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Budget Speech

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

Monday, November 18, 1974

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Mr. Speaker, on May 6 of this year I introduced a budget. It was the first budget in our history to be defeated in this House of Commons. It was also the first budget to be reinstated by the Canadian people.

The essential purpose of the May budget was to maintain healthy economic growth and reinforce the attack against inflation. I proposed to do so by a series of measures aimed at increasing the supply of goods and services, moderating the prices of certain products of importance to Canadian family budgets, maintaining the real income of those Canadians least able to protect themselves against the rising cost of living, and aimed at helping to stem the erosion in the value of savings. These continue to be my objectives.

Two of the measures proposed in that budget have already been implemented. The average yield of outstanding Canada Savings Bonds has been increased and the sales tax on clothing and footwear has been removed. The government believes that all of the remaining proposals included in the last budget are required to deal with current economic conditions and it is my intention to reintroduce them, modified as necessary to meet the requirements of today.

These broad measures need, however, to be supplemented and extended because economic conditions and prospects have changed significantly both at home and abroad.

The widespread expectation six months ago that the tide of world inflation would begin to recede this year has been frustrated. Poor grain harvests in Canada, the United States and elsewhere foreshadow a resurgence of food price increases. The decline in prices of a number of industrial materials has been less than forecast. Wage and salary costs are accelerating sharply in Canada and other countries. Interest rates climbed from already high levels because of the continued surge of global inflation, the disturbance to international financial markets, and restrictive monetary policies in some key countries. The slowdown of economic growth in the major industrial nations has been more pronounced and persistent than predicted. Massive balance of payments deficits and surpluses resulting from the fourfold increase in world oil prices are imposing serious strains on the entire world system. For many developing countries the shortage and high cost of food and fertilizers and the drastically increased prices of energy have raised the spectre of disaster.

Canada has participated actively in efforts to strengthen international institutions and in the arrangements they are

making to help deal with these problems. Since these issues have crucial implications for every country in the world, their ultimate solution depends heavily on international co-operation. I have had lengthy discussions on these developments during the past few months with my counterparts from every major industrial nation and from the Commonwealth.

But we have a duty as a nation to keep our own house in order. We must also try to offset the impact on our economy of adverse developments abroad to the extent that is possible without compounding the difficulties of others. Constructive discussions were held among First Ministers in Ottawa late last month and I was given an opportunity to brief them on international developments and the economic situation in Canada. Over the past several weeks, as members are aware, I have had extensive meetings and consultations with my provincial colleagues.

We in this country are confronted by two major economic challenges -- dealing with persistent, deep-seated inflation and at the same time maintaining a good level of production and employment. This will require us to steer a narrow course if we are to avoid more inflation on the one hand and the risk of a recession on the other. And in doing so, we must also do everything we reasonably can to protect Canadians who are least able to protect themselves from the ravages of both. That is what this budget is all about.

International Developments

I should like to turn my attention first to developments on the international scene.

You will recall that strong inflationary forces had emerged even before the energy crisis of late 1973. An enormous build-up of international liquidity arising from U.S. balance of payments deficits and concurrent economic expansion among industrial countries had created demands that could not be physically satisfied. Crop failures added to the problem of inflation. Then, in December of last year, came the cutbacks in the supply of oil and the explosion in its price. The full consequences of the quadrupling of oil prices, coming on top of these underlying problems, cannot even yet be known with certainty. But it is clear that they have precipitated a combination of economic and financial difficulties without precedent. In these circumstances, it would be unwise for any of us to underestimate the threat to world economic and social stability.

Let me outline the nature and dimensions of this predicament. Consumer prices in the major industrial nations may average about 14 per cent higher in 1974 than in 1973, with Japan suffering a 24-per-cent increase. The view now is that in 1975 the average rate of inflation for these countries may not be much lower than 12 per cent.

At the same time, there has been a pervasive slowdown in economic activity. Last year member countries of the Organization for Economic Co-operation and Development achieved average real growth of 6.3 per cent. In 1974 they will show virtually no growth. Next year it is expected that expansion, if any, will be marginal.

Associated with these developments is the emergence of huge balance of payments deficits of oil-importing countries. OECD nations had a current account surplus of about \$2 billion in 1973. In 1974 they will have a deficit of around \$40 billion, and this may be repeated in 1975. When the deficits of other oil importers are taken into account, including developing countries, this figure will be upwards of \$60 billion this year and could be of the same magnitude next year.

The speed with which these problems have emerged and spread to virtually all countries is a measure of their high degree of economic and financial interdependence. It underlines the need for close and effective international consultation and joint international action. These problems demand continuing surveillance by world organizations that can take a comprehensive view and muster concerted action. Canada is playing a very active role in the development of international initiatives.

We assisted in the establishment of the new Interim Committee of the Board of Governors of the International Monetary Fund and the Development Committee of the Fund and World Bank. Canada sees these committees as important instruments for bringing the collective political will of the member countries to bear on solutions. I intend to give these efforts all the time I can.

When it next meets in January, the Interim Committee will address itself to the monumental problem of recycling oil money. This is urgent because not all countries in deficit will, on their own, be able to find the funds they need. There is real doubt that the private financial system will be able to transfer the huge surpluses of oil producers to oil importers without severe financial strains. We hope that the Interim Committee will be able to make positive recommendations so as to ensure

that the recycling process goes forward without seriously disrupting international trade and payments.

But recycling will only tide us over the immediate problem. It will not provide a long-term solution. In time, many countries will have to reduce the rate at which they are accumulating debts. This means that they will have to bring their external payments into better balance. Many approaches will be needed -- perhaps lower oil prices, conservation in the use of energy, increased exports and the sale of equities and real property to the oil producers, more aid from them to less-developed countries, and other measures. Our ability to cooperate internationally will be severely tested, but we see nothing to be gained from policies of confrontation.

There is the danger that balance of payments difficulties will lead countries to resort to restrictions on trade. Such measures cannot solve the world's difficulties. They can only make them worse. It is for this reason that the Canadian government has strongly supported international pledges against the use of trade restrictions to deal with payments problems.

I hope that we will soon be able to proceed to the active stage of the Multilateral Trade Negotiations initiated last year at the GATT Ministerial Meeting in Tokyo. We must carry forward the attack on unnecessary barriers to trade and contain the pressures of protectionism. We must also examine the international trading rules to ensure that they meet the needs of our times and that they assist the over-all process of adjustment in the world economy.

It is critically important that the United States administration get the legislative authority it needs to play its full part in these negotiations.

I am deeply troubled by the potential disaster facing many of the poor countries of the world. A number of them can no longer pay for food, fertilizer, fuel and many other essentials. All countries, including Canada, must review their foreign aid programs in the light of these tragic developments.

Canada must, at a minimum, help these countries meet the most urgent and basic need of their people -- food. My colleague, the Secretary of State for External Affairs, announced at the World Food Conference in Rome that Canada would increase its contribution under the Food Aid Convention to provide three million tons of grain over the next three years. We intend to expand our contributions of other forms of food aid just as

quickly as we can. We attach a particularly high priority to helping developing countries increase their own food production. These are moral commitments. We intend to fulfill them.

