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25, 1976

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Budget Speech

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Mr. Speaker, to commence, I would like to express my thanks to my colleagues, and to the officials in my own Department and of the other Departments and agencies, for their assistance to me in this my first budget. May I express my appreciation also to members of this House who directly, or by correspondence, have made requests or suggestions on behalf of constituents, and to the many hundreds of Canadians who, through the year, but particularly in the last several months, have made representations concerning a wide variety of changes in our fiscal system.

Though I am completing my fourteenth year as an M.P. and have witnessed as many budgets, still there were some surprises for me in the task of budget making. One of these has been the extent and variety of changes large and small sought in our tariff and tax system. Each of these is assessed by my officials, they are grouped for discussion and then hundreds of items cross the Finance Minister's desk for final decision. In that pre-budget period, the Finance Minister acquires a nation-wide perspective into an apparently inexhaustible variety of personal situations, commercial circumstances or fiscal problems as they affect Canadians.

I am conscious that though some will be gratified by changes arising from this evening's announcements, many will be disappointed that their requests could not be met. I regret being the source of that disappointment but equity, administrative necessity, and a wider public interest have rendered it impossible to satisfy all requests.

Before proceeding with my budget statement, and with the permission of the House, I would like to table a number of supplementary budget papers which provide extensive background material relating to some of the more important measures. I would also like to table a number of Ways and Means Motions and ask that they be appended to Votes and Proceedings. I would ask that the supplementary tables on the government's accounts be appended to today's Hansard.

The International Economy

I would like first to set the stage for my remarks on the Canadian economy by reviewing some of the major economic developments taking place on the international front. These have important implications for our own country as a major participant in world trade and capital markets.

The international economy is launched on recovery from the depths of the worst recession since the great depression of the 1930s. The output of the industrial nations making up the Organization for Economic Co-operation and Development stagnated during 1974 and declined sharply at an overall annual rate of 5 per cent during the first half of last year. This decline, fortunately, was arrested by mid-year, and with the United States in the lead, the prospect for strengthening recovery seems well-assured.

The severity of the recent recession was due in large part to the impact of soaring inflation around the globe earlier in the 1970s. From early 1973 spiralling price increases contributed to a substantial reduction in consumer spending, investment, output and employment in the world at large. This process was halted only slowly and eventually reversed as the run-down of inventories ran its course, as automatic economic stabilizers like social security came into play, and as governments injected strong stimulus into their economies. With the revival under way the OECD was able last December to forecast that real output among the industrial nations would rise by 4 per cent in 1976. Since the time of that forecast the world prospect has improved further.

While this strengthening recovery is welcome, the problem of deep-seated inflation persists. Although the rate of increase in consumer prices has slowed significantly, it still remains much too high. The world community continues to face the twin tasks of bringing the rate of inflation down to acceptable levels and maintaining a healthy growth of output, employment and real incomes.

One direct result of world-wide recession was a fall of 6 per cent in the volume of international trade last year. The imports of the industrial nations in particular dropped faster than their exports, and their current account deficits declined sharply from $33 billion the previous year to $6 billion. This reduction was mirrored in the decline of the surplus of the oil-producing nations. Unfortunately, the balance of payments position of the non oil-producing developing nations worsened.

The disruptions of the past few years have severely tested the strength of the institutions and practices of international co-operation built up over the past generation. Happily these did not fail us. On the whole the major countries have refrained from solving their problems at the expense of others. Essential joint action was taken on a number of different fronts—in the General Agreement on Tariffs and Trade, the International Monetary Fund, the World Bank, the OECD and other organizations.

Last January the Interim Committee of the International Monetary Fund, of which Canada is a member, reached agreement on significant reforms in the international monetary system. The government considers that these reforms will facilitate the expansion of world trade and investment. They will help to ensure orderly conditions in exchange markets and smoother balance of payments adjustments. The reforms will be embodied in important amendments to the IMF Articles of Agreement. Later this year Parliament will be asked to authorize the government to accept these changes by amendment to the Bretton Woods Agreements Act.

The severe economic difficulties of many of the developing countries have led to intensified discussion concerning the evolution of a new international economic order. This discussion is taking place at present in the meetings of the Conference on International Economic Co-operation in Paris and in the United Nations Conference on Trade and Development in Nairobi. We are playing an active part in both world arenas, as well as participating fully in the preliminary stages of the multilateral trade negotiations now gathering momentum in Geneva. The year ahead promises to be one of exceptional challenge, as we are called increasingly to adjust to new trends and pressures in our relations with the interdependent world community.

The Canadian Economy

Against this brief review of the international setting, I turn now to the economic situation and prospect here at home.

As a country which depends heavily for its livelihood on exports, we were inevitably affected by the deep recession experienced by our major trading partners. During 1975, the volume of our merchandise sales abroad declined by nearly 7 per cent, with obvious effects across the whole economy. A substantial drop in total real expenditures on housing construction also occurred, even though the number of housing starts rose significantly during the course of the year.

Despite the adverse impact of these developments and the run-down of inventories, I want to stress that the performance of the Canadian economy in terms of output, employment and real incomes exceeded that of virtually every other industrial nation. This was mainly because of the sustained strength in outlays of consumers, business and governments.

Given the basic tendency of the Canadian and American economies to move in parallel, the contrast between our two countries over the recent period is particularly noteworthy. In the United States, the gross national product in real terms declined by 1.8 per cent in 1974 and by a further 2 per cent last year. Canada, in contrast, achieved a real growth of 2.8 per cent in 1974, and successfully staved off any decline last year. Employment south of the border fell by about 1.3 per cent in 1975; in Canada it rose by nearly 2 per cent. Over the same period, while unemployment rose to 6.9 per cent in Canada, in the United States it reached an average level of 8.5 per cent.

Real income received per person, after payment of direct taxes and after allowing for higher prices, advanced by 2.5 per cent in Canada in both 1974 and 1975; in the U.S. it declined in both years. Over the longer span from 1971 to 1975 real disposable income per capita has risen by almost 18 per cent in Canada, three times the increase in the U.S.

In real terms, Canadian business investment in plant and equipment grew by 4.7 per cent last year, to a level 40 per cent higher than that in 1970. In the United States it decreased by 12 per cent to a level that was only 2 per cent above that of five years ago.

Our better record in weathering the economic storms of the past three years compared with almost any other country in the western world was not just accidental. One of the important factors was our relatively more favourable position in petroleum supply. That made it possible for the federal government to cushion the economy against the immediate harsh impact of the four-fold jump in world oil prices. But undoubtedly the major factor was the concerted and far-reaching action by both federal and provincial governments to sustain output, employment and real incomes in the face of severe inflation and recession abroad.

During the course of 1974, fiscal and monetary policies became more expansionary. Federal policies, including further major tax reductions, were strongly reinforced by provincial governments. Automatic stabilizers in the economy such as unemployment insurance also played their role, helping to soften the impact of unemployment and buoying up the economy as a whole.

Given these circumstances and deliberate policy decisions, the fiscal position at all levels of government swung heavily into deficit last year. I would re-emphasize the point that if these expansionary policies had not been adopted, the Canadian economy would have experienced a much more severe recession than in fact it did. Recovery, though slow, has been underway for almost a year now, and the pace has started to quicken.

Nevertheless, it is also true that the relatively better performance of the Canadian economy has in itself served to intensify some of our current problems.

In 1975, a domestically-fueled spiral of costs and prices increasingly became the major source of continuing strong inflationary pressures. Understandably, individual Canadians scrambled for substantially increased incomes to catch up with others, to keep up with inflation, or to protect themselves against the risk of even more rapid inflation in future. Canadian salaries and wages began to rise at much faster rates than in the United States, our major market and our major competitor. The advance of prices in Canada also began to outpace that south of the border. This cost-price spiral posed an increasingly serious threat to the competitiveness of the Canadian economy, particularly at the stage when recovery in the United States and other countries from lower bases would provide them with the opportunity to achieve much larger productivity gains. While we may have weathered the recession better than the United States we will be hard-pressed to keep up with U.S. economic performance in its present period of rapid recovery and slower inflation.

Moreover, during 1975 Canada encountered a current account deficit with other countries of nearly $5.1 billion, a sharp deterioration from the deficit of $1.6 billion the previous year. This swing was largely a reflection of the higher level of demand sustained in Canada than abroad, with the resulting faster growth in our imports as compared with exports. There is every reason to expect that our exports will pick up strongly as recovery proceeds abroad, but we must be aware that their recovery could be adversely affected by our reduced competitive edge.

