax. I point out, moreover, that this bears not only on the federal corporation tax but also on the provincial corporation tax for those provinces for whom we collect this tax.

In respect of petroleum, the additional provincial abatement is an entirely new feature.

It is also apparent that the petroleum and mineral resource industries in Canada have reached sufficient maturity that the existing tax incentives are more generous than is needed to encourage continuing development. Accordingly, I am also proposing to cut back immediately on some of the existing incentives. Henceforth, depletion can be claimed only if it is earned and only up to an annual maximum rate of 25 per cent of production income rather than 33-1/3 per cent. Canadian exploration and development expenditures have in the past been deductible immediately. If incurred in the future, they will be amortized at a rate of 30 per cent calculated on the diminishing balance basis.

Earned depletion which can presently be accumulated at the rate of \$1.00 for every \$3.00 of eligible exploration and development expenditure will continue. With rising resource profits, and the discontinuance of automatic depletion, this earning of depletion will be a very effective incentive for encouraging exploration. Similarly, I propose to retain the immediate deductibility of the cost of capital assets invested in a new mine or a major expansion of a mine because of the incentive it provides to new development.

I believe these proposals accomplish the objectives we have set for ourselves. Given the circumstances of the day, they establish an improved and not unreasonable position for the federal government on behalf of all the people with respect to the taxation of this sector of the economy.

I estimate that these measures will increase the federal tax liability in 1974 of the mining industry by \$40 million, and that of the oil and gas sector by \$410 million. For the eight provinces with whom we have collection agreements, the comparable amounts are \$5 million in respect of mining and \$115 million in respect of oil and gas. Ontario and Quebec, of course, collect their own corporation tax, and therefore I have not attempted to estimate any revenue increase with regard to these two provinces.

Financial Institutions

Mr. Speaker, another major sector of the business community which has been very profitable in recent years is the financial area. This has been particularly true of the larger institutions. I have had the occasion to examine their position and I have reached several conclusions. First, the volume of business of financial institutions, and consequently their profitability, has increased substantially. Second, during the last decade the loss experience of these institutions generally has been less than 1 per cent and with regard to the larger institutions, the loss experience has been less than 4/10ths of 1 per cent.

In October of 1968, the then Minister of Finance changed the tax treatment of these institutions by reducing their tax-free reserves from 3 per cent to 1½ per cent of eligible assets. Tonight, I am proposing to reduce the level of tax-free reserves from 1½ per cent to 1 per cent of eligible assets for all financial institutions such as banks, trust companies, insurance companies and any others who are required to compute their reserves on this formula basis. This measure will be applicable for taxation years ending after tonight.

At the same time, I recognize that the loss experience of the smaller institutions is greater than that of the larger ones. Therefore, I am proposing that the present reserve of $1\frac{1}{2}$ per cent be retained in respect of the first \$2 billion of eligible assets and that the 1-per-cent rate apply to the excess. This new regime will yield the federal government \$40 million in fiscal 1974-75. It will ensure that the large financial institutions bear their fair share of the tax burden, and yet avoid an adverse effect on the smaller institutions and any new institutions.

Other Corporate Measures

Mr. Speaker, I would now like to turn to corporate tax measures of a more general nature.

Corporate profits have risen sharply in the last year or two. In part, this has been a recovery from earlier depressed levels, but companies have benefitted from the strong economy and from inventory gains enjoyed during a period of sharply rising prices. I have said before, and I reiterate tonight, that I welcome the improvement in the position of Canadian corporations so essential to their continued expansion and the creation of new job opportunities. At the same time, I have pointed out on several occasions, both inside and outside the House, that there is a proper balance to be struck.

Given the level of profits Canadian corporations are enjoying, it is appropriate that as a temporary measure some additional tax revenue should be obtained from such corporations. Subject to certain important exceptions which I will outline in a moment, I am therefore proposing a temporary 10-per-cent surtax on federal corporate income tax for the period from May 1, 1974 to April 30, 1975. (The obligation of corporations to pay monthly instalments in respect of their tax liability will be adjusted to reflect the imposition of this surtax and the other measures introduced tonight.)

This surtax will not apply to small business corporations. I am attempting to do all I can to encourage the growth of small business corporations, which are largely owned and controlled by Canadians.

Because of the major changes I am proposing for the taxation of mining and petroleum corporations they also would be exempt from this temporary, one-year measure in respect of their production profits.

In addition, the surtax will not apply to the profits from manufacturing and processing in Canada. I believe it is essential to maintain the reduction in the tax burden on that vitally important sector to enable it to strengthen its international competitive position. Canadian manufacturers and processors continue to be vulnerable to foreign competition as a result of the extensive use being made of the U.S. DISC tax provisions, the favourable tax treatment provided to manufacturers in other countries, and the intensified pressures they have faced from abroad more recently following the increase in our exchange rate.

The manufacturing and processing industries are not only a major source of employment directly, but they also provide a strong underpinning to the burgeoning service sector of our economy. The importance of bolstering manufacturing and processing is by no means confined to the central provinces where the greater proportion of those industries are now located. It is of equal or even greater importance to the Western and Atlantic Provinces, all of which are giving top priority to broadening the base of their economies through the large-scale development of secondary manufacturing and processing operations.