The Canadian Economy

I turn now to the economic picture in Canada and our own prospects for the future. I have already noted that world economic trends have shifted toward slower real growth, more protracted inflation and deeper payments imbalances. Consequently, the outlook for the Canadian economy is less bright than when I brought down my budget last May. Output, employment and income will all continue to grow in 1975, but at rates below potential. The disappointing harvests in North America and elsewhere, continuing high prices of some commodities, and cost escalation in Canada have all combined to postpone the expected relief from high rates of inflation.

The Canadian economy began 1974 with the momentum from last year which had carried it to the peak of productive capacity. This momentum was maintained until the late spring. There were widespread scarcities of materials and many kinds of labour. Since early summer, however, signs of slowing down have appeared. One of the principal causes was the deteriorating economic performance of the countries to which we export. Another was the decline in new housing starts -- especially in rental housing, where construction was curtailed by the increasing squeeze of costs against rental income. We also suffered from a very serious loss of production as a result of extensive work stoppages caused by industrial disputes.

Our economy, however, has firm underpinnings. The volume of consumer buying is keeping pace with the continued increase in real income of Canadians. Capital investment by business is growing strongly.

When the record is all in, the Canadian economy will probably show a real increase in Gross National Product this year of 4 to 4½ per cent.

In the May budget I forecast that employment would increase in 1974 by more than 300,000. In fact, it has increased in the last 12 months by some 390,000 and over the last two years by some 870,000 -- a phenomenal achievement by any standard. The unemployment rate is now lower than it was a year ago.

During the strong economic expansion in Canada since 1970, unemployment did not dip below 5.2 per cent in any quarter. Yet there was evidence of widespread tightness of labour markets, particularly in late 1973 and early 1974. There was a sharp increase in job vacancies and help-wanted advertising. Frequent complaints of scarcities of labour, particularly of skilled workers, were heard in many parts of the country. Our economy now seems to reach a condition of widespread scarcity and strain in labour markets at somewhat higher unemployment levels than in earlier postwar cycles. The explanation would appear to lie in changes in composition of the labour force, together with changes in our social policies and improvements in family incomes which enable people to take more time to search for the jobs they want.

Canada, like other countries, has had a continuing upsurge of inflation. Some commodity prices have fallen in the last several months. As I noted before, there had been hope earlier that good harvests around the world would ease the rise in food prices. This hope has faded for the present. In addition, the response to earlier international price increases has provoked domestic forces of cost-push inflation in Canada. Profits have risen strongly this year. Wage-rate increases have accelerated.

Many private forecasts of Canada's economic prospects through 1975 have been made recently. In respect of real growth they range from 1 per cent to over 4 per cent. Their views on inflation range from a little more to a little less than we are experiencing this year. Their projections for unemployment are from 6 per cent to nearly 8 per cent.

Our own view of the prospects for real growth in production and employment next year -- in the absence of any policy changes -- was not nearly as pessimistic as the low forecasts, but less optimistic than the high ones. Here is how the situation looked to us as we started to plan the budget. The poorer outlook for the economies of the United States and other major industrial nations indicated that Canadian exports would not be a source of strength. The prospects for Canadian housing activity in 1975 looked to be substantially poorer than this year. We expected that the volume of goods and services bought by consumers would continue to increase because of the underlying strength and stability of the real income at their disposal. But we did not expect that consumer spending would lead economic growth, as it did earlier in the business upswing. We considered that the strongest element in the picture would continue to be private capital investment in new plant, machinery and equipment. For 1975, the latest readings on investment intentions, building permits, contracts awarded, new orders and work in the hands of

architects and designers indicated continued strong real expansion in business investment. But the uncertainties of the situation, particularly with respect to costs, sales and financing still raised the possibility that some projects would be postponed or cancelled.

Given the weaker outlook for exports and continued strong imports because of relatively stronger growth in Canada than in other countries, we expected some increase in the deficit of the current account of our balance of payments.

We believed that the increase in prices could be more moderate in 1975, since the easing in world non-food commodity prices already underway would work through the Canadian price structure in the next few months. We expected that the easing of interest rates then beginning would also contribute to lower costs. Energy prices would certainly not be the engine of inflation that they were during the past year. Taken over-all, however, the prospects depended heavily on food prices. If grain harvests were good and the output of other farm products rose, there would be a slower increase in food costs. But we felt that a slowing of inflation in 1975 would also depend on moderation in the setting of prices and incomes in Canada.

The Thrust of Policy

Mr. Speaker, I turn now to the thrust of policy that I believe to be appropriate in the light of this appraisal of the pre-budget prospects. We are confronted by the twin problems of inflation and slower growth. They are very closely related, since inflation -- if allowed to get out of hand -- threatens the continued growth of real income, production and employment. Inflation creates major uncertainty and undermines that intangible element of confidence that is so important to the maintenance of continued healthy growth. It erodes savings and distorts and disrupts financial markets so vital to the smooth functioning of our economy. Inflation can also jeopardize our international competitive position.

We must solve these twin problems together. We cannot choose to deal with one and neglect the other.

There are some who say: "Let us live with inflation; it's not too bad as long as we ensure full employment and protect the weak." There are others who say: "Inflation is so great a menace to our economic, social and political life that it must be

rooted out, even at the risk of a serious recession and massive unemployment."

I reject both extremes. The first is unrealistic; the second is inhuman. The only objective which is acceptable to me, to this government and, I believe, to this House, is good economic performance in every respect.

What does this objective call for in terms of policy? No single approach can do the whole job. A combination of policies is needed. Let me outline my broad approach before describing specific measures.

The first essential is action to sustain demand. In the light of the present outlook for the next 12 to 18 months, this is imperative if we are to achieve a rate of growth of production and employment that more closely approaches our potential. This will be a major goal of our fiscal and monetary policies. It must be remembered that much of what we propose tonight will not bite in economic terms until well into next year. Politicians, journalists, even some economists, are often inclined to underestimate the time lags in the impact of economic policy.

Second, the fiscal stimulus should come primarily from a further cut in taxes, rather than an additional increase in expenditures. I believe that tax cuts can help to reduce prices and costs directly or indirectly and thus slow down the upward momentum of inflation. An indiscriminate or excessive increase in expenditures would exacerbate the pace of inflation.

Third, we must do all that we can in these circumstances to restrain the growth of governmental expenditures, particularly those that do not contribute directly to an increased supply of goods and services, that do not help those Canadians least able to protect themselves, or that do not directly moderate price increases. We have sought and shall continue to seek to cut out waste, to place limits on the growth of the public service and to approve only the most essential new programs. A tough line has been taken in the planning of expenditures for 1975-76. In present circumstances, we must do all we can to ensure that outlays grow no faster than the economy as a whole. For the year 1975-76, the rate of growth of our expenditures will be significantly lower than it has been in recent years.