The relatively high interest rates prevailing in Canada also stem basically from the divergent course last year between domestic and international economic conditions. In particular, they reflect today a combination of factors—notably the continuing high rates of price increase, a strong demand for credit and the deliberate steps taken by the Bank of Canada to lean against inflation by moderating the growth of the money supply.

Over a period of many months, the crucial national need has been to gear down the rate of inflation without impeding economic recovery. To this end, over a year ago the government sought to develop a consensus, particularly with labour and business, in support of a program of voluntary restraint on prices and incomes. Unfortunately, as we all know, that effort was not successful. By last fall, in assessing both that experience and the dangers confronting our economy, we came to the conclusion that extraordinary steps would have to be taken to get us back on the course of full employment without inflation.

The anti-inflation program announced by the Prime Minister on October 13 contained four closely-related elements—fiscal and monetary policy, government expenditure policy, structural policies and prices and incomes policy. I turn now to consider the evolution of policy on each of these strategic fronts.

Prices and Incomes Policy

The major new element in the Attack on Inflation was a set of guidelines for the setting of prices and incomes. All Canadians were asked to abide by them, and provision was made for mandatory control over the larger economic units within our economy. The essential purpose was to change expectations and to bring about a quicker response to the program as a whole, so that the fiscal, monetary and other general policies would in fact bring about real growth and declining inflation.

In the past seven months, the program has become fully operational and has begun to take effect.

The actual rate of inflation has slowed noticeably since the introduction of the program. In April of this year, the consumer price index was 8.9 per cent higher than a year previously, whereas in October last the year-over-year increase was 10.6 per cent. The seasonally adjusted CPI increased at an annual rate of 6.3 per cent from October to April of this year, whereas it had increased at an annual rate of 11.7 per cent in the preceding six months. This sharp reduction in the rate of price increase is very welcome.

A major factor has been an actual drop in the average price of food. Lower prices of some imported foods and the decline in livestock prices have resulted from market forces rather than the guidelines. The program has, however, ensured that these decreases in costs to the processing and distribution sectors were passed on to the consumer.

In the case of prices for goods and services other than food, there have been significant factors beyond the scope of the program tending to raise the rate of increase in recent months. These have included increases in retail sales taxes and other taxes, higher charges for public services and the rising costs of home ownership. On the other hand, firms have been very cautious in raising prices in order to be certain that they are complying with the program. In a number of cases, firms have responded to requests by the Anti-Inflation Board to reduce proposed price increases. There has been a deceleration in those non-food prices that are subject to the controls.

With respect to wages and salaries under the program, I have tabled tonight a summary of preliminary data on compensation prepared by the Anti-Inflation Board. These figures show that compliance with the program is widespread. They demonstrate that even in the first six months of the program almost two-thirds of the wage proposals reported to the Board are within the arithmetic guidelines. Of the proposals only a small percentage are significantly above the guidelines and the Board is restraining them effectively. Thus, the record to date indicates that for all groups subject to the mandatory controls, average increases in compensation are only 1 per cent above the level provided for in the arithmetic guidelines. Given the significant improvement on the price side, these lower rates of compensation increase still represent sizeable real gains in income.

Mr. Speaker, the program is off to a reasonably good start. We feel a strong sense of responsibility to all those who have already contributed to the success of the program. They have every right to expect that others should be similarly restrained, and that the program should successfully bring the rate of inflation down to the target level.

Based on our experience to date, we have now come to the view that the regulations applying to prices and profits should be revised in order to achieve greater equity and effectiveness. Some firms are subject to insufficient restraint because in practice they have been able to choose rules which are favourable to them. Others are locked into very unfavourable starting positions and therefore have been subject to unreasonable restraints. The result is unfair treatment as between firms in competition with each other. Overall, this has created the danger that prices may be inadequately restrained in the future.

As a result of the detailed information supplied under the regulations, the Anti-Inflation Board has been able to complete an extensive analysis of the way in which the rules apply to the business community. The government has concluded that a number of important changes should be made. The details of the changes are described more fully in a supplementary paper, but I want to summarize the highlights.

Let me begin by describing how the revised price and profit rules will apply to firms other than those in the distribution business. At present, not all firms are required to meet a profit margin test. Under the new rules, all firms will be required to do so. In justifying a price increase, they will be obliged to take into account not just increased costs, but the implication of the price increase on their profit position. Experience has now shown that a test based on profits has two advantages. First, it gives the Board a more effective regime to control prices. Second, it leaves everyone basically on the same set of rules and is therefore more equitable.

The new rules will be of particular assistance to many small firms which do not have sophisticated cost accounting systems.

Under the profits test, firms will not be able to set prices in a way which would increase their net pre-tax profits as a percentage of sales above an allowable level. That allowable level will be determined with reference to earnings in a base period. The base period margin is now the average margin in the five-year period ending prior to October 14, 1975. In order to provide a greater measure of fairness among firms, it is proposed that the base margin should be the greater of that calculated under the present rules and the margin earned by the firm in its fiscal year ending before May 1, 1976. For most firms this will be calendar 1975. At the same time, in order to ensure the overall degree of restraint, it is necessary that the allowable margin be reduced from the present 95 per cent of the base margin to 85 per cent.

Firms will also be required to meet this margin test on each of their product lines as well as on their overall operations. Experience has shown that the product line test is the closest rule to actual business practice for most firms.

There will remain firms whose base margins are too low, whichever time period is chosen. In order to provide some relief for these firms, it is proposed that they be permitted to earn a minimum rate of return. The precise provision will be contained in draft regulations to be issued shortly. Similarly, at that time details will be provided relating to specific pricing and productivity rules.

Within this improved framework of rules, the Anti-Inflation Board will place greater emphasis on price justification. More firms will be required to notify the Board of proposed price increases and to justify them.

I have so far described the proposed revisions of the rules applying to non-distribution firms. The changes proposed for distribution firms are similar but less extensive. As now, they will be required to meet a net margin test on their whole business. In applying the net margin test, they will have the same choice of base period as other firms. However, because of this flexibility, they will be permitted to earn only 95 per cent of the base margin rather than 100 per cent as now. The gross margin test will be 100 per cent of their base year margins as now, but will be applied to product lines rather than on an overall basis. Distribution firms with low base margins will also have access to the provision for a minimum rate of return.

Certain other changes in the regulations which affect the construction industry, trappers, fur farmers and the land development business are outlined in the Supplementary Information.

I also wish to announce certain changes in the rule referred to as the "restricted expenses" provision. This provision places a limit on the extent to which increases in certain expenses are allowed as costs. Political contributions will be added to the list of expenses subject to this restriction. On the other hand, charitable donations and approved expenditures for research and development will be removed from the list of restricted expenses.

It should be emphasized that the new rules represent a logical and evolutionary development of the present rules relating to prices and profits. They will ensure that the pricing behaviour of firms will be consistent with the general price targets which we have set for ourselves, without reliance on arbitrary powers of direction.

I have asked the Anti-Inflation Board to release as soon as possible a draft of the regulations incorporating all these changes. In order to ensure that the new rules will operate as smoothly and as effectively as possible, they will not become operative until July. Appropriate transitional provisions will be included in the new regulations.

There is one further aspect of the program which requires consideration. Out of a concern to ensure that all income increases were restrained, the rules have prohibited companies from increasing their dividends, except in special circumstances, for the first year of the program. Obviously, this freeze cannot be extended indefinitely. Hence, effective October 15, 1976 and thereafter until further notice, companies will be permitted to increase their annual dividends by 8 per cent.

Before I leave the subject of the prices and incomes policy, Mr. Speaker, let me pay tribute to all those in the private sector and in government who have worked so hard in this major national effort. We are particularly indebted to the Honourable Jean-Luc

Pepin, Chairman of the Board, Mrs. Beryl Plumptre, Vice-Chairman, and other members of the Board and its staff, who have applied impressive skills and complete dedication to their tasks. Provincial ministers and officials have given us both their support and valuable advice. I know that all involved feel sustained by the knowledge that the great majority of Canadians are solidly behind them.

Structural Policies

Beyond the introduction of a temporary program of controls, the White Paper of last October drew attention to the need for underlying structural adjustments in our economy. Such adjustments are essential if we are to win out against persistent inflation. In many ways, this is much the most difficult terrain of all. It raises fundamental problems of how to assure the most effective functioning of our mixed economy, and how to grapple with those social and institutional forces which make for continuous upward pressure on the general price level. These are the broad objectives which we must seek in looking forward to the removal of controls and in the post-controls period and beyond.

