The Budget

Honourable Allan J. MacEachen

Deputy Prime Minister and
Minister of Finance

Member of Parliament for Cape Breton Highlands-Canso

October 28, 1980

Department of Finance
Canada

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Introduction

I am honoured, Madam Speaker, to have the opportunity to present to Parliament the first budget of this new decade. It is a budget which sets new directions for the economy—directions which will ensure both energy security and economic security for Canadians in the years ahead.

It would be no service to this House, nor to Canadians, to deny that there is a deeply troubling air of uncertainty and anxiety around the world and, I am sure, in the hearts and minds of Canadians; we have inherited many difficulties from the decade of the 70s. But it would be just as wrong to deny that the decade of the 80s provides extraordinary opportunities for Canada and Canadians.

Only 10 years ago, the world was riding high on the long wave of postwar economic expansion. While inflation was beginning to creep up in many industrial countries, we all felt confident in our collective abilities to manage growth as the world economies expanded in concert. But ever since the oil crisis of 1973 industrial countries have had to struggle with the problems of inflation and stubbornly high rates of unemployment. In 1979 the world was shaken by a second major oil shock. For the industrial world this has meant a sharp renewal of inflationary forces and real income losses. For the developing world this second oil shock has been a major tragedy. Their international deficits are now three to four times the sum they receive in aid from the rest of the world.

The long-heralded recession in the United States has become a reality with a sharp drop in real output in the second quarter and output is drifting down in almost all OECD countries. The rate of inflation in the U.S. remains disappointingly high despite the recession. Interest rates fell in the early summer but have risen again in recent months.

Barring some new disruption in international oil supplies, it seems reasonable to expect that the period of sharp decline in U.S. output is over, and that the worst of the dramatic surge in international inflation directly associated with the OPEC price increases is behind us. It is widely recognized, however, that the world economy now faces an extended period in which recovery from the recession is likely to proceed at a relatively modest pace and in which gains on the inflation front will only be won slowly.

In this environment the tasks of economic policy present a great challenge. Within industrial countries, we have all learned that we cannot achieve full employment, stable prices and other economic goals simply by influencing the demands for goods and services by cutting taxes or by increasing government expenditure—or alternatively by raising taxes and cutting spending. The problems are obviously deeper and more complex, and they relate to our basic ability to produce. The oil problem is an example of that. The world is having to use higher-cost sources as the cheap ones are used up. Even more generally, the amount of goods and services which each worker produces on average is not growing as fast as it was, because we are not investing enough and because we are not doing enough to keep up the pace of technological improvement. Shortages of resources and slower productivity growth mean that costs go up faster and this makes the problem of inflation more intractable.

We cannot live with double-digit inflation for two fundamental reasons. It is unfair to all those who cannot protect themselves, the less fortunate members of society and especially the elderly. It also imposes a very heavy cost in terms of lower output and a loss of jobs. It could well endanger our ability to compete in world markets. It means high interest rates. It weakens the incentives for business investment. It undermines consumer spending and slows down the building of houses.

So these two problems of the high real costs of additional output and inflation compound each other. They are not just Canadian problems, Madam Speaker, they are world-wide problems. At the Venice Summit and at meetings of Finance Ministers of the IMF and OECD, we have seen these new themes emerge—the need to direct attention to the fundamental problems of productivity growth through attention to technological change, investment and incentives to greater effort and the overriding importance of slowing down inflation to lay the basis for the sustained growth of output and jobs.

The economic problems the international community is facing cannot be solved by nations acting on their own. This government fully realizes the difficult challenges posed to international economic co-operation in the unsettled period ahead of us and is ready to assume its full share of responsibilities in achieving an international economic system adapted to the world of the 80s. We are particularly conscious of the plight of the developing countries and so we must put new momentum behind our aid programs and our support of international lending institutions both public and private. I was most gratified by the welcome given by the Commonwealth Finance Ministers to our decision to restore the growth in our official development assistance.

As a great trading nation and as a responsible member of the world community, Madam Speaker, we in Canada cannot insulate or isolate ourselves from the rest of the world. I cannot understand why we would wish to do so. In our energy resources, our other natural resources, our developed industrial structures and our people, we are a nation with opportunities second to no other nation.

We have experienced falling output this year. Productivity has dropped quite sharply and the inflation rate has moved back up to 10 per cent. It is time that we moved to realize our great potential.

We are more likely to do so if we understand that the problem is not a simple matter of ensuring an appropriate demand for goods and services but is more deep-seated. There are no quick solutions, so we will need to be patient and plan in a longer-term framework. There are no single solutions either, so we need to combine structural, industrial and regional policies with the right setting of fiscal and monetary policy. But we can then feel confident that we are dealing with the fundamental issues and embarking on the new directions which can secure the future of the country.

The Economic Strategy of the Government

Like previous Ministers of Finance, I have sought and been offered a wide range of advice on the management of our nation's economic affairs. Much of that advice has been, in my view, extreme. Some urge a dramatic retrenchment by government and an almost exclusive reliance on the mechanisms of the private market place. Others have urged us to intervene broadly, not only in shaping our industrial purposes, but in controlling the setting of prices, wages and the distribution of economic benefits generally. I reject both extremes. Instead I have sought a strategy that I fervently believe will serve our national and individual interests while preserving essential individual freedoms. It is a strategy which balances restraint with essential measures to give support to the growth of productivity and productive capacity. It is a strategy in the best traditions of the Liberal Party. It is a strategy totally in keeping with the commitments we made to the Canadian people in the recent election.

Its elements in brief are as follows:

The maintenance of government expenditures within the rate of growth in the economy to ensure that the federal government does not take up an ever-growing proportion of the flow of income;

over the period to fiscal 1983-84, a steady reduction in the government deficit and financial requirements;

the avoidance, insofar as possible, of personal and corporate tax increases;

a resolve to support the Bank of Canada in its pursuit of monetary policies that will not accommodate inflation;

within the commitment to expenditure restraint, the need nonetheless to provide for major new expenditures in energy, economic development, industrial adjustment and manpower retraining;

the need, also, to expand our assistance to the developing world;

a resolve to sustain social and economic assistance to those people and those communities most in need; and

a resolve to see the competitive forces in our economy strengthened and the weight of government regulation reduced.

These are the central elements. Madam Speaker, they are designed to ensure a steady reduction in the rate of inflation, the resumption of strong investment and productivity growth and the restoration, over time, of a fully-employed, strongly-growing, non-inflationary society. I would wish to say a few words about each element of the strategy before developing the principal themes more fully.

One of my main tasks as Minister of Finance will be to reduce the very large deficits in the government's accounts to more manageable proportions. This is important not only to restore our flexibility to meet future needs and to slow the growth of our interest payments. It is also essential if the rate of inflation is to be brought down. Otherwise we will run the risk of a new outbreak of inflationary pressure. The immediate outlook is for rather slow growth and I, therefore, judge that only a modest reduction in the deficit is needed next year. But larger declines in the deficit will be required as growth speeds up.

I see great disadvantages, however, in general increases in taxation other than those which form part of the energy program. Higher sales taxes have a direct impact on prices. Higher income taxes reduce incentives as well as dampening consumer spending and may well lead to demands for higher increases in wages and salaries. I am glad to say that I have been able to avoid such general increases. Indeed, I am delighted to be able to announce that I have made no changes to the indexing of the personal income tax and, therefore, will be describing later the income tax reductions that flow from those provisions.

In order to achieve the essential reduction in the deficit, great restraint over expenditures has, therefore, been required.

On the side of monetary policy, the Bank of Canada will have my continuing support in holding down the rate of monetary expansion. This is now widely agreed to be a precondition of success in the containment of inflation. It makes it clear that we will not accommodate double-digit rates of inflation.

Perhaps the most critical area demanding an active government role is energy. I have been working closely with my colleague, the Minister of Energy, Mines and Resources, in the development of our energy policy. I will shortly provide the House with a brief outline of its main features.

The new energy policy limits the rise in prices of oil and gas to domestic consumers and thus continues to protect us from the violent shocks of OPEC price increases. It strengthens our specific measures to promote the most economical use of energy and in particular the displacement of oil by other fuels. It provides new impetus to the development of new sources of supply, through direct government programs and through new incentives of particular value to Canadian-owned producers.

Energy policy is only the most urgent element of our new strategy. Renewed growth in productivity and lower costs are needed throughout the economy. Within the overall expenditure plan which I will lay before the House, we have assigned clear priority to economic development.

Sufficient funds have been made available in the expenditure plan to finance major expansion of our activities in such areas as industrial development programs, research and development, export promotion and the improvement of transportation.

We are also very much aware of the shortage of skills in this country. Even in the midst of recession, those shortages were apparent in many trades and employers have had to look for skilled craftsmen in other countries. Our manpower training and mobility programs will be redirected to deal with this problem.

One of the best ways of ensuring that prices are kept in line and efficiency is maintained is to foster healthy competition. We are seeking to do so in our legislation relating to financial institutions and in our concern over business concentration. We believe that small business makes a vital contribution to the economy by keeping it competitive. Competition means that the most efficient and enterprising will flourish and grow; it also means that the less efficient decline. That should not be prevented, and measures to assist declining industries to adjust to changing economic circumstances should be limited to helping the process of adjustment and easing the social costs.

We intend to reduce the burden imposed on the economy by unnecessary regulation. The work of the Parliamentary Task Force on Regulatory Reform and of the Economic Council of Canada will be of great assistance in this endeavour.

Madam Speaker, I believe that these various elements of our strategy when taken together do indeed create a framework within which we can look forward with confidence to declining inflation and sustained economic recovery. They do not guarantee these results in the short run however, for we live in an uncertain world in which all forecasts are at risk. We could do better if we enjoy good fortune at home and abroad. But we could also do worse, if we are faced with new shocks coming from the price of oil or food or if the upward momentum of costs and prices proves impervious to the economic climate I am seeking to create.

I have noted suggestions for new measures to limit the growth of prices and incomes, either by direct controls or by the use of the tax system. The objective of reducing the rate of inflation at less cost in lost output is one we can all embrace. I am most reluctant to contemplate the massive degree of government intervention and perceived inequities which would inevitably be required. Moreover, I am very conscious of the fact that any new program of controls would be much more difficult than the 1975 program. There is no scope this year and little next for the real income increases that were part of that program. Furthermore, there is little evidence of unreasonable price increases or unreasonable wage demands.

What is important now is that we should continue to act with moderation and work together to make the economy more productive and efficient. I hope I have fostered a wider understanding of the fact that our future prosperity depends on getting the rate of inflation down. I look forward to a further discussion with my provincial colleagues of these fundamental economic issues. It is time to consider how we can broaden the existing processes of consultation among government, business and labour.

I am confident that the strategy I have described tonight is the right one. But I want to make it quite clear that the pre-condition of our success must be the achievement of lower rates of inflation. If continued indexing is interpreted as a readiness to accommodate unlimited inflation rates, I may be faced with no alternative but to impose some limit on the indexing factor. As Canada's national government we have responsibilities and we will not shrink from them.

National Energy Program

Madam Speaker, I would like to speak first, in detail, about energy. To fail to solve our energy dilemmas would be to fail to realize our greatest source of opportunity in this decade. It is, therefore, of utmost strategic importance. As we all know, energy has been the subject of intense debate in Canada for a number of years, and the negotiation of an agreement on oil and gas pricing and revenue sharing with the producing provinces, particularly Alberta, has been a major preoccupation of the last two federal governments. The Minister of Energy, Mines and Resources has made repeated efforts to reach agreement with his provincial colleagues. The Prime Minister carried on intensive discussions with the Premier of Alberta.