Fourth, we should apply stimulus selectively where we can help to buttress weak points in the economy. Similarly, we should constrain governmental capital projects in those parts of

the country where conditions continue to be tight. This selective approach as well as our regional development policies, is especially important when the economic situation is so mixed, with shortages continuing in many sectors and regions and surpluses developing in others.

Fifth, we must ensure that private capital investment remains strong. This is a key factor in terms of maintaining demand now, generating new productive capacity and employment, and moderating the rise of prices in the future. I have stressed consistently the importance of encouraging the growth of supply as an essential part of any effective anti-inflationary strategy. The outlook for capital investment remains good, but there are potential difficulties arising from the slowdown in the demand for exports and the problems of financing. We want to make sure our efforts to modernize and expand our industry do not falter.

Sixth, continued attention must be given to mitigating the effects of inflation on the more vulnerable members of our society. I have said before that I do not intend to fight inflation on the backs of the poor, the weak, the unorganized or the unemployed.

The final element in our over-all approach is a comprehensive series of consultations with all sectors of the economy to seek to develop a co-operative national effort to slow down increases in costs and prices. This can make a key contribution to success in solving inflation and slow growth.

I have referred earlier in my remarks to the changing character of recent inflation. The difficulty now is to be found not in general excess demand, but in other factors. I have already spoken of the absolute and relative increases in prices of food and energy throughout the world. We must recognize that these increases reflect a fundamental change in the supply of cheap resources in the face of constantly increasing demands. Consumers cannot escape the impact of these structural price changes on their standard of living. Much higher prices for food and energy have made more difficult the task of reconciling the efforts of the various social and economic groups to maintain or increase their shares of the national income. Given the inflation which has occurred, no one group is willing to exercise restraint unless it knows that others will also exercise restraint. Rather each group feels compelled to seek protection against the highest rate of inflation which it thinks might occur.

The hard truth remains, however, that in this struggle the sum total of all the claims on the nation's resources -- however justified they may seem to be -- clearly exceeds what is in fact available to be shared. No group is likely to succeed in getting the full share of the real national pie to which it feels entitled. So long as each continues to attempt to enforce its claim by pushing up its price, its wage, its interest rate or tax rate, the outcome can only be further inflation. We have to find a better way of reconciling the competing interests of the various groups which make up our society. No group need lose in this search. Indeed, if we succeed, all can gain because the over-all performance of the economy will be enhanced by controlling inflation.

This is why we need a national consensus about what the various groups can safely take from the economy over the next few years. Co-operation must be the watchword. We will give leadership, but we will not try to impose solutions. The common objective must be to bring the rate of inflation down, year by year, to acceptable levels.

As a result of the extraordinary progress made over the last several decades in developing food and energy, we came to regard them as relatively cheap and abundant. That has all changed in the space of a few short years. We have become painfully aware that our capacity to produce both these essentials is not unlimited. The growing scarcity of these resources compels us to husband them wisely.

On a world scale, it is not just an economic problem. It is a moral issue, because for many people and for many countries it is survival which is at stake. Many countries haven't enough energy to meet the basic needs of their people. Millions of people haven't enough to eat. For Canadians this is not a question of economics; it is a matter of conscience.

Should we live as high as we do?

Should we waste as much as we do?

Don't we have a duty to conserve energy? Don't we have an even greater duty to conserve food in a starving world?

These aren't properly matters for a budget. But I do believe they are matters for the conscience and private conduct of 23 million Canadians.

Governments can, of course give a lead. Canada has pledged more food aid. The more we save, the more we can pledge.

As far as energy is concerned, my colleague, the Minister of Energy, Mines and Resources, will shortly be bringing forward important conservation proposals.

Budget Measures

Resource Taxation

Mr. Speaker, before I turn to new budgetary measures I wish to address myself to the taxation of our natural resource industries.

When I introduced the federal government's new proposals for resource taxation last May, I said that in developing our policy we 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."

I stand behind these objectives. And, more than ever, I recognize and respect the aspiration of our Western provinces to use the proceeds of their resources to diversify their industries and to broaden the base of their economies. Western Canada wants, and is entitled to, its place in the sun.

The May proposals have been criticized principally from two sources, industry and provinces.

The petroleum and mining industries argue that they are being overtaxed. In some parts of this country, that charge may well be true. But I believe that it is not the federal government which is overtaxing. Surely all Canadians would agree that the Canadian people as a whole are entitled to a reasonable share of the profits earned by these industries. In fact, many industry representatives to whom I have spoken agree that the federal share, as proposed in the May budget, is not excessive. Rather, they contend, it is the combined effect of federal and provincial levies that is excessive.

From my many conversations with industry representatives during the last six months, I have obtained a better understanding of their problems, and their investment needs. I think that those in industry have also obtained a good understanding of my position. Let me repeat my conviction that Canada must have strong private resource industries if we are to obtain the supplies needed in the years to come. They need a sufficient cash flow to undertake further exploration and expansion and provide a fair return to their shareholders.

Although the provinces are by no means unanimous, the core of their criticism is that the disallowance of provincial royalties, taxes and other similar payments is somehow an attack by the federal government on provincial ownership and jurisdiction over natural resources. I have talked with provincial ministers from all 10 provinces and I have tried to reassure them that this is not so. No one is questioning the provinces' ownership or jurisdiction. But it is abundantly clear that the British North America Act gives the federal Parliament the right to tax profits derived from these resources.

Obviously, only part of the solution lies within the federal domain. The other part is clearly a responsibility of the provinces. Each level of government is sovereign in its own sphere. Yet a knowledge and understanding of what the other level of government is doing and an effort to harmonize objectives should contribute to reasonable policies. I have reviewed the May 6 proposals and concluded, in a spirit of accommodation, that I should propose some changes which would be helpful to both industry and to the provinces.

Before discussing them, I would like to outline those proposals which I made last May that I believe should not be changed.

First, I proposed that the national rate of tax on resource production profits should be set at 50 per cent.

Second, I proposed that the special abatement of 15 points of federal tax in respect of mining production profits, which had been scheduled to come into effect in 1977, be applied immediately. The result of this special abatement was to reduce the federal rate of tax on mineral production profits to 25 per cent.

Third, I proposed that automatic depletion be terminated immediately and be replaced by the new system whereby depletion had to be earned. Furthermore, I proposed that depletion be permitted only up to 25 per cent of production profits as a deduction from taxable income; the previous limit was 33 1/3 per cent.

Fourth, I proposed that royalties, taxes and other like payments to governments should no longer be recognized as a deduction in computing income for tax purposes. My reasons for this action were described in the May 6 budget and I have elaborated upon them since. I am satisfied that this is a necessary step in order to avoid the erosion of the federal tax base.

I have considered carefully permitting deductibility of royalties and I have concluded that this approach does not offer a practical solution.

I acknowledge that royalties in respect of property rights have traditionally been deductible as a business expense. However, in tax reform, we began the process of disallowing certain income royalties in the mineral field and substituting federal tax abatements. Today, it is evident that a royalty is no longer a royalty in the traditional meaning of the word. There have emerged various provincial charges which are thinly disguised income taxes.