The government's work in this connection will be much advanced by the time of the opening of the next session of Parliament, and we anticipate a wide-ranging public dialogue. In addition to the central focus of debate in Parliament, the government is looking forward to meeting with all major groups in the community. In that connection, preparations are already underway to meet the Canadian Labour Congress. The statement issued at the recent convention of the Congress makes clear its determination to press its views and interests in the formulation of social and economic policy in this country. The views and interests of all groups in our society must be heard. While government cannot abdicate its responsibilities, the growing complexity of our society requires that there should be every opportunity for consultation and the reconciliation of differing interests.

At this time, I propose to touch upon only those structural problems where immediate initiatives are being taken.

Energy Pricing

The first of these is in regard to energy prices—particularly oil and natural gas. The main message of the government's recent paper "Energy Strategy for Canada" is clear—energy is becoming more costly in the world and in Canada. The full impact of this trend on Canadians has been moderated thus far by our national policies for oil and gas. But Canada still has a long way to go in economizing in the use of energy and in developing new energy supplies.

The government has recognized the necessity of allowing prices of oil and gas to rise at a measured pace toward world levels. The need to encourage production and conservation and to ease the fiscal burden on the government points toward larger and faster increases of energy prices. But the need to slow down the rate of inflation, sustain output and employment and limit the immediate burdens on families of moderate means points toward smaller and slower increases. Regional considerations have to be balanced too.

Having regard to all these considerations, my colleague, the Minister of Energy, Mines and Resources, has announced that the wellhead price of oil in Canada will increase by $1.05 per barrel on July 1, 1976 and by a further 70 cents on January 1, 1977. Natural gas prices will continue to be set on the basis of 85 per cent of the energy equivalent of oil. The price of natural gas delivered to Toronto will rise by 15.5 cents per mcf on July 1, 1976 and by a further 10 cents on January 1, 1977. There will be some delay before consumers feel the impact of each of these changes. I might note that the increase in revenues to the oil and gas producing provinces will result in higher equalization payments by the federal government to lower-income consuming provinces. Their increase over the 12 months beginning this July will be about $60 million.

I would like to emphasize the broad range of the policies followed by the government to encourage energy conservation and the development of new supplies. In order to discourage private use of gasoline and to help defray the cost of the import subsidy, a special federal excise tax was introduced last June. I will be announcing further new measures tonight to reinforce the energy conservation program developed by the Energy Minister. The government is strongly committed to active programs of oil and gas exploration and development through its participation in Panarctic, Syncrude, Petro-Canada and the Canada Development Corporation. The new northern oil and gas regulations are designed to speed up exploration and development. The income tax regime which we have evolved in recent years has provided major incentives for exploration. I would stress that for every dollar that the price of oil and gas goes up, the federal government will receive only three cents in income tax if producing firms make full use of the incentives for exploration. Further incentives are provided in this budget.

The Pricing of Government Services

A second important area for structural adjustment relates to the question of the pricing of government services.

The high rates of cost increase of recent years have led to rapidly growing deficits in the financing of many of these services. This has meant that only part of the costs have been covered by the users of the service, with the balance borne by the general taxpayer. In the absence of necessary adjustments in charges, the cost borne by the general taxpayer will continue to increase. This prospect of increasing deficits carries with it financial and economic implications which are particularly important over the longer term.

On the financial side, the growing cost to government can be met only through government borrowing or through increases in the level of general taxation. There are obvious limits to the extent to which the borrowing route can or should be followed. A further general tax increase may give rise to as much pressure on the general level of prices as an increase in specific charges. While careful attention has to be given to the objectives of the anti-inflation program, undue delay in needed price increases will simply enlarge the deficits and make it harder to pay our way in the future.

In economic terms, if prices charged do not adequately reflect real costs there will be a tendency towards inefficiency and waste in the use of the country's resources. Heavy subsidies erode the incentive for the development of more efficient ways of providing service. We must therefore encourage greater cost consciousness, not only in the provision of these services, but also in their use.

In recent months a number of provinces, confronted with large and growing deficits on particular services and in their overall budgetary positions, have felt impelled to increase user charges. The federal government also faces rapidly growing deficits on a number of general and specialized services. Heavy transportation subsidies are being examined to ensure that they serve a social purpose without impeding the development of efficient systems.

In the case of the post office, my colleague the Postmaster General, last week announced necessary increases in postal rates. These increases have to be implemented in view of the rapidly accelerating deficit on post office operations, which has grown from less than $100 million in 1971 to an expected level of some $700 million this fiscal year in the absence of the rate adjustment. The proportion of costs borne by users of the post office has declined from 88 per cent in 1971 to less than 50 per cent this year. The effect of the rate changes will be to retard but not reverse the growth of the postal deficit. For the next fiscal year, the new postal rate structure will mean that the overall deficit will be some $200 million less than it otherwise would be.

The Efficiency of the Economy

The productivity of the Canadian economy declined in both 1974 and 1975. While some decline is typical of a recession, this experience has raised concerns that the underlying growth of productivity—which is the basis for rising standards of living—may be slowing down.

Lest we jump to conclusions too quickly, we should recognize that there are particular problems of measuring productivity, especially in the service industries, which are becoming ever more important. But there can be no doubt of the importance of rising productivity and efficiency if we are to achieve our economic and social goals in the longer run. The government is giving urgent attention to the whole range of policies which can be brought to bear in fostering productivity.

Many measures have already been put in place to stimulate capital investment. I am thinking particularly of the manufacturing incentives, the investment tax credit introduced in the last budget and the various programs by which the government provides financing directly for energy development, transportation, small business, farming and fishing. These measures have helped to sustain high levels of business investment in Canada. However, the encouragement of business investment is only one part of a productivity policy which must be concerned with encouraging greater efficiency in the use of all factors of production.

A major objective in pressing ahead with the development of our competition policy is to promote efficiency. I will be announcing tonight a further extension of the tax concession to small Canadian businesses to enable them to grow and compete more effectively with large firms. Our negotiators at Geneva are pressing for the further liberalization of trade. This will provide more opportunities for Canadian industry and encourage it to improve its efficiency. The government will be ready to help.

One of the best ways to increase productivity is to encourage the development of high technology and innovative new processes. This is a high-risk business and it is difficult to attract venture capital into it. However, it is one which is of great potential for improving the growth rate of the economy.

The federal government already contributes to this process both through a variety of direct expenditure programs and through existing incentives in the tax system. Nevertheless, it has been proposed that more assistance is needed and that the best way to provide this encouragement is through additional tax incentives. It is argued that this catalyst is needed to bring together pools of venture capital and Canadians with new and innovative ideas.

I am sympathetic with these objectives and am willing to explore avenues to achieve them. However, I am not satisfied that we have yet found an efficient and workable solution to what is commonly referred to as the venture capital problem. Clearly, what is needed is a tax regime which will help do the job effectively but efficiently.

I have already instructed my officials to study this matter on a priority basis. I intend to consult with the provinces to gain the benefit of their thinking and work in this area. I am also anxious to hear from people who are interested in and knowledgeable about this issue and I invite Canadians to write in their proposals. If we can find the right answers, we will be quick to act.

Finally, to refer to another important part of the financial system, the government's proposals on the decennial revision of the Bank Act will be brought to the House later in the year. This will afford us an occasion for broad consideration of the task of financing the Canadian economy.

Employment and the Labour Force

We have of course a special interest in improving the functioning of the labour market in Canada. The Economic Council's recent study, entitled "People and Jobs", provides valuable insights into the structural problems of employment and unemployment in Canada. It analyzes the flows of people into and out of the labour force, from job to job and between unemployment and employment. This analysis documents the tremendous size and complexity of labour market change which takes place in Canada each year. Structural and frictional unemployment, which arises in this process of change, has increased substantially in Canada during the last decade. It reflects both institutional changes and the increased participation of youth and women in the work force. Better information on job opportunities, improved training and creation of the right kind of jobs are important means of reducing structural and frictional unemployment. The Council's study recognizes that manpower and direct employment policies and the unemployment insurance program have all made useful contributions toward dealing with these problems. It concludes, however, that all of them can and should be improved.

Unemployment arises not only from structural change but also from fluctuations in economic growth. The primary means of reducing unemployment due to periods of slow growth lies in the maintenance of adequate overall demand. However, the experience of many countries in recent years underlines the danger of setting targets for unemployment too low or trying to reach them too quickly. If we are to sustain economic growth and job creation while simultaneously bringing down the rate of inflation, demand management policies and policies to improve the functioning of the labour market must go hand in hand.