Time is running out. While Canada is a net exporter of energy and is dealing from a basic position of strength, the chink in our armour is our dependence on imported oil. Today, we are a net importer of oil and, under a continuation of previous policies, we could expect to become increasingly dependent on foreign supplies and, therefore, unnecessarily subject to the vagaries of the world oil market. The federal government feels compelled to put Canada's energy house in order. On behalf of my colleague, the Minister of Energy, Mines and Resources, I am tabling tonight the Government of Canada's National Energy Program. I would like to present some highlights of what is a very comprehensive program.

It is founded upon three basic principles:

security of supply and ultimate independence from the world oil market;

opportunity for all Canadians to participate in the energy industry, particularly oil and gas, and to share in the benefits of its expansion; and

fairness, with a pricing and revenue-sharing regime which recognizes the needs and rights of all Canadians.

Pricing

Madam Speaker, at the time of the last federal election we promised to establish a blended pricing regime for oil in Canada. Effective tonight, the framework for such a regime will be put in place. The principle is simple. Henceforth, the price of oil paid by Canadian consumers will be an average of the cost of foreign oil, for which we must pay the world price, and the cost of domestic oil. The mechanism for blending in higher-cost supplies will be a Petroleum Compensation Charge levied on all refiners. The new regime will be phased in so that the increase in the wellhead price plus the import component of the compensation charge will be less than $4 per barrel in 1980. A charge of 80 cents will be effective immediately. This will be in addition to the $3 increase in wellhead prices which has occurred this year. The increase in the wellhead price plus the increase in the compensation charge will be $4.50 in each of the three subsequent years. Madam Speaker, this fulfills the government's commitment to the Canadian people. Crude oil price increases will be smaller than those proposed in last December's budget and gasoline prices will be considerably lower. And there will be no increase in the excise tax on gasoline.

For conventional oil, the wellhead price will rise by $1 per barrel every six months, beginning January 1, 1981. Starting January 1, 1984, the semi-annual increase will be $2.25 per barrel and, in 1986, it will be $3.50 per barrel semi-annually and these increases will continue at that pace until the wellhead price reaches the "reference price".

The reference price, Madam Speaker, is a special incentive price which will be offered to synthetic crude from the oil sands. Effective January 1, it will be $38 per barrel escalated annually by the consumer price index.

The government is also prepared to offer incentive prices for enhanced oil recovery and for upgraded heavy oil.

The blended oil pricing regime which I have just described should result in a Made-in-Canada price which is well below international levels. This Made-in-Canada price will rise over the decade and will never be allowed to exceed 85 per cent of the price of imported oil or the price of oil in the United States whichever is lower. A competitive advantage for Canadian industry will, therefore, be preserved.

To complete the picture on oil pricing, my colleague, the Minister of Energy, Mines and Resources will be taking measures to remove the anomaly that marine and aviation fuels used in international transportation have been eligible for the lower prices available to domestic consumers in Canada. Finally, the government proposes to pay to the producing provinces, Alberta and Saskatchewan, 50 per cent of our collections from export charges on crude oil.

The price of natural gas to Canadian consumers will increase less quickly than the price of oil and will, therefore, provide a major incentive for consumers to switch off oil to gas. As in the case of oil, natural gas prices paid by consumers will be significantly less than those proposed in the December budget. Specifically, the price at the Toronto city gate will go up by 30 cents per 1,000 cubic feet on November 1, 1980, by 15 cents in 1981 and by 45 cents in 1982 and 1983. The mechanism for bringing this price about in the case of natural gas is different than the one I have described in the case of oil because of our very different situation with regard to the two products. We do not import natural gas, and we, therefore, do not have the problem of sheltering consumers from world prices. On the other hand, we export large quantities of natural gas and the producing companies and provinces gain the benefit from world prices. The logical solution to this problem and our preferred approach was to impose an export tax which would recapture some portion of the difference between the world price and the Canadian consumer price. The producers under this solution would ultimately have received some premium over the price paid by domestic consumers for the gas being sold in Canada. The producing provinces have strongly objected to this proposal, even though export taxes are fully within the federal government's jurisdiction.

In these circumstances and after careful consideration, the Minister of Energy, Mines and Resources and I have concluded that it would be desirable to abandon our preferred plan and seek an alternative approach which we hope will meet the concerns of the producing provinces. Under this alternative approach there will be no reduction in the current returns to producing companies and provinces for gas sold in the U.S. market and they will continue to receive the great bulk of the revenues derived from the higher prices prevailing there.

This alternative approach involves the imposition of a new uniform federal tax on all natural gas. It will also apply to liquified petroleum gases, except those produced from oil. Initially, the tax will be set at 30 cents per 1,000 cubic feet, effective November 1, 1980 for domestic sales and February 1, 1981 for sales to U.S. consumers. This tax will be increased by 15 cents on July 1, 1981, January 1, 1982 and January 1, 1983.

Taking account of the increases in consumer prices I have announced, there will be no increase in 1981 in the field price of natural gas sold in the domestic market. Thereafter, the current practice of increasing the producer price by 15 cents per 1,000 cubic feet for every $1 per barrel increase in the wellhead price of conventional oil will be continued.

The new pricing regime for both oil and gas will be established under the Petroleum Administration Act. The relevant parts of the Act will be proclaimed in effect as of today. For oil, the regulations governing prices will be effective as of today while for gas the regulations will be effective as of November 1, 1980, the expiry date of our gas pricing agreement with Alberta. For provinces willing to enter into agreements on the basis of prices set out in the National Energy Program, the federal government is prepared to rescind the pricing regulations.

Madam Speaker, before I leave the pricing question let me emphasize again that the prices of both oil and natural gas to consumers will be less than the prices proposed in the December budget. Indeed, given the changes in OPEC prices that have occurred since that time and given the fact that the prices proposed by the former government would have escalated dramatically because they were tied in the later years to those OPEC prices, our prices will be considerably less.

And as I turn to the question of revenue sharing I would emphasize that the benefits accruing to Western Canada over this and the next three years will be at least equal to the $40 billion which was promised in the December budget.

Revenue Sharing and Taxation

The question of oil and gas prices is, of course, bound up with the issue of revenue sharing. In the absence of changes in the fiscal regime, rising prices for oil and gas would generate excess profits for the industry and result in an inappropriate balance between governments. The difficulty is that the federal government has borne much of the burden of energy price increases but receives few of the benefits.

The new natural gas tax will yield revenues of $250 million in 1980-81, $1.3 billion in 1981-82 and $6.6 billion over the whole period to 1983-84. I am also announcing tonight a federal tax, effective January 1, 1981, to be levied at a rate of 8 per cent on net revenue from the production of oil and gas in Canada. This will yield $1.4 billion in 1981-82 and $5.1 billion over the next three fiscal years. These new revenues will finance the major federal spending initiatives in the field of energy and the Western Development Fund which I will shortly describe.

In recent years, the federal government has received about 10 per cent of petroleum production income. Producing provinces have received somewhat more than 45 per cent and the industry has received somewhat less than 45 per cent. As a result of the pricing regime and the new tax measures which I am announcing tonight, the federal government's share will increase to about 24 per cent over the four-year period 1980 to 1983. Provinces will receive about 43 per cent and industry about 33 per cent.

In establishing the new fiscal regime, the federal government has been careful not to intrude into areas which provinces regard as their own. The federal taxes reflect the capacity of the oil and gas industry to pay and bring its contributions more closely into line with what other industries are required to pay. I am satisfied that the regime will provide the financial capacity necessary if the national government is to meet its responsibilities for economic management and energy policy. Any additional changes required to the sharing arrangement will be for provinces and the industry to resolve.

Production Incentives and Energy Initiatives

Madam Speaker, our energy strategy incorporates major new production incentives and expenditure initiatives.

The depletion allowances in the Income Tax Act for oil and gas exploration and development activities have primarily benefitted large established corporations which are for the most part foreign owned or controlled. They have been of little use to the smaller Canadian-owned corporations which do not have sufficient income to benefit from tax incentives. As part of the National Energy Program, these allowances are to be fundamentally altered. Among the more important changes are the elimination of depletion for development expenditures effective January 1, 1981, and the phasing out of depletion for exploration over the next three years. Depletion will be retained only for selected activities, such as tar sands plants and for frontier exploration. These changes in the depletion allowance will not affect the mining industry.

The government remains committed, however, to providing strong incentives to the industry. The orientation of the incentive regime will be changed in a way which will encourage Canadians to participate more fully in this country's oil and gas future. A Petroleum Incentives Program will be established to provide grants of up to 80 per cent of exploration expenditures in the North and the offshore, and up to 35 per cent in other areas. Grants of up to 20 per cent will also be provided for development expenditures in all areas of the country. The grants will vary according to the level of Canadian ownership and control of enterprises. Details of these changes are described in the documents I am tabling tonight.

A number of other federal initiatives will help both individual Canadians and industry to meet Canada's energy objectives. For example, grants will be offered to assist homeowners to move off oil, and onto natural gas, electricity and other fuels which we have in greater supply. To ensure the rapid expansion of gas distribution systems, market development bonuses will be provided to distributors as an inducement to vigorous action.

Madam Speaker, because of the nature of our country, any energy program for Canada must have a regional dimension. The program does, therefore, incorporate measures designed to meet the special needs of Eastern Canada and the West.

As a matter of national priority, the government will ensure that the natural gas pipeline system is extended beyond Montreal to Quebec City and the Maritimes. To encourage the early penetration of gas in those markets, gas prices in Quebec City and Halifax will be set at the same level as is in Toronto and Montreal. Under the new pricing regime the private sector has a strong incentive to proceed with the pipeline's construction. But if an immediate commitment is not forthcoming, the federal government will take whatever steps are necessary.

The Atlantic provinces are more heavily dependent on oil than any other region of the country. For this reason, a fund will be established to support the conversion of oil-fired electrical plants to coal. Financial assistance will continue to be given for interprovincial electrical connections and federal equity will be provided in support of hydro development on the Lower Churchill River in Labrador. New funds will also be available to find ways in which the large reserves of Cape Breton coal can be used to enhance energy security in the Maritimes. The P.E.I. Conservation and Renewable Energy Agreement will be extended. An industrial conservation program will be implemented and a housing retrofit program introduced for Newfoundland, P.E.I., the Yukon and the Northwest Territories.

The total of our new energy initiatives will cost $8.4 billion between now and 1983-84. They come on top of our existing energy programs which will cost $3.1 billion over the same period.

The resource wealth of Western Canada has laid the base for rapid economic growth in that region. This is already occurring, and it is leading in turn to a diversification of the western economy as further processing of the resources develop and as the growth of the market attracts new industries. These trends are being strongly promoted by the provincial governments. The federal government is also anxious to play its part; a number of the growth supporting policies which are required fall within our areas of responsibility. We have, therefore, allocated $4 billion to a Western Development Fund, of which we expect to spend $2 billion over the next three years.

Specific development initiatives will be selected in consultation with the governments of the western provinces. They will be designed to address the major economic opportunities and constraints which will challenge the West during this decade. For example, the federal government is hopeful that through consultation with interested groups in the West, agreement can be reached on the modernization of the western grain handling and transportation system which is so vital to the growth and diversification of the prairie economy. We will also consider initiatives relating to industrial diversification and examine ways in which trade and industrial policies can better serve western development. To coordinate these efforts and to ensure early action, the Prime Minister has established a special group of Ministers led by my colleague, the Minister of Employment and Immigration.

Canadian Ownership

The energy sector is of crucial importance to Canada. It is now dominated by a few large firms, virtually all foreign-owned and controlled. It is the belief of this government that Canadians should be given the opportunity to participate to a greater extent in the energy future of their country. Specifically, the National Energy Program establishes the following objectives:

at least 50 per cent Canadian ownership of oil and gas production by 1990;

Canadian control of a significant number of the larger oil and gas firms; and

an early increase in the share of the oil and gas sector owned by the Government of Canada.