Today provincial charges take many forms. They are no longer limited to flat charges against a unit of production. Now there are provincial charges that are determined by price, profit and volume. In addition, there are provincial claims exercised through joint ventures and marketing boards. In fact, there are so many kinds of provincial charges and claims that it would be virtually impossible to draft workable legislation which could distinguish between bona fide royalties, traditionally deductible, and other taxes and charges.

That being so, we have chosen to disallow the deduction of all these levies and to make room for the provinces by giving additional tax abatement. In this way, the provincial taxes and charges and the federal taxes will each be discrete and visible decisions, which each can take in the light of what they know the other is doing, giving full recognition to the needs of the industries.

Surely the goal is to find a compromise which gives reasonable results in financial terms to the provinces, to the industries and to the federal government. This is what my proposals aim to do.

I would like now to take up the May proposals in which I am making major changes.

First, in respect of oil and gas production profits, I proposed in May a new abatement of 10 points of federal tax, resulting in a federal rate of 30 per cent. I believe that a 30-per-cent rate of federal tax is reasonable for the year 1974, given the current strong profitability and the healthy cash flow of the petroleum industry.

I have tried, however, to look ahead and the picture is changing. Our demand for energy is rising and our known reserves are declining. New sources of supply, given their nature and location, will be expensive to find, develop and bring on stream. Our reading of the situation is that the industry's need for funds as they carry out this program will build up over the next two or three years. Clearly, if industry is to do the job that must be done, it will need adequate financial resources and a prospect of a reasonable return on its investment. For these compelling reasons, I propose that the federal rate of tax on petroleum production profits be reduced from 30 per cent in 1974 to 28 per cent in 1975 and to 25 per cent in 1976 and subsequent years. By 1976, the federal rate on oil and gas production profits will be 25 per cent, the same as on mineral production profits.

Second, Mr. Speaker, in the May 6 budget, I proposed that the rate of write-off for expenditures on exploration and development for both petroleum and minerals be reduced from 100 per cent to 30 per cent. At that time, I felt that such a lower rate was more appropriate in the light of the existing circumstances of the natural resource industries. However, I have been persuaded by the arguments presented to me over the past several months by both large and small companies that exploration in Canada is becoming ever more expensive and risky.

It is difficult, particularly for smaller companies, to borrow exploration capital and, therefore, there is a heavy reliance on internally-generated funds. On the other hand, expenditures on development are more similar to the capital expenditures incurred by other industries. Hence, for both petroleum and minerals, I am proposing to restore the 100-per-cent write-off for exploration expenditures, but to retain the proposed 30-per-cent rate of write-off for development outlays.

For the year 1974, I estimate that the changes I am proposing tonight will improve the position of the oil and gas companies by about \$100 million and of mining companies by about \$15 million as compared with my May proposals. This saving for the resource companies affected is a full 25-per-cent improvement over the May position. It is more difficult to estimate the value to the companies of the tax reductions I am proposing tonight for subsequent years because of the many uncertainties about price, volume and other factors. Nonetheless, I can say that the saving will be at least \$185 million for these companies in 1975 on any reasonable assumptions as compared to the May proposals. For the petroleum companies, the benefit in 1976 will be even greater because of the further reduction in the federal tax rate.

Mr. Speaker, both for the current period and for the decade ahead, I believe that this modified series of measures represents fair and reasonable federal taxation of these natural resource industries. Moreover, the effect of the modifications to the original May proposals will be to improve significantly the financial position of these industries both in the short and long term.

We have pulled back from our original proposals. We want resource industries adequately taxed; but we want to see their financial position sufficiently strong to enable them to develop and to deliver the supplies needed in the years ahead. We have done our part. I now appeal to the provinces, which also have a responsibility to these industries and to the Canadian people, to do their part. I have no doubt that if the provinces respond to the needs of the industries and the nation as I have tonight, the problem will be resolved.

Equalization Payments

Closely related to taxation and other developments in oil and gas is the matter of federal equalization payments to the provinces. Honourable Members know that the rapid escalation in

oil and natural gas prices has caused the revenues of the oil and gas producing provinces to grow enormously. If all of the new revenues were to be equalized, the additional cost to the Canadian taxpayer within the next few years could approach \$2 billion annually -- and that is on top of current payments of about \$1.7 billion. Under certain circumstances, even the province of Ontario could be receiving equalization. This would not make sense.

In the face of the extraordinary situation brought on by the world oil crisis, we have sought three things. First, to protect the basic equalization formula. Second, to ensure that total provincial revenues from this program continue to meet the needs of the provinces receiving equalization. Third, to ensure that the Canadian taxpayer is not heavily over-burdened. In short, I believe in the principle of equalization and I want to preserve the viability and credibility of that system.

When this problem emerged last winter, I expressed my great concern about the threat posed to the equalization program. During the First Ministers' meeting last January I said we would prefer to find some way to shield this program from the consequences of the oil crisis, without attempting a fundamental restructuring of the entire system.

When First Ministers met for a second time in March, a solution was sought under which producing provinces would set aside a portion of their increased revenues from oil for energy development rather than use these funds for general purpose spending. The revenues so set aside would not be equalized. The remaining oil revenues would be, however, adding at least \$100 million to the equalization program on account of oil.

We have been making payments to the provinces on the basis of our understanding of the amounts that would be set aside by the producing provinces. As a result, payments are currently some \$163 million higher than our original estimates for this year, of which oil royalties account for \$126 million. The necessary legislative changes to give effect to this understanding have awaited the establishment of the capital funds by the provinces. All of these funds, however, have not yet been set up. Alberta is enjoying an increase in its revenues from oil and gas of a magnitude unprecedented for any government in Canada. It is not surprising that Alberta has experienced difficulty in deciding how its new revenues should be allocated. Nonetheless, in the absence of such a fund all Alberta oil and gas revenues would, technically, be subject to equalization. And the amount of equalization payments for which the federal government would

be liable could be drastically affected by the unilateral decision of one or two provinces. For all the reasons I have stated, we simply could not put this enormous additional burden on the Canadian taxpayer. Rather than restructure the entire equalization program now, I have chosen to protect the basic formula and give effect to the intent of the understanding reached last March in a simple way.

This new proposal will relate both to oil and natural gas revenues. When the international oil situation was discussed by First Ministers last March, the crisis had not yet reflected itself in significantly higher natural gas prices. Consequently, natural gas did not figure in the discussions at that time. We now know that natural gas prices are also rising sharply. It is possible that within the next few years increased provincial revenues from natural gas could add another \$1 billion annually to the burden the Canadian taxpayer would have to bear if these revenues were to be equalized in full. We would then be faced with a further threat to the viability of this program. The reasons for limiting the equalization of oil revenues are equally applicable to revenues from natural gas.

According to the understanding reached by First Ministers last March, the establishment of capital funds by producing provinces would have taken up in total about two-thirds of additional oil revenues, and left about one-third for general purposes. What I am proposing now is a change in the equalization formula which will have the effect of including all of the oil and gas revenues related to the pre-crisis situation, plus one-third of the additional oil and gas revenues related to the subsequent tax and price changes.