Canada has been a leader in the recent development of direct employment programs. These programs have created jobs to alleviate the most severe problems of seasonal and regional unemployment. They have assisted those groups which are most likely to be without work for periods of time. We believe we have demonstrated that these jobs can have broad social value and are not simply "make-work". We continue to believe that there is a need for such selective programs of job creation if we are to be able to bring the rate of unemployment down without generating new inflationary pressure. They have to be adapted to the changing structure of the labour market, and to the need to obtain the maximum impact from the limited resources which can be made available within the framework of expenditure control.

Last year's budget speech noted that the continuing review of the unemployment insurance legislation had identified a need to strengthen certain aspects of this program. To meet these needs, a number of changes were incorporated in Bill C-69, which has now become law. During the debate on this bill, it was noted that further changes to the Unemployment Insurance Act would be brought forward as the review progressed. As a result of this review, my colleague, the Minister of Manpower and Immigration, will introduce legislation proposing a number of significant initiatives. These changes are designed to make the unemployment insurance system more equitable and dynamic, more responsive to regional unemployment conditions, and less costly. They are also designed to encourage those with jobs to stay with them and those who are unemployed to seek suitable jobs.

Three main changes will be introduced relating to unemployment insurance benefits:

First, the present requirement for eight weeks of insured employment to qualify for benefits will be increased to 12 weeks. This amendment is intended to reflect the changes which have taken place in the Canadian labour market in recent years. These include the increase in the number of people who have only a marginal attachment to the labour force and who thus have less of a claim for the protection of unemployment insurance.

Second, the number of weeks during which benefits may be drawn will be more directly related to the number of weeks worked. In addition, regional extended benefits will be related in a more sensitive manner to the level of regional unemployment.

Third, severance pay will be treated as savings and as such will not affect a person's eligibility for unemployment insurance benefits.

The Act will also be amended to permit the payment of unemployment insurance to beneficiaries on a discretionary basis where they take part in such activities as selective employment, training or short-time work programs. My colleague will elaborate on this new concept of adding an important thrust to the overall insurance system.

The Minister will also elaborate proposals to integrate the administration of the unemployment insurance system with the programs and services of the Department of Manpower and Immigration. We believe the time is ripe to have a common organizational setting in order to promote even greater effectiveness in administration and to enhance the quality of employment services to Canadian workers.

Federal-Provincial Fiscal Relations

Finally, Mr. Speaker, a basic structural element in this country is the financial relationship between the federal and provincial governments. We are engaged at present with the provinces in discussion of the Federal-Provincial Fiscal Arrangements Act and shared-cost programs.

My views on the fiscal arrangements that should apply in the post-1977 period are on record. They were discussed with my provincial counterparts at the April 1 meeting, and tabled in the House on the same day. Thus I can simply note the way in which our position fits in with our overall policy.

I want to preserve the principle that the federal and provincial governments should be free, in their taxing and spending activities, to discharge their respective constitutional responsibilities. On the revenue side this means access to sufficient fiscal resources. There is, of course, a need for a great co-operative effort if we are to maintain a uniform national tax system. But fiscal freedom and responsibility are also essential for the control of expenditures and the efficient provision of public services.

Equalization payments must be retained as a continuing and central feature of the ongoing system of fiscal arrangements. We are committed to this. Our objective is to help the less affluent provinces provide reasonable levels of service. But equalization and other transfers to provinces impose a heavy burden on Canadian taxpayers generally. Costs must be kept within acceptable bounds and the ability of the federal government to finance the program through its own revenue sources must be protected.

Over the past 10 to 15 years, shared-cost programs have been a major instrument in the development of a high level of public services across the entire country. In such fields as health care, social welfare and post-secondary education, Canadian citizens have benefitted greatly from these programs. However, as some of these programs have matured, the financing and administrative arrangements built into them have not left enough room for improvements and efficiencies. As a result, costs threaten to outrun the financial capacities of both the federal and provincial governments. For the federal government, these open-ended cost-sharing arrangements have raised many problems in the allocation of limited funds for national needs and priorities. A better method of providing these essential services to the Canadian people needs to be found and, to this end, discussions have been held between the federal government and the provinces. They will continue as a matter of high priority.

Government Expenditure Policy

I come now to the third principal element of the anti-inflation program—the limitation of the growth of government expenditure and of public service employment.

In recognition of the widespread feeling among Canadians that present circumstances demand restraint in government spending, the government has stated that the "trend in total spending by all governments in Canada should not rise more quickly than the trend in gross national product." Two aspects of this objective should be stressed.

First, it is not put forward as a short-term goal: a brief slowdown in the rate of expenditure growth to be followed by a resumption of excessive growth. Rather, it is put forward as a basic change in the trend of expenditure increase. This guideline is stated in terms of trends in view of the stabilizing role which actual government expenditure should play as the GNP grows more quickly or more slowly than its trend in any particular year. In a period of slow growth, it may be appropriate for government expenditure to rise more rapidly than GNP. In a period of strong economic expansion government expenditures should grow more slowly than GNP.

Second, the objective does not imply an indiscriminate slashing of programs. Such an approach would have disruptive effects on the economy, bear harshly on many people and impair the efficiency of government in providing essential services to the public.

Our objective, then, is to achieve a major shift in the pace of growth of the government sector, in a deliberate, sustained fashion. This lay behind the cuts in planned expenditures for the 1975-76 fiscal year announced in the last budget, and the cuts in planned expenditures for this fiscal year announced by my colleague, the President of the Treasury Board, on December 18. It was made clear on both occasions that unavoidable cost escalation in a number of programs had made such action necessary. We have recognized the need for action not just in the government's own manpower and operating expenses but also in major program areas. Some grant programs have been eliminated completely and strict ceilings have been imposed on many others. Measures have been taken to reduce the cost of unemployment insurance to the taxpayer. Ceilings have been placed on the growth in the federal contribution under certain federal-provincial shared-cost programs. Government financing of Crown corporations has been curtailed and in this regard, we have decided upon a further deferral of the proposed Federal Mortgage Exchange Corporation.

To achieve our expenditure control objectives, the introduction of new programs must be kept within careful limits and the resources required for the continued operation of existing programs must be minimized. A number of recent developments should help us achieve this goal and help Parliament and the public monitor progress. One of the few areas in which provision has recently been made for a significant increase in staff is in the Office of the Auditor General. I trust the expanded capacity of this office will encourage the efficient use of resources by departments. In a report tabled last year, the Auditor General expressed concern over the adequacy of certain aspects of the government's system of financial management. The government is responding to these recommendations by establishing a separate branch of the Treasury Board Secretariat responsible for all aspects of financial management. Additional changes have been made which will strengthen the effectiveness of the Treasury Board through centralizing responsibility for control of outlays in its hands. The Treasury Board itself is reviewing all proposals for increased expenditure before they are approved by Cabinet.

In our expenditure planning, we have focussed on total outlays, including both budgetary expenditures and loans, investments and advances. Total outlays increased by 28 per cent in 1974-75 and 18 per cent in 1975-76. I should note that the preliminary estimates of total outlays for 1975-76 are somewhat higher than the President of the Treasury Board and I expected earlier this year. A major contributing factor was a decision to permit our enterprises engaged in energy and export development to obtain financing from us somewhat earlier than had been anticipated. While this has increased the growth rate of expenditures in 1975-76, it has helped to reduce it in 1976-77. Based upon planned total outlays of $42,150 million, our target rate of increase for this fiscal year works out at about 14 per cent. Our forward planning for 1977-78 is based on a growth rate of the order of 11 per cent. For both 1976-77 and 1977-78, these increases are less than the expected growth of the GNP.

I wish to remind the House that my colleague, the President of the Treasury Board, is holding the increase in the public service to 1.5 per cent this fiscal year. This is substantially below the growth rates of earlier years. Given the need to add significant numbers of policemen, prison guards and postmen to the payroll and the need to maintain other essential protective and regulatory services in a growing economy, the strict manpower ceiling is requiring most departments to freeze or actually reduce the number of employees in less essential services.

It is a fact of life that the scope for expenditure control increases as one looks further into the future. It proved very difficult to cut back on our expenditures in 1975-76 once the year was already underway. We have been able to get on track for 1976-77. We will consolidate our gains in 1977-78. We believe we have put in place the planning and control systems which will ensure that these targets are met.

Fiscal and Monetary Policy

Finally, the anti-inflation program requires that fiscal and monetary policy be aimed at increasing total demand and production only at a rate consistent with declining inflation. In the White Paper of October 14 I stated that "the success of the government's whole program for achieving a progressive lowering of the rate of inflation, together with a sustained recovery of the growth of output and employment, will depend crucially on its success in keeping the overall level of demand in the economy growing at a pace consistent with successively lower rates of price increase."