Many of the initiatives in the National Energy Program, for example, the incentive grants which I have announced tonight, will help to achieve these goals. But we are prepared to go further. Petro Canada will be charged initially with the task of acquiring the Canadian operations of one or more multinational oil companies. As in the past, the financing for such acquisitions will be obtained in large part by borrowing in foreign capital markets. But additional infusions of equity capital may be required. To provide that capital the government will establish a Canadian Ownership Account. Revenue for the Account will be provided by a Canadian Ownership Charge imposed on all oil and gas consumption in Canada which will come into operation as the acquisition program progresses and will be set at a level to ensure that the program will be totally self-financing, and in no way affect the government's deficit.

In summary, Madam Speaker, the National Energy Program which is being put forth by my colleague is a bold one which establishes a consistent set of policies to meet Canada's energy needs. Taken together, the pricing and expenditure measures will enhance Canada's energy security by reducing oil consumption and, by 1990, ending our reliance on imported supplies. We will accomplish this with a policy which provides for a fair return to the industry, the producing provinces and the federal government without imposing an undue burden on the Canadian consumer. Finally, I expect energy to be a growing source of strength for the economy as a whole. It is, therefore, particularly important that all Canadians have an opportunity to participate in the development of Canada's energy resources and to share in the employment and production benefits which will accrue to other sectors of the economy.

The Expenditure Plan

I now turn, Madam Speaker, to the expenditure plan of the government which constitutes a second major element in our overall strategy.

As I indicated earlier, the achievement of the desirable degree of deficit reduction without general increases in taxation has required strict control over the rate of growth of our spending.

Our expenditure plan fulfills the promises we made in the election campaign. And it does so even though we have responded to the priority needs of energy, economic development, defence and aid. This has required hard choices. They have been facilitated by the development of the new expenditure planning system. The foundations of this new system were laid under the previous Liberal government. Important further advances were made under the Conservative government. Now we have reached the point of being able to set out for the first time the agreed planning levels for each major category of expenditure or envelope in a multi-year time horizon. This new system requires the government to identify its priorities within the framework of overall restraint. It permits the delegation of responsibility for program decisions to the policy committees of the Cabinet. It provides a framework within which departments will be encouraged to develop medium-term plans and increase the efficiency of their operations, and in which choices can be made between cash outlays and tax expenditures. Throughout the decision-making system, it creates an incentive to find ways of saving money in existing programs, in order to finance new high priority activities.

My present estimate is that total outlays this year will amount to just under $60 billion, an increase of 13.2 per cent over 1979-80. This high rate of growth stems from large increases in oil import compensation payments and in public debt charges. These increases, however, are not as large as seemed likely in April, partly because of the decline in interest rates in the early summer and partly because the new blended price policy reduces the net cost of oil compensation for the balance of this year. The only major new spending programs are the enrichment of the Guaranteed Income Supplement for our neediest old people and the start-up of the new energy initiatives.

We plan to reduce the rates of growth of our spending to 12.8 per cent in 1981-82, to 10.5 per cent in 1982-83 and to about 10 per cent in 1983-84. This will hold the growth of our spending within the trend growth of GNP. Total outlays, the sum of our budgetary expenditures and loans, investments and advances, amounted to 20.3 per cent of GNP in 1979-80. This ratio rises in 1980-81 and 1981-82 mainly because of the lack of real growth in the economy, but it falls again as economic expansion resumes. By 1983-84 it will be back down to 20.3 per cent.

Turning now to the envelopes, the details are set out in the tables and notes which I am tabling with this budget and I will just summarize the highlights.

A new energy envelope has been established and this includes the new energy initiatives which I have discussed, as well as the cost of petroleum compensation payments net of revenue from the Petroleum Compensation Charge. Funding for new and existing energy programs, excluding net petroleum compensation payments, will almost triple in 1981-82, and increase by a further 21 per cent in 1982-83 and 17 per cent in 1983-84.

Funds allocated to the economic development envelope increase by 22 per cent in 1981-82. This will enable the Economic Development Committee to expand existing programs and launch new initiatives in support of research and development, industrial expansion and export development. These programs which are now under intensive development will contribute to the renewed gains in productivity and to the high levels of business investment on which we depend for our prosperity in the years ahead. This envelope also includes expenditures from the Western Development Fund.

The social affairs envelope will continue to be by far the largest block of spending and will remain one of the government's most basic priorities. We are pushing forward with a review of the whole area of pensions and retirement income generally. The present system is defective in many ways. While many Canadians are well provided for in their later years, many others have to rely on the Old Age Security and Guaranteed Income Supplement. Not only is the present pension system uneven, it also hinders labour mobility. We are going to have to work out the best way of improving the system, and the respective roles of the private sector and such public institutions as the Canada Pension Plan. Even a larger role for the CPP would not, however, involve a major call on new expenditures from the social affairs envelope. Our new spending initiatives in the field of social policy will be directed to those individuals who are most in need.

A large element of our expenditures especially in the social affairs envelope consists of transfers to the provincial governments. I have already indicated to my provincial colleagues that we will be examining these programs closely as they come up for renewal, and we expect to achieve significant savings here. This will also help to bring about a clearer division of federal and provincial responsibilities which has been one of the strands in recent constitutional discussions. These have also emphasized the high priority we attach to equalization.

I would like to announce at this time that a special allocation of $350 million over four years has been made to promote industrial restructuring and manpower retraining and mobility in areas of particular need. The total amount has been divided equally between the economic development and social affairs envelopes. My colleagues, the Minister of Industry, Trade and Commerce and the Minister of Employment and Immigration, will soon be announcing program details.

The envelopes administered by the External Affairs and Defence Committee will grow relatively rapidly. We have undertaken to increase our foreign aid programs sufficiently rapidly to reach the target of 0.5 per cent of GNP by mid-decade. Our defence spending will rise by 3 per cent in real terms, reflecting our commitment to our NATO allies to beef up our defence capabilities. We have already contracted to buy the new fighter aircraft and we will be re-equipping our land and naval forces.

General operating expenses of the government will be closely controlled. Departments are being required to meet rising levels of service demanded with no increase in person years apart from those needed for identified purposes like the census. This will require the achievement of further increases in productivity.

I should explain at this point that our expenditure projections make no allowance for the impact of turning the Post Office into a Crown corporation. When this happens, the expenditures of the government will include only the amounts required to cover any deficit of the Post Office, rather than its total expenditures. The new Crown corporation will be expected, however, to cover its costs. For the purposes of my fiscal projections I have, therefore, assumed that postal revenues will rise until they equal postal expenditures.

A major item in the budget is the interest we have to pay on the public debt. This is projected to increase by nearly 19 per cent to $12.4 billion in 1981-82, and will amount to more than one-sixth of total outlays. I am convinced we must slow down the growth of public debt charges, and this is one of the reasons I am determined to reduce the deficit. By 1983-84, the projected rate of growth of public debt charges is less than 13 per cent.

The Tax Structure

Madam Speaker, I turn now to questions of taxation. I have a special responsibility to ensure that our tax system is fair and that it contributes to the achievement of our economic and social objectives. On the whole, our tax system is one of the best in the world. Canada's individual and corporate taxes are lower than in many other industrialized countries, including the United States.

One of the reasons for this is our system of indexation. I have already indicated that I have been able to secure an appropriate reduction of the deficit by restraining our spending. I have thus been able to avoid a general tax increase and to continue indexing for 1981. The exemptions, tax bracket limits and the child tax credit will rise by 9.8 per cent over their current levels. The child tax credit will be increased from $238 to $261 per child. As a result, the tax payable by a family of four earning $15,000 will be reduced by $248, or nearly 20 per cent. For 1981 alone, indexing will reduce federal taxes which would otherwise have been paid by $1,580 million. The cumulative reduction of federal taxes since indexing was introduced amounts to $11 billion.

Canada is one of the few countries which provide a full automatic indexing adjustment. Countries like the United States regularly announce large tax cuts, but these may only slow down the tendency for inflation to increase the real burden of taxation on individuals.

We will only maintain a good tax system, however, if we keep on looking for ways to make it better. I am particularly concerned to ensure that the tax system is fair and seen to be fair. Three areas of the tax system are worth examining from this point of view.

First, tax expenditures. Honourable Members will be familiar with the concept, which was described in a paper tabled by my predecessor last year. Within a short period of time I intend to table an updated tax expenditure account.

The incentives and preferences identified in the tax expenditure analysis raise important issues. They are expensive and it is incumbent on government to ensure that the incentives are effective and that their cost is justified.

Tax incentives tend to pyramid with the result that a number of profitable corporations or wealthy individuals pay little or no tax. Other countries have responded to this by introducing minimum taxes or special levies on tax preferences. While this approach may be an answer to the problem, perhaps a fundamentally different one would be preferable. We now have a tax system characterized by higher tax rates relieved by a complex network of incentives and tax preferences. One questions whether the economy might not be better served by a tax system with lower rates but with fewer and more selective incentives.

Second, Madam Speaker, let me say a few words about the commodity tax structure. Because the federal sales tax is levied at the manufacturing level, it falls unequally on commodities wherever there are differences in the degree of value added by wholesalers and retailers. It is particularly worrisome that the tax generally falls more heavily on goods produced and sold in Canada than on competing goods imported from abroad. A recent study by my officials showed that for many goods the rate of tax on imports is two to three percentage points, or effectively 20-35 per cent, lower than on a comparable product made in Canada. Ad hoc measures have been taken to address some issues, but the problem arises out of the basic structure of the tax. I would hope to be in a position to make a final decision on this fairly important issue in the next budget.

Third, I will be releasing shortly a discussion paper on the taxation of capital gains. It shows that Canada's system of taxing gains is favourable to taxpayers. As well, the taxes on inheritances and wealth in Canada are the lowest among

21 OECD countries surveyed. The paper notes that, while the system has imperfections, the taxation of capital gains is an important source of government revenue, has important tax structure implications and is essential for the equity and fairness of the system. I look forward to the discussion of the important issues raised in the paper.

I turn now to more immediate matters.

In April this year, I tabled a Ways and Means Motion proposing changes to the Income Tax Act and undertook to put forward draft amendments before introducing the legislation. I did so in August, and have received a number of representations and useful suggestions which will be given consideration before the final legislation is introduced.

I wish to announce four important new initiatives. First, the Small Business Development Bonds will be extended for three months to March 31, 1981. Second, I am proposing to re-introduce the incentive for the construction of multiple-unit residential buildings, the so-called MURB provision, to take effect tonight until the end of 1981. Third, I propose an extension of the extra 4-per-cent capital cost allowance incentive for railway track and grading to the end of 1982. This measure, along with the special depreciation allowance of 6 per cent on railway investment and the 7-per-cent investment tax credit on railway transportation equipment, will provide important incentives to the railways to upgrade their infrastructure, especially in Western Canada. Finally, on the advice of my colleague, the Minister of Regional Economic Expansion, I am proposing a bold and experimental new program to help deal with regional inequalities in this country. For new manufacturing investment in specially designated areas of the country, characterized by high unemployment and low income, I propose an investment tax credit of 50 per cent terminating at the end of 1985.

Sales and Excise Taxes

Madam Speaker, I am proposing certain changes in the federal sales and excise taxes.

The substantial increase of the tax on fortified wines has had an adverse impact on the industry. I am, therefore, proposing that wines with an alcoholic content of over 14 per cent be taxed on the same basis as table wines. The excise tax on fortified wines will be reduced immediately from $3 per gallon to $1.25 per gallon.