Before bringing this new formula into effect, I will consult the provinces at the next meeting of Ministers of Finance and Provincial Treasurers in a few weeks.

Measures to Stimulate Residential Construction

I come now to the specific new measures to give effect to the budgetary policy as I described it earlier.

I have already referred to the short-term prospects for construction of new housing. The projected weakness in this sector of our economy troubles me a good deal. It threatens to reduce employment, raise production costs and increase housing

prices and rents. Even more important, a reduction in the supply of new housing could lead to a lower standard of accommodation than Canadians deserve.

The government is determined not to let housing construction drop to unduly low levels. Measures proposed in the May budget should make an effective contribution to this end, and will be reintroduced. Additional programs by the Central Mortgage and Housing Corporation have recently been announced. This budget contains further major new initiatives.

Before I turn to a discussion of new responses, let me recall to Members the measures announced last May. First, I proposed that the carrying costs on land awaiting development would not be chargeable against other income, but could be taken into account only when the land was sold. My colleague, the Minister of State for Urban Affairs, and I have both listened carefully to the debate on the merits of this proposal. We are both persuaded that this measure will indeed assist in bringing more land on to the market more quickly. Hence, I propose to reintroduce this measure as originally announced.

Second, in my last budget I proposed to eliminate the sales tax on construction equipment and on materials used in municipal water distribution systems. These sales tax reductions will become effective tonight.

Finally, in order to assist young people in accumulating the capital required for a down payment on a house, I announced last May, and I want to reaffirm tonight, the introduction of a new savings vehicle to be known as the Registered Home Ownership Savings Plan. I hope and expect that the bulk of the savings flowing into this plan will provide an important new source of mortgage funds to finance the construction of the new housing we require in this country.

Mr. Speaker, I believe that the foregoing is of itself a formidable and effective range of programs, but I am not content to rest there. Still more thrust is needed.

The issue of the sales tax on building materials has long been the subject matter of debate in this House. Up to now I have resisted reduction of this tax for two principal reasons. First, it is a costly step and governments are always confronted with hard choices among competing priorities. Second, I was concerned that such a step would overstimulate an already strong demand. The housing picture, however, has altered significantly in the last few months. As a result of these changed prospects,

I propose that, effective tonight, the rate of sales tax on building and construction materials be more than cut in half to 5 per cent. This measure will cost the federal government in a full year \$450 million. I am confident that this measure will add stimulus to the industry and will, at the same time, contribute to a moderation of prices for housing.

Mr. Speaker, for reasons already discussed, I am particularly anxious to provide a quick and strong incentive to the construction of new rental housing units. I therefore propose to relax for a period the rule whereby capital cost allowances on rental construction could not be charged against income from other sources.

Specifically, in respect of new, multiple-unit residential buildings for rent, started between tonight and December 31, 1975, the capital cost allowance rule will not apply. This means that an owner of an eligible rental unit will be permitted to deduct capital cost allowance against any source of income at any time. I am confident that this measure will attract a significant amount of private equity capital into the construction of new rental housing.

In my budget of last May, I proposed steps to assure the fullest possible allocation of mortgage funds to housing of more moderate cost. They included a request to the principal lenders to confine high-ratio loans to middle and lower-priced housing. When labour, materials and money were in short supply, it was desirable to direct them in this way in order to benefit the greatest number of people. But the situation has now changed to the point where all demands for new housing can be met. I am therefore withdrawing this request for the time being.

Honourable Members will not need to be reminded of the \$500 grants to be provided by CMHC for one year to those purchasing new, moderately-priced housing units for the first time. This time limit will increase its effectiveness as an immediate stimulus to housing construction.

Moreover, I am assured by the Secretary of State for Urban Affairs that the policies of the Central Mortgage and Housing Corporation will be adapted to the changing needs of the economic situation. The Assisted Home Ownership scheme has proved its value and will be extended. Much greater emphasis will be placed on stimulating new construction of rental units for persons of moderate income. Moreover, these programs will be a very effective use of government funds because they will

provide the incentive that will attract capital funds from the private mortgage market. Legislation to give effect to these new approaches will be introduced at an early date.

I am confident that the combination of measures which I have announced tonight and those originally proposed last May will provide the impetus necessary to increase the housing stock in this country at a healthy pace and fulfill our commitment to place decent accommodation within the reach of every Canadian.

Measures to Sustain Capital Investment

Mr. Speaker, I have referred often tonight to the two main issues we must confront. First is the need to moderate price increases. Second is the necessity in the year ahead to ensure that our economy continues strong, and that our capacity to expand supply keeps growing. In addition to providing stimulus to demand and having a moderating effect on price in the housing sector, the reduction in the sales tax on building materials will help to sustain investment in non-residential structures and to exercise a similar moderating influence on prices in this sector. In a longer perspective, the economy should benefit from an enlarged industrial capacity and lower overhead costs.

The transportation industry is a vital part of the infrastructure with which our economy must operate. But it is being exposed to cost pressures which are both weakening its vitality and forcing it to translate these cost pressures into price increases. These increases in turn pyramid into cost increases throughout the economy. In an effort to bring some relief to this situation, I am proposing to eliminate the federal sales tax on transportation equipment effective tonight. The equipment covered by this reduction includes railway cars, large trucks and buses and commercial aircraft. It has an estimated annual market value of approximately \$1 billion and the cost of the tax reduction to the federal government for a full year will be about \$100 million.

Finally, in the area of business investment, I wish to announce the extension of a measure which has made a major contribution to the strong investment performance, which is improving our productivity, enhancing supply, creating new jobs and helping to sustain the Canadian economy at a time when the economies of many other nations are faltering. This measure is the two-year write-off of expenditures on new machinery and equipment for manufacturing and processing in Canada, which is scheduled to expire at the end of this year. I am now proposing

that it be extended without a terminal date. This measure will reduce the federal tax liabilities of manufacturers and processors in 1975 by \$150 million.

In addition, I wish to announce that I am renewing the fast write-off for pollution equipment, now scheduled to expire at the end of this year, for a further two years.

Personal Income Tax

Mr. Speaker, I now wish to discuss in detail major proposals affecting the personal income tax. I have in mind the need to sustain the growth of purchasing power over the period ahead. Just as important, I want to protect Canadians as much as possible from what is happening to their own family budgets because of inflation.

Under the existing law -- as a result of my budget of February, 1973 -- taxpayers are entitled to reduce their federal tax liability by 5 per cent, subject to a minimum of \$100 and a maximum of \$500. Last May, I proposed that, commencing in 1974, the minimum cut would be increased from \$100 to \$150. This proposal, which is of most benefit to the lower income groups, will of course be reintroduced.