The monetary policy of the Bank of Canada has been set out by the Governor in his 1975 Annual Report and in recent speeches. It carries my full support. Last autumn the Bank announced an initial target for the growth of the narrowly-defined money supply in the range from 10 to less than 15 per cent and the rate of increase since the second quarter of 1975 is now at the lower end of the range. The Bank has indicated that its target range, which allows for the continued real growth of the economy, will have to be lowered over time so that the rate of monetary expansion will be consistent with the price-level objectives of the anti-inflation program.

This monetary policy, in its refusal to underwrite continuing high rates of inflation, is helping to destroy expectations that they will continue. It requires that we should expect variations in interest rates and the exchange rate. While we would all like to see lower interest rates, the way to bring them about is to reduce inflation. In the most recent years, the level of interest rates has not been high enough to maintain the real value of the money which Canadians have deposited in banks or invested in Canada Savings Bonds and other financial assets. The strengthening of the exchange value of the Canadian dollar, due in no small measure to high domestic interest rates, has increased the challenge faced by Canadian firms competing in world markets. At the same time, it has lowered the cost of the goods and services we buy from other countries and has thereby contributed directly to the success of the anti-inflation program.

The goal of fiscal policy is the same as that of monetary policy—to manage the increase in demand in a way which is consistent with moderate real growth and a decline in the rate of inflation. In present circumstances, this can best be achieved by maintaining close control over the rise in government spending. As I have stressed, our expenditure targets over the next two years involve a commitment to keep the growth of expenditures below the growth of the GNP. However, our revenues will grow more rapidly than GNP because of the very nature of the tax system. The financial requirements will therefore decline.

The deficits of both the federal government and the provincial governments reached record levels in 1975. I have already observed that this was entirely appropriate, and made a major contribution to protecting Canadians against the full force of the world recession. But now that the recovery is well established and private spending is rising, it is equally appropriate that these record deficits should recede.

It would be possible to pursue more restrictive fiscal and monetary policies and rely less upon controls in the battle against inflation. Those who advocate such a course emphasize the adverse effects of controls, in terms of interfering with private enterprise and collective bargaining, discouraging productivity, and creating inequities. We are conscious of these drawbacks and have sought to minimize them. Let there be no doubt as to our desire to remove the price and income controls as soon as possible. But we will not do so at the cost of high unemployment or of undue burdens on the weakest members of society. A more restrictive fiscal and monetary policy would undoubtedly cause unemployment to rise even higher than it is at present. Those who advocate that we slash government expenditure, raise taxes or cut even further into the growth of the money supply in order to get rid of the controls program, betray a shocking indifference to the problem of unemployment.

The other extreme would be to inject more stimulus into the economy by fiscal and monetary means in order to bring unemployment down faster, and to contain the resulting inflationary pressure by relying more upon controls. I doubt if many Canadians would want us to go down that road, and even if we tried we would surely fail. A clear lesson of history is that controls cannot be made to work in peacetime in the face of excess pressures of demand. They have to be supported by careful and moderate fiscal and monetary policy.

Some would prefer us not only to follow a more expansionary fiscal and monetary policy in order to reduce unemployment, but also to abandon the controls program. To accept that counsel is to accept all the agonies of inflation. In the not-very-long run we would all be victims. The rising tide of inflation would inflict severe damage on the economic system, further weaken our competitive position and impair our chances of creating satisfying and well-paid jobs for our growing labour force.

We believe that the problems of unemployment and inflation must be solved together. We cannot solve one of them at the expense of the other. We do not believe that the people of this country want us to try to beat inflation down by creating massive unemployment. Nor would they thank us for trying to lower unemployment at the cost of a renewed outburst of double-digit inflation.

Budget Measures

Before turning to specific measures, I would like to raise with honourable Members a parliamentary issue which has long been of interest to me. I refer to the process by which budgets are brought forward and dealt with in the House.

By time-honoured custom, a budget is the primary occasion on which the government reports to Parliament on the state of the economy and its own fiscal position, and proposes changes in taxation and other aspects of economic policy. But I believe the time has come to consider whether some of the long-standing traditions that surround the budgetary process should be modified to serve better the needs of today.

Two aspects of the budgetary process require particular study. The first is the strict rule of secrecy that applies to the budget prior to its introduction. The second is the procedure for consideration of the budget proposals following their introduction in Parliament.

The tradition of budget secrecy has two grounds. It is intended to deny to anyone financial advantage from advance information. And its is intended to ensure that important statements of government economic policy are disclosed first to Members of the House of Commons. Both of these reasons are valid and important, but it would be helpful to clarify the precise obligations imposed on the Minister of Finance by this long-standing tradition.

The procedures followed in dealing with the budgetary proposals after their introduction also deserve re-examination. It has been the recent custom to table very detailed Ways and Means Motions on budget night. The intent has been to make public the greatest possible information about the nature of legislation contemplated by the government. Under present House rules, however, this approach has not left enough scope to take account, in the ultimate legislation, of post-budget discussion in the House and in the country.

Some of the Ways and Means Motions I am introducing tonight are written in more general language so that we will be in a better position to make any necessary modifications in the bills that follow. I will look forward to hearing the views of honourable Members and others on this innovation and their suggestions for dealing with the budget measures in the House.

For example, study might be given to the way in which Parliament deals with changes in income tax legislation which are of a purely technical nature. A further question is whether there is a better way of giving the full force of law to Ways and Means Motions which come immediately into effect.

I would intend to seek the guidance of my colleague, the House Leader, as to the best way in which to achieve a re-examination by Members of the procedures we have followed for so many years.

Tariff Changes

I should like now to deal with certain tariff changes. Honourable Members will recall that in February, 1973, tariffs were cut on a wide range of consumer products in order to moderate upward pressures on prices. These reductions were originally introduced for one year only but most were subsequently renewed until June 30, 1976.

To ensure that Canadian tariff policy continues to make an appropriate contribution to the fight against inflation, I am proposing tonight that these temporary tariff reductions, with two exceptions, be extended for another year. In the food sector, reductions are being continued on such products as canned meats, prepared cereal foods, biscuits, certain fresh vegetables and raw and refined sugar. In the non-food sector, products on which reductions are being extended include drugs and pharmaceutical products, plumbing fixtures, kitchen and dinnerware, hand tools, photographic equipment and sporting goods.

I am also proposing that temporary tariff cuts be made on several other food products, including fresh pork, ham, bacon and macaroni.

I have considered carefully the implications which continuation of these temporary tariff reductions might have for our position in the GATT negotiations. I have concluded that their extension until June 30, 1977, would not prejudice our position. The tariff reductions are, of course, temporary and will not be the base from which we will be negotiating in Geneva. We intend to ensure that we achieve overall reciprocity between what we offer and what we receive by way of benefits in these negotiations.

I believe all of these steps can be taken without causing injury. In case unforeseen problems do arise, authority is again being sought to permit withdrawal by Order in Council of any of these temporary tariff reductions which in fact have serious effects on employment or production in Canada. However, I have concluded that the existing temporary reductions on tires and tubes and on scissors should be allowed to expire on June 30 in order to avoid hardship to Canadian firms and their employees.

Details of the reductions proposed are to be found in the Ways and Means Motion. The motion also provides for a few other amendments to the Customs Tariff.

I have received a number of representations from Canadian machinery manufacturers alleging that the 2½ per cent British Preferential rate has been causing them considerable difficulties. They have urged that machinery imported from Britain be made dutiable at the 15 per cent Most-Favoured-Nation rate. Canada is no longer obliged to accord preferential treatment to Britain or Ireland following their accession to the European Economic Community. In light of these representations, I am directing officials of my department to carry out an intensive study of the situation and to report to me on the operation of the present tariff provisions governing the importation of different types of machinery.

However, there is a particular need to withdraw now the preferential rate on compressor and electricity generating sets. I am, therefore, proposing that imports of such equipment from Britain and Ireland be made subject to the 15 per cent tariff immediately. When such machinery is not available from Canadian sources, the duty can be remitted under the machinery program.

Tax Measures

Mr. Speaker, I turn now to the specific tax measures I am proposing tonight. They will not produce a significant net change in revenues, but they will significantly reinforce the policies of the government.

Energy Conservation

The following measures will help achieve the government's overall objectives for energy conservation recently announced by the Energy Minister.

I am proposing to expand the present two-year fast write-off to include certain types of equipment which contribute to the efficient use of energy resources. The list includes equipment which enables industrial waste to be used as a fuel source and equipment which produces energy from municipal waste. This measure will apply to assets acquired after tonight and before 1980.