Madam Speaker, it has been customary for excise taxes on alcoholic beverages and tobacco products to be levied as specific amounts per unit of the product rather than on an ad valorem basis. I recognize that when changes are made periodically to specific taxes to maintain their real value, the process can be disruptive, and I am particularly sensitive to the changes in the weight of taxation as between the various products. Accordingly, I am proposing that these levies be automatically adjusted each quarter to reflect changes in the price indexes for these commodities. This measure will commence on April 1, 1981.

I am proposing, at the request of my colleague, the Minister of Transport, an increase of $2.50 in the air transportation tax for international travel and a similar increase in the ceiling on the tax for domestic air travel. These increases will be effective April 1, 1981 for tickets purchased in Canada and July 1, 1981 for tickets purchased outside Canada.

Persons who prepare goods for sale by, for example, assembling, blending or packaging, other than in a retail store, will be required to account for tax on their sales of those goods.

I am extending the sales tax to advertising flyers and catalogues distributed as newspaper inserts.

Full details of these and other changes are provided in the Ways and Means Motion and supplementary information I am tabling tonight.

Customs Tariff

I am introducing tonight several amendments to the Customs Tariff.

One set of tariff changes stems from a Tariff Board review related to goods imported by institutions established for scientific, religious, educational and similar purposes. In line with the Board's recommendations, I am proposing that the provision for duty-free entry of scientific and educational equipment be modified so as to permit application of normal customs duties when such equipment is available from production in Canada.

Another Tariff Board report related to antiques, collectibles, amateur radio and other hobby equipment. I propose to provide duty-free entry for most of the goods for which such treatment was recommended by the Board, although some departures were made to take account of recent changes in domestic supply capability.

Other tariff changes include removal of the duty on TV captioning devices for the deaf and microfilmed books.

Unemployment Insurance

I am announcing on behalf of my colleague, the Minister of Employment and Immigration, that effective January 1, 1981 the weekly rate of unemployment insurance contributions will be raised to $1.80 per $100 of insurable earnings. The employer rate of contribution will be increased to $2.52.

These increases largely reflect the changes in the financing of the unemployment insurance program first put forward by my predecessor in his December 11, 1979 budget speech. These changes involve the financing by employer and employee contributions of all the costs of unemployment insurance benefits except those associated with high regional rates of unemployment. In addition, the new premium structure reflects the impact of the extension of the variable entrance requirement and of the reduction in the minimum earnings requirement approved by this House earlier this year.

The Economic and Fiscal Situation and Outlook

Madam Speaker, I will now summarize my forecast of the economy and the federal government's fiscal situation given the measures and spending plans just announced.

In a paper accompanying this budget, our medium-term economic projections are set out in some detail, so I can describe them quite briefly. It now appears that real output for 1980 as a whole will be significantly weaker than expected at the time of my April statement, and may decline by something like 1 per cent. The recession is nearing its end, but the recovery is likely to be rather gradual in the face of the world economic situation, continued high rates of inflation and the recent increase in interest rates stemming from the United States. Thus the level of output in 1981 may be only about 1 per cent higher than in 1980. However, we are expecting real growth rates in the 4-per-cent range to commence in the latter part of 1981 and to continue for some time thereafter.

Exports and business investment are vital to sustaining non-inflationary growth, and we look to them to be the leading forces in the recovery. Canadian industry enjoys a favourable competitive position in the world, given current exchange rates and the fact that many countries have experienced faster inflation than we have. Despite the U.S. recession, our trade surplus has remained very favourable this year because our industry has done well in overseas markets. If we succeed in maintaining our competitive strenght, we will be able to take full advantage of world economic recovery. Our industrial and research and development policies will foster the growth of investment and the improvement of our trade balance. Moreover, our new energy policy is designed to provide a framework within which a wide range of energy developments can go forward, with beneficial results.

Despite the reductions in output this year, employment continued to expand, and as a result productivity declined by about 3 per cent. This, of course, was troublesome for our cost position, but it meant that unemployment has risen rather less than I expected in April and remains below 8 per cent. I think it unlikely that this will continue. Unemployment could average about 8.5 per cent next year, and then decline gradually as output picks up.

On the inflation side, the outlook for the remainder of this year and for 1981 is for a continued rate of increase of the consumer price index in the 10-per-cent range as higher prices of foods and energy are absorbed. I am confident that the strategy outlined in this budget will contribute to a gradual decline in inflation after 1981.

In projecting the government's fiscal position, I have based the revenue forecast on these economic assumptions and have taken into account the tax changes announced earlier including the new energy taxes.

Budgetary revenues are forecast to rise by 12.6 per cent in 1980-81 and then by 17.1 per cent in 1981-82 and by 16.4 per cent in 1982-83 before dropping off to less than 13 per cent in 1983-84. These rapid increases reflect the impact of the energy taxes, especially in 1981-82, and the resumption of better rates of economic growth especially in 1982-83.

I expect the budgetary deficit to decline from $14.2 billion this year to $13.7 billion in 1981-82 and then more sharply to $12.1 billion in 1982-83 and to $11.8 billion in 1983-84. These declines result from a growth rate of revenues appreciably higher than that of our planned expenditures.

With rising sources of funds from the non-budgetary accounts, financial requirements decline more rapidly than the budgetary deficit. They decline from $12.2 billion this year to $11 billion in 1981-82, to $8.4 billion in 1982-83 and to $7.2 billion in 1983-84. The financial requirements will drop from 4.3 per cent of GNP in 1980-81 to 1.8 per cent in 1983-84, the lowest level since 1974-75.

We have been able to raise the large amount of funds we need through the sales of marketable bonds and treasury bills without hampering the Bank of Canada's ability to keep money supply growth within the target band. I am conscious of the risks we have run, however, in such a heavy reliance on borrowed money and I have referred already to the burden which it creates in the form of rapidly rising interest costs. The planned reduction in our financial requirements will be beneficial on both counts.

It is my intention to introduce a Borrowing Authority Bill for fiscal 1981-82 following completion of the budget debate. Honourable members will then be able to consider the request for borrowing authority in the light of the comprehensive information contained in this budget.

I would now like to table projections of the government's revenues and expenditures together with explanatory notes, the Notices of Ways and Means Motions, supplementary information giving details of the measures I have announced tonight and a background paper on the medium-term economic projections. On behalf of the Minister of Energy, Mines and Resources, I am tabling his paper setting out the National Energy Program. I would ask the consent of the House to include in Hansard the tables which provide projections of the government's fiscal position on the public accounts and national accounts basis, and of the principal components of budgetary revenues.

Conclusion

In concluding my remarks, Madam Speaker, I would like to thank my colleagues for their assistance and support and all those Canadians who have provided me with practical suggestions and valued advice.

Madam Speaker, I have sought in this budget to lay out a strategy that can bring us to a full realization of our opportunities in this decade. I cannot promise instant well-being. That is not the nature of the world or the problem. I count on the patience and the collaboration of all Canadians.

I have avoided those prescriptions which would have the Government of Canada retreat from its concerns for issues of unemployment and the distribution of income and wealth among regions and individuals. But I have also resisted those who would urge vastly greater intrusions by the state in the daily lives of Canadians.

I have made it clear on other occasions that the concept of sharing seems to me to be close to the distinctive fibre of the Canadian tradition. I do not believe that the state can be the only agency by which sharing is effected or compelled. On the contrary, I believe our destiny will rest on the recognition by individual Canadians, in their private lives, of the nobility of our sharing commitment. We have shared in the struggle and victory of achieving a great nation against what many still see to be improbable odds. If our will to share is sustained, great good fortune can lie ahead.

Table 1
Government of Canada
Summary Statement of Transactions
Public Accounts Presentation

	1979-80	1980-81(1)	1981-82(1)	1982-83(1)	1983-84(1)
			($ millions)		
Budgetary transactions					
Revenues	40,159	45,200	52,935	61,600	69,420
Expenditures(2)	−51,534	−59,350	−66,640	−73,725	−81,215
Surplus or deficit (−)	−11,375	−14,150	−13,705	−12,125	−11,795
Non-budgetary transactions					
Loans, investments and advances(2)	−1,428	−600	−985	−1,000	−1,060
Annuity, insurance and pension accounts	1,943	1,860	2,920	3,445	4,140
Other transactions	415	735	790	1,265	1,560
Net source or requirement (−)	930	1,995	2,725	3,710	4,640
Financial requirements					
(Excluding foreign exchange transactions)(3)	−10,445	−12,155	−10,980	−8,415	−7,155
Total outlays(2)	52,962	59,950	67,625	74,725	82,275

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

(2) Total outlays are composed of budgetary expenditures plus loans, investments and advances.

(3) These figures do not reflect foreign exchange transactions in 1979-80 which were a requirement of $128 million, thereby increasing total financial requirements to $10,573 million. Foreign exchange transactions to the end of September are estimated to have provided a source of $61 million in the current fiscal year. No forecast is made of foreign exchange transactions for the balance of the period.

Note:

This table reflects changes in the Accounts of Canada outlined in the Appendix on the fiscal projections.

Financial requirements do not include direct market borrowing of agent Crown corporations. See section on loans, investments and advances in Appendix.

Table 2
Government of Canada
Fiscal Position
Public Accounts Budgetary Revenues

	1979-80	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)		
Personal income tax	16,327	18,425	20,675	23,945	27,445
Corporation income tax	7,537	8,630	9,250	10,770	12,030
Petroleum and gas revenue tax	0	0	1,410	1,745	1,965
Non-resident tax	787	925	1,015	1,115	1,225
Sales tax	4,698	4,975	5,550	6,315	7,150
Customs duties	3,000	3,150	3,405	3,725	4,065
Oil export charge	750	755	1,010	1,230	1,350
Natural gas and gas liquids tax	0	255	1,285	2,220	2,880
Other tax revenues	1,914	2,160	2,345	2,850	3,565
Total tax revenues	35,013	39,275	45,945	53,915	61,675
Non-tax revenues	5,146	5,925	6,990	7,685	7,745
Total budgetary revenues	40,159	45,200	52,935	61,600	69,420

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

Table 3
Government of Canada
Revenues and Expenditures
National Accounts Basis

	1979-80	1980-81(1)	1981-82(1)	1982-83(1)	1983-84(1)
			($ millions)		
Revenues					
Direct taxes, persons	20,325	23,230	27,080	30,985	35,140
Direct taxes, corporations	7,545	8,285	10,585	12,210	13,535
Direct taxes, non-residents	890	1,015	1,110	1,215	1,330
Indirect taxes	10,992	13,210	17,775	21,740	25,165
Other current transfers from persons	20	20	20	20	20
Investment income	4,706	5,100	6,160	6,955	7,835
Capital consumption allowances	709	770	860	980	1,100
Total revenues	45,187	51,630	63,590	74,105	84,125
Expenditures					
Current goods and services	12,717	14,050	15,600	17,175	18,950
Transfer payments to persons	14,935	17,300	20,175	22,175	24,100
Subsidies	3,822	5,625	7,025	8,600	10,300
Capital assistance	644	1,200	1,900	2,700	3,275
Current transfers to non-residents	793	875	960	1,125	1,275
Interest on the public debt	8,281	10,250	12,265	14,225	16,050
Transfers to provinces	11,852	12,775	14,150	14,925	15,900
Transfers to local governments	321	375	425	475	525
Gross capital formation	1,047	1,100	1,150	1,200	1,250
Total expenditures	54,412	63,550	73,650	82,600	91,625
Surplus or deficit (–)	–9,225	–11,920	–10,060	–8,495	–7,500

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

Appendix
Fiscal Projections,—Notes and Additional Tables

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Annex

Appendix
The Fiscal Projections—Notes and Additional Tables

Unless stated otherwise, all fiscal figures referred to in this Appendix reflect the accounting changes that will be documented in the soon to be released 1979-80 *Public Accounts*. Section 2 below outlines the nature of these changes and provides a consistent historical record.

