

Budget Speech

Delivered in the House of Commons
by the Honourable Marc Lalonde
Minister of Finance
Member of Parliament for Outremont

April 19, 1983

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Introduction

My dominant concern in preparing this budget has been to help the more than one and a half million Canadians who want to work but cannot find jobs. X

Economic recovery is under way in Canada. The recession that has crippled us for over a year has bottomed out. Industrial production is up. Housing starts are up. Inflation is down and so are interest rates. Even more importantly, business and consumer confidence is on the upswing. When I started my pre-budget consultations, last November, few expected recovery to begin in 1983 without massive fiscal stimulus. By late March, a significant shift in opinion had occurred. The prevailing view was that the economy was already on the mend.

Yet the pace, scope, stability and duration of the recovery remain highly uncertain. Employment has started to grow again, but unemployment remains very high and will decline only gradually. Unemployment is particularly high among young people. We must do all we can to relieve the anguish and hardship that unemployment is inflicting on Canadian workers and their families. More importantly, we must shorten as much as possible the time it will take for the private sector to expand and provide jobs for the unemployed.

Much will depend on developments abroad that are largely beyond our control, such as the strength of the recovery in the United States, Europe, Japan and the Third World. Much will also depend on the collective behaviour of Canadians and on the response of the private sector to the measures I am proposing in this budget. Sustained recovery will depend on our ability to take full advantage of growth opportunities as they arise this year and next, and through the rest of the eighties. It will depend on the self-discipline, solidarity and sense of national purpose we will be able to muster to that end – all Canadians, labour as well as business, federal and provincial governments alike.

Budget Strategy

This recovery budget, therefore, has two central and inseparable goals. The first is to make sure that recent stirrings of growth pervade the whole economy as quickly as possible. The second is to make the recovery a durable one by beginning immediately to create the conditions required for sustained growth and development during the rest of the eighties. Underlying these goals is the government's determination to ensure that Canadians are provided with the jobs they need – good jobs, permanent jobs, satisfying and well paid jobs. X

The pursuit of these twin goals calls for actions that take hold immediately but that are also geared to the medium term. The first goal demands additional stimulus this year. But the second goal would be unattainable without decisive action now to reduce the deficit in future years. Expenditure restraint will therefore continue, and measures will be introduced to raise more revenue as the recovery buoys up income and employment.

Strong, lasting recovery and the significant reduction of unemployment we need will come primarily through the private sector: the economy's main engine of growth. I shall accordingly introduce measures to strengthen the financial position of Canadian businesses, farmers and fishermen, improve their capacity to undertake productive investment, and assist them in obtaining more equity capital. Measures in support of resource industries, agriculture and human resources development will be announced. Other initiatives will seek to enhance our technological base, research and development effort, export performance, productivity and competitiveness.

A significant increase in private investment cannot be expected before next year. In view of the personal hardship and social costs resulting from high unemployment, I have concluded that the recovery must be given an additional boost in its early stages. Federal capital projects planned for later in this decade will therefore be speeded up. More funds will be allocated now to direct support for employment. Some tax relief will be given to low-income workers. More support will be provided to lower income groups through the child benefit system. Housing programs will be expanded.

Canadians have supported the 6 & 5 program introduced in last June's budget. The government remains committed to this program. We have come a long way together in reducing inflation. It is essential that this progress continue as we recover. This will require the continued cooperation of all Canadians. But it also demands continued responsibility in the exercise of monetary and fiscal policies. Our monetary policy seeks to achieve the lowest interest rates consistent with continuing resistance to inflation and with international circumstances. The actions I will announce tonight will ensure that the government's financial requirements will not compromise the continuing implementation of responsible monetary policy.

These considerations have shaped the broad policy framework of this recovery budget. It builds on the spirit of the 6 & 5 program and establishes an effective framework for national recovery. I have been guided in its preparation by the basic principles of economic management set out in my Economic Statement of October 27, 1982. This is a fiscally responsible budget. I have maintained and improved the social security system we have built over past decades and that has helped millions of Canadians weather the recession. I am relying primarily on the dynamism and creativity of the private sector to bring about durable recovery. My budget is outward-looking and avoids protectionist measures, in recognition of the fact that recovery in one country at the expense of others is neither feasible nor desirable.

The budget also reflects extensive consultations with the private sector as well as provincial governments. I thank the many groups and the thousands of individual Canadians, including the Members of this House, who have advised me over the past five months, at the many meetings I have held in all parts of the country or through written submissions. Their suggestions and recommendations have been considered seriously and many are being implemented. I likewise express my appreciation to provincial ministers of finance and treasurers, with whom I met in December and March to review our respective economic and fiscal policies and consider how best we could cooperate to bring about recovery.

(Insert after
paragraph 1,
page 3)

As most Canadians are now aware, I received a group of photographers in my office yesterday as part of a pre-budget "photo opportunity" session. A copy of the proposed budget speech was on my desk. I held it up and rapidly turned the pages. A cameraman was standing behind me and, unknown to me, photographed several pages of the proposed speech. The cameraman was thereby able to obtain some information about the contents of the proposed budget. This was clearly contrary to the spirit of this "photo opportunity" session, but the fact remains that the event occurred.

Traditionally, a budget leak involves premature disclosure of a tax matter. Fortunately this is not the case. However, in some quarters any matter or fact connected with the budget might be considered to be of this character. To remove any doubt, I have decided to change the portion of the budget which would otherwise have been prematurely in the public domain.

I have decided to increase the Special Recovery Program to \$4.8 billion. This additional \$200 million will be added to the Special Recovery Capital Projects, details of which I will give in a moment. The monies will be set aside as a special fund to be spent on projects akin to those already contemplated in the Special Recovery Capital Projects.

As a result of this action, the deficit and financial requirements of the Government for 1983-84, 1984-85 and 1985-86 will be increased \$100 million, \$50 million and \$50 million, respectively. Other appropriate adjustments should be made in reading the printed material distributed tonight. This will no doubt cause some confusion, since the printed material distributed across the country and in the House is no longer accurate. For this, I apologize.

There is some irony in all of this. During the past week, I have debated with myself and with my advisors about the precise nature the budget measures should take. My concern has been that in my desire to be fiscally responsible, I would not provide enough stimulus for the economy to secure the recovery and generate employment. Obviously, this is a matter of delicate judgement and there is no absolutely correct answer. Be that as it may, the events of the past 24 hours have led me to follow what my instincts have been urging me to do all along. If I err in this budget, I want to do it on the side of more jobs.

NOTE: In the budget speech, for:

	<u>Amount</u>	<u>Should Read</u>
Special Recovery Program	\$4.6 billion	\$4.8 billion
Special Recovery Capital Projects	\$2.2 billion	\$2.4 billion
Deficit 1983-84	\$31.2 billion	\$31.3 billion
Impact of budget measures on deficit:		
in 1983-84	\$1.8 billion	\$1.9 billion
in 1984-85	\$600 million	\$650 million
Financial requirements for 1983-84	\$26.6 billion	\$26.7 billion

Special Recovery Program

The government is introducing tonight a \$4.6 billion Special Recovery Program to spur recovery and restore as quickly as possible the economy's capacity to generate the new jobs Canadians need.