I am also proposing immediate removal of the federal sales tax from a number of items which contribute directly to the development of energy sources other than fossil fuels. Included in this list are such items as solar furnaces and heating panels, wind-powered generating equipment, and heat pumps.

Further tax measures to deter wasteful consumption of energy are proposed. Studies indicate that motor vehicle air conditioners increase fuel consumption by as much as 20 per cent. Consequently, effective tonight the budget introduces a specific excise tax of $100 on air conditioners for use in automobiles, station wagons, vans and smaller trucks.

In addition, I am proposing significant increases in the special excise tax on high-energy consuming motor vehicles. This will be accomplished in two ways. First, the weight threshold above which the tax takes effect will be reduced over a four-year period to 3,500 pounds from 4,500 pounds for cars and to 3,700 pounds from 5,100 pounds for station wagons. The annual reductions will be 250 pounds for cars and 350 pounds for station wagons, commencing this August.

Second, the applicable rate will be increased. Effective August 1 of this year the rate will be $30 for the first 100 pounds, $40 for the second 100 pounds, $50 for the third 100 pounds and $60 for each subsequent 100 pounds. The full effect of these changes as of August 1, 1979 will result in a tax of $1,020 on a car weighing 5,300 pounds. The purpose of the tax is not to raise revenue but to encourage Canadians to demand and the auto industry to produce lighter, more energy-efficient cars.

The timetable for the imposition of this higher tax dovetails with that for achievement of gasoline consumption standards for new cars recently announced by the Energy Minister. Both provide time required by the auto industry to adjust its production toward smaller cars.

Resource Taxation

As we are all aware, both the federal and provincial governments have had some very difficult decisions to make in recent years concerning our petroleum and mining industries.

I believe it is important to maintain a stable tax system for these industries and I am not proposing any significant changes affecting them. I am encouraged to see that the provinces, which impose by far the larger fiscal burden on the resource sector, are offering significant new incentives to seek out new reserves or to enhance recoverability from known reserves.

However, I feel the federal government can make an additional input to help encourage this exploration activity. Historically, our tax system has distinguished between those whose principal business is resource oriented and other taxpayers. Principal-business taxpayers have been permitted to claim their exploration costs at a rate of 100 per cent whereas other taxpayers have been able to write them off at a rate of only 30 per cent per year. In an effort to attract funds from Canadians for resource exploration which is so critical in our national development, I am proposing that all taxpayers be allowed to write off immediately 100 per cent of their exploration costs incurred after tonight and before July 1, 1979. This three-year period will provide an opportunity to determine the effectiveness of this new incentive.

I am also introducing an amendment to make it clear that no federal tax will be payable on moneys received under provincial incentives for drilling and exploration.

Air Transportation Tax

I am proposing to extend the Air Transportation Tax. At present, the tax applies only to air transportation purchased in Canada. An estimated 2.3 million travellers using Canadian airports annually do not now pay the tax, because they purchase their tickets outside the country. We propose to amend the Excise Tax Act to extend the tax to these travellers.

It is our intention to consult with the air carriers, other interested persons and foreign governments concerning potential problems of defining and administering the change before tabling a Ways and Means Motion in the House. Consequently, this evening I am only announcing the broad outlines of the extension.

Capital Cost Allowances

The government has been making an intensive review of the Canadian system of capital cost allowances—that is, the system under which a taxpayer claims the cost of depreciable assets as a deduction against his income. The analysis has now reached the point where I am able to present certain conclusions to the House and to propose some changes.

The main conclusion reached is that our system of capital cost allowances is basically sound. It is not out of line with systems in other industrial countries. It is easy for the

Canadian taxpayer to apply, and in a time of growing complexity in tax legislation, certainty and simplicity are not to be under-rated.

Our review to date has indicated, however, that some changes in the rates should be made. These changes, which will be made by regulation and which will apply to assets acquired after tonight, are outlined in the budget papers I have tabled. However, I would like to comment on a few of the more important ones.

It has become evident that because of rapidly changing technology in computers, the present capital cost allowance rate of 20 per cent is inappropriately low. I am therefore proposing that the rate for computer hardware and the related systems software be increased to 30 per cent, and that the rate for other types of software be increased to 100 per cent.

Other assets for which increases in rates are proposed include taxis, roads, runways and offshore drilling platforms.

On the other hand, our review has shown that the present rate of 40 per cent provided for aircraft is unnecessarily high and I am proposing that it be reduced to 25 per cent.

Other rate reductions are proposed for radio, television and radar equipment, electrical generating equipment, earth-moving equipment, and leased advertising signs.

Mr. Speaker, the government does not intend that capital cost allowances be available for unwarranted use by taxpayers as a means of sheltering income from its fair burden of taxation. With this objective in mind, I am proposing that a new limit be introduced to prevent the creation of tax losses by claiming capital cost allowance on the leasing of moveable property. Specifically, taxpayers will not be allowed to claim capital cost allowances on leased equipment in excess of their net rental income from that type of property. This new limit will apply to both individuals and corporations in respect of moveable property acquired and leased after today.

Small Business Deduction Limits

I refer now to the tax treatment of small business in this country.

Canadian-controlled private corporations are entitled to pay tax at a reduced rate subject to an annual and a cumulative limit on their profits. For 1972 and 1973 those limits were $50,000 per annum up to $400,000 in total. In 1974, those limits were raised to $100,000 per annum up to a cumulative total of $500,000. Effective for 1976 and subsequent taxation years, I would like to announce a further increase of those limits to $150,000 per annum up to a cumulative total of $750,000. This measure will significantly benefit our small and medium-sized Canadian-controlled corporations.

Charities

With last June's budget, discussion papers were tabled on federal sales and excise taxation, and on the taxation of charities. With respect to the former, our study of the matter is still in progress. With respect to charities, I am now in a position to present concrete proposals to Parliament. Full details will be found in the material I am tabling tonight, but I would like to mention a few of the more important changes.

One important objective of the review was to rationalize the classification of charities for tax purposes. Under the proposed legislation, all charities will have to be registered in order to retain their tax-free status. Registered charities will be divided into two new groups—charitable organizations and charitable foundations. Charitable foundations will be subdivided into public foundations and private foundations.

Under the present rules, technically no charity can carry on a business. Nonetheless, many charities do indeed carry on worthwhile fund-raising activities which might be construed as business activities. I see no reason to alter this situation as it exists in practice. On the contrary, I want to bring the law into conformity with the current standards of the community. The new rules, therefore, will permit a charitable organization or public foundation to carry on a business activity if it is related to the charitable objectives of the charity or if it is operated substantially by volunteers.

In the Discussion Paper, a proposal was made which would require private foundations to pay out annually an amount equal to the greater of 90 per cent of their annual income or 5 per cent of the fair market value of their assets. This rule was designed to ensure that charitable activities received some reasonable level of benefit from foundations enjoying tax advantages. As a result of representations received, this proposal will be implemented but in a modified manner. The 5 per cent requirement will not be applicable to "qualified investments" such as publicly listed securities. There will also be a phase-in period to permit existing private foundations to adjust to this new rule.

Proposals were also put forward to deregister charities which incur excessive fund-raising costs. There was virtual unanimity in the submissions that such a rule is needed. Charitable organizations and public foundations will be required to distribute or utilize in charitable activities at least 80 per cent of the funds for which they have issued receipts for tax purposes. There will be a transition period during which the required pay-out will be lower.

The Discussion Paper also proposed that all registered charities disclose publicly certain aspects of their finances and charitable activities. These proposals received widespread support and will be incorporated in the amending legislation.

I should be remiss if I did not thank the charities themselves for their substantial contribution to this exercise. Many of them presented lengthy and thoughtful briefs. Their views have been carefully considered and account for many of the modifications I have made to the original proposals.

Personal Income Tax

The budget tonight also provides for a number of significant amendments to the Income Tax Act affecting individuals.

As part of tax reform, working women and single-parent fathers were permitted to deduct part of the cost of child care from their earned income. The maximum deduction allowed under this provision was $15 per week per child and $500 per year per child, to a total annual maximum of $2,000 per family. I have received many representations that these figures are now too low. Therefore, I am pleased to announce that commencing with the 1976 taxation year the limits will be doubled to $30 per week per child and $1,000 per year per child with a total maximum annual limit of $4,000. An amendment will also be made to allow such deductions to be claimed against income from research grants and adult training allowances.

I would like to mention an amendment relating to disabled children. At present, a disabled taxpayer is allowed to deduct the amount of $1,000, which is indexed. Effective with the 1976 taxation year, the unused portion of this deduction will be transferable from a disabled dependent child to the parent who claims him or her as a dependant. Because few such children have any income, the effect of this change will be to give supporting individuals a significant deduction in respect of dependent disabled children.