Let me now turn to 1975. First, Members will recall that provision was made in tax reform for successive reductions in the rate of tax applicable to the first \$500 of taxable income. For 1975, this will mean that the first bracket rate will be reduced from 12 per cent to 9 per cent. Second, indexing will bring about major tax reductions for all taxpayers. Just a few weeks ago, I informed the Canadian people about the tax decreases that will occur in 1975 as a result of the automatic indexing of the personal income tax system. Indexing will reduce the tax liability of Canadian taxpayers by \$950 million in 1975.

I now propose new personal income tax measures for 1975. In view of the need to add some stimulus to the economy by reducing taxes, I propose to ask Parliament to approve another major extension of the tax cut for 1975. Specifically, I propose:

First, that the basic reduction be increased from 5 per cent to 8 per cent of federal tax otherwise payable,

Second, that the maximum be increased from \$500 to \$750,

Third, and most importantly, that the minimum reduction be increased to \$200.

This measure assists every taxpayer in the country. But the foremost consideration is that the benefits are concentrated among the more moderate income groups. For 1975, this means a reduction in taxpayer liability to the federal government of \$615 million and of this amount two-thirds or more will accrue to those earning less than \$12,000.

It should be noted that a married wage-earner with two children under 16 would pay no federal tax in 1975 on income up to \$5,871. This compared with \$4,830 in 1974.

Tax deductions at source will be adjusted next January to give effect to this new measure. Taxpayers will thus start to enjoy early next year an increase in their take-home pay resulting from the combination of four factors: the reduction in the rate of tax on the first bracket of taxable income; indexing; the increase first announced in my May 6 budget speech in the minimum tax cut to \$150; and this further increase in the tax cut which I have just announced. As a result of these reductions, the take-home pay of a married taxpayer with two dependent children will rise in 1975 by \$214 if he is earning \$6,000 per year. If he is earning \$10,000 his take-home pay will rise by \$250 in 1975.

This \$250 is a large part of the increase in the cost of that family's food over the past 12 months. It is apparent, therefore, that these reductions will make a significant contribution to the support of people's real incomes this coming year. I would urge all Canadians to bear this fact in mind when making their demands through their union officers or to their employers concerning their wages. For the average worker this contribution through the tax system is worth a good deal more than an increase of the same amount in wages, which would be taxable. This same message is relevant for Canadians who get their incomes in forms other than wages and salaries. And I ask them to take into account the benefit of these tax reductions to them when setting their fees, prices, rents or other charges.

The Protection of Savings

The House will recall that in my budget of last May, I proposed several measures to protect people's savings against the eroding effects of inflation. One measure was the introduction of an exemption for the first \$1,000 of interest income received by individuals. This amendment will be reintroduced for 1974. In addition, for 1975, I propose to expand the scope of this exemption to include Canadian dividend income similar in character to the types of interest income which qualify for that exemption. This should encourage the purchase of Canadian stocks and thereby assist Canadian companies in financing their investment projects through the equity route. It should also provide some welcome support to the market.

I am also proposing to introduce an amendment to the Income Tax Act which will permit recipients of cash bonuses on Canada Savings Bonds to treat the cash bonuses as interest, thus qualifying for the exemption, or as capital gains.

The problem of protecting savings against the erosion of inflation is particularly acute for older people. Generally our senior citizens rely on pension incomes as their main source of support and, for many of them, the real value of those pensions has been shrinking. I have in mind, for example, a person who retired 5 to 10 years ago on a pension which, at that time, appeared to permit him or her to live in modest comfort. Simply stated, for many people the recent spate of inflation has turned the prospect of a secure retirement into a struggle to make ends meet.

The federal government has already taken certain steps to remedy this unsatisfactory condition. First, we have raised the special exemption for those 65 and over. Second, we raised Old Age Security payments and the Guaranteed Income Supplement and indexed them along with the Canada Pension Plan to offset increases in the cost of living. Third, we have cut taxes within the past two years, and the further substantial tax cuts I have announced tonight will benefit the elderly along with other Canadians.

The \$1,000 exemption for interest and dividends to which I have just made reference will also help those who have saved privately, but it still leaves unprotected the future of people who have saved through private pension plans. Therefore, I wish to propose a further measure which will be of direct assistance to people receiving private pensions, by which I mean

pensions other than those provided universally through OAS and GIS, the Canada Pension Plan and its counterpart, the Quebec Pension Plan. I propose to exempt from tax the first \$1,000 of pension income effective January 1, 1975. This new exemption will be available to anyone in receipt of a private pension and to people over the age of 65 in receipt of an annuity from a Registered Retirement Savings Plan or a payment from a Deferred Profit Sharing Plan.

There is another measure of direct assistance to older couples that I am also happy to announce. Under the present Income Tax Act, each person 65 years or older is entitled to a special exemption. As a result of indexing, this exemption will be \$1,174 in 1975. Consider the case of an elderly couple. If each has sufficient income to be taxable, then each spouse can take advantage of the old age exemption. However, it is often the case that only one spouse is in receipt of income -- for example, a pension. In this case, the old age exemption of the spouse without income is wasted. As another step to relieve the plight of many older couples, I am proposing that to the extent one spouse cannot take advantage of the special old age deduction, then the other spouse will be able to make use of it. This measure will be effective January 1, 1975.

The combined impact of these various measures will bring significant relief to older people. Take the example of a couple both over 65 and retired where one partner has some private savings and is collecting a private pension. Both are receiving Old Age Security pensions. As a combined result of their basic exemptions, the transferable old age exemptions, the interest and dividend deduction, the pension deduction, and the tax cut, the person in this example could receive up to \$8,258 in income next year before becoming liable for federal tax.

Other Tax Measures of the May Budget

Mr. Speaker, as I mentioned briefly at the beginning of my remarks tonight, it is my intention to reintroduce the May 6 budget measures unchanged to the extent possible. I have already made reference tonight to a number of these measures, confirmed that they would be reintroduced for 1974, indicated where they would be modified, and described how they would be enriched and extended for 1975.

For clarity, let me state the situation with regard to those measures to which I have not yet made reference:

First, the 10-per-cent surtax on corporate profits earned from May 1, 1974, to April 30, 1975, will be reintroduced substantially as originally proposed. However, corporations will not be required to adjust their monthly tax instalments to reflect this surtax, since almost seven months have now elapsed since the commencement date of this measure.

Second, the proposal to advance 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, will be reintroduced.

Third, the proposal to reduce the level of the tax-free reserves of large financial institutions from $1\frac{1}{2}$ per cent to 1 per cent on eligible assets of over \$2 billion will be reintroduced effective for 1974.

Fourth, the general increase in excise levies on spirits, wines and tobacco products proposed last May will be reintroduced effective tonight.

Fifth, the special excise taxes on high energy consuming vehicles are again being proposed in this budget, effective tonight, but subject to some important modifications. I have already spoken about the need to conserve energy. Hence, I propose to reinforce these measures by increasing the applicable rate. For motor cars, the rate over a base weight will be \$20 for the first 100 pounds, \$25 on the next 100 pounds and \$30 for each subsequent 100 pounds. For all but small motor-driven pleasure craft and for all privately-owned aircraft, the special rate will be 10 per cent. For heavy motorcycles, the rate will be 5 per cent.