This national investment program will strengthen the structure of the Canadian economy and raise its growth potential. Its operating principle is to undertake now, in the early stages of recovery, investment that would have been required in any event during the eighties. The program will provide equal support for private and public investment, but all initiatives are designed ultimately to improve the financial position, growth prospects and job creation capacity of the private sector. Over half of planned expenditures and tax incentives will be incurred this year and next, to give the economy the early boost it needs.

The government's overriding priority is to ensure that Canada has the capital equipment, productive facilities, skills and knowledge we need to meet the competitive challenges that will arise from world-wide recovery. The Special Recovery Program will also provide new and immediate job and business opportunities for Canadians throughout the country – not only those living in the communities where new facilities will be built, but workers and suppliers in all sectors and all regions. X

My Cabinet colleagues will provide further information in the days ahead on the projects to be launched immediately in areas under their responsibility. But I want to outline briefly tonight the key features of the program's two main components, Special Recovery Capital Projects and Special Recovery Incentives for Private Investment.

Special Recovery Capital Projects

The Government of Canada is committing \$2.2 billion for Special Recovery Capital Projects selected and designed to build, expand or improve public facilities that directly support private sector expansion and the steady improvement of our economic performance essential for recovery.

More than a hundred projects have been selected. They are in the advanced planning stage. All have a lead time to start-up of less than six months. Work on most of them will start this spring or early summer. Canadians will be working on Special Recovery Capital Projects sites in all parts of the country. Earth will be moved, steel will be rigged and concrete will be poured in the coming months to implement those projects. Canadian firms will start getting orders for the wide range of goods and services required to complete them – construction materials and engineering services, planes and ships, advanced electronic and laboratory equipment, to mention just a few.

There will be no red tape and no delays. All projects are being put on a "fast track" to ensure that they start on time, progress as planned, and are completed as quickly as possible. All applicable government planning, approval, tendering and other procedures are being streamlined to facilitate fast-tracking. All departments and agencies are being instructed to give priority attention to the swift implementation of the projects for which they are responsible, within the cost estimates that have been established. The government will also seek the active cooperation of the private sector and of provincial authorities to make sure that projects stay on track and within cost. The cooperation of management and labour organizations in the construction industry will be critical to ensure effective implementation of these projects.

My colleague, the Minister of State for Economic Development, will assume overall responsibility for Special Recovery Capital Projects. He will be assisted by a Special Committee of Cabinet. A Special Recovery Capital Projects Board has been established to coordinate the management and execution of projects on time and on budget.

Almost 30 per cent of outlays on construction, materials and procurement for Special Recovery Capital Projects will take place in the current fiscal year. Seventy per cent of the funds committed for these projects will have been spent by March 31, 1985, and the rest over the two succeeding years. As a result, the projects will give the economy a boost when it is most needed. They will be phasing out as private investment accelerates and begins to make heavier demands on the capacity of the construction and other industries.

X Special Recovery Capital Projects form an integral part of a broad action plan designed to generate more growth and more jobs. They will not only provide employment in the near term, but also increase permanently the capacity of the economy to create employment. Most selected projects had already been included in the capital plans of federal departments and agencies for the latter part of the decade, because of the contribution they would make to national economic development. The amounts spent on accelerated projects over the next four years will result in lower government spending in later years.

The projects will focus on six key areas: transportation, research and training facilities, resource development, vessel procurement, land and tourism development and high-technology procurement. The projects are future-oriented, aiming to build and upgrade research and high technology centres, transportation infrastructure and other facilities and services that will enhance the long-term growth potential of Canadian industry. They will provide much-needed support for several currently weak sectors of the economy, such as construction, shipbuilding, fisheries and forestry.

The impact of Special Recovery Capital Projects will be felt throughout Canada and increase economic activity in most major urban centres and many smaller communities. Some provinces have already introduced their own capital projects programs. These provincial initiatives will also help strengthen the recovery. I hope other provinces will take similar action in their forthcoming budgets. The overall result will be a more modern and efficient stock of public capital, to assist Canadian firms in their drive for improved productivity and competitiveness and to create more jobs for Canadians.

Special Recovery Incentives for Private Investment

The second component of the Special Recovery Program is directly aimed at accelerating productive investment and job creation in the private sector. I am proposing tonight important changes in the federal investment tax credit. These changes will not increase the level of existing incentives, but will make them more readily usable by firms undertaking new investments after today. Firms will also be eligible for support from a Special Recovery Investment Fund and a Special Recovery Export Financing Fund. The cost of these measures will be \$2.4 billion over the next four fiscal years.

Businesses in Canada can now earn a credit against federal income taxes on eligible investment. The credit is at least 7 per cent of investment costs. In designated areas

of the country, the credit can be as much as 50 per cent. Until now, there have been limits on the extent to which this credit could be used to reduce income taxes, and unused credits could be carried forward for no more than five years.

For eligible investment undertaken after today, I am proposing to remove the limits on the ability to claim the investment tax credit. I am also proposing that credits earned in a year may be used to reduce taxes in any of three previous years or seven subsequent years. In addition, the investment tax credit will be extended to heavy equipment used in the construction industry.

These changes in the federal investment tax credit will be permanent. They will increase the ability of firms to use the existing credit, and thus enhance its effectiveness. They will provide about \$1.3 billion of support for private investment over the next four fiscal years.

However, all too many Canadian businesses are not at present in a position to pay taxes because of their weak profit position or the losses that the recession has inflicted on them. This applies particularly to small businesses in all parts of the country. For firms that are not now in a taxable position, the investment tax credit is not a strong incentive to invest. Yet they, too, must be encouraged to do so as early as possible if the recovery is to take hold and to last. They must also be assisted in securing the equity capital required to finance investment. I am, therefore, proposing two further but temporary changes to the federal investment tax credit.

First, I propose that a portion of investment tax credits earned between today and April 30, 1986 be designated as a Special Recovery Refundable Investment Tax Credit and refunded directly to business. For small business corporations and unincorporated businesses, that portion will be 40 per cent of credits that cannot be used to offset taxes in the year they are earned. For other businesses the refundable portion will be 20 per cent.

Second, I propose that a Special Recovery Share-Purchase Tax Credit be established. Firms that invest and issue new equity will be able to flow-out their investment tax credits earned after today to the purchasers of new equity issued by them. Purchasers of new common shares issued by such firms after June 30 of this year and before December 31, 1986 will be able to use these credits to the extent of 25 per cent of the value of the shares. Provisions will be made to ensure that institutional investors, such as pension plans, that purchase qualifying new equity can claim the share-purchase tax credit as a cash rebate from the federal government. The measure will allow companies to attract new equity faster and at lower cost, to finance investment now and over the medium term.