The measures which we introduced are doing exactly what they were intended to do. After years of slow growth, Canada's manufacturing and processing industries are rapidly expanding. Profits of manufacturers and processors have improved substantially, but they are being ploughed back into heavy new capital investment to increase productive capacity, the supply of goods required by our expanding economy, and employment for our rapidly growing labour force. As I recalled earlier, manufacturing employment last year rose by 111,000, which was 8,000 more than the total increase in the previous six years combined. Manufacturing output rose by 8 per cent in 1973, the largest increase since 1965. Manufacturing investment in new productive facilities rose by 19 per cent last year and this year is expected to grow by an extraordinary 28 per cent, the greatest increase in more than a decade.

Under these circumstances and in view of the vulnerability of this sector to competition from abroad, I am convinced that it is in the national interest to maintain the reduced tax rate on manufacturing and processing profits which Parliament adopted last year. Members will recall that in my last budget I indicated the companion measure implemented by Order-in-Council providing for a rapid two-year write-off of machinery and equipment acquired by this sector would be put in place for an initial period ending December 31, 1974. It is my intention to re-assess this provision toward the end of this year when I have the benefit of the review now underway of the capital cost allowance structure and the further report on the impact of the tax measures on the manufacturing and processing companies.

Let me add a word, Mr. Speaker, about why I rejected proposals for an excess profits tax put forward by some members of the Opposition. Hard, practical experience with such a system in the past has made it clear that it has major defects. In the first place, it is extremely difficult to define excess profits - as distinct from blatant profiteering - in a way that is equitable and workable. Any excess profits scheme is full of loopholes, with the result that some companies escape taxes otherwise payable. Secondly, imposition of a heavy tax on profits above some level that is defined as normal or reasonable, removes substantially the incentive of business to hold down costs and maintain or improve efficiency. The result is that instead of reducing inflationary pressures, as it is intended to do, an excess profits tax tends to increase those pressures. It is for these reasons that I rejected the idea of erecting a complex excess profits tax system and chose instead to propose a temporary, one-year surtax that is reasonable and administratively simple, but which still maintains the incentive for business to operate as efficiently as possible.

A further measure that I am proposing tonight will ensure that corporations not only pay their fair share of taxes, but also pay it promptly. I am advancing the timing of the final payment of a corporation's tax to the end of the second month rather than the third month after the end of the corporation's fiscal period. This change in tax payment date will not apply to a small business corporation.

The effect of all these measures in the corporate income tax field is to provide a significant increase in federal tax collections in 1974-75. In the absence of the changes affecting the petroleum and mining industries, the advancing of the final payment date would have yielded \$200 million. The measures affecting the resource industries would have yielded very little in 1974-75 unless the final payment date had been advanced, because in their case the payments would not have been received until the next fiscal year. But in combination with the advancing of the final payment date, I estimate that these measures will yield \$400 million. The proposals regarding financial institutions are estimated to yield \$40 million. The temporary 10-per-cent surtax is estimated to yield \$150 million. The combined effect of all these measures on federal corporate income tax collections this fiscal year amounts to an increase of \$790 million.

Excise Taxes

I now turn to other sources of revenue. I have already made considerable reference to the energy crisis with which we struggled this past year. All of us have become more conscious

that we need to economize in our use of energy, particularly petroleum. I propose a measure which will make some contribution to this end.

Effective tonight, a special excise tax is to be introduced on high-energy consuming passenger cars and other types of energy-consuming vehicles. This will include large, heavy cars, high-powered motorcycles, privately-owned aircraft and large power boats. The tax will yield the federal government an additional \$10 million of revenue in 1974-75.

I have stressed that one of my requirements in this budget is to raise in revenues an amount at least equivalent to the tax reductions I will propose shortly. It seems to me that an increase in the tax levied on liquor and tobacco is an appropriate source to look to for some increase in revenues. Specifically, the proposed changes, which come into effect tonight, will raise federal levies on cigarettes, cigars, tobacco, spirits other than beer, and wine other than cider, by approximately 15 per cent. This measure will yield the federal government an additional \$100 million of revenues in fiscal 1974-75.

These increases would be implemented by a number of measures, details of which will be found in the Ways and Means Motion.

The Program Against Inflation

Mr. Speaker, I have explained that the fiscal framework needed for this period is one that maintains about the same level of cash requirements as last year. I have described how I propose to raise additional revenues. I now wish to outline how these revenues might be applied within such a framework to finance measures which best round out and reinforce our policies to deal with inflation.

Measures to Increase Supply

The first element in our strategy against inflation has been and continues to be the expansion of supply. The central features of that policy have been in place for some time. Our fiscal and monetary policies have been designed to bring the economy up to full capacity growth. We have taken measures to increase the capability of the economy to produce efficiently the goods and services which are needed. This not only increases our

production capacity, but it also creates remunerative and satisfying jobs, relieves shortages and reduces costs. The reduction of taxes on manufacturing and processing is clearly bringing about just such a massive increase in capacity.

Further, as part of the agreements reached with respect to oil, the governments of the producing provinces will channel substantial funds into the encouragement of exploration and development. The National Petroleum Corporation will serve the same objectives. In facing the growing need for electrical energy, we have announced a major program of federal aid for inter-regional transmission lines. We are also well-launched on a nation-wide policy of support for nuclear power plants, utilizing the highly successful Candu reactor, developed by Canadian science and technology under the aegis of the federal government.