I have now commented on the revenue-raising measures announced last May. I should also like to make reference to other tax cuts proposed in that budget which have not yet been discussed.

First, Members will recall the proposal to eliminate the sales tax on clothing and footwear. In mid-July of this year, the government gave immediate effect to this sales tax reduction under the Financial Administration Act. I wish now to deal with this in a more formal manner by including it in the Ways and Means Motions to be tabled tonight.

Second, the other sales tax reductions announced last May will all be reintroduced effective tonight. In addition to those items already mentioned, such as construction equipment and

municipal water distribution equipment, this measure includes the elimination of sales tax on bicycles and municipal transit systems, certain purchases by day-care centres and clinics, and certain aids for the handicapped.

Third, I want to reaffirm the proposal to increase the incentives available to incorporated small businesses. As previously announced, for 1974 and subsequent years the annual limit of \$50,000 to which the lower rate of tax applies will be raised to \$100,000 and the cumulative limit will be increased from \$400,000 to \$500,000. This provides up to \$11,500 in additional cash flow to every eligible small businessman in the country. For example, he can use it to expand his business, finance inventory, meet his bank charges, or to build up his working capital. Under current circumstances, I have no doubt that he will be able to make good use of the money.

Fourth, in my budget of last May I announced an important change in the rules concerning Registered Retirement Savings Plans. The new proposal would permit a person to contribute not just to his or her own plan, but also to that of his or her spouse. In addition, I announced a number of changes relating to the treatment of medical expenses for tax purposes. All of these measures will be reintroduced effective 1974.

A large number of improvements of a technical nature were put forward in the Ways and Means Motions of last May. Since then I have received representations and suggestions on not just the major policy proposals of the last budget, but also on many of the detailed measures. These have led to a large number of technical improvements and additions, details of which will be found in the Ways and Means Motions. The remaining technical motions proposed last May are being reintroduced as originally announced.

Tariff Changes

There were two sets of tariff measures included in the May budget. The first would have continued from July 1 until December 31 of this year the temporary tariff reductions on a wide range of consumer goods in order to moderate the upward pressure on prices.

I am reintroducing these tariff reductions, but with some changes. I said last May that when they were reintroduced they would not be made retroactive. I have reviewed this group

of tariff reductions with the object of proposing a significant group of tariff cuts that can be put in effect for a longer period than was proposed last May. I am proposing that these reductions, which become effective tonight, remain in force until June 30, 1976. Because of the longer period the items of this group will be in effect, because of the introduction on July 1 of the General Preferential Tariff for imports from developing countries, and because of changed price and supply circumstances about which I have received representations, I have made a number of exclusions from the May list of reductions. A reduction of the tariff on refined sugar, as recommended some time ago by the Tariff Board and recently by the Food Prices Review Board, has been added to the list of reductions. The trade covered by those items on the revised list covered by tonight's proposal was valued at \$1 billion in 1973.

Authority is again being sought to withdraw any tariff reduction by Order-in-Council if it results in adverse effects on employment and production in Canada.

It is my view that these tariff reductions as now proposed will not prejudice our negotiating position in the GATT negotiations.

The other tariff changes in the May budget included the important proposal to increase substantially the exemptions from duties and taxes on goods brought back by Canadian residents from trips abroad. Let me remind Members what the proposed changes were. 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. These changes will be of considerable value to the vast number of Canadians who travel outside the country each year and will also be welcomed by our trading partners.

Provision is being made to permit the operation of duty and tax-free shops at border points, in addition to those that already operate at airports.

My May budget also proposed the extension of the duty-free entry for aircraft and aircraft engines of types or sizes not made in Canada, and a few other amendments. The only change I am proposing is that the free entry for aircraft and aircraft engines run to June 30, 1975, rather than June 30, 1976. Details of all these tariff changes, which come into effect tonight, will be found in the Ways and Means Motions.

The Economic Outlook and Fiscal Position

With the benefit of the measures I have announced tonight, I expect the economy to grow at a rate of about 4 per cent in 1975 and that about a quarter of a million new jobs will be created. These projections are based on the assumption, of course, that there will be no unforeseen deterioration in the international economic environment next year and that we experience no unforeseen shocks here at home. Such a rate of growth will be much stronger than that expected in most other countries. Given the weakness of foreign demand for our exports, it would be extremely difficult to achieve more. To attempt more would intensify the rate of inflation. To attempt less would increase unemployment.

The housing component of this outlook is of special interest to Honourable Members and to the country. It is my expectation that the combination of measures I have announced, together with some ease in interest rates and borrowing conditions, will lead to a recovery of housing starts from the most recent levels. For 1975, I hope it will be possible to achieve a level of 200,000 starts or better.

We cannot expect to eliminate inflation overnight. It will be a prolonged and tough fight. But we are striving to get the rate of inflation down below the two-digit level next year. It will take a determined effort on the part of all sectors of our society, self-discipline and a good measure of political courage to get it down to 5 per cent over the next few years.

Mr. Speaker, may I now briefly sum up the fiscal position of the government, taking into account tonight's proposals. I estimate that total financial requirements excluding foreign exchange transactions will amount to \$1 billion in the fiscal year 1974-75. This estimate represents a 50-per-cent reduction from the \$2 billion that I forecast last May. This reduction reflects the effect that a higher-than-expected inflation rate has been having on our revenues. The inflation has also increased our expenditures, though in lesser degree. Our expenditures would have been higher but for the efforts of the government to restrain their growth.

The total financial requirements, excluding foreign exchange transactions, will build up steadily to reach a figure of \$3 billion in fiscal year 1975-76. This does not reflect any relaxation of the government's policy of restraining spending. In fact, our outlays, that is to say budgetary expenditures, payments under OAS and GIS, and our loans, investments and advances, are expected to increase in 1975-76 by 15 per cent as compared with 25 per cent in 1974-75. This financial outcome is the result of the deliberate change in fiscal policy I am introducing in this budget for the express purpose of dealing with economic developments as we see them evolving over the next 12 to 18 months.

Current estimates imply a surplus on a National Accounts basis in 1974-75 of \$250 million and a deficit in 1975-76 of \$1.5 billion.

Relative to the size of the economy, the financial requirements of \$3 billion expected for 1975-76 are no larger than they were in similar circumstances in the past. Our cash balances are high as a result of the buoyancy of revenues this fiscal year and the success of the Canada Savings Bond campaign. The expansion of the capital market -- including the banking system -- involved in the expected nominal growth of the economy will be adequate to finance these cash requirements without undue pressure on other borrowers or on interest rates.

I believe that the large cash requirement for the next fiscal year is appropriate to meet the risks of a weaker economy and an uncertain world. This posture is not a relaxation of spending discipline, as I said, but is dictated by my view of the proper response to the state of the economy over the next year or so.

I must remind Honourable Members that the figures I have presented tonight on the outcome of our accounts are estimates. The actual outcome will reflect the decisions of this House respecting legislation which is now before it or which will be placed before it during the course of this session. All estimates, Members will recognize, are subject to particular uncertainties in the circumstances of today.