I estimate that these two measures will provide over the next four years an additional \$640 million in federal tax benefits to support investment and new equity issues. They will be particularly beneficial to small- and medium-size businesses, and to all firms that need to improve their balance sheets and financial position by issuing new equity in order to resume investing. They will help speed up private investment and increase production and employment in Canada.

Special Recovery Investment Fund

I am also announcing tonight the creation of a new \$300 million Special Recovery Investment Fund to strengthen private investment in the early stages of the recovery.

The fund will be managed by the Minister of Industry, Trade and Commerce and of Regional Economic Expansion. It will enable the minister to deploy financial resources across the full range of his departments' programs with the speed and flexibility needed to bring onstream major private investment projects with special national, regional or sectoral importance. Further information on the operation of the fund will soon be provided by the responsible minister.

Special Recovery Export Financing Fund

A Special Recovery Export Financing Fund of \$180 million will also be established. This fund will enable the Export Development Corporation to seek out export opportunities more aggressively than it would otherwise be able to do. The fund will be drawn upon when the corporation requires funding beyond its regular programs to support the efforts of Canadian exporters to win large contracts. The corporation will have the financial capacity to enter into financing arrangements in 1983 totalling about \$2.8 billion, a 15-per-cent increase over the financing agreements it concluded in 1982.

The effectiveness of the Special Recovery Program will depend critically on the response and cooperation of the private sector. The government is committing \$4.6 billion and is taking decisive action to revitalize Canadian industry and increase the capacity of the economy to generate new jobs. But decisive action is also required in the private sector.

I urge Canadian firms to take the fullest advantage, as soon as they can, of the investment recovery incentives I have just announced. I ask them to focus not only on outlays that increase plant capacity, which in many cases may be justified only at later stages of the recovery, but also on outlays that raise plant productivity and cut production costs. Such investment need not and should not cause workers to be laid off. I invite Canadian workers and the unions that represent them to consider what they themselves can do to facilitate an early resumption of industrial investment.

I said earlier that I am prepared to accept now, while the economy is in the initial stages of recovery, an increase in the government's financial requirements to fund the Special Recovery Program. Private credit demands will remain relatively weak this year and next. It cannot be argued that support for private investment under this program will "crowd out" such investment. But we must look ahead. I am concerned about the impact of continuing high federal deficits on confidence and investment over the medium term. I have therefore concluded that this program should not cause a permanent increase in the national debt.

Accordingly, I am proposing that all incremental costs of the Special Recovery Program, both direct outlays and revenue forgone, be funded over time by a Special Recovery Tax. Specifically, I propose a one percentage point increase in the general rate of manufacturer's sales tax, from 9 per cent to 10 per cent, and similar one percentage point increases in the sales tax rates levied on construction materials, alcoholic beverages and tobacco. The imposition of this tax will be delayed so as not to impede the recovery in its early stages. The Special Recovery Tax will not become effective until October 1, 1984. It will remain in effect until December 31, 1988.

The Financial Strength of the Private Sector

Canadian businesses have been battered by the recession. In the 15-year period preceding 1981, the average share of business profits in our gross national product was 11.2 per cent. It fell to 10 per cent in 1981 and plunged to 6.2 per cent in 1982, a post-war low. Profits must return to more normal levels if the recovery is to endure. Businesses must reduce their debt loads before they can borrow to finance new investment. Otherwise, they will not be able to invest and the recovery will fizzle out.

In our overriding concern for the hardship and anguish that unemployment has inflicted on Canadian workers and their families, we may sometimes lose sight of the fact that most Canadians are employed by the private sector. The combination of high inflation, high interest rates, falling demand and dwindling profits that marked the recession, severely strained the private sector. Short-term borrowings and credit lines were stretched to the limit. Balance sheets were thrown out of kilter and debt burdens rose dramatically.

As a result, jobs disappeared. No employer likes to lay off skilled and experienced workers or turn away promising and well-trained job seekers. They have done so, and massively over the past year and a half, because the most severe recession since the Great Depression left them no other choice. Some people lost their jobs because the firms they worked for went bankrupt. Others were laid off when their employers, faced with mounting costs and falling demand for their products, no longer had any other option.

The worst is now over, but it will take time for firms to reduce their debt load and resume investing at the level required to create the new jobs Canadians need. I am determined to speed up this process. The Special Recovery Program I have just outlined will encourage and enable Canadian firms to undertake new investment more quickly. But I have concluded that more needs to be done to strengthen the capacity of the private sector to create jobs. To that end, I am proposing tonight the following changes in the tax system.

Indexed Securities Investment Plan

I will be tabling a paper containing draft legislation to implement a new Indexed Securities Investment Plan (ISIP) as of October 1, 1983. This innovation is an important element of the government's recovery program. The plan will encourage Canadians to invest a greater proportion of their savings in listed common shares of Canadian companies. Together with the Special Recovery Share-Purchase Tax Credit, it will help Canadian corporations raise additional equity capital and reduce their reliance on debt financing. The Indexed Securities Investment Plan is also a significant step in our systematic search for ways to remove the distorting effects of inflation from our tax system. Extensive consultations with the financial community have taken place in past months on all aspects of the plan.

Tax Treatment of Business Losses

Business losses can now be carried back one year and forward five years to reduce income subject to tax. I am proposing that these provisions be broadened to allow business losses to be carried back for three years and forward for seven years. The full three-year carryback will take effect immediately for small corporations, farmers,

~~fishermen and unincorporated businesses. For farmers and fishermen, the carryforward provisions will extend to ten years rather than seven.~~ For other businesses, the increased carryback will be phased in over two years. Taxpayers will also be allowed an increased three-year carryback of capital losses against capital gains. This will also be phased in. These measures will make it possible for firms to take better advantage of existing tax provisions. The resulting reduction in federal taxes will improve the cash flow position of the private sector by \$270 million this year. Additional benefits of about \$95 million will also flow to Canadian firms if all provinces harmonize their tax systems with these measures, as they have generally done in the past.

Energy Taxes

I have had to contend in recent months, like my provincial counterparts and finance ministers the world over, with a volatile international oil market that continues to inject considerable uncertainty into economic and fiscal forecasts. Lower oil prices will assist the recovery in Canada and bolster the economies of our trading partners. Businesses and consumers will get some relief, and our progress in bringing down inflation will be reinforced. However, revenue losses to the federal treasury will be substantial, and activity in the oil and gas sector will be lower than anticipated. I am proposing tonight the following measures to address these issues.

First, I am deferring reintroduction of the Incremental Oil Revenue Tax on conventional oil for one year, from June 1, 1983 to June 1, 1984. This measure will reduce federal revenue by about \$225 million and add to the industry's cash flow. The main beneficiaries will be Canadian companies that are typically the most aggressive in searching for new supplies of oil and gas.