I would also like to outline certain amendments relating to deferred income plans. The government introduced these tax incentives to encourage Canadians to make provision for their retirement years and thus to foster national saving. The limits under all of these plans were substantially increased in 1972 as part of tax reform. Since then, inflation has reduced the real value of these limits.

I am proposing further increases tonight. For the 1976 and subsequent taxation years, the maximum annual amount deductible by employees and employers in respect of a registered pension plan will be increased from $2,500 to $3,500. The same limits will apply to registered retirement savings plans where the beneficiary is also a member of a pension plan, and to employer contributions to a deferred profit-sharing plan. Where the beneficiary under a registered retirement savings plan is not a member of a pension plan, the maximum contribution limit will be increased from the present $4,000 to $5,500.

Finally, in respect of deferred income plans, I am proposing an amendment to the provisions dealing with registered home ownership savings plans which will allow taxpayers to shift plans from one institution to another. This means that if taxpayers move from place to place or if they are dissatisfied with the return they are earning there will be no barrier to finding a replacement and transferring their funds.

Mr. Speaker, I am sure that all members are aware of the widespread concern that is now evident regarding the complexity of the Income Tax Act and of the income tax return. As a first step to improve this situation, I am proposing certain amendments which will contribute to a simplification of the returns for the 1976 and subsequent taxation years.

Apart from these important structural changes, there will be no significant decreases, or increases, in the personal income tax.

Finally, Mr. Speaker, I am proposing a number of technical changes to the Income Tax Act and to other taxing statutes, details of which are contained in the Ways and Means Motions.

The supplementary material shows the estimated revenue impact of the various measures on a full-year basis. The tax and tariff measures are expected to cause a net reduction in budgetary revenues of $75 million in the current fiscal year.

The Economic and Fiscal Outlook

Mr. Speaker, the economic policies of the government, strengthened by the measures I have announced tonight, are directed at the achievement of our goals of sustained growth, high employment and price stability.

I anticipate that real growth in 1976 will be about 5 per cent. Our goal of bringing down the year-over-year rate of increase of the consumer price index to 8 per cent by the fourth quarter of 1976 is within our reach. The increase in the GNE price index between 1975 and 1976 is expected to be about 9 per cent. The increase in the nominal value of the GNP in 1976 is expected to be between 14 and 15 per cent.

Employment has been growing quite strongly over the past year and I expect it to continue to grow. I estimate that the Canadian economy will generate more than 250,000 new jobs this year. The broad trend of the unemployment rate has been level for considerable time although there have been erratic month-to-month movements reflecting work stoppages and other temporary factors. I am quite aware of the increase in the unemployment rate reported in April. I assure honourable Members that I am keeping the situation under the closest attention. My expectation is that the rate of unemployment will continue the recent level trend in the near term and gradually decline as cyclical expansion takes hold.

The continuing recovery in 1976 will be sustained by the growth of exports in response to recovery in the United States and most overseas industrial countries. I expect that our trade balance will begin to show a significant improvement, bringing about a reduction in the large deficit on goods and services which developed in 1975. Housing expenditures will be strong because of the very high level of starts in recent months. With real incomes rising in response to growing employment and decelerating consumer prices, consumer spending will also be an expansionary force in the economy. Production will have to be increased in order to rebuild inventories after the heavy liquidation of stocks in 1975. All these factors will outweigh the slowing down of business fixed investment and government spending on goods and services.

The outlook for 1977 is, of course, much more uncertain at this time. The expansion should proceed at a measured pace and the rate of inflation continue to come down. I look to renewed growth in real business fixed investment to help sustain the expansion. I will, of course, wish to review the situation as the outlook for 1977 becomes clearer. If further policy action is needed to keep the economy on the desired track, I will not hesitate to take it.

I now wish to inform the House as to our fiscal position and outlook.

The figures I have tabled on the financial requirements for the fiscal year just ended are still preliminary since the books are not yet closed. More precise information will be available with the publication of the preliminary financial statements in the Canada Gazette this summer.

I should advise that the summary statements of transactions have been modified to bring them into accordance with the recommendations of the report on the Study of the

Accounts of Canada, tabled by the chairman of the Standing Committee on Public Accounts on March 9.

On the new basis, the forecast of financial requirements excluding foreign exchange transactions made in the June budget would have amounted to $5 billion. In the event, they amounted to $4.6 billion. I anticipate little change in 1976-77 and a significant decline in 1977-78. These forecasts are based on the expenditure projections which I described earlier and the projected yield of the tax structure as modified by the proposals in this budget.

The government was able to finance the bulk of its requirements in 1975-76 through the sale of securities to the general public rather than to the banking system. Canada Savings Bonds outstanding increased by over $2.6 billion. The general public's holdings of treasury bills and marketable issues increased by over $1 billion. We succeeded in placing long-term marketable securities on a substantial scale with private and institutional investors. The Bank of Canada and the chartered banks increased their holdings only by some $800 million in the fiscal year.

At the beginning of this fiscal year, our cash balances stood at $3 billion. They could be run down somewhat, and therefore we expect that we will have to borrow rather less money than we did last year. We have been relieved of the necessity of raising about $300 million since the Canadian National Railways and the Export Development Corporation have been authorized as commercial enterprises to exercise their statutory powers to borrow this amount in the capital markets.

It is intended that much of the government's financing will be by the sale of securities to the general public particularly market issues. The purchases of our securities by the banking system will reflect the strength of private loan demand and the monetary policy of the Bank of Canada.

The National Income and Expenditures Accounts are viewed by many as providing a better indicator of the economic impact of the government's transactions. However, they exclude important loans, investments and advances to Crown corporations, other governments and private firms and individuals. A new table extends the National Income and Expenditure Accounts to provide information on these transactions and on the other factors involved in the difference between the National Accounts balance and total financial requirements. This addition also conforms with the recommendations of the Study of the Accounts of Canada.

The National Income and Expenditure Accounts deficit is expected to decline by $900 million to $3.3 billion in 1976-77, and by a further substantial amount in 1977-78. This decline in the National Accounts deficit and the levelling-off of financial requirements in 1976-77 are possible only as a result of continuing efforts to control expenditure growth in a period of cyclical recovery.

Conclusion

Mr. Speaker, I have provided the House with a full account of the approach of the government to economic policy.

We are still in the critical early stages of the effort to bring the rate of inflation down. Nothing must be done to endanger its success. When there is a solid basis of achievement on the prices front, then we will have greater opportunities for action to maintain the momentum of the recovery. But if we falter in the battle against inflation, we will face the risk of slower real growth and higher unemployment.

Only by bringing the cost-price spiral under control can we solve many of the key problems which confront us. This is what we must do to restore the competitiveness of the Canadian economy, and thereby ensure the continued improvement in our balance of payments and the health of our export and import-competing industries. This is what we must do in order to reduce interest rates, ease the financial pressures on individuals, firms and governments and reduce our reliance on foreign borrowing. This is what we must do in order to restore the sense of confident expectation about the future, so necessary to the growth in investment, the increase in productivity and the rise in our living standards. If we fail to bring the rate of inflation down, we will also fail in our efforts to achieve a sustained reduction in the level of unemployment.

We also believe that the only way to meet these problems is by a deliberate and persistent approach. No miracle drug exists to provide an instant cure to these economic ills. It will take time and patience to restore price stability and a high level of output and employment. This approach is evident in our monetary policy, our fiscal policy, our expenditure policy, our energy policy and our control policy. In all of these fields, drastic action to yield quick results would be highly disruptive, damaging to the interests of the groups most affected and unlikely to be sustainable. It is far better to maintain a steady course in order to restore confidence and enable all groups in society to plan with greater assurance of settled times ahead.

We see ourselves as partners and not as sole proprietors in this enterprise. It is well to remember that in our economy there is not only a recognized role for governments and their enterprises but also a massive and crucial role for private firms, labour unions and a great diversity of other private institutions and associations. If government alone is held responsible for the performance of the economic system, then government will be driven increasingly into the regulation of the private sector, at the cost both of efficiency and of economic freedom. In general we all look to the private sector to deliver the right goods and services to the right place at the right time and the right price. Productivity growth results primarily from the actions of the private sector, not the policies of government. The private sector can expect government to provide a framework of law and economic policy in which it can best function. But government can expect the private sector to operate efficiently, competitively and with due regard to the interest of society within that framework.

Indeed, all Canadians have their roles to play in the achievement of our common economic goals.