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, 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

simply not acceptable. Nor is growing slack in our industries and the threat of rising unemployment for our people. We shall not try to stem inflation by deliberately inducing slack in our economy. Nor will we give fresh impetus to the forces of inflation by driving the economy to excess. We shall need to steer a prudent course.

I have tried to set such a course in this budget.

In our present circumstances, we should moderate government expenditures so as not to add to the pressure on available resources. But while doing this, we must continue to look after the needs of our less fortunate citizens and to enhance the supply of essential goods and services which government is called upon to provide. Governmental expenditure during the year ahead is planned to grow at a considerably slower pace than during the past few years.

Through our taxation system, and in other ways, we are encouraging the private sector to maintain a healthy level of activity now and to build new capacity to increase the supply of goods and services for the future. I am more persuaded now than ever that this is a prerequisite for moderating prices in a lasting way. The taxation measures I have announced tonight in respect of housing and resources and for the processing and manufacturing industries, have been designed with this goal in mind.

We have acted directly on prices, reduced federal taxation on building materials and transportation equipment, and supplemented the measures proposed in my May budget to put downward pressure on the prices of goods that figure importantly in the cost of living or in the cost of putting essential capital stock in place.

Personal income taxes have been reduced further. Taken together with the measures of last May and the automatic reductions through indexation, these steps will boost the take-home pay of Canadians, help to maintain the level of production and, I trust, ease the pressures at the bargaining table.

The special measures to assist Canadians of modest means in receipt of investment and pension income are further steps in a policy I have been pursuing since I became Minister of Finance to protect those of our citizens hurt by inflation who are least able to protect themselves.

Our twin goals are to moderate inflation and to achieve sound growth of production and employment. These are goals which every Canadian supports. But in today's circumstances, the achievement of one depends on the attainment of the other. Inflation is the enemy of sustained good economic performance. This is why we will pursue, with vigour and perseverance, efforts to achieve a national consensus -- to proceed not by edict but by consultation -- on ways to moderate the inflation. I know this will not be easy. But I have confidence in the Canadian people and in their sense of justice and fair play. I am convinced that if we can be shown that the other fellow is pulling his weight -- and not getting away with anything at our expense -- each of us will be willing to make a full contribution to the national effort.

Mr. Speaker, I have always been frank with the Canadian people. I have not tried to understate the challenges which face us. I have not claimed that we can be sure of success, no matter what happens elsewhere. Nor have I pressed any panic buttons, because I am confident that, working together at home and abroad, we can overcome our difficulties.

The situation may change. If so, I will not hesitate to recommend a change in course. But this is how I see the issues today -- and these are the policies I believe to be suitable today.

GOVERNMENT OF CANADA FINANCIAL REQUIREMENTS

	1973-74 Actual	1974-75 Forecast ¹	1975-76 Forecast ¹
(Millions of Dollars)			
Budgetary Transactions			
Revenues	19,367	25,100	27,750
Expenditures	-20,040	-24,850	-28,750
Surplus (+) or Deficit (-)	- 673	250	- 1,000
Net Non-Budgetary Transactions			
Excluding Foreign Exchange Transactions			
Loans, Investments and Advances	- 1,712	- 2,350	- 2,650
Other	695	1,100	650
Total	- 1,017	- 1,250	- 2,000
Total Financial Requirements			
Excluding Foreign Exchange Transactions			
	- 1,690	- 1,000	- 3,000
Foreign Exchange Transactions	296	450 ²	
Total Financial Requirements	- 1,394	- 550	

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

² This amount reflects transactions to the end of October.

GOVERNMENT OF CANADA BUDGETARY REVENUES

	1973-74 Actual	1974-75 Forecast ¹	1975-76 Forecast ¹
	(Millions of Dollars)		
Personal Income Tax	7,926	10,100	11,350
Corporation Income Tax	3,411	4,850	5,600
Non-Resident Tax	324	350	375
Customs Duties	1,385	1,750	2,150
Sales Tax	2,693	2,750	2,850
Other Duties and Taxes	1,394	2,850	2,675
Total Tax Revenues	17,133	22,650	25,000
Non-Tax Revenues	2,234	2,450	2,750
Total Budgetary Revenues	19,367	25,100	27,750

¹ 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 Actual	1974-75 Forecast ¹	1975-76 Forecast ¹
(Millions of Dollars)			
Revenues			
Direct Taxes, Persons	11,028	14,075	15,900
Direct Taxes, Corporations	3,627	5,175	5,600
Direct Taxes, Non-Residents	322	350	375
Indirect Taxes	6,485	8,325	8,600
Other Current Transfers from Persons	7	10	10
Investment Income	1,783	2,155	2,455
Capital Consumption Allowances	<u>316</u>	<u>360</u>	<u>410</u>
Total Revenues	23,568	30,450	33,350
Expenditures			
Current Goods and Services	6,318	7,350	8,650
Transfer Payments to Persons	7,467	9,300	10,925
Subsidies	1,005	2,600	2,625
Capital Assistance	178	225	350
Current Transfers to Non-Residents	336	400	475
Interest on the Public Debt	2,547	3,050	3,525
Transfers to Provinces	4,954	6,150	7,025
Transfers to Local Governments	123	150	175
Gross Capital Formation	<u>798</u>	<u>950</u>	<u>1,150</u>
Total Expenditures	23,726	30,175	34,900
Surplus (+) or Deficit (-)	- 158	275	-1,550

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 Actual	1974-75 ¹ Forecast	1975-76 ¹ Forecast
	(Millions of Dollars)		
Budgetary Revenues	19,367	25,100	27,750
Deduct			
Post Office Revenues and Deficit	- 591	- 690	- 810
Deficit of Government Business Enterprises ²	- 125	- 175	- 140
Excess of Accruals (+) over Collections (-)			
Corporate Income Tax	- 11	-	- 365
Oil Export Tax	224	- 55	- 25
Add			
Government Pension and Social Security Receipts ³	4,888	5,940	6,670
Capital Consumption Allowance	316	360	410
Miscellaneous Adjustments ⁴	- 500	- 30	- 140
Total Revenues, National Accounts Basis	23,568	30,450	33,350

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 pension and social security receipts and disbursements 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 Actual	1974-75 ¹ Forecast	1975-76 ¹ Forecast
	(Millions of Dollars)		
Budgetary Expenditures	20,040	24,850	28,750
Deduct			
Transfers to Funds and Agencies ²	-1,825	-1,840	-1,920
Post Office Expenditures	- 591	- 690	- 810
Deficit of Government Business Enterprises ³	- 125	- 175	- 140
Add			
Expenditures of Funds and Agencies ²	931	1,145	1,170
Government Pension and Social Security Disbursements ⁴	5,540	6,415	7,560
Capital Consumption Allowance	316	360	410
Miscellaneous Adjustments ⁵	- 560	110	- 120
Total Expenditures, National Accounts Basis	23,726	30,175	34,900

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 pension and social security receipts and disbursements 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.