Second, I am proposing modifications to the Petroleum and Gas Revenue Tax for enhanced oil recovery projects, to encourage the commercial application of techniques designed to increase the amount of oil recovered from reservoirs. These modifications will have the effect of eliminating liabilities under this tax until such time as these projects pay back their capital costs. Both of these measures will encourage activity and employment in western Canada.

Third, recent developments in international oil prices have eliminated the need for a two-price régime for aviation fuel and marine bunker fuel. Together with my colleague, the Minister of Energy, Mines and Resources, I will be taking the necessary steps to terminate this régime, effective May 1, 1983.

The Canadian Ownership Special Charge has already made a sizeable contribution to increasing public ownership in the oil and gas industry. The government remains strongly committed to the objective of oil self-sufficiency through raising Canadian ownership of oil and gas resources by increasing exploration and development of new reserves. It is the government's intention to maintain the Canadian Ownership Special Charge at its current level and use the revenues in support of this objective.

Mining Depletion Allowances

The mining industry in Canada has been hit hard by the world recession. The tax measures I have already announced will provide substantial relief to this important Canadian industry. I am proposing tonight a further measure to increase incentives to

investors who finance mining ventures. The 33 1/3-per-cent depletion allowances for mining exploration will be made deductible against the non-resource income of these investors. This change should attract needed capital to the sector and should particularly benefit junior mining companies.

Small Business

I have been particularly concerned in preparing this budget with the financial difficulties that Canada's small businesses must overcome to contribute to national economic recovery. Small firms are one of the most dynamic and innovative elements of the private sector. The way in which so many have managed to pull through the recession is a tribute to the dedication and entrepreneurial spirit of Canadians.

Small businesses have been significantly assisted by federal programs during this period. They will benefit from all budget measures. But I want them to recover as rapidly as possible. This is why I have set the Special Recovery Refundable Investment Tax Credit available to small businesses at 40 per cent, double that for other firms. This is also why I have made immediately applicable to them the new three-year carryback provisions for losses.

To further assist Canadian small businesses over the recovery period, the government will make substantial changes in the operating mandate of the Federal Business Development Bank. These changes will enable the Bank to play a more dynamic and supportive role in advising small businesses on their total financial needs and assisting them in meeting these needs. My colleague, the Minister of State for Small Business, will provide further information on the expanded role of the FBDB in the next days.

Small business organizations as well as others have urged me to simplify the tax system and thereby reduce the paper burden and compliance costs it imposes on taxpayers. I have kept their representations in mind throughout my budget preparations and avoided complex changes wherever possible. I have concentrated on making existing tax incentives more effective, rather than introducing new ones. The proposed draft legislation for the Indexed Securities Investment Plan is quite technical, but I have been assured that financial institutions will be able to administer it effectively for investors.

Simplification of the tax system cannot be approached in a simplistic way if we are to meet effectively and equitably the varied circumstances of Canadian businesses. To pursue this effort, the cooperation of the private sector is needed. I am, therefore, pleased that the Canada Tax Foundation has accepted my suggestion to hold a national symposium on the subject this summer. I want to assure the Foundation that my department will participate in this symposium and in follow-up activities.

Farming

Canadian farmers will derive benefits from Special Recovery Projects and from the tax measures I am introducing to facilitate investment and strengthen the financial position of the private sector. Of particular advantage to them will be the special provision allowing farming losses to be carried forward ten years, rather than the seven years applicable to other businesses, in addition to the three-year carryback also available to them.

In recognition of the exceptional financial difficulties being faced by many farmers, the government is also extending tonight the Special Farm Financial Assistance Program administered by the Farm Credit Corporation. An additional \$100 million will be made available this year for these special FCC loans to farmers in financial distress, bringing the total available in 1983-84 to \$150 million. Eligible recipients will be entitled to interest rebates of four percentage points for the first two years. As in the past, I expect that these loans will enable the recipients to remain in agriculture and to become commercially viable contributors to Canada's agricultural economy.

I would be remiss if I did not emphasize in this budget the critical importance of the government's Western Transportation Initiative for national recovery. The program, proposed by my colleague, the Minister of Transport, calls for federal expenditures of \$3.7 billion over the next four years. I point out that even though many of the Special Recovery Capital Projects will enhance agricultural and transportation development, they are separate from the capital outlays arising from or associated with the Western Transportation Initiative. These two major national programs have been designed to reinforce each other.

Housing

The housing industry has made great strides towards recovery in recent months. Home buyers and builders have benefitted quickly from the steady decline in interest rates. Mortgage rates are now in the 11 to 13 per cent range, down from last year's highs of 19 to 20 per cent. This drop has made homes much more affordable for Canadians. The re-appearance of five-year mortgages has reduced uncertainty for potential home buyers and homeowners alike. Housing starts, which reached a low of 96,000 at annual rates in the third quarter of 1982, recovered strongly in the fourth quarter and reached a level of 177,000 in March. This strength is expected to continue through 1983 as a result of lower mortgages rates, higher personal incomes and the additional stimulus I am announcing tonight.

The government is committing an additional \$355 million to spur recovery in the housing industry. Five existing programs are being extended or expanded. These programs have all proven successful and support an industry that employs a large number of people and uses materials primarily made in Canada. Their expansion will create jobs in all parts of the country through the construction and renovation of housing units. I am also proposing a new housing tax incentive.

First, I am making available an additional \$120 million for the Canadian Home Renovation Plan. This program provides grants of up to \$3,000 to low- and middle-income Canadians wishing to renovate their homes.

Second, an additional \$40 million is being allocated over two years for the Residential Rehabilitation Assistance Program. This program is directed to the improvement and repair of sub-standard housing in designated areas.

Third, the annual allocation of social housing units is being increased by 2,500 units in 1983, which will maintain the total allocation at 25,000 units. This will provide additional support to the housing needs of low-income Canadians.

Fourth, an additional \$40 million is being committed for Indian on-reserve housing in 1983-84. This is supplementary to a special increase of \$22 million per year approved recently by the government, starting this year.

Fifth, I am allocating \$30 million more to the Canadian Home Ownership Stimulation Plan, which should be sufficient to extend this program until about the end of May. This program, introduced last June by my predecessor, has been highly successful. Over the past nine months, about 200,000 Canadians have benefitted from the \$3,000 home ownership grants it provides.

The Minister responsible for the Canada Mortgage and Housing Corporation and the Minister of Indian Affairs and Northern Development will shortly provide more detailed information on these measures.

I am also proposing tonight important changes to the Registered Home Ownership Savings Plan to assist eligible individuals purchasing newly constructed homes. It is expected that this new tax incentive will provide about \$125 million to new homeowners.