1 Fiscal Projections, 1980-81 to 1983-84—Public Accounts Basis

Introduction

The fiscal projections are based on the medium-term economic projections described in a companion budget paper.

Given the measures introduced in this budget, the government's expenditure plan, and the underlying economic projection, revenues are projected to increase faster than budgetary expenditures in each of the next three years. The budgetary deficit decreases from the $14.2 billion expected this year to $13.7 billion in 1981-82, and is then projected to decline to $11.8 billion in 1983-84. With increases in the source of funds from non-budgetary transactions each year, financial requirements decrease more rapidly than the budgetary deficit, declining from $12.2 billion in 1980-81 to $11 billion in 1981-82 and to a projected $7.2 billion in 1983-84.

Budgetary Revenues

As shown in Table 1.1, budgetary revenues are projected to increase from 15.4 per cent of GNP in 1979-80 to 17.2 per cent in 1983-84. The revenue growth profile reflects both the underlying economic growth profile and the impact of discretionary tax measures introduced in this budget. Table 1.2 displays the estimated impact of the major discretionary tax measures over the forecast horizon. Increased energy taxation, and other budget measures raise total budgetary revenue growth throughout the forecast period.

Personal income tax revenues are projected to increase 12.8 per cent in 1980-81. The slowdown in revenues from this source, relative to the preceding year when personal income tax revenues grew at 16.2 per cent, reflects, for the most part, the weak economic performance projected for 1980. Those components of personal income on which personal income tax is levied are projected to increase at 11.0 per cent in 1980 as opposed to the 12.6 per cent increase registered in 1979 and the growth in per capita income is projected to fall short of the increase in the indexation factor whereas there was marginal positive growth in indexed per capita income in 1979. Reflecting improved economic performance, personal income growth is projected to increase in 1981 and again in 1982 and then decelerate slightly in 1983. Indexed per capita income growth, reflecting the lagged nature of the indexing calculation, continues to decline in 1981 and then swings to positive growth in 1982 and 1983. The net effect of these underlying tax base movements is a personal income tax growth profile which decelerates in 1981-82, rebounds sharply in 1982-83 and then eases slightly in 1983-84.

The profile of corporate income tax revenues reflects the corporate profit profile in the economic projections, but is also influenced to a considerable extent by the impact of discretionary measures. The two-year temporary 5 per cent corporate surtax, announced in the April 21, 1980 statement of the Minister of Finance, contributes to revenue growth in 1980-81 and 1981-82. Beyond 1981-82, corporate income tax revenue growth more closely parallels the underlying corporate profit growth profile contained in the economic projections.

Table 1.1
Growth Rates of Budgetary Revenues—Public Accounts Basis

	1979-80	1980-81	1981-82	1982-83	1983-84
			(Per cent change)		
Personal income tax	16.2	12.8	12.2	15.8	14.6
Corporation income tax	20.4	14.5	7.2	16.4	11.7
Petroleum and gas revenue tax	n.a.	n.a.	n.a.	23.8	12.6
Non-resident tax	38.6	17.5	9.7	9.9	9.9
Sales tax	−0.7	5.9	11.6	13.8	13.2
Customs duties	9.2	5.0	8.1	9.4	9.1
Oil export charge	128.7	0.7	33.8	21.8	9.8
Natural gas and gas liquids tax	n.a.	n.a.	403.9	72.8	29.7
Other tax revenues	−2.8	12.9	8.6	21.5	25.1
Total tax revenues	14.2	12.2	17.0	17.3	14.4
Non-tax revenues	12.8	15.1	18.0	9.9	0.8
Total budgetary revenues	14.0	12.6	17.1	16.4	12.7
			(per cent)		
Total budgetary revenues as a percentage of GNP	15.4	15.9	16.8	17.1	17.2

n.a. equals not applicable.

Table 1.2
New Tax Measures With Major Impacts on Revenue Growth

Measure	1980-81	Fiscal Year Impact 1981-82	1982-83	1983-84
		($ millions)		
Energy				
Personal income tax				
Extend indefinitely exploration expense write-off by individuals and non-resource companies	—	—	—	–125
Corporate income tax				
Petroleum and gas revenue tax	—	1,410	1,745	1,965
Modifications to depletion and other resource tax changes	—	260	445	545
Indirect taxes				
Natural gas and gas liquids tax	255	1,285	2,220	2,880
Extension of oil export charge to marine and aviation fuel	—	330	450	525
Oil export charge 50% rebate	–70	–380	–420	–420
Net petroleum compensation receipts	—	—	225	660
Sub-total	185	2,905	4,665	6,030
Non-energy				
Personal income tax				
Temporary reintroduction of MURB provision	—	–15	–15	–15
Corporate income tax				
Extension of small business development bond provision	—	–50	–50	–50
Indirect taxes				
Adjustment of specific taxes on alcohol and tobacco to price increases	—	100	290	475
Reduction of taxes on fortified wines	–5	–10	–10	–10
Extension of manufacturers' sales tax to marginal manufacturing	—	25	30	35
Other	5	10	10	10
Sub-total	—	60	255	445
Total	185	2,965	4,920	6,475

Following the small absolute decline exhibited in 1979-80 as a consequence of the general rate reduction from 12 per cent to 9 per cent introduced in November 1978, federal sales tax revenues are projected to resume a normal positive growth profile over the forecast horizon. The relatively weak growth in 1980-81 reflects the behaviour of the appropriate tax bases which in turn mirror the weakening of economic activity occurring in 1980. Beyond 1980-81, the growth in the nominal tax base components is such as to produce federal sales tax revenues that grow in line with GNP.

Customs import duties are influenced by the tariff reductions resulting from the Multilateral Trade Negotiations which are phased in over the eight-year period ending, in the majority of cases, on January 1, 1987. The successive annual tariff reductions, which depress the growth rate by almost 5 percentage points per year, keep the growth of this revenue source below the projected growth of non-oil merchandise imports throughout the forecast period.

Specific energy-related taxes provide an important contribution to budgetary revenue growth over the forecast horizon. Two new energy-related taxes have been introduced in the budget. The petroleum and gas revenue tax, commencing January 1, 1981, is levied at 8 per cent of net operating revenues related to the production of oil and gas. The natural gas and gas liquids tax is equivalent to 30¢ per thousand cubic feet effective November 1, 1980 in the case of domestic sales and February 1, 1981 in the case of export sales and escalated by 15¢ on July 1, 1981, and January 1, 1982 and 1983. In addition, the oil export charge has been modified. Net federal tax receipts of the crude oil export charge will be reduced by 50 per cent because of a rebate to the producing provinces. At the same time, the tax base for product exports has been widened to include marine and aviation fuel used in international transportation. The net effect of these changes, of the projected gap between the export and domestic oil price, and of oil export volumes is a revenue flow from this source which increases, albeit at varied rates, over the forecast horizon. In the current projection no provision has been made for any revenue from the Canadian Ownership Charge.

Other tax revenues, the majority of which are taxes on alcohol and tobacco products, are a function of the volume growth of the underlying tax bases with tax rates now being adjusted each quarter using the price indices for these commodities. Increases in the specific levies on alcohol and tobacco products contained in the April 21, 1980 statement result in the strong growth rates in 1980-81 for these revenue sources. Beyond 1980-81, the growth of these revenue sources reflects the projected volume growth in the tax bases and increases in the relevant price indices. The strong growth of other tax revenues in 1982-83 and 1983-84 stems from the currently projected surplus of the Petroleum Compensation Charge over Petroleum Compensation payments, which is also included in this category.

Non-tax revenues are composed of return on investments, postal revenues and other miscellaneous non-tax revenues. The strong growth in 1981-82 reflects the assumption that postal revenues will rise as a major step towards the full recovery of Post Office costs.

Outlays—Budgetary Expenditures and Loans, Investments and Advances

The new expenditure management system involves a multi-year fiscal plan with respect to the level of outlays in total and by broad functional classifications called envelopes. Total outlays consist of budgetary expenditures and loans, investments and advances. The outlays figures shown in this section reflect the government's current fiscal plan.

Table 1.3
Total Outlays

	1979-80	1980-81	1981-82	1982-83	1983-84
			($ millions)		
Budgetary expenditures	51,534	59,350	66,640	73,725	81,215
(per cent change)	(8.6)	(15.2)	(12.3)	(10.6)	(10.2)
(per cent of GNP)	(19.8)	(20.9)	(21.2)	(20.5)	(20.1)
Loans, investments and advances	1,428	600	985	1,000	1,060
(per cent change)	(29.6)	(−58.0)	(64.2)	(1.5)	(6.0)
Total outlays	52,962	59,950	67,625	74,725	82,275
(per cent change)	(9.1)	(13.2)	(12.8)	(10.5)	(10.1)
(per cent of GNP)	(20.3)	(21.1)	(21.5)	(20.8)	(20.3)
Public debt charges	8,524	10,400	12,350	14,375	16,200
(per cent change)	(20.8)	(22.0)	(18.8)	(16.4)	(12.7)
(per cent of GNP)	(3.3)	(3.7)	(3.9)	(4.0)	(4.0)
Total outlays excluding public debt charges	44,438	49,550	55,275	60,350	66,075
(per cent change)	(7.1)	(11.5)	(11.6)	(9.2)	(9.5)
(per cent of GNP)	(17.1)	(17.5)	(17.5)	(16.8)	(16.3)
Nominal GNP(1) $ billions	260.3	283.5	315.0	359.4	404.7
(per cent change)	(13.3)	(8.9)	(11.1)	(14.1)	(12.6)

(1)GNP for calendar year ending three months before the end of the corresponding fiscal year.

In 1980-81, total outlays are expected to grow 13.2 per cent. The decline in loans, investments and advances dampens the 15.2 per cent growth of budgetary expenditures. A relatively small part of this growth is accounted for by new spending initiatives, the most significant of which are the $35 per month increase in the Guaranteed Income Supplement announced in the April 21, 1980 statement and the expenditures associated with the introduction of the National Energy Program. Petroleum Compensation Program expenditures and public debt charges contribute substantially to the growth of outlays in the current year. The increase in Petroleum Compensation payments is associated with the sharp increases in international oil prices, and the increase in public debt charges results from the growth of debt outstanding and increases in interest rates. The Petroleum Compensation Program and public debt charges are each expected to add 1.7 per cent to outlays growth. Excluding oil import compensation and public debt charges, total outlays are expected to rise 9.4 per cent. This is only slightly greater than actual GNP growth and is significantly below the growth of trend GNP.

The 13.2 per cent growth of outlays in 1980-81 and the 12.8 per cent planned growth of outlays in 1981-82 are consistent with the guideline that growth in government expenditures should not exceed the trend growth of the economy, where this latter trend growth can currently be represented by the increase in nominal GNP which would occur given the actual rate of inflation and real growth rate in the 3.5 per cent range. The planned outlays growth rates of 10.5 per cent in 1982-83 and 10.1 per cent in 1983-84 are below the trend rates of increase in nominal GNP for those years.

The forecast of public debt charges is inevitably subject to considerable uncertainty. Debt costs depend on interest rates which cannot be forecast with any certainty and which have become more volatile in the recent past. The projected figures assume little change in interest rates from current levels.

To the extent public debt charges in 1981-82 diverge from the forecast, it is not the intention to require or allow an offsetting change in other envelopes; rather, the total outlays figure would be allowed to vary as actual public debt charges differ from the current forecast. Reserves are provided within the envelopes for cost overruns and contingencies in the non-statutory area, and a central reserve is provided for cost overruns on statutory programs excluding public debt charges.