Fiscal Position Government of Canada 1974-75 to 1976-77

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

	1974-75 Actual	1975-76 Preliminary Actual	1976-77 Forecast[1]
		($ millions)	
Budgetary Transactions			
Revenues	28,067	29,811	34,400
Expenditures[2]	-29,245	-33,887	-39,400
Surplus or Deficit (-)	-1,178	-4,076	-5,000
Non-Budgetary Transactions			
Loans, Investments and Advances[2]	-2,227	-3,338	-2,750
Annuity, Insurance and Pension Accounts	1,328	1,025	2,300
Other Transactions	34	1,799	950
Net Source or Requirement (-)	-865	-514	500
Financial Requirements (Excluding Foreign Exchange Transactions)	-2,043	-4,590	-4,500
Foreign Exchange Transactions	496	-190	
Total Financial Requirements	-1,547	-4,780	

(1) Numbers in this column should be interpreted as mid-points of ranges of estimates. No forecast is made of the cash requirements of the Exchange Fund Account.

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

Note: This table is not directly comparable to that presented in the June 23, 1975 budget. Since that time, amendments to the Old Age Security Act have resulted in Old Age Security transactions being treated as budgetary rather than non-budgetary. For consistency, they are treated here as budgetary throughout. Also, at the time of the budget, the advance to the Exchange Fund to remit profits was treated as a non-budgetary transaction. This advance is now treated as a foreign exchange transaction. On a comparable basis, the June forecast of total financial requirements, excluding foreign exchange transactions, for fiscal year 1975-76 would have been $5 billion rather than the $5.3 billion presented at that time.

Table 2
Government of Canada
Public Accounts
Budgetary Revenues

	1974-75 Actual	1975-76 Preliminary Actual	1976-77 Forecast[1]
		($ millions)	
Personal Income Tax	11,710	12,703	16,040
Corporation Income Tax	4,836	5,748	5,860
Non-Resident Tax	427	481	520
Customs Duties	1,809	1,886	2,180
Sales Tax	3,866	3,441	3,920
Other Duties and Taxes	2,838	2,713	2,520
Total Tax Revenues	25,486	26,972	31,040
Non-Tax Revenues	2,581	2,839	3,360
Total Budgetary Revenues	28,067	29,811	34,400

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

Table 3
Government of Canada
Summary, Extended
National Accounts Presentation

	1974-75 Actual	1975-76 Estimate(1)	1976-77 Forecast(2)
		($ millions)	
Current Transactions			
A. Revenues	30,060	32,130	37,950
B. Expenditures	-30,669	-36,365	-41,250
Surplus or Deficit (-)	-609	-4,235	-3,300
Loans and Other Transactions			
A. Loans, Investments and Advances	-1,968	-2,850	-2,540
B. Cash vs Accruals	663	2,313	1,215
C. Other Transactions	-129	182	125
Net Source or Requirement (-)	-1,434	-355	-1,200
Total Financial Requirements (Excluding Foreign Exchange Transactions)	-2,043	-4,590	-4,500
Foreign Exchange Transactions	496	-190	
Total Financial Requirements	-1,547	-4,780	

(1) Estimates for Current Transactions items in this column are based on the official national accounts statistics, issued by Statistics Canada, for the first three quarters of the fiscal year, and on Department of Finance estimates for the final quarter.

(2) Numbers in this column should be interpreted as mid-points of ranges of estimates. No forecast is made of the cash requirements of the Exchange Fund Account.

Table 4
Government of Canada
Revenues and Expenditures
on a National Accounts Basis

	1974-75 Actual	1975-76 Estimate[1]	1976-77 Forecast[2]
		($ millions)	
Revenues			
Direct Taxes, Persons	14,240	16,000	20,100
Direct Taxes, Corporations	4,642	4,885	5,585
Direct Taxes, Non-Residents	440	485	525
Indirect Taxes	8,360	8,072	8,600
Other Current Transfers from Persons	7	8	10
Investment Income	2,009	2,285	2,700
Capital Consumption Allowances	362	395	430
Total Revenues	30,060	32,130	37,950
Expenditures			
Current Goods and Services	7,637	8,825	9,900
Transfer Payments to Persons	9,123	11,100	12,500
Subsidies	2,389	3,025	2,900
Capital Assistance	202	375	435
Current Transfers to Non-Residents	437	530	575
Interest on the Public Debt	3,164	3,910	4,600
Transfers to Provinces	6,598	7,325	8,900
Transfers to Local Governments	139	175	200
Gross Capital Formation	980	1,100	1,240
Total Expenditures	30,669	36,365	41,250
Surplus or Deficit (−)	−609	−4,235	−3,300

(1) Numbers in this column are based on the official national accounts statistics, issued by Statistics Canada, for the first three quarters of the fiscal year, and on Department of Finance estimates for the final quarter.
(2) Numbers in this column should be interpreted as mid-points of ranges of estimates.

Table 5
Government of Canada
Revenues, Public Accounts and
National Accounts Reconciliation

	1974-75 Actual	1975-76 Estimate[1]	1976-77 Forecast[1]
		($ millions)	
Budgetary Revenues -- Public Accounts	28,067	29,811	34,400
Deduct			
Post Office Revenues and Deficit	-746	-901	-1,125
Deficit of Government Business Enterprises[2]	-219	-176	-177
Excess of Accruals over Collections			
Corporate Income Tax	23	-791	-203
Oil Export Tax	-160	-127	-79
Add			
Government Pension and Social Security Receipts[3]	3,304	4,107	5,003
Capital Consumption Allowance	362	395	430
Miscellaneous Adjustments[4]	-571	-188	-299
Total Revenues – National Accounts	30,060	32,130	37,950

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

Table 6
Government of Canada
Expenditures, Public Accounts and National Accounts Reconciliation

	1974-75 Actual	1975-76 Estimate[1]	1976-77 Forecast[1]
		($ millions)	
Budgetary Expenditures – Public Accounts	29,245	33,887	39,400
Deduct			
Transfers to Funds and Agencies[2]	-1,859	-1,963	-2,824
Post Office Expenditures	-746	-901	-1,125
Deficit of Government Business Enterprises[3]	-219	-176	-177
Add			
Expenditures of Funds and Agencies[2]	1,168	1,422	1,370
Government Pension and Social Security Disbursements[4]	2,921	4,022	4,498
Capital Consumption Allowance	362	395	430
Miscellaneous Adjustments[5]	-203	-321	-322
Total Expenditures – National Accounts	30,669	36,365	41,250

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

Table 7
Government of Canada
Non-budgetary, Public Accounts and Extended National Accounts Reconciliation

	1974-75 Actual	1975-76 Estimate(1)	1976-77 Forecast(1)
		($ millions)	
Non-Budgetary Transactions — Public Accounts	865	514	-500
Deduct			
Loans and Advances to Funds and Agencies	-259	-488	-210
Government Pensions and Social Security Accounts	1,296	952	2,216
Excess of Accruals over Collections			
Corporate Income Tax	23	-791	-203
Oil Export Tax/Charge	-160	-127	-79
Miscellaneous Adjustments(2)	-331	295	-24
Loans and Other Transactions — Extended National Accounts	1,434	355	1,200

(1) Numbers in these 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 revolving funds; 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.

Tableau 7
Gouvernement du Canada
Opérations non budgétaires du
Rapprochement des Comptes publics et des
Comptes nationaux élargis

	1974-75 Chiffres réels	1975-76 Estimations(1)	1976-77 Prévisions(1)
		(millions de $)	
Opérations non budgétaires — Comptes publics	865	514	-500
Moins:			
Prêts et avances aux fonds et organismes	-259	-488	-210
Comptes de pension et de sécurité sociale de l'Etat	1,296	952	2,216
Excédent des sommes courues sur les sommes perçues			
Impôt sur les sociétés	23	-791	-203
Prélèvement à l'exportation du pétrole	-160	-127	-79
Ajustement divers(2)	-331	295	-24
Prêts et autres opérations — Comptes nationaux élargis	1,434	355	1,200

(1) Les chiffres de ces colonnes représentent le milieu de la fourchette des estimations.

(2) Comme dans le cas des recettes et des dépenses, les ajustements divers sont dus aux différences conceptuelles entre les deux comptabilités. Ils ont trait, par exemple, au redressement des recettes et des dépenses pendant la période complémentaire, aux variations des réserves et des fonds renouvelables ainsi qu'à la correction nécessaire pour rapprocher les besoins financiers des entités comprises dans le secteur public, selon la comptabilité nationale, de ceux qui passent par le Fonds du revenu consolidé.