RHOSPs were introduced as a tax-exempt savings vehicle designed to encourage Canadians to save towards a down payment on a home. Currently, tax deductible contributions up to a total of \$10,000 can be made to a RHOSP at the rate of up to \$1,000 per year. There are now more than half a million Canadians with RHOSPs. Individuals eligible to contribute to a RHOSP who buy newly constructed homes and associated furnishings before the end of 1984 will be able to deduct from taxable income in one lump sum the amount needed to bring their total deductions up to the \$10,000 limit.

Home buyers and others will need new furnishings in 1983. Canadians have delayed purchases of furnishings and appliances as a result of the uncertainty caused by the recession. I am therefore proposing a special, short-term incentive for RHOSP holders to spur purchases of these items. Rules governing the use of RHOSPs will be changed to allow once-and-for-all tax-free withdrawals in 1983 of any amount currently in a RHOSP for purchase of designated home furnishings or appliances, even where the holder does not take advantage of the above measure to buy a newly constructed home.

Direct Support For Employment

The measures I have just announced will create jobs in the private sector. But I am realistic. Unemployment is very high. It will take time for the employment effects of the Special Recovery Program and of the other measures I have just announced to be fully felt. We cannot turn our backs on those who are bearing the economic, social and human burdens of unemployment. That is why the government has not only maintained social programs during the recession but acted to strengthen them and make them more effective.

I am proud to be associated with a government that has not, despite intense fiscal pressures, forsaken its compassion or its obligation to support those Canadians who most need help. The government has taken significant actions in the past ten months to contain the rise in unemployment. To reinforce these actions, I am announcing tonight a seven point package of new or expanded employment initiatives, requiring additional funding of \$710 million over the next two years. This new allocation will raise to \$1.5 billion the funds committed this year to support directly the creation of jobs for those Canadians most seriously affected by the recession. This is almost

\$900 million more than last year. The government will have in place in this fiscal year the largest program of direct support for job creation ever undertaken in Canada.

An additional \$280 million, of which \$180 million are new funds, will be provided for the expansion of the NEED program. Support will continue to be channelled through the private sector, federal departments, municipalities, voluntary organizations, labour unions and provincial governments participating in the program. I am pleased to report that the private sector, and small businesses in particular, are making increasing use of the NEED program.

Authorized spending on community employment under Section 38 of the Unemployment Insurance Act will be increased by \$100 million over the next two years. Under this program, workers who have been laid off may continue to receive benefits while voluntarily participating in productive activities of value to their community. A further \$150 million will be provided for increased spending on local employment-intensive projects under existing government construction and other programs.

Employment opportunities are improving for Canadian workers, but youth unemployment rates are expected to remain high for some time. Young people with little or no job experience will have difficulty finding work until skilled and experienced workers laid off during the recession have been recalled. The government has acted to address this problem. Over 270,000 young people are now benefitting from federal training and employment programs.

But more needs to be done to provide young people with employment opportunities in this critical phase of the recovery. A cooperative strategy for youth employment is essential. It must involve business, unions, all governments and young people themselves. It must focus not just on job creation and training but also on work experience. To help ease the difficult transition from school to work, I am announcing tonight that an additional \$280 million is being committed in this budget to meet the needs of young Canadians who have not been able to find jobs. These new funds will provide for the following initiatives.

Ninety-five million dollars will be allocated to establish, in consultation with the private sector, a Youth Wage Subsidy and Internship Program. Work experience, coupled with training programs, will ensure that young people gain from the kind of on-the-job skills that are demanded in the permanent job market. These funds will also be used to expand the Youth Job Corps Program, which offers young Canadians vocational training courses, education, counselling and work experience.

I am also providing an additional \$40 million for Katimavik over the next two years. This youth program was established in 1977 to serve Canadian communities, assist the personal development of participants, and provide young Canadians with opportunities to acquire a greater understanding of their country. It is expected that an additional 4,000 participants will be added to the existing 1,700 over the next two years.

In addition, I am committing \$75 million to fund an Extended Youth Training and Employment Program to be run by the Department of National Defence. This program is designed to provide employment in a military context that includes general as well as basic trades or vocational training for approximately 5,000 young people. The program will provide job experience for a period of about a year and will help those involved make the transition from school to work.

I have made available \$70 million to increase funding for student employment this summer. This increase raises the government's total commitment to this program to \$170 million this year, as recently announced by my colleague, the Minister of Employment and Immigration. The government is also providing additional support, as I will indicate later, to young Canadians who wish to continue their studies on a full or part-time basis.

Over and above these special youth employment initiatives, the massive effort the government will pursue to improve the skills and training of Canadian workers will be largely directed at young people. Total federal support for human resource development will be increased to \$1.2 billion this year. I expect that about half of the beneficiaries of these programs this year will be young people.

The Minister of Employment and Immigration, the Minister of National Defence and the Secretary of State will provide further details on these initiatives shortly.

Employment Deduction

Working Canadians with modest incomes are having a difficult time making ends meet, even though they are now benefitting from lower inflation. I am therefore introducing a significant change in the employment expense deduction allowed under the Income Tax Act. Effective this year, this employment deduction will increase from three to 20 per cent of employment income, subject to the current maximum amount of \$500. This measure will return this year about \$130 million of federal revenues to Canadians with employment income below \$16,700. About four million taxpayers will benefit from this measure.

Child Benefits

I am proposing tonight four changes in the tax components of the federal child benefit system to provide additional income support for lower income families, working parents and others in need. I am not making any changes to family allowances.

First, I propose to double, starting this year, the Child Care Expense Deduction from \$1,000 to \$2,000 per child and \$4,000 to \$8,000 per family. These increases will ease the burden of child care expenses for families in which both parents work outside the home, as well as for single-parent families for whom the deduction is critical. I am also making changes to ensure that the deduction does not discriminate between men and women.

Second, I propose to maintain the enriched child tax credit introduced in the last budget. Under existing legislation, the credit would have dropped from \$343 to \$326 in 1983. I propose to extend the credit at \$343 for the 1983 taxation year. I also propose to continue full indexation of this higher credit in subsequent years to protect its value for low and moderate income families. Over the last five years the credit has gone up from \$200 to \$343 per child, evidence of the government's continuing commitment to families with children.

Third, I propose to hold at its present level the family income threshold above which the Child Tax Credit begins to be phased out. For the current and subsequent taxation years, the threshold will remain at its 1982 value of \$26,330. Below this

threshold, the maximum credit will be paid. Above the threshold, the credit will decline as family income rises. It will only cease to be paid for families with two children having a family income of about \$40,000 or more.

Finally, starting next year, I propose to keep at its current level of \$710 the tax exemption for children and other dependants under 18 years of age. This measure will complement the child tax credit changes by helping to ensure that limited government funds are directed to the families that need them most.