Wide-ranging measures have already been taken to assist and encourage farmers and fishermen, with assurances that they will be able to market their increased production at fair prices. In this regard the government will undertake further major financial commitments under new farm stabilization measures to be introduced shortly and, of course, the House has just recently approved important measures to increase the effectiveness of the Farm and Fisheries Improvement Acts.

My colleague, the Minister of Agriculture, will also be introducing extensions to the Farm Credit Act to enlarge the flow of capital investment in food production. One amendment will increase the total amount of federal loans available for expansion and improvement of agricultural output to well over \$2 billion. Moreover, special provisions will be proposed to make it easier for young farmers to purchase farms and get into the business on their own. Last year total lending activity by the Farm Credit Corporation more than doubled to some \$400 million in loan approvals. For this fiscal year, the corporation's capital budget will jump again to well over \$500 million.

Later, when I deal with tax reform, I shall be proposing an important measure of relief for small businesses to encourage them to contribute further to the increase in supply.

The over-all fiscal and monetary policy proposed in this budget, by providing for adequate over-all demand, will ensure that new output of goods and services will flow on to the market in as abundant a volume as the economy is capable of producing.

Measures to Hold Down Particular Prices

The second element in the strategy against inflation is to dampen down the prices of particular products where this is feasible. Here, the government has already adopted a number of measures. The most important of these has been the holding down of domestic oil prices to about 55 per cent of the international monopoly price. Subsidies have also been provided on bread and milk to help all Canadian consumers. The Food Prices Review Board has been focusing public attention on pricing and marketing practices in problem areas. Powers are being sought to enable the government to deal with particular cases of profiteering. In my last budget, I eliminated the sales tax on children's clothing, all remaining food items and non-alcoholic beverages, and certain other products. Tariffs were also reduced on a wide range of consumer goods.

Tonight I propose to remove the sales tax on all clothing and footwear. Clothing and footwear account for a significant proportion of the budgets of most families and this action should significantly reduce the prices of these products. This measure will affect about \$5 billion in family expenditures annually. It will save consumers directly \$280 million in taxes this year, and on top of this the substantial markups on these taxes which result from the normal business practice of calculating percentage markups on tax-paid costs.

Let me say to the business community - and to wholesalers and retailers particularly - that the purpose of this measure is to help the people of this country by reducing prices. I am confident that in most cases these benefits will be passed on to the consumer. However, I intend to ask my colleague, the Minister for Consumer and Corporate Affairs, to monitor prices of clothing and footwear and to report his findings to me. If these tax cuts do not get reflected in prices, then I undertake to recommend that the government take action, in one way or another, to ensure that the consumer does gain and that others are not allowed to appropriate the benefits.

Complementing the tax increases I announced earlier on high-energy consuming vehicles, I propose to remove the sales tax on buses and other public passenger transportation equipment purchased by local governments. This will provide important assistance to municipalities in supplying more effective transit systems to reduce reliance on the private car, reduce total energy consumption and abate pollution.

Further in the sales tax field, I propose to abolish the tax on bicycles. The advantage of this will be self-evident to Canadians in large numbers who are adopting this popular and healthful form of recreation.

Tariff Changes

In last year's budget there was a reduction in customs duties for a one-year period on a broad range of consumer goods. These reductions affected trade valued at about \$1.6 billion in 1973. There is before the House Bill C-21 which, if implemented, would continue most of these temporary reductions until June 30, 1974. Given the delay in proceeding with the GATT negotiations, I am now proposing that except for one item only, these reductions should be extended until December 31, 1974.

Exchange Rate

Some further relief on our price structure is resulting from the rise of the exchange rate on the Canadian dollar, which stems from the good over-all performance of the Canadian economy and world confidence in our future. The government has not sought to bring this appreciation about; it has resulted from the underlying forces at work in the exchange market and we have intervened in this market only to maintain orderly conditions. We will continue to be concerned that the competitive position of our industry is not impaired. However, there can be no question that the appreciation that has taken place is providing some relief in moderating the increase in the cost of living.

Housing

An important aspect of the recent inflationary experience in Canada has been its impact on the cost of housing and the ability of the average Canadian, particularly young people and people of modest income, to meet their housing needs. The government has put in place a number of important programs and measures to ease both supply and cost aspects of the problem. These measures are reflected in the expansion of the budget of Central Mortgage and Housing Corporation to \$1.2 billion per year. Special assistance to low-income families has reduced the net cost of their mortgage financing. Indeed, in cases of demonstrated need, the amount of the Assisted Home Ownership Grant is such as to reduce

the effective rate of interest paid to almost 6 per cent. The programs to assist municipalities with land development and servicing have also been extended and improved to speed up the whole process of bringing additional serviced land onto the market.

Tonight I wish to announce several further measures to improve the housing situation. Before doing so I should refer to certain popular suggestions in this regard, specifically the cancellation of the sales tax on building materials, subsidized interest rates, and the deductibility of mortgage interest for tax purposes. Apart from problems of cost and inequity in these suggestions, in the present environment of a sellers' market they all suffer from the fatal defect of over-stimulating demand, raising prices, and providing benefits which are almost certain to be captured by builders and sellers. In contrast, my objective is to help home buyers by the following proposals.

