

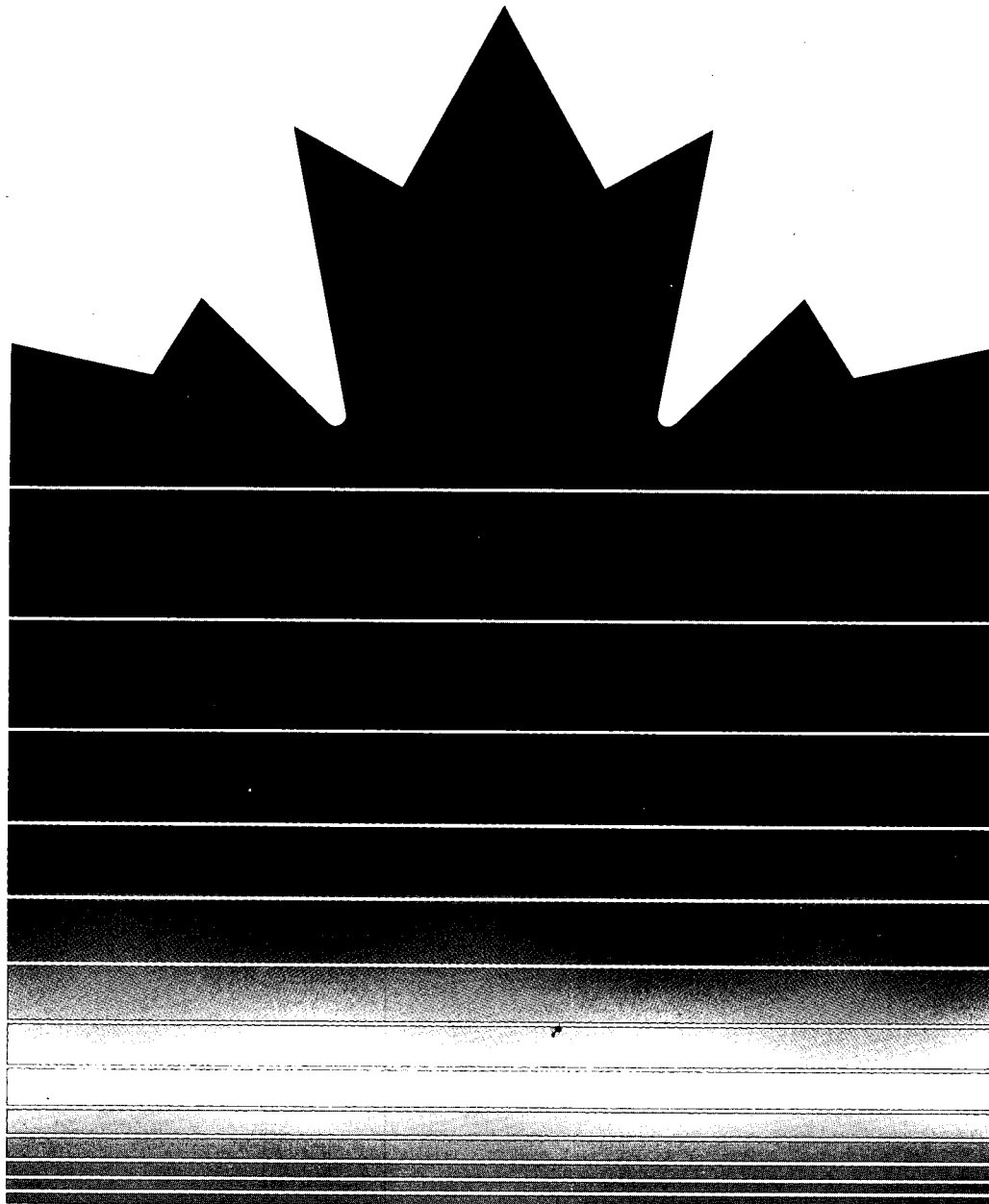
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Securing Economic Renewal

# The Budget Speech

Delivered in the House of Commons  
by the Honourable Michael H. Wilson  
Minister of Finance