The net effect of these changes will be to increase federal support for lower income Canadians with children and for Canadians who have to incur child care expenses in order to work. In the current fiscal year, the changes will be roughly self-balancing. Over the following three fiscal years, they will result in increased revenues. However, I am not removing these monies from the social security system that provides important social benefits to Canadians. I am designating them as a special Social Policy Fund that will be used to reinforce social programs available to Canadians in need.

Productivity and Competitiveness

For recovery to be sustained in Canada, and for real growth of our incomes and our living standards to resume, we must raise our sights beyond the period immediately ahead of us. A broad national effort is required over the remaining years of the decade to make sure that Canada remains one of the most productive, competitive and prosperous economies in the industrialized world. Our major trading partners will continue to move forward. To remain competitive, Canada therefore has no choice but to move forward too. We must put our businesses and our workers in a position to meet and beat the competition.

Many are under the impression that productivity gains cause unemployment. Nothing could be more wrong. In fact, strong and steady productivity gains sustain the growth of employment.

Our collective search for the means to improve Canada's productivity performance will be complex and difficult. Success will not come overnight. Neither business nor labour will get very far if either tries to move forward without the cooperation of the other. We will have to do it together. A national cooperative effort is required. And for such a national effort to have any chance of success, Canadians will have to set rhetoric aside and stop "scapegoating" each other.

We will not get ahead if we continue to blame each other for the problems we face. We should recognize, for example, that the concerns of the labour movement for working conditions, the quality and safety of the work place, the involvement of workers in what they are doing, and the possibilities for self-development offered to them, are entirely legitimate and can, if properly addressed, improve our productivity performance. By the same token, we should acknowledge that businesses do not invest in more efficient and cost-cutting equipment just to throw people out of work. We should recognize that productive investment sustains employment and that too little of it causes unemployment.

There will always be tensions between labour, business and government. But that should not prevent labour, business and government from cooperating to improve the

productivity and competitiveness of the Canadian economy. This is the key to higher wages and better profits. More importantly, it is the best way, in the long run, to provide Canadians with the jobs they need.

National Centre for Productivity and Employment Growth

The government, therefore, intends to consult with labour unions and business organizations over the next few weeks to launch a national drive towards higher productivity and employment growth. These consultations will focus in the short term on the establishment of a national centre for productivity and employment growth.

What we have in mind is not a research institute. Rather, it is a place where labour and business can meet, away from the bargaining table, to take a hardnosed and practical look at issues of mutual concern that cannot be addressed adequately in the course of collective bargaining. Experience has shown that it is not enough to study or talk about these issues. Nor can progress be mandated, legislated or bought.

To make progress, ways must be found of bringing action where action is needed — the plants, offices and boardrooms of the nation. This can only be done by practical people who know what they are talking about, workers and managers. It is that kind of practical experience that, we hope, a national centre for productivity and employment growth will bring together.

The government will shortly consult with labour and business representatives to appoint a founding committee for the proposed centre. This committee will be asked to recommend within three months an appropriate designation, mandate, structure and mode of operation for the centre.

Technology

The government's broad policy framework for recovery places a high priority on technology policy and support for research and development. It is of critical importance for our economic future that we increase our R&D effort and that we support the development of "sunrise" industries. We must also promote more actively the dissemination and application of technological advances in all sectors of the economy.

The federal government already provides massive support for science and technology. Expenditures on the natural sciences will amount this year to \$2.6 billion. This includes over \$450 million in direct federal funding of research and development undertaken by the private sector. Federal and provincial revenue forgone under tax incentives for private research and development is expected to be in excess of \$200 million in 1983, even before the changes I will be proposing tonight.

I have already announced, under Special Recovery Capital Projects, two initiatives to enhance federal support for science and technology. First, over \$290 million will be spent on research facilities critical to mastering new technologies. Fifteen new facilities will be built in all parts of Canada. Second, about \$180 million will be allocated for high technology procurement. I am allocating tonight a further \$100 million over the next two years for other new technology policy initiatives. My colleague, the Minister of State for Economic Development and for Science and Technology, will provide detailed information on these initiatives shortly.

Research and Development

One of the most critical factors in meeting the challenge of technological change is the adequacy of research and development in the private sector. In line with the government's commitment to consult on major issues of tax policy, I will be tabling tonight a paper entitled *Tax Policies for Research and Development* that reviews existing federal tax incentives for R&D and sets out proposals for change.

This paper shows that Canadian tax incentives compare very favourably with those of other countries. It identifies areas where they could be made simpler, more accessible and more effective. It proposes new provisions that will be of great benefit to small businesses who need help in financing R&D ventures. The overall impact of these new provisions, combined with the general tax measures already proposed as they apply to R&D, would be to increase the value of federal and provincial R&D tax incentives by some \$185 million in the first full year in which they will apply. This is a clear demonstration of the government's support for research and development in the private sector.

Human Resource Development

To take full advantage of technological advances, Canada will increasingly need well-educated and well-trained workers. Moreover, workers will have to acquire new skills and knowledge throughout their working lives. With this in mind, I am allocating tonight an additional \$155 million for human resource development programs. This will bring to \$1.2 billion this year the funds allocated for skills development in occupations that are significant for economic growth. Over 250,000 Canadians, half of them young people, will benefit this year from federal support for human resource development.

With the National Training Act of 1982, the government took steps to make the training system more responsive to our human resource development objectives. It was recognized that, in order to identify occupations in demand and ensure that training funds are allocated accordingly, a cooperative effort involving labour, business and governments was required. This cooperation has already produced substantial dividends.

Young people are very much aware today of the importance of education for their career prospects. Because of weak employment opportunities, however, students face increasing difficulty in financing their education. The Secretary of State has proposed changes to the Canada Student Loans Act that will expand loan availability to include part-time students, increase the size of available loans and ease repayment conditions for those having difficulty obtaining employment upon graduation. I am providing an additional \$60 million over the next two years to fund these changes. This will raise total funding for the Canada Student Loans Program to \$141 million this year. Over 185,000 Canadian students will benefit from the program this year.

Trade and Tariffs

The structure of the world economy is changing to reflect the emergence of new economic powers. The countries of the world have become more interdependent and more vulnerable to each other's actions. With almost 30 per cent of our GNP generated by exports, Canada shares this interdependence and vulnerability with other major industrialized countries. But international competition also provides Canada with the opportunity to exploit world markets, increase our productivity, rationalize

our production and capitalize on our comparative advantage. We must recognize, however, that if we do not import from other countries they will not have the means to buy our exports or to repay our loans to them.

There are strong pressures for protectionism in the world today. I have felt them here in Canada. While I understand the concerns underlying these pressures, I believe they are shortsighted and counterproductive. I acknowledge that there may occasionally be overwhelming reasons for protection in particular cases, but these must be the exception rather than the rule. It is in Canada's abiding interest, as a major exporting nation, to maintain an open trading system subject to the rule of international law. This remains the government's first priority in the area of trade policy.