The total outlays and envelope targets for 1982-83 and 1983-84 will be subject to review as the fiscal plan is updated each year, and may be revised if economic assumptions change. However, expenditure planning throughout the government for 1982-83 and 1983-84 is proceeding within the limits adopted in the current fiscal plan and shown in the tables in these sections.

The spending levels and growth rates by envelope in the current fiscal plan are shown in Tables 1.4 and 1.5. The specific departments and programs for each envelope are listed in an annex to this appendix.

Table 1.4
Fiscal Plan by Envelope

	1980-81	1981-82	1982-83	1983-84
		($ millions)		
Energy[1]	3,760	3,239	3,489	4,091
Economic development	5,883	7,155	8,118	8,867
Social affairs	24,926	27,567	29,303	31,328
Justice and legal	1,237	1,355	1,398	1,545
Fiscal transfers	3,741	4,076	4,561	5,062
External affairs	1,548	1,783	2,128	2,432
Defence	5,067	5,718	6,314	7,019
Parliament	119	131	144	157
Services to government	4,020	4,497	4,802	5,229
Adjustments[2]	−751	−246	93	345
Total outlays excluding public debt charges	49,550	55,275	60,350	66,075
Public debt	10,400	12,350	14,375	16,200
Total outlays	59,950	67,625	74,725	82,275

(1) As a result of the implementation of blended oil pricing, net petroleum compensation payments are reduced to zero in 1982-83. This causes a decline in the envelope in 1981-82 and dampens growth in 1982-83.

(2) Includes a central reserve for overruns on statutory programs; a reserve for revisions at the time of preparation of final Main Estimates; an adjustment for repayments not credited to envelopes; and an estimate of lapse.

Table 1.5
Fiscal Plan by Envelope

	1981-82	1982-83	1983-84
	(Per Cent Change)		
Energy[1]	– 13.9	7.7	17.3
Economic development	21.6	13.5	9.2
Social affairs	10.6	6.3	6.9
Justice and legal	9.5	3.2	10.5
Fiscal transfers	9.0	11.9	11.0
External affairs	15.2	19.3	14.3
Defence	12.8	10.4	11.2
Parliament	10.1	9.9	9.0
Services to government	11.9	6.8	8.9
Total outlays excluding public debt charges	11.6	9.2	9.5
Public debt	18.8	16.4	12.7
Total outlays	12.8	10.5	10.1

(1) As a result of the implementation of blended oil pricing, net petroleum compensation payments are reduced to zero in 1982-83. This causes a decline in the envelope in 1981-82 and dampens growth in 1982-83.

The new *Energy* envelope was established because of the large sums which the government will be devoting to achieving energy independence and to provide a better public accounting of spending on energy. Progress in achieving energy objectives will require the spending of substantial sums over the next few years to encourage exploration and development, to substitute domestic energy for imported oil and to conserve energy.

As is shown in the table below, the Energy envelope is composed of the government's planned new initiatives and spending on existing programs. The new energy initatives are outlined in the budget speech and detailed in the document on the National Energy Program. The existing spending includes Net Petroleum Compensation Payments, the energy programs of Energy, Mines and Resources, Atomic Energy Control Board, Atomic Energy Canada Limited, National Energy Board, Northern Pipeline Agency, Petro-Canada, and the Canadian Home Insulation Program. The envelope will not include any expenditures from the Canadian Ownership Account, which will be entirely financed by Canadian Ownership Charges imposed on oil and gas consumption in Canada.

	1980-81	1981-82	1982-83	1983-84
	($ millions)			
Energy				
New Initiatives	460	2,090	2,650	3,218
Other	565	799	839	873
Sub-total	1,025	2,889	3,489	4,091
Net Petroleum Compensation Payments	2,735	350	—	—
Total	3,760	3,239	3,489	4,091

The Petroleum Compensation Program replaces the Oil Import Compensation Program and the Petroleum Compensation Revolving Fund, out of which subsidies were paid to importers of petroleum and users of synthetic petroleum respectively. Gross Petroleum Compensation Payments are those subsidies necessary to bring the cost of imported and synthetic oil to users down to the domestic price. The Petroleum Compensation Charge is levied on all refiners to finance these subsidies. To the extent that the subsidies exceed the proceeds from the charge, the excess is treated as a budgetary expenditure. In the event that the proceeds of the charge exceed the subsidies, the excess is treated as a budgetary revenue.

Under the profile announced for the blended price of oil over the next three years, the balance between Petroleum Compensation Payments and Charges will vary with international oil prices, oil import volumes, and domestic consumption. Thus the projected balances, shown in the table below, are subject to a considerable uncertainty. The current projection is for a deficit in the first two years, followed by a swing into surplus in the final two years, with a deficit for the 1980-81 to 1983-84 period as a whole.

	1980-81	1981-82	1982-83	1983-84
		($ millions)		
Gross Petroleum Compensation Payments	3,950	3,820	4,795	5,780
Less Petroleum Compensation Charge	−1,215	−3,470	−5,020	−6,440
Net Petroleum Compensation Payments	2,735	350	—	—
or				
Net Petroleum Compensation Receipts	—	—	225	660

Economic development is a high priority of the government. In addition to the special allocation of $350 million over four years to promote industrial restructuring and manpower retraining, sufficient funds have been allocated to the Economic Development envelope to strengthen existing programs and launch new initiatives in support of research and development, industrial expansion and export development. The envelope also includes spending from the Western Development Fund, which was established to cover initiatives in such areas as the western grain handling and transportation system and Prairie water developments. Of the $4 billion earmarked for the Western Development Fund, $2 billion is allocated to the period ending in 1983-84 with $350 million available in 1981-82, $750 million in 1982-83 and $900 million in 1983-84. The high planned rates of growth for the Economic Development envelope of 21.6 per cent in 1981-82 and 13.5 per cent in 1982-83 are an indication of the priority that the government attaches to economic development.

The *Social Affairs* envelope has been set at $27.6 billion in 1981-82 and represents over 40 per cent of total federal expenditures. This area has been one of major growth in expenditures over the past decade and a half. A large proportion of the spending in this envelope is accounted for by major statutory transfer programs to persons and to provincial governments. The projection of spending on these programs is shown below. The federal-provincial arrangements governing the Established Program Financing and Canada Assistance Plan payments will shortly be renegotiated. Figures shown for these programs for 1982-83 and 1983-84 are estimates of what would occur if the terms of the current arrangements were continued.

	1980-81	1981-82	1982-83	1983-84
		($ millions)		
Old Age Security—Guaranteed Income Supplement and Spouses' Allowance	7,383	8,398	9,347	10,316
(per cent change)	(16.8)	(13.7)	(11.3)	(10.4)
Family Allowances	1,852	2,005	2,198	2,372
(per cent change)	(7.4)	(8.3)	(9.6)	(7.9)
Unemployment Insurance Contribution	1,020	1,188	1,224	1,128
(per cent change)	(−12.7)	(16.5)	(3.0)	(−7.8)
Established Program Financing including Extended Health Care	5,708	6,404	6,938	7,590
(per cent change)	(6.1)	(12.2)	(8.3)	(9.4)
Canada Assistance Plan	1,802	1,971	2,123	2,294
(per cent change)	(9.0)	(9.4)	(7.7)	(8.1)

While the Social Affairs envelope clearly remains one of the government's most basic priorities, as is reflected in the fact that it continues to account for by far the largest share of expenditures, the rate of growth of this envelope will be held below that of total outlays. The government intends to achieve net savings in this area to help finance initiatives in other envelopes. Because of the statutory nature of much of the spending in this envelope, savings are not assumed to begin until 1982-83. Savings are expected to include reductions in federal transfers to provinces relating to areas coming under provincial jurisdiction. In part, savings may be redeployed within the envelope. Effective manpower training, which falls within the purview of the Social Affairs envelope and is important to achieving the government's economic development objectives, is a high priority. The envelope includes one half of the $350 million allocation referred to in the budget speech.

Planned expenditures in the *Justice and Legal* envelope are sufficient to ensure the continuation of existing programs. However, the government intends to renegotiate the contracts whereby RCMP policing services are provided to most provinces and certain municipalities in order to recover a greater portion of the costs. Thus, the allocation to this envelope has been reduced.

Fiscal Transfers are unconditional payments to provinces. The equalization program accounts for about 90 per cent of actual payments. The equalization figures for 1980-81 and 1981-82 assume the passage of Bill C-24 now before Parliament. This bill amends the current equalization formula to exclude from equalization any province that has a personal income per capita regularly above the national average and to phase out equalization in respect of provincial revenues from oil and gas land sales. The equalization formula will be renegotiated over the next eighteen months prior to its expiry on March 31, 1982. The envelope for fiscal transfers after 1981-82 is based on the assumed continuation of the amended formula. The current projection for equalization is:

	1980-81	1981-82	1982-83	1983-84
		($ millions)		
Equalization	3,481	3,855	4,331	4,819
(per cent change)	(4.8)	(10.7)	(12.3)	(11.3)

The *External Affairs* envelope, as is shown in the table below, includes Development Assistance and the administrative expenses of the Department of External Affairs and the Canadian International Development Agency. The Development Assistance shown in the table is not identical to Official Development Assistance (ODA) for purposes of comparable international reporting. Subscriptions to international financial institutions in the development area are recorded on a cash basis in the expenditure management system, but are reported on a basis which includes notes issued but not encashed in international ODA statistics. In addition, prospective spending by Petro-Canada on Third World initiatives, which is provided for in the Energy envelope, would form part of ODA. On an internationally comparable basis ODA is budgeted to be $1,465 million in 1981-82, $1,673 million in 1982-83, and $1,867 million in 1983-84. This represents almost 0.47 per cent of GNP in 1981-82 as compared to an estimated 0.43 per cent in 1980-81.

	1980-81	1981-82	1982-83	1983-84
		($ millions)		
External Affairs				
Development assistance	1,112	1,284	1,561	1,788
Other	436	499	567	644
Total	1,548	1,783	2,128	2,432

The *Defence* envelope provides for a 3 per cent real growth in defence spending. This reflects the government's commitment to NATO. It includes spending on the New Fighter Aircraft Program and armoured vehicles.

The *Parliament* envelope reflects ongoing operating costs.

Departments within the *Services to Government* envelope are required to meet rising levels of service with few increases in person-years apart from those needed for identified purposes such as the Census. This entails the achievement of further increases in productivity and is indicative of a close control over general operating expenditures.

Certain *adjustments* have to be made in relating the ceilings for each envelope to the target level of Total Outlays. There is provision for a central reserve against overruns on statutory programs arising from changes in economic assumptions, and for adjustments to the costing of voted programs at the time of finalization of Main Estimates. There are negative adjustments to allow for the normal lapse, i.e. the tendency of actual spending on voted programs to fall below the amounts provided in Estimates, and to take account of repayments on certain outstanding loans which reduce total net Loans, Investments and Advances but which are not credited to individual envelopes. The provisions for reserves increase somewhat more rapidly than do the two negative adjustments, thus resulting in a net adjustments series which swings from a negative figure in 1980-81 to a positive amount by the end of the projection period.

Loans, Investments and Advances

Loans, investments and advances, which form part of the outlays figures discussed above, are forecast to decline by $828 million in 1980-81. This reflects principally the financing of requirements of the Federal Business Development Bank, and the Export Development Corporation through direct market borrowing rather than through the Consolidated Revenue Fund. In addition, requirements for Canada Mortgage and Housing Corporation are expected to be substantially lower. The loan requirements for 1980-81 to 1983-84 include provisions for energy initiatives which are quite substantial in 1981-82 and subsequent years.

Direct market borrowings by agent Crown corporations which have been authorized to borrow under their respective statutes are not included in Government of Canada financial requirements. At the end of 1979-80 total outstanding market liabilities of these agencies amounted to $2,609 million consisting of borrowings by Export Development Corporation—$2,044 million, Petro-Canada—$180 million, Eldorado Nuclear—$40 million, and the Federal Business Development Bank—$345 million.