February 10, 1988



Canada

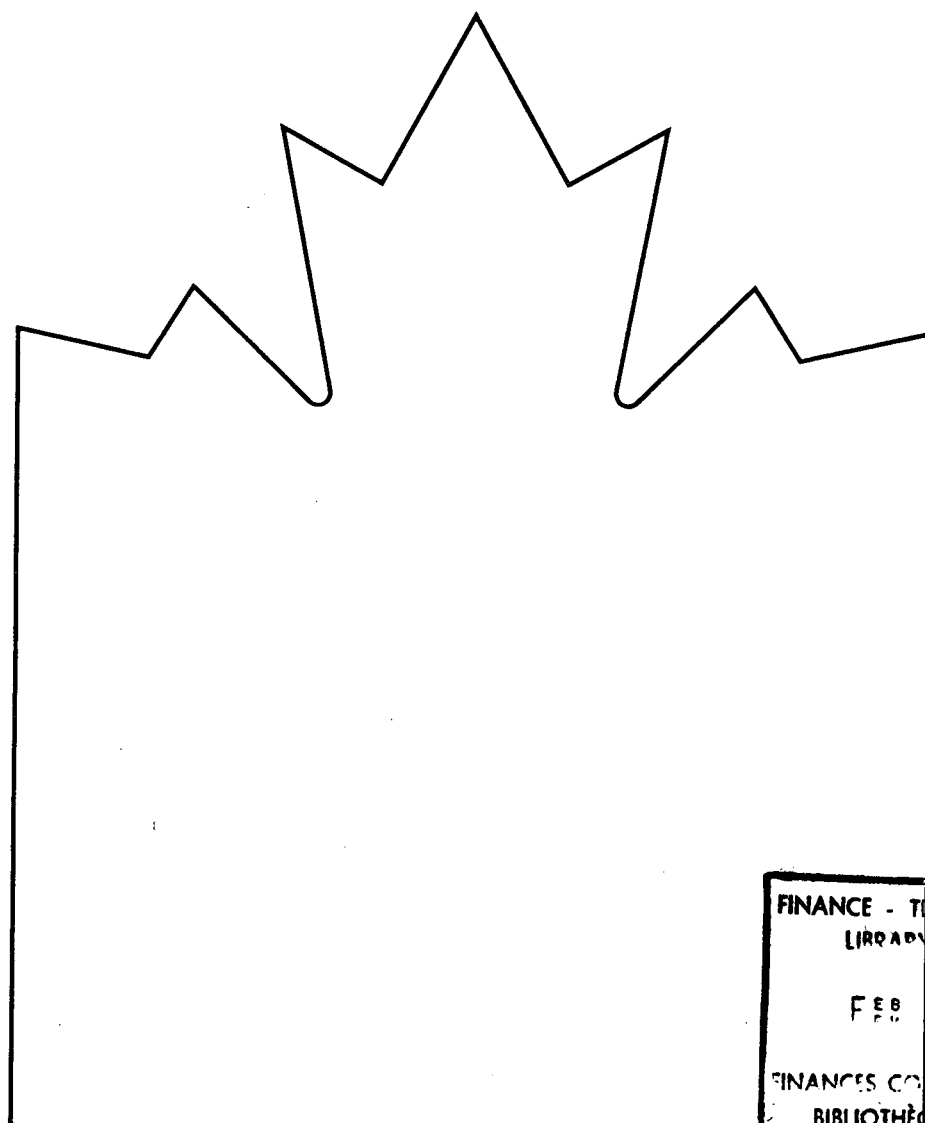
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## **A Record of Strong Economic Performance**

As Canadians look ahead to a new decade and a new century, they have good reason to look forward with confidence.

Our economy is growing stronger, more dynamic, better able to compete.

Many more Canadian men and women have jobs.

Canadians are successfully meeting new challenges and seizing new opportunities.

In three and a half years, our economic progress has been dramatic. Overall, we have done better than any of the other major industrial nations.