I have announced earlier the creation of a Special Recovery Export Financing Fund of \$180 million to improve Canada's export performance. I would now like to refer briefly to three other initiatives I am taking to improve the competitiveness of the economy. First, I am increasing the funds available to the Program for Export Market Development in each of the next four years. Second, I am proposing a change in the tax treatment of Canadians working abroad. This will enhance the ability of Canadian firms to undertake projects in other countries. Third, I am commissioning a study, in cooperation with the Export Trade Development Board, of the impact of tax systems in Canada and other countries on the competitiveness of resource-based and manufactured exports.

I am proposing tonight a number of reductions in the rates of duty on goods from developing countries. These reductions are part of a series of adjustments being made to meet Canada's commitment to assist developing countries in their efforts to increase their exports and to improve their balance of payments. Most other proposed tariff changes provide for lower rates of duty or free entry for products not produced in Canada.

I also propose to double the limits on the value of goods that can be brought back to Canada free of duty and tax by returning Canadians under the tourist exemptions. Effective April 20, 1983, the quarterly exemption is being increased to \$100 from \$50. The annual exemption is being increased to \$300 from \$150.

Other Tax Changes

I would now like to propose two other tax changes.

The Minister of Communications recently announced a Broadcasting Strategy for Canada, designed to enable the nation's broadcasting system to respond to the technological and programming challenges of the 1980s and 1990s. A critical part of this strategy is the establishment of a fund to assist private production companies and independent producers. To help finance the expenditures associated with this new broadcasting strategy, I am proposing a tax of 6 per cent on the amount charged to subscribers for basic cable rental, pay TV and other programming services provided by means of telecommunications.

All individual taxpayers are currently allowed to claim a standard deduction of \$100 in lieu of itemized deductions for charitable donations and medical expenses. Representatives of voluntary organizations have expressed concern that this deduction reduces the tax incentive for charitable giving since the deduction is not directly related to actual amounts given. I propose that all deductions for charitable and medical expenses be receipted, starting in the 1984 taxation year, to replace the standard deduction.

The Economic Outlook

I will be tabling with this budget a background paper on *The Economic Outlook for Canada*, which sets out projections of economic performance.

Most forecasters appear to share the expectation that recovery will proceed at a moderate pace in 1983. The housing sector will be strong, along with inventory rebuilding, and these sources of growth will be supported by higher consumption and continued strength in our trade balance. But private investment will remain weak this year and will recover only as markets improve, excess capacity is run down, and the overall financial position of the business sector is strengthened.

The average level of our real gross national product is forecast to be 2.3 per cent higher this year than it was last year. Growth through the year will be fairly strong, and real GNP at the end of 1983 should be about 6.5 per cent higher than it was at the end of 1982. I expect strong growth to continue through 1984, at an average rate of 5.2 per cent. It will also become more broadly based as investment gathers strength.

Inflation should continue to decline, averaging 6.3 per cent this year and 5 per cent in 1984. Employment should grow fairly strongly in the course of this year and even more strongly in 1984. Over 600,000 more Canadians are expected to be working at the end of 1984 than at the end of 1982. But the job losses we have suffered in this recession have been severe and, as employment begins to grow again, many workers who withdrew temporarily from the labour force will once again seek work. This will maintain upward pressure on the unemployment rate. The unemployment rate is forecast to average 12.4 per cent this year and to fall to 11.4 per cent in 1984. Although the average level may only fall to 11.4 per cent in 1984, I expect unemployment to be on a clear downward trend through that year and the following years.

There are still many uncertainties about the strength and durability of the recovery. Growth in our trading partners is reviving, but questions remain about the likely course of interest rates in the United States and growth prospects in the Third World. Protectionism could damage our international trade and export opportunities. The impact of volatile world oil markets on economic growth and the international financial system is still unclear.

The indebtedness problems of developing countries remain serious, but I am encouraged by the prompt and effective way in which governments, international financial institutions and the commercial banks have responded to meet the threats that emerged last year. As a result of recent decisions to augment the resources of the International Monetary Fund, the world is now better equipped to manage similar situations should they arise in the future. The government, particularly through the Bank of Canada, as well as the major Canadian banks, have participated in these efforts in a way commensurate with Canada's international responsibilities and long-term interests.

Early next month, I will be meeting with my counterparts in other OECD countries. Following that meeting, the Prime Minister will join the heads of government of the other major industrial countries at the Economic Summit in Williamsburg. On both these occasions Canada will continue to press our major trading partners to do all they can to ensure that world recovery strengthens and endures.

Within the current international environment, the framework for economic recovery set out in this budget will enable us to improve our economic prospects in the near term and lay the basis for healthy growth in the medium term. The measures I have announced will help create more jobs for Canadians this year and in years to come. They will do so primarily by supporting growth in the private sector. Our unemployed relatives, neighbours and friends want to work, but they also want secure, productive and satisfying jobs. These jobs will have to come from a strong and dynamic private sector.

Ten months ago, the government proposed the 6&5 program. Canadians were asked to join in a national effort to bring down inflation. That effort has brought results more quickly than most people expected. Millions of Canadians shared in this national effort by having their salary increase, or their family allowance indexing, or their pension increase, limited to 6 per cent in 1983. They will find that their real purchasing power has not decreased much, if at all, this year. Indeed, they will have fared better than many other Canadians who have seen their incomes grow by much less than 6 per cent as a result of the recession. In the spirit of the 6&5 program, I am asking Canadians tonight to join in a collective effort to build a stronger economy.

The Deficit

I have said many times tonight that the government alone cannot bring about lasting recovery. But there is one area where it must, by its own actions, take the responsibility for ensuring satisfactory growth in the medium term. This is the management of the federal deficit and of the government's financial requirements.

When I reported to the House in February, I gave estimates for the deficit and financial requirements for 1982-83. Since February, it has become apparent that expenditures have been about \$300 million lower than anticipated and revenues almost \$1.7 billion higher. This development provides a further indication that recovery has begun. Final figures for last year will not be available for some time, but I now estimate that the 1982-83 deficit will be about \$2 billion lower than expected two months ago, or about \$25.3 billion. Cash requirements will be about \$23.5 billion.

The causes of last year's high deficit are well understood. The depth of the recession forced a substantial increase in government expenditures, most of it to help those Canadians most seriously affected by the recession. At the same time, federal revenues grew by only 1.5 per cent. The deficit increased sharply, but its financing did not put upward pressure on interest rates. Indeed, interest rates moved down dramatically in the second half of 1982.

The fact that the deficit has reached such a high level means that it will inevitably take time to bring it down. Indeed, as I have indicated previously, because recovery will be moderate, because unemployment will remain high, and because oil prices have fallen abroad and will fall in Canada, the deficit would have been higher this year than last year even without the actions I have announced in this budget. The direct impact of these actions will increase the deficit by \$1.8 billion and bring it to \$31.2 billion for the current year.