First, one tax factor which may be holding back the flow of land for housing is that a taxpayer, personal or corporate, may claim against other income the carrying charges on land which is being held for future development. This sheltering of other income has lowered the financial cost of carrying undeveloped land and, therefore, reduced the pressure for early use.

I am proposing that the carrying costs on land awaiting development may not be charged against other income but be taken into account only as the land is sold. This new rule for carrying charges would not apply to land which is being held primarily to earn rental income in the year, or to land which is used in the course of carrying on a business other than a real estate business. This measure, which is estimated to yield the federal government about \$10 million this year, will assist in bringing land for housing onto the market more quickly.

Second, I propose to remove the sales tax on a range of construction equipment including excavation and earth-moving equipment, tower and climbing cranes, air compressors and pumps, equipment for preparing and spreading concrete and asphalt, and several other categories of goods used in the construction industry. The effect of this measure will be to exempt from sales tax all major classes of construction equipment purchased by contractors and local governments.

Third, to provide assistance to municipalities which are also struggling with the housing problem, I propose to abolish the federal sales tax on articles and materials purchased by local governments for use in the construction of water distribution systems.

The foregoing two measures will reduce costs by \$50 million directly in a full year, and by a further considerable amount through indirect effects.

Fourth, together with my colleague, the Minister of State for Housing and Urban Affairs, I propose to take steps to assure the fullest possible allocation of mortgage funds to lower-cost housing. In addition to the use of the mortgage insurance provisions of the National Housing Act, we propose to enlist the support of the principal lenders and the private mortgage insurance corporations to adjust down payment requirements in such a way as to confine high-ratio loans to middle and lower-priced housing.

My last and most important measure in this field will greatly ease the formidable difficulties facing our young people in accumulating the savings required for a down payment on a home and its initial furnishing.

All taxpayers over the age of 18 who do not own a home will be able to contribute up to \$1,000 a year, to a maximum lifetime amount of \$10,000, to a Registered Home Ownership Savings Plan, and these contributions will be deductible for income tax purposes. The income earned by the plan will bear no tax and the proceeds of the plan will be exempt from income tax if they are applied as a down payment for the purchase of a house and furnishing it at the time of first occupancy. This measure applies not only to urban homes but to purchases of farm homes. The mechanics of this new plan are detailed in the Ways and Means Motion, but in large measure it will operate in much the same manner as the existing Registered Retirement Savings Plan.

I am sure that the introduction of this innovative program will encourage savings, and make it easier for Canadians to acquire homes. Together with the steps to be taken in respect of down payments, this proposal should help to reduce current speculative pressures on housing prices. It is difficult to measure the cost of this new measure. But no doubt as it develops and Canadians become aware of its real value, the Registered Home Ownership Savings Plan will become a source of significant tax savings to many Canadians and particularly the young.

Easing the Burdens of Inflation

The third element of the government's strategy against inflation is to ease the burdens on those Canadians who are most vulnerable. We have fully indexed old age security pensions, the guaranteed income supplement and the Canada Pension Plan. We have

indexed government pensions and facilitated the indexing of private pensions. As for family allowances, not only have they been very substantially increased, but we have ensured that their real value will be maintained. The federal minimum wage has also been progressively increased. My last budget included a very substantial cut in personal income taxes of particular benefit to the lower income groups, and provided for the indexing of the personal income tax system.

Tonight, I shall be proposing a wide range of measures which will further alleviate the impact of inflation on all Canadians, particularly those of more modest incomes.

First, under the personal income tax, members will recall that just last year I introduced a measure to give all taxpayers a tax reduction in the form of a 5 per cent credit against federal tax payable, with a minimum credit of \$100 and a maximum credit of \$500. I intend not only to maintain this substantial tax reduction but to augment it for the lower income groups. This will be accomplished by increasing the minimum credit from \$100 to \$150, effective January 1, 1974.

This change means lower taxes for everyone up to the \$13,000 to \$14,000 income range, and its benefits are concentrated among income-earners receiving less than \$10,000. For example, a married taxpayer with two children and earning \$6,000 will have his total tax reduced to \$269 from \$319 or 15 per cent. This tax cut removes at least 300,000 Canadians from the federal tax rolls.

The tax deduction tables will be adjusted as of July 1, 1974, so as to give the full benefit of this measure in the second half of this year. It will reduce personal taxes in fiscal 1974-75 by some \$440 million.

Members will be aware, of course, that as a result of the tax reform the rate of tax under the first \$500 of taxable income will also be reduced this year from 15 per cent to 12 per cent. Even more important is the continuing benefit which all taxpayers are now enjoying as a result of the indexation of the personal income tax. The effect of this new system was to increase exemptions and raise tax brackets by 6.6 per cent for this year - and to remove a further 175,000 citizens from federal tax rolls. Under this automatic plan to relieve the burden of inflation on all taxpayers there will be a further adjustment next year to fully reflect the increase in the consumer price index currently taking place.

In our overriding concern with the fight against inflation we must not overlook the needs of those less fortunate Canadians handicapped by illness and other disabilities. In this regard we will, by regulation, broaden considerably the list of expenditures that qualify as medical expenses for tax purposes. This broader list will now include the cost of such items as heart monitoring devices, orthopaedic shoes and boots, a hospital bed required in a home, and walking aids required by crippled persons.