- We have been number one in economic growth since 1984.
- We have been number one in employment growth.
- More than 1,150,000 jobs have been created since we came to office; the great majority are full-time jobs; the unemployment rate today is the lowest it has been in six years.
- Economic and employment growth last year were more evenly balanced among regions. Unemployment dropped in all provinces.
- Mortgage rates are 3 percentage points lower, saving homeowners \$1,200 per year on a \$50,000 mortgage amortized over 25 years.
- Housing starts last year reached a 10-year high.
- Business is confident; the pace of investment has increased sharply.
- Consumers are confident; consumer spending has continued to grow strongly.

## **Policies for Growth and Jobs**

This solid record of progress didn't just happen.

This government brought to office a vision for a stronger, more prosperous Canada, now and into the next century.

Our vision is rooted in the belief that the source of real, lasting jobs and economic strength is the creative energy of Canadians themselves – their capacity to innovate and produce, their desire to excel, their determination to build greater opportunities for the future.

To make this vision a reality, we set out a long-term plan – our Agenda for Economic Renewal – to transform the economy so that it can meet the challenges of a more competitive world.

Step by step, we have been putting in place a wide-ranging series of actions. These actions complement one another. Together they strengthen Canada's economic and social fabric and reinforce our place among the leading nations of the world.

- We have revitalized the private sector and positioned Canada's economy to meet the challenge of international competition in the 1990s.
- We have restored fiscal responsibility by reducing the deficit and cutting the growth of the national debt.
- We have implemented priority programs, and we have helped regions and sectors hurt by unexpected developments in the world economy.

The budget I am tabling today is an accounting of the steps we are taking to build a stronger economy to create productive jobs. It reviews the economic and fiscal progress we are making and sets out our prospects for the future.

It is a record of how our policies and initiatives have worked in building the framework for the economic success we now enjoy. It is also a statement about the economic and social progress still to be achieved by holding to the course we have set – progress measured in rising standards of living and an improving quality of life that fully reflects the distinctive priorities and values of Canadians.

## **Revitalizing the Private Sector**

The driving force behind productive growth and job creation is a dynamic private sector.

To encourage this dynamism, the government has taken far-reaching measures to modernize the regulatory environment for business, reform the federal tax system and secure markets for our exports.

## **Modernizing the Regulatory Environment for Business**

Before this government came to office in 1984, the confidence of the business sector was at a low ebb.

The need for fundamental change was overwhelming.

We have acted to bring about this change.

- We deregulated the energy and transportation sectors.
- We opened financial markets to global opportunities and stimulated greater competition in financial services.

- We modernized business framework legislation for competition policy, copyright and patents, providing better protection for the public interest.
- We privatized Crown corporations to reduce the intrusion of government in the marketplace.
- We created Investment Canada to encourage and welcome investment capital from abroad, investment that is creating jobs for Canadians.

Through these and other initiatives, we are providing the environment for a stronger, more confident and growing private sector to play its role as the dynamic force behind growth and job creation. We are helping to build a more flexible and outward-looking economy, one that will be successful in the competitive and often volatile world economy.

Sceptics said the private sector would not respond; that jobs would be lost. The record proves the sceptics were wrong.

### **Making the Tax System Fairer and More Effective**

To build a firm foundation for success in the 1990s, we need a tax system that is fairer for individual Canadians. We need a system that is effective in supporting growth and job creation. We need a system that helps our businesses and industries to compete in the world.

We are meeting these objectives. On January 1, 1988 major reforms to the personal and corporate income tax systems went into effect. The key to these reforms is our belief that the best possible tax incentive for productive activity is lower tax rates.

For individuals, three federal tax brackets are replacing 10. To make the system fairer we are converting personal exemptions and many deductions to tax credits, and we are reducing and eliminating many special tax breaks.

The results are compelling.

More than eight out of 10 households will see their personal income taxes reduced. About 850,000 lower-income individuals will have their income tax reduced to zero. Almost nine out of 10 Canadians aged 65 and over will have income tax reductions. The vast majority of families with children will pay noticeably less personal income tax.

For the corporate sector, many special tax breaks are being eliminated or reduced, and tax rates are being lowered. This will mean that the corporate tax system will be more competitive with systems in other countries. Business and investment decisions will be based more on economic merit than on tax considerations. At the same time, many more profitable corporations will pay tax and corporate income tax will contribute a larger share of total tax revenues.

I