Financial requirements, which are a better measure of the pressure that the federal government will put on financial markets, will increase by less than the deficit. They are projected to reach a level of \$26.6 billion, about \$3 billion higher than last year. I

have no doubt that these requirements can be financed this year without putting pressure on interest rates and without threatening economic recovery. Private investment will continue to be weak and savings rates to be high in 1983.

Over the medium term, however, the deficit problem is more difficult. In the absence of further action, the deficit would have declined after this year, but it would do so only very slowly. Government borrowing requirements would decline more quickly but would still be high in 1986-87.

It is important that Canadians understand how the deficit arose, how it ought to be interpreted and what its implications are for economic performance. I have found in my consultations with Canadians that there is a great deal of legitimate concern, which I share, about the level of future deficits. But I have also been struck by the complexity of the issues involved and the need for a balanced understanding of them. I will therefore be tabling with this budget a background paper entitled *The Federal Deficit in Perspective*. I hope that this paper will make a useful contribution to the continuing debate on this important subject.

This background document makes four important points.

First, the increased federal deficit over the second half of the 1970s was not due to runaway expenditure growth. It was due in large part to a succession of tax cuts introduced in response to weak economic activity.

Second, the impact of the federal deficit on financial markets and interest rates cannot be looked at in isolation. From 1975 to last year, other governments in Canada ran a consolidated surplus on a national accounts basis and this surplus helped to offset federal borrowing requirements.

Third, the so-called structural deficit, which allows for the impact of economic cycles on federal revenues and expenditures, fell steadily from 4.3 per cent of GNP in 1978 to only 1.8 per cent of GNP in 1981. It rose in 1982, but will decline again through the medium term.

Fourth, because accounting procedures for governments are distorted by inflation just as they are for companies in the private sector, the growth of the real value of the national debt is less than implied by the deficit numbers. This has important implications for the ability of the government to finance its deficit without putting pressure on interest rates.

If we are to address the issue of deficits over the medium term in a realistic way, we must put rhetoric aside and look at the facts. We cannot eliminate the deficit quickly. To do so would require us to slash government programs or to accept massive tax increases. Either course of action would jeopardize our prospects for economic recovery. But we must manage the deficit now to ensure that it will come down as quickly as possible. Simply put, as private demand for savings grows, government borrowing requirements must shrink.

The first area we must look to is government expenditures. In 1975, this government made the commitment that, over the medium term, expenditures would grow no more quickly than the trend growth in GNP, so that the share of the federal government in the economy would not increase.

This commitment was met until the recession last year. I am reaffirming this commitment tonight. *The Fiscal Plan* I will be tabling with this budget shows that total outlays as a share of GNP will fall steadily from this year to 1986-87. By that year, federal spending will be virtually the same size relative to the economy as in 1981-82, before the worst of the recession. To achieve this outcome will demand continuing diligence in restraining expenditure growth.

The second area is revenues. As I pointed out earlier, a succession of tax cuts in the second half of the 1970s caused federal revenues to grow much less rapidly than the economy. In 1974-75, federal revenues were almost 19 per cent of gross national product. This share fell to less than 15 per cent in the late 1970s. I am therefore proposing tonight changes in the personal income tax that will take effect only in future years, when the recovery is secured, to help reduce the federal deficit more quickly over the next four years.

Individual taxpayers are now eligible for a federal tax reduction of \$200. This tax reduction was originally introduced in 1973 at a rate of 5 per cent of tax otherwise payable with a minimum of \$100 and a maximum of \$500. It is not an integral part of the basic structure of the personal income tax system and has been modified from time to time in response to changing economic circumstances.

I am proposing further modifications to this tax reduction applicable to 1984 and subsequent years. The federal tax reduction will become income-tested as of January 1, 1984. The \$200 credit will be phased out in that year for taxpayers paying more than \$6,000 in basic federal tax. Those paying less than \$6,000 in basic federal tax, which is equivalent to income levels in the \$35,000 to \$40,000 range, will not be affected in 1984. The base amount of the credit will be reduced to \$100 in 1985 and to \$50 in 1986 and subsequent years.

These changes will take effect gradually and only when the recovery has firmed up. No taxpayer will be affected in 1983, and only those with high incomes in 1984.

I am tabling with this budget Ways and Means Motions to give effect to the tax and tariff changes I have proposed, and also the budget papers to which I have referred.

I believe that the nature and timing of these measures are both appropriate to our short-term economic situation and necessary to safeguard the ability of the private sector to provide jobs for Canadians over the medium term. I will continue to monitor the medium-term deficit and take appropriate action as necessary to bring it down as quickly as possible without compromising the performance of our economy.

The direct impact of all the measures I have announced tonight will be to increase the deficit by \$1.8 billion in the current fiscal year and by \$600 million next year. In the following two fiscal years, as the economy improves, these measures will reduce the deficit by \$1.8 billion and \$2.6 billion, respectively.

Conclusion

The most critical and also the most difficult step towards recovery is to break out of the recession mentality. It is to cure ourselves of the collective trauma engendered by present difficulties and to look once again squarely and confidently into the future.

This can be achieved only by an act of national will. The government cannot by itself will the economy onto the path of lasting recovery.

But the government has the capacity to act decisively to restore confidence in the ability of Canadians to mobilize brain and brawn, to muster our energies, and to make our economy more productive and more competitive. It has the capacity to strengthen our private sector and to enable it to provide once again the jobs Canadians need.

This is what this recovery budget seeks to achieve for Canada.

I set out with two goals: to ensure that recovery firmly take hold and that it be durable. To create the jobs Canadians need, I proposed actions that will go into effect immediately but that will also be geared to the medium term.

The budget provides targeted stimulus to boost the recovery. It introduces a \$4.6 billion Special Recovery Program. This program will create jobs and make possible now private and public investment that would otherwise have been undertaken only later.

The budget provides more direct support for employment, more buying power for lower income Canadians and more stimulus for housing. It proposes actions to improve our growth prospects by strengthening the financial position of our businesses, and by supporting the technological advances necessary for Canadians to compete successfully in the world.

The budget does not provide excessive stimulus for the economy. To have done so would have been irresponsible. Indeed, it would have jeopardized the recovery by increasing the deficit to levels that would have pushed interest rates up.

The budget proposes a national drive for higher productivity and employment growth. This is the high goal that the government is urging all Canadians to strive for, individually and collectively, during the rest of the eighties.

We Canadians can reach this goal if we are prepared to work hard at it, to make tough and bold decisions, to resolve or set aside our differences, and to act as the national community we are.

The pain and the hardship of recent years have clearly shown that a new national partnership amongst labour, business and governments is urgently needed in Canada. This new partnership for recovery is essential if we are to meet the tough competitive challenge of the eighties and provide the jobs Canadians need.

This recovery budget has laid a firm basis on which to build this partnership. In the coming weeks, the government will seek out its labour, business and provincial partners to get on with the job of speeding recovery.