Moreover, I propose a change which will aid those Canadians who are confined for extensive periods of the day to beds and wheelchairs or who are so confined for periods longer than 12 months. This will permit these people to qualify for the additional \$1,000 deduction now available to permanently disabled and blind persons. At present, in order to get the deduction of \$1,000 per year, a person must have been confined to a bed or wheelchair throughout the taxation year. This provision will be amended in two ways. The time period will be changed to cover situations where a person has been confined for any 12-month period which ended in the year. The second change will ensure that even if a person is up and about for periods during the day he will not be deprived of the deduction. This amendment recognizes that it is often in the best interest of the patient, whenever he can, to get out of bed or wheelchair.

I would also like to announce that my colleague, the Minister of Veterans' Affairs, will introduce legislation to provide further help for needy veterans, their survivors and their dependents in meeting increased costs. Effective from last October, the income ceilings applied to the War Veterans' Allowances and Civilian War Allowances will be increased by 5.3 per cent and escalated quarterly thereafter, in line with increases in the Consumer Price Index. The pensions will be raised by the same dollar amount as the increase in the ceiling. These changes preserve the relationship between veterans' allowances and old age pensions. From April 1, 1974, the rate paid for orphans' allowances will be raised to \$125 per month for each orphan, and escalated annually in line with the formula for family allowances. A new allowance for dependent children of needy veterans will be provided and the qualifying age for the allowances now paid on behalf of a child or to an orphan, as long as that child or orphan continues his education, will be extended to 25 years. These changes will cost an additional \$10 million in 1974-75.

Measures to Encourage and Protect Savings

One of the most pervasive aspects of inflation is its eroding effect on the real value of people's savings. This budget includes two major measures to relieve this effect. The first measure recognizes that the increases in interest rates which have taken place, although substantial, do not offset the decline in the real value of people's savings when they are invested in interest-earning securities, particularly after tax. I therefore propose that, effective from January 1, 1974, the first \$1,000 interest income from securities such as bank and trust company deposits, mortgages, Canada Savings Bonds and other bonds be deductible in computing the taxable income of individuals. The precise details will be found in the Ways and Means Motion.

I am proposing a limit of \$1,000 per year because I want to help the average person; I have no intention of allowing the wealthy members of our society to avoid paying their fair share of the tax burden. I believe that this proposal will be a very considerable incentive for average Canadians to save. This measure will reduce personal taxes by about \$270 million in 1974.

The second measure concerns a particular debt obligation of the federal government which is the instrument through which nearly two million Canadians accumulate savings. I refer to Canada Savings Bonds. Nearly \$10.5 billion of these bonds are outstanding and the interest yield does not now reflect current interest rates. In order to raise the average effective yield to maturity to 9 per cent, I propose to provide cash bonuses to the holders of these bonds. More specifically, bonds maturing before November 1, 1979 will receive one bonus, at their maturity. Bonds maturing after November 1, 1979 will receive two cash bonuses; an interim bonus on November 1, 1979 and a final bonus at the date of their maturity.

For example, the holder of a \$1,000 Canada Savings Bond of the 1967-68 Series will receive a first cash bonus of \$220 in 1979 and a second cash bonus of \$30 at maturity in 1980.

In all cases these bonuses, which will have the effect of raising the yield to maturity to 9 per cent, will be taxed at the lower effective rates applicable to capital gains. All other features of the Canada Savings Bonds, including their encashability on demand and the compounding of interest, will remain unchanged. The current issue of Canada Savings Bonds, which is still on sale, will of course carry the two bonus payments. Savers who may wish to acquire this bond will know that the return to maturity on it will be 9 per cent. Action is underway to inform holders of Canada Savings Bonds of the steps to be taken in order to obtain these benefits.

Among the many Canadians who save through interest-earning investments and who will benefit from these two measures, a large proportion are older, retired people who depend upon interest earnings from lifetime savings for a substantial portion of their income. These people who have saved for themselves should be given every encouragement.

As a final proposal affecting the savings of Canadians, I wish to broaden an important existing incentive for retirement saving. As members of this House are aware, Registered Retirement Savings Plans provide for postponing of tax, up to limits, in the savings accumulated for retirement. They have become a major vehicle by which Canadians anticipate their needs for income in the years after they stop working. I have felt that we should be more accommodating in allowing a taxpayer to make provision for his or her spouse through such retirement plans. I therefore propose to allow a taxpayer to contribute to a Registered Retirement Savings Plan for the benefit of his or her spouse to the extent that the taxpayer does not use the available deductions for his own plan. This measure will allow, for instance, a husband to forego contributing to his own Registered Retirement Savings Plan and to contribute instead to a plan for his wife who carries the burden of household and family duties. It will provide the same opportunity for a wife who is the income earner for the family and who is entitled to contribute to a Registered Retirement Savings Plan.

Tax Reform

I would like to take a few moments to speak about the continuing process of tax reform. One of my first priorities has been to see that the income tax legislation is improved as experience is gained in its application. As will be shown by the length of the Ways and Means Motions which I will be tabling tonight, this has not proven to be a small task. Nevertheless, it is a task we must face if the tax system is to work well, and fairly, in today's society. The amendments being proposed reflect experience gained in the application of the new tax provisions and many useful suggestions from the public.