In 1980-81 direct market borrowings by agent Crown corporations are expected to increase by a further $1.6 billion, resulting from borrowings by Export Development Corporation—$802 million, Eldorado Nuclear—$80 million, and the Federal Business Development Bank—$755 million, partially offset by repayments of $40 million by Petro-Canada.

Annuity, Insurance and Pension Accounts

Annuity, insurance and pension accounts are expected to provide a net source of funds in the coming years, which is projected to rise from $1,943 million in 1979-80 to $4,140 million in 1983-84, an increase of $2,197 million. The superannuation accounts alone are forecast to provide a source of $3,905 million in 1983-84. These figures are based on existing legislation and incorporate assumptions used in the most recent valuation reports prepared by the Department of Insurance with respect to the Public Service Superannuation Account and the Canadian Forces Superannuation Account.

Other Transactions

These are miscellaneous accounts and are subject to wide swings. For example, the interest and debt accounts are expected to provide a source of $1,205 million in 1983-84 compared to a requirement of $38 million in 1979-80, for a swing of $1,243 million. The 1979-80 requirements reflect the low level of net Canada Savings Bond interest accruals as a consequence of enchashments in that year of substantial amounts of bonus interest. For the projection period a more normal build-up of outstanding compound interest Canada Savings Bonds is assumed.

2 Revisions to the Accounts of Canada

In the 1978-79 Public Accounts, an allowance was established to provide for the write-off of specific loans, the deletion of accounts internal to the Government, and the calculation of the Government's contribution to the Unemployment Insurance account on a current basis. Forecasts of government financial transactions in the December 1979 budget and the April 21, 1980 statement were on the revised accounting basis thus established. Two further accounting revisions will be introduced in the 1979-80 Public Accounts; the final data and projections in this budget reflect these further changes in the accounts of Canada.

As a result of a comprehensive policy on valuation applied to all recorded assets, a provision is made in the 1979-80 Public Accounts to allow for an estimate of loss on realization. The provision for estimated losses under this comprehensive valuation policy is included as an element of budgetary expenditures, and thus increases the budgetary deficit. There is a corresponding decrease in net loans, investments and advances and thus financial requirements and total outlays are unaffected.

The second accounting revision relates to the treatment of loans and subscriptions to international organizations. Such transactions were traditionally classified as part of the foreign exchange transactions. Commencing with the 1979-80 Public Accounts all loans and subscriptions to international organizations, excluding the International Monetary Fund, will be classified as loans, investments and advances under non-budgetary transactions. This re-classification increases non-budgetary requirements, total outlays and financial requirements (excluding foreign exchange). Exchange transactions are decreased by a corresponding amount; thus, total financial requirements are unaffected.

Table 2.1 provides a summary statement of the Government's financial requirements on the pre-1979-80 Public Accounts basis of accounting (i.e. that used in the December 1979 budget). Table 2.2 sets out the historical financial requirements incorporating the two above-noted accounting changes. This latter table is consistent with the manner in which the historical tables will be presented in the 1979-80 Public Accounts, and with the financial projections to 1983-84 contained in this budget.

Table 2.1
Government of Canada
Summary Statement of Transactions—Public Accounts Presentation
Pre-1979-80 Public Accounts Basis of Accounting

	1975-76	1976-77	1977-78	1978-79	1979-80
			($ millions)		
Budgetary transactions					
Revenue	29,956	32,635	32,866	35,216	40,159
Expenditure[1]	−35,308	−38,728	−42,964	−47,318	−51,396
Surplus or deficit (−)	−5,352	−6,093	−10,098	−12,102	−11,237
Non-budgetary transactions					
Loans, investments and advances[1]	−2,845	−2,109	−1,782	−1,053	−1,432
Annuity, insurance and pension accounts	1,822	2,053	2,267	2,377	1,943
Other transactions	1,782	760	1,343	−162	415
Net source or requirements (−)	759	704	1,828	1,162	926
Financial requirements					
Excluding foreign exchange transactions	−4,593	−5,389	−8,270	−10,940	−10,311
Total outlays[1]	38,153	40,837	44,746	48,371	52,828

(1) Total outlays are composed of budgetary expenditures plus loans, investments and advances.

Table 2.2
Government of Canada
Summary Statement of Transactions—Public Accounts Presentation
1979-80 Public Accounts Basis of Accounting

	1975-76	1976-77	1977-78	1978-79	1979-80
			($ millions)		
Budgetary transactions					
Revenue	29,956	32,635	32,866	35,216	40,159
Expenditure[1]	35,419	38,845	43,155	47,442	51,534
Surplus or deficit (−)	−5,463	−6,210	−10,289	−12,226	−11,375
Non-budgetary transactions					
Loans, investments and advances[1]	−2,915	−2,151	−1,770	−1,102	−1,428
Annuity, insurance and pension accounts	1,822	2,053	2,267	2,377	1,943
Other transactions	1,782	760	1,343	−162	415
Net source or requirements (−)	689	662	1,840	1,113	930
Financial requirements					
Excluding foreign exchange transactions	−4,774	−5,548	−8,449	−11,113	−10,445
Total outlays[1]	38,334	40,996	44,925	48,544	52,962

(1) Total outlays are composed of budgetary expenditures plus loans investments and advances.

3. Comparison of 1980-81 Forecast with Forecast in April 21, 1980 Statement

Table 3.1 provides a comparison of the current forecast with the forecast presented in the April 21, 1980 statement.

The actual outcome for 1979-80 differs somewhat from the estimate contained in the statement as a result of more complete information on the government's financial position that only becomes available several months after the end of the fiscal year and of accounting changes. Budgetary revenues were $241 million lower than estimated and budgetary expenditures were $316 million lower. The effect of the shortfall of budgetary expenditures on total outlays was partially offset by a $178 million underestimate of loans, investments and advances. As a result, total outlays in 1979-80 came in at about $53.0 billion, some $100 million under the $53.1 billion outlays target specified in the December 11, 1979 budget. Without the accounting change under which certain foreign exchange transactions are now treated as outlays the shortfall would have been more than $100 million greater. Financial requirements in 1979-80 were $10.4 billion. This is very close to the estimate contained in the statement even if an allowance is made for the accouting change noted above. When the April statement was prepared, reliable information on the government's year-end cash balance was already available and this was used, in conjunction with information on borrowings, to estimate financial requirements.

TABLE 3.1
Comparison of Current Forecast With Forecast in April 21, 1980 Statement

	1979-80		1980-81	
	April 21 Statement	Actual	April 21 Statement	Current Forecast
	($ millions)			
Budgetary transactions				
Revenues	40,400	40,159	45,635	45,200
Expenditures	−51,850	−51,534	−59,800	−59,350
Surplus or deficit(−)	−11,450	−11,375	−14,165	−14,150
Non-budgetary transactions				
Loans, investments and advances	−1,250	−1,428	−600	−600
Annuity, insurance and pension accounts	2,035	1,943	1,870	1,860
Other transactions	225	415	1,165	735
Net source or requirement (−)	1,010	930	2,435	1,995
Financial requirements				
Excluding foreign exchange transactions	−10,440	−10,445	−11,730	−12,155
Total outlays	53,100	52,962	60,400	59,950

The current forecast for 1980-81 is for budgetary revenue $435 million lower than in the April statement. The main factor explaining the downward revision to the revenue forecast is slower than anticipated real growth. Real GNE is currently expected to decline by 1 per cent in 1980, whereas in April it was expected to increase by ½ per cent. Discretionary measures introduced in this budget raise $185 million and thus limit the extent of the downward revision to the revenue forecast. Budgetary expenditures are projected to be down by $450 million since April. On a pre-1979-80 accounting basis, the downward revision to expenditures would be $137 million greater. Total outlays are currently expected to be consistent with the indication in the April statement that outlays would be less than $60.4 billion by the extent of the savings from blended oil. These savings are estimated to amount to some $500 million in 1980-81. There are expected to be other offsetting developments among expenditure categories. Planned spending on energy initiatives is offset by lower public debt charges. The increase in financial requirements is greater than the increase in the budgetary deficit largely because of a reduced source of funds from other transactions, primarily interest and debt accounts resulting from the lower interest rates and thus lower accumulation of accrued interest being assumed currently.

4 Fiscal Projections—National Accounts Basis

Fiscal projections on a national income and expenditure accounts basis reflect, for the most part, the same underlying factors discussed earlier in the public accounts presentation.

The trends of public accounts and national accounts measures of revenues, expenditures and of the net position are shown in Table 4.1.

Table 4.1
Fiscal Projections—National Accounts and Public Accounts Comparison

	1979-80	1980-81	1981-82	1982-83	1983-84
			($ millions)		
Revenues					
Public Accounts—budgetary revenues	40,159	45,200	52,935	61,600	69,420
(per cent change)	(14.0)	(12.6)	(17.1)	(16.4)	(12.7)
National Accounts—total revenues	45,187	51,630	63,590	74,105	84,125
(per cent change)	(14.3)	(14.3)	(23.2)	(16.5)	(13.5)
Expenditures					
Public Accounts—total outlays	52,962	59,950	67,625	74,725	82,275
(per cent change)	(9.1)	(13.2)	(12.8)	(10.5)	(10.1)
National Accounts—total expenditures	54,412	63,550	73,650	82,600	91,625
(per cent change)	(10.3)	(16.8)	(15.9)	(12.2)	(10.9)
Net position					
Public Accounts—financial requirements	−10,445	−12,155	−10,980	−8,415	−7,155
National Accounts—balance	−9,225	−11,920	−10,060	−8,495	−7,500

Budgetary revenues and national accounts revenues differ in that the national accounts framework has a somewhat broader base. National accounts total revenues include unemployment insurance employer-employee contributions and contributions to government pension plans and it is further assumed that the national accounts will treat the proceeds of the Petroleum Compensation Charge on a gross basis. These definitional differences are most apparent in 1981-82 when the projected growth in national accounts total revenues exceeds that of budgetary revenues by some 6 per cent. If one adjusts for the increase in the unemployment insurance employer-employee premium increase in 1981 and the growth in the Petroleum Compensation Charge, national accounts revenues would increase by approximately 16.5 per cent.

As is the case with revenues, the two measures of expenditures, i.e., public accounts total outlays and national accounts total expenditures, are based on slightly different accounting frameworks. On the expenditure side as well, Unemployment Insurance and Petroleum Compensation are important areas of difference between the two accounting frameworks. In the public accounts presentation, only the government's share of unemployment insurance benefits is recorded as a budgetary expenditure whereas in the national accounts framework, total unemployment insurance benefits are recorded as an expenditure item. This difference in accounting treatment gives rise to a 1980-81 national accounts expenditure growth rate which is approximately 1 per cent higher than the total outlays concept growth rate. In the case of Petroleum Compensation Payments, it is assumed that the national accounts framework will record gross Petroleum Compensation Payments as an expenditure item whereas the Public Accounts presentation records this item on a net basis, i.e., gross Petroleum Compensation Payments offset by the proceeds of the Petroleum Compensation Charge. This difference in treatment results in a national accounts expenditure growth rate in 1980-81 which is approximately 1½ percentage points higher than the corresponding total outlays growth rate.

The two measures of the deficit reflect the combined effects of the different accounting treatments. While the year to year swings vary to some extent, the trends in the public accounts and national accounts measures of the net fiscal position are similar over the forecast horizon.

The following set of tables presents an extension of the national accounts deficit to arrive at total financial requirements and a reconciliation of public accounts revenues, expenditures and non-budgetary transactions with those of the extended national accounts presentation.