One of my main concerns has been with the application of tax laws to corporate reorganizations. If we are to have vital and efficient corporations, it is important that the tax system not discourage reorganization intended to help our corporations to become more efficient and to adapt to the changing needs of a competitive society. During the past year, I have conducted an in-depth review of the relevant provisions and have concluded that some changes are required. I am proposing that where it is evident

that corporate changes are taking place for legitimate business purposes and not to avoid tax, the existing rules should be relaxed.

With the advent of tax reform in 1972, several new rules were introduced to permit certain types of pre-1972 corporate surpluses to be distributed tax-free to shareholders. A number of corporations are still having difficulty complying with the technical details of these rules. I am therefore introducing amendments tonight further to simplify these rules and remove hardships which might otherwise have been caused by a misunderstanding of the law.

It has also come to my attention that the tax system does not apply fairly where property has been expropriated, lost or destroyed. Quite often a taxpayer may be faced with a significant tax liability long before a settlement has been agreed upon and funds are available. This seems quite unfair, and I am introducing a relieving amendment which will ensure that under such circumstances no tax is payable until the compensation has been finally determined.

I am proposing several amendments, essentially of a relieving nature, relating to the taxation of partnerships. These new rules will make it easier for partners to withdraw from partnerships, either for purposes of retirement or to accept employment outside the partnership.

Another area of tax reform which has been the subject matter of considerable controversy has been the taxation of foreign-source income. I have important changes to announce tonight with respect to the passive income rules. These rules were introduced as part of tax reform in 1971 to protect against the diversion of income that would otherwise be taxable in Canada.

The law in this area was new and inevitably complex. Its application was postponed to 1975 to enable the government to re-examine the law in light of representations. The proposed changes improve our protection against the improper use of tax havens to avoid Canadian tax on passive investment income and on income diverted from Canada. At the same time, the changes remove from the scope of these rules the income Canadians derive from their active business operations abroad. In addition, the rules will apply only to those off-shore corporations and trusts that are controlled by Canadian taxpayers, and not, as at present, where there may simply be some equity interest. Canada's fiscal climate must remain hospitable to the Canadian company that competes internationally with the large multinational companies of other countries. The changes proposed in this area of the law are designed to ensure that this principle is not compromised.

Another matter which I wish to mention concerns the protection of Canada's cultural heritage. Earlier this year, my colleague, the Secretary of State, announced measures to control the export from this country of objects which are significant to Canada as cultural, artistic, historical or scientific treasures. As part of the bill which the Secretary of State will, in due course, introduce to this House, certain amendments will be made to the Income Tax Act which will create an incentive to the owners of such treasures to keep them in Canada.

Finally, Mr. Speaker, I wish to announce a most important change related to the existing tax system. All of us realize that the strength of our economy rests to a large measure on the efforts of our smaller independent businessmen. They provide a constant source of innovative and dynamic enterprise in our country, and play a crucial role in maintaining domestic ownership.

Members will recall that at the time of tax reform, special provision was made whereby the first \$50,000 per year of business income of a Canadian controlled private corporation would be taxed at a special low rate until the corporation has earned \$400,000. In order to provide further stimulus for this vital sector of our economy, I am proposing that effective immediately, the cumulative limit of earnings be raised from \$400,000 to \$500,000 and furthermore that the annual amount of business income that can qualify for the low rate of tax be increased from \$50,000 to \$100,000.

Further Tariff Changes

In view of the forthcoming multilateral trade negotiations - the Tokyo Round - I am proposing only a few amendments to the Customs Tariff at this time. Many of the requests we have received for tariff changes will have to be considered in the course of the negotiations.

One amendment worth special mention involves removal of the duty on handicraft products imported from developing countries. Selected handicrafts produced in countries entitled to the benefits of the General Preferential Tariff will be allowed duty-free entry under this new provision.

One other measure is of considerable importance. I refer to the so-called tourist allowance. I propose to liberalize the provisions in the Customs Tariff under which goods brought back by Canadian residents on their return from trips abroad are exempt from duties and taxes. The quarterly exemption available after an

absence of 48 hours will be doubled to \$50 from \$25. The annual exemption, now available after an absence from Canada of 12 days or more, will be increased to \$150 from \$100. Moreover, the minimum period of absence required to qualify for the annual exemption will be reduced from 12 days to 7 days. And I should mention that the Minister of National Revenue has recently directed that the administrative requirements at the border for those claiming the quarterly exemption should be materially eased.

These changes will be of considerable benefit to the large and rapidly increasing number of Canadians who travel outside Canada.

Summary of Fiscal Position

Mr. Speaker, may I now briefly sum up the financial position of the government, taking tonight's proposals into account. I estimate that the cash requirements of the government in 1974-75 will be of the order of \$2 billion, excluding foreign exchange requirements. Having in mind that certain substantial payments, such as the loans to the CNR and Air Canada under the Financing and Guarantee Act and other expenditure items, were scheduled to be disbursed in the last fiscal year, but were not actually made until this year, this figure of \$2 billion is for practical purposes not different from that for 1973-74. The budgetary deficit for 1974-75 will be somewhat lower than in the previous fiscal year. On a national accounts basis, the deficit of \$500 million which we experienced in 1973-74 will be reduced by more than half in the current year.

I must remind honourable members that these figures are estimates. The actual outcome of the financial accounts will reflect the decisions of this House respecting legislation now before it and which will come before it in the course of the fiscal year.

With the permission of the House I should like now to include in today's Hansard supplementary tables showing estimates of Government of Canada cash requirements, details of the budgetary revenues, federal government revenues and expenditures on a national accounts basis and reconciliations of these figures with those compiled on a public accounts basis. The information in these tables applies to the fiscal years 1973-74 and 1974-75.

I should also like to table several Notices of Ways and Means Motions setting out the changes I have proposed tonight and I would ask that they be printed in the notice paper appended to Votes and Proceedings.

Conclusion

The budget I have brought down tonight is a fiscally responsible budget. It is an equitable budget, aimed at raising revenue where it hurts least, distributing it where it helps most. It is an economically sound budget which attacks the scourge of inflation at its source - the shortage of supply. It recognizes that the fundamental cure to both inflation and unemployment is to overcome the physical limits on our capacity to produce by expanding the agricultural and industrial base of the country. And this budget further extends our policies of protecting those least able to protect themselves from the ravages of inflation and of moderating price increases of a number of goods that play an important part in daily living.

I have always tried to be frank with Parliament and the people. In this budget I have rejected cosmetic policies - the easy, popular course at the sacrifice of realism and of the best long-term interests of the Canadian people. I am gambling that Canadians are too smart to be taken in by gimmicks, slogans or slick jargon - that they want to know the facts, pleasant or unpleasant, and they ask only for a man's best judgment in meeting them.

This budget reflects my determination to deal with inflation. It presents a responsible fiscal and monetary policy. It recognizes the need for all governments, including this one responsible to Parliament, to restrain spending. It focuses upon the pivotal issue in the economy - the physical constraints on capacity. It proposes solutions within the context of Canada's place in the markets of the world. We are not helpless, but neither are we immune to universal price trends.

When I first faced the House as Minister of Finance, I said that no economy is working as well as it should if there are men and women earnestly seeking work who cannot find it. The scene has improved but I am still not satisfied with the results. Now that our cost of living absorbs our attention I say that I won't be satisfied if this country merely does better than our major competitors. That's not good enough. My goals are not relative but absolute ones: to moderate our rate of inflation, to relieve the pressure of prices on incomes, savings and the peace of mind of Canadians.

It can be done. It will take time to do. But it will happen - partly because international commodity prices will yield, partly because this government's policies will be proven right.

I am confident that most Canadians will accept what I have been saying tonight and will support the thrust and tone of this budget. The people of this country are gifted with good common sense and an open mind. If this House can bring itself to judge my budget with the same common sense and open mind, then I am sure that the measures I have proposed will commend themselves to enough Members to ensure its passage.

those compiled on a Public Accounts basis. The information in these tables applies to the fiscal years 1973-74, 1974-75 and 1975-76.

I should also like to table several Notices of Ways and Means Motions setting out the changes I have proposed tonight and I would ask that they be appended to today's Votes and Proceedings.

Concluding Remarks

Mr. Speaker, may I now sum up briefly what we see to be the problems ahead of us and how we intend to deal with them.

We believe that the principal threat to the growth of our production and employment comes to us from abroad. The world economy is in a fragile and precarious state, suffering from severe inflation and the gathering forces of recession. If the efforts to deal with the unprecedented balance of payments deficits on oil account are unsuccessful and some governments are unable to carry on with the policies required, the economic results for the world could in those circumstances be severe.

Canada in the past year or so has outperformed most of its trading partners, and the prospect is that with continued good fortune and sound economic management, it will continue to do so. But given our heavy dependence on trade, and our close financial and investment links with the rest of the world, we will not be able to escape unscathed should the international situation deteriorate even more. Therefore, Canada's first line of defence in economic affairs lies, as it has for years, in international co-operation.

It will take all the wisdom, courage and effort that human beings can muster to forge co-operative endeavours of an unprecedented nature, to put aside narrow national self-interest, and to respond generously to the needs of the weaker nations. But that is what is required if we are to come through the next few years whole. Let me assure you that by deeds, by good counsel, by leadership where such opportunities are given to us, and by generosity within our means, we will do what we can to help resolve the dangers which confront us.

Nor will we ignore the problems right here at home. Two-digit inflation, whatever its origin or nature, and regardless of however favourably our situation compares with others, is

GOVERNMENT OF CANADA FINANCIAL REQUIREMENTS

	1973-74 Preliminary Actual (1)	1974-75 Forecast (2)
(Millions of dollars)		
Budgetary Transactions		
Revenues	19,000	23,950
Expenditures	-20,000	-24,400
Surplus (+) or Deficit (-)	- 1,000	- 450
Net Non-Budgetary Transactions -		
Excluding Foreign Exchange Transactions	- 675	- 1,550
Total Financial Requirements -		
Excluding Foreign Exchange Transactions	- 1,675	- 2,000
Foreign Exchange Transactions (3)	297	- 368
Total Financial Requirements -		
Including Foreign Exchange Transactions	- 1,378	- 2,368

(1) Numbers in this column are subject to revision pending closing the accounts for the fiscal year. However, the numbers for total financial requirements whether including or excluding foreign exchange transactions are subject to only minor adjustments.

(2) Numbers in this column should be interpreted as mid-points of ranges of estimates.

(3) The amount which is shown for financial requirements arising from foreign exchange transactions in fiscal year 1974-75 reflects the transactions which occurred in April.

GOVERNMENT OF CANADA BUDGETARY REVENUES

	1973-74 Preliminary Actual (1)	1974-75 Forecast (2)
(Millions of dollars)		
Personal Income Tax	7,915	9,500
Corporation Income Tax	3,185	4,610
Non-Resident Tax	325	340
Estate Tax	15	-
Customs Duties	1,375	1,520
Sales Tax	2,625	2,640
Oil Export Tax	300	1,740
Other Duties and Taxes	1,080	1,250
Total Tax Revenues	16,820	21,600
Non-Tax Revenues	2,180	2,350
Total Budgetary Revenues	19,000	23,950

(1) Numbers in this column are subject to revisions pending closing the accounts for the fiscal year.

(2) Numbers in this column should be interpreted as mid-points of ranges of estimates.

GOVERNMENT OF CANADA REVENUES AND EXPENDITURES
ON A NATIONAL ACCOUNTS BASIS

	1973-74	1974-75
	Forecast ⁽¹⁾	Forecast ⁽¹⁾
(Millions of dollars)		
Revenues		
Direct Taxes, Persons	10,950	13,405
Direct Taxes, Corporations	3,520	4,860
Direct Taxes, Non-Residents	325	350
Indirect Taxes	6,475	8,095
Other Current Transfers from Persons	5	5
Investment Income	1,850	2,095
Capital Consumption Allowances	<u>300</u>	<u>330</u>
Total Revenues	23,425	29,140
Expenditures		
Current Goods and Services	6,250	7,025
(Non-Defence)	(3,950)	(4,575)
(Defence)	(2,300)	(2,450)
Transfer Payments to Persons	7,540	9,215
Subsidies	1,025	2,335
Capital Assistance	235	210
Current Transfers to Non-Residents	305	410
Interest on the Public Debt	2,600	2,960
Transfers to Provinces	5,080	6,150
Transfers to Local Governments	110	120
Gross Capital Formation	<u>780</u>	<u>875</u>
Total Expenditures	23,925	29,300
Surplus (+) or Deficit (-)	- 500	- 160

(1) Numbers in these columns should be interpreted as mid-points of ranges of estimates.

GOVERNMENT OF CANADA REVENUES

PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION

	1973-74 Forecast (1)	1974-75 Forecast (1)
(Millions of dollars)		
Budgetary Revenues	19,000	23,950
Deduct		
Post Office Revenues and Deficit	- 590	- 690
Deficit of Government Business Enterprises (2)	- 120	- 120
Excess of Accruals (+) over Collections (-)		
Corporate Income Tax	115	- 35
Oil Export Tax	225	- 60
Add		
Government Pensions and Social Security Receipts (3)	4,850	5,880
Capital Consumption Allowance	300	330
Miscellaneous Adjustments (4)	- 355	- 115
Total Revenues, National Accounts Basis	23,425	29,140

- (1) Numbers in these columns should be interpreted as mid-points of ranges of estimates.
- (2) In the Public Accounts, deficits of government business enterprises are a charge to budgetary expenditures whereas in the National Accounts, these deficits are deducted from remitted profits of other government business enterprises.
- (3) In the Public Accounts, the government pensions and social security receipts and benefits are treated as non-budgetary transactions whereas in the National Accounts, these transactions are reflected in the determination of government revenue and expenditure.
- (4) These miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, the proceeds from the sales of existing capital assets; budgetary revenue items offset against budgetary expenditures; imputed items; and, an adjustment for the treatment of revenue in the supplementary period.

GOVERNMENT OF CANADA EXPENDITURES

PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION

	1973-74 Forecast (1)	1974-75 Forecast (1)
(Millions of dollars)		
Budgetary Expenditures	20,000	24,400
Deduct		
Transfers to Funds and Agencies (2)	-1,860	-1,880
Post Office Expenditures	- 590	- 690
Deficit of Government Business Enterprises (3)	- 120	- 120
Add		
Expenditures of Funds and Agencies (2)	785	1,030
Government Pensions and Social Security Benefits (4)	5,545	6,375
Capital Consumption Allowance	300	330
Miscellaneous Adjustments (5)	- 135	- 145
Total Expenditures, National Accounts Basis	23,925	29,300

- (1) Numbers in these columns should be interpreted as mid-points of ranges of estimates.
- (2) In the National Accounts, budgetary appropriations to various funds and agencies are replaced by the expenditure actually made by these funds and agencies.
- (3) In the Public Accounts, deficits of government business enterprises are a charge to budgetary expenditures whereas in the National Accounts, these deficits are deducted from remitted profits of other government business enterprises.
- (4) In the Public Accounts, the government pensions and social security receipts and benefits are treated as non-budgetary transactions whereas in the National Accounts, these transactions are reflected in the determination of government revenue and expenditure.
- (5) As in the case of revenues, the miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, reserves and write-offs; purchase of existing capital assets; budgetary revenue items offset against budgetary expenditure; expenditures of reserve accounts and revolving funds; imputed items; and, an adjustment for the treatment of expenditures in the supplementary period.