Table 4.2
Government of Canada
Summary, Extended National Accounts Presentation

	1979-80	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)		
National Accounts transactions					
Revenues[2]	45,187	51,630	63,590	74,105	84,125
Expenditures[3]	−54,412	−63,550	−73,650	−82,600	−91,625
Surplus or deficit (−)	−9,225	−11,920	−10,060	−8,495	−7,500
Loans and other transactions					
Loans, investments and advances	−1,233	−570	−975	−985	−1,045
Cash vs accrual	−177	75	−120	865	1,175
Other transactions	190	260	175	200	215
Net source or requirement (−)	−1,220	−235	−920	80	345
Total financial requirements					
Excl. foreign exchange transactions	−10,445	−12,155	−10,980	−8,415	−7,155

(1) Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates.
(2) 'Total Revenue' plus 'Capital Consumption Allowances' as per Statistics Canada's National Income and Expenditure Accounts.
(3) 'Current Expenditure' plus 'Gross Capital Formation' as per Statistics Canada's National Income and Expenditure Accounts.

Table 4.3
Goverment of Canada
Revenues, Public Accounts and National Accounts Reconciliation

	1979-80[1]	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)		
Budgetary revenues—Public Accounts	40,159	45,200	52,935	61,600	69,420
Adjustments					
Post Office revenues and deficit	−1,412	−1,545	−1,645	−1,765	−1,920
Deficit of government business enterprises[2]	−498	−555	−570	−525	−505
Excess of accruals over collections	159	220	480	125	−280
Petroleum Compensation Charge[3]	411	1,215	3,470	4,795	5,780
Government pensions and social security receipts[4]	5,593	6,690	8,665	9,745	10,935
Capital consumption allowance	709	770	860	980	1,100
Miscellaneous adjustments[5]	66	−365	−605	−850	−405
Total revenues—National Accounts	45,187	51,630	63,590	74,105	84,125

(1) Numbers in these forecast 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) The proceeds of the petroleum compensation charge are not included in budgetary revenue but are included in national accounts revenues. The national accounts treatment of this revenue source is consistent with the inclusion of gross petroleum compensation payments in national accounts expenditures.
(4) In the public accounts, these government pension and social security receipts and disbursements are treated as non-budgetary transactions whereas in the national accounts, these transactions are included in government revenue and expenditure.
(5) 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.

Table 4.4
Government of Canada
Expenditures, Public Accounts and National Accounts Reconciliation

	1979-80	1980-80[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)		
Budgetary expenditures	51,534	59,350	66,640	73,725	81,215
Adjustments:					
Transfer to funds and agencies[2]	−2,433	−2,835	−3,325	−3,425	−3,450
Post Office expenditures	−1,412	−1,545	−1,645	−1,765	−1,920
Deficit of government business enterprises[3]	−498	−555	−570	−525	−505
Expenditure of funds and agencies[2]	1,466	1,599	1,759	1,831	1,952
Government pensions and social security disbursements[4]	5,242	5,965	7,060	7,665	8,070
Capital consumption allowance	709	770	860	980	1,100
Petroleum Compensation Program[5]	443	1,215	3,470	4,795	5,780
Miscellaneous adjustments[6]	−639	−414	−599	−681	−617
Total expenditures—National Accounts	54,412	63,550	73,650	82,600	91,625

(1) Numbers in these forecast 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 expenditures actually made by the funds and agencies. These figures do not include payments from the Petroleum Compensation Revolving Fund which are included in the "Petroleum Compensation Program" line.

(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, these government pension and social security receipts and disbursements are treated as non-budgetary transactions whereas in the national accounts these transactions are included in government revenue and expenditure.

(5) These figures represent the difference between gross payments recorded on a national accounts basis and net payments recorded on a public accounts basis.

(6) 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 which include provisions for valuation; purchase of existing capital assets; budgetary revenue items offset against budgetary expenditure; expenditures of reserve accounts; imputed items; and an adjustment for the treatment of expenditures in the supplementary period.

Table 4.5
Government of Canada
Non-Budgetary, Public Accounts and Extended National Accounts Reconciliation

	1979-80	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)		
Non-budgetary transactions Public Accounts	930	1,995	2,725	3,710	4,640
Deduct					
Loans and advances to funds and agencies	195	30	10	15	15
Government pension and social security accounts	−1,741	−1,895	−2,975	−3,515	−4,235
Excess of accruals over collections	−159	−220	−480	−125	280
Miscellaneous adjustments[2]	−445	−145	−200	−5	−355
Loans and other transactions—Extended National Accounts	−1,220	−235	−920	80	345

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

(2) As in the case of revenues and expenditures, the miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, the adjustments for the treatment of revenues and expenditures in the supplementary period; the change in the reserves; and the adjustment required to bring financial requirements of entities included in the national accounts government sector in line with the requirements of these entities which are met through the Consolidated Revenue Fund.

5 Summary Table on Federal Government Deficits and Financial Requirements, 1972-73 to 1983-84

The following table shows the actual and projected values for three measures of the net fiscal position: the budgetary surplus or deficit (public accounts basis), financial requirements excluding foreign exchange transactions, and the national accounts balance. The balances are also shown as percentages of GNP in current dollars.

Table 5.1
Summary Table on Federal Government Balances and Financial Requirements, 1972-73 to 1983-84[1]

	Budgetary Surplus or Deficit (–)		Financial Requirements Excl. Foreign Exchange Transactions		National Accounts Surplus or Deficit (–)	
Fiscal Year	($ millions)	(Percentage of GNP[2])	($ millions)	(Percentage of GNP[2])	($ millions)	(Percentage of GNP[2])
Actual						
1972-73	–999	–0.9	–1,308	–1.2	–198	–0.2
1973-74	–1,384	–1.1	–1,517	–1.2	186	0.2
1974-75	–1,733	–1.2	–2,139	–1.4	–47	–0.0
1975-76	–5,463	–3.3	–4,774	–2.9	–3,918	–2.4
1976-77	–6,210	–3.3	–5,548	–2.9	–4,239	–2.2
1977-78	–10,289	–4.9	–8,449	–4.0	–9,733	–4.7
1978-79	–12,226	–5.3	–11,113	–4.8	–9,785	–4.3
1979-80	–11,375	–4.4	–10,445	–4.1	–9,225	–3.5
Projected						
1980-81	–14,150	–5.0	–12,155	–4.3	–11,920	–4.2
1981-82	–13,705	–4.4	–10,980	–3.5	–10,060	–3.2
1982-83	–12,125	–3.4	–8,415	–2.3	–8,495	–2.4
1983-84	–11,795	–2.9	–7,155	–1.8	–7,500	–1.9

(1) All data have been adjusted to the new accounting basis discussed in section 2.
(2) Percentage of GNP for calendar year ending three months before the end of the relevant fiscal year.

Annex
Composition of Expenditure Envelopes

Energy Envelope—

Is managed by Economic Development Committee of Cabinet. Consists of energy programs including the government's planned new initiatives and spending on existing programs including the Petroleum Compensation Program. Includes:

Energy, Mines and Resources

Energy Programs
Petroleum Compensation Program
Sarnia-Montreal Pipeline

Atomic Energy Control Board

Atomic Energy of Canada Limited

National Energy Board

Petro-Canada

Privy Council

Northern Canada Pipeline Agency

Public Works

Canada Mortgage and Housing Corporation

Canadian Home Insulation Program (CHIP)
Home Insulation Program (HIP)

Economic Development Envelope—

Is managed by Economic Development Committee. Consists of those government programs that are directly related to the key economic sectors, including resources, manufacturing and tourism as well as horizontal policy activities such as competition policy, regional development and transportation. Includes:

Agriculture
Canadian Dairy Commission
Canadian Livestock Feed Board
Farm Credit Corporation

Communications

Consumer and Corporate Affairs

Economic Development—Ministry of State

Energy, Mines and Resources

Minerals
Earth Sciences

Environment

Forestry

Fisheries and Oceans

Industry, Trade and Commerce

Canadian Commercial Corporation
Export Development Corporation
Federal Business Development Bank
Foreign Investment Review Agency
Standards Council of Canada

Labour

Canada Labour Relations Board

Public Works

Public Works Lands Co. Ltd.

Regional Economic Expansion

Cape Breton Development Corporation

Science and Technology

National Research Council
Natural Sciences & Eng. Research Council
Science Council of Canada

Supply and Services

Unsolicited Proposals for R and D

Transport

Air Canada
Canadian Transport Commission

Social Affairs Envelope—

Is managed by Social Development Committee. Consists of all social and employment programs including major statutory programs that involve direct payments to individuals from the federal government (income maintenance), or to support essential social services through arrangements with the provinces (Established Programs Financing), and including programs for Canada's native people. Includes:

Communications

Canadian Radio-Television & Telecommunications Commission

Employment and Immigration

Immigration Appeal Board

Environment

Environment Programs

Indian Affairs and Northern Development

Northern Canada Power Commission

Labour

Canadian Centre for Occupational Health & Safety
Fitness and Amateur Sport

National Health and Welfare
Health and Social Service Programs
Established Programs Financing
Hospital Insurance
Extended Health Care
Medicare
Canada Assistance Plan
Old Age Security
Family Allowances

Medical Research Council

Public Works

Canada Mortgage & Housing Corporation
(Excluding CHIP and HIP)

Secretary of State

Advisory Council on Status of Women

Canada Council

Canadian Broadcasting Corporation

Canadian Film Development Corporation

National Arts Centre Corporation

National Film Board

National Library

National Museums of Canada

Public Archives

Social Sciences & Humanities Research Council

Status of Women—Office of the Co-ordinator

Social Development—Ministry of State

Treasury Board

Student, Youth & Other Employment
Payment to OPCAN

Veterans Affairs

Justice and Legal Envelope—

Is managed by the Social Development Committee. Consist of those government programs aimed at achieving justice and protection of the individual. Ninety per cent of expenditures are allocated to two major programs—RCMP and correctional services. Includes:

Justice

Canadian Human Rights Commission
Commissioner for Federal Judicial Affairs
Law Reform Commission of Canada
Supreme Court of Canada
Tax Review Board

Solicitor General

Correctional Services
National Parole Board
Royal Canadian Mounted Police

Fiscal Transfers Envelope—

Is managed by Priorities and Planning Committee. Includes:

Finance

Subsidies under BNA Act
Federal-Provincial Fiscal Arrangements
Utilities Income Tax Transfers
Reciprocal Taxation

Public Works

Municipal Grants

External Affairs Envelope—

Is managed by Foreign and Defence Committee. A large part of spending is for assistance to developing countries. Includes:

External Affairs

Canadian International Development Agency
International Development Research Centre
International Joint Commission

Finance

Development Assistance

Defence Envelope—

Is managed by Foreign and Defence Committee. Consists of both capital and operating expenses for DND. Includes:

National Defence

Parliament envelope—

Includes:

Parliament

The Senate
House of Commons
Library of Parliament

Services to Government Envelope—

Is managed by Government Operations Committee. Consists of those programs and activities of government whose primary purpose is to provide support and services to program departments or which are primarily service oriented or central agencies. Includes:

Finance

Anti-Dumping Tribunal
Inspector General of Banks

Auditor General

Insurance

Tariff Board

Governor General & Lieutenant-Governors

National Revenue

Post Office

Privy Council

Canadian Intergovernmental Conference Secretariat
Chief Electoral Officer

Commissioner of Official Languages
Economic Council of Canada
Public Service Staff Relations Board

Public Works

National Capital Commission

Secretary of State

Public Service Commission

Supply and Services

Statistics Canada

Treasury Board

Comptroller General

Public Debt Envelope—

Is managed by Priorities and Planning Committee. Includes:

Finance

Public Debt—Interest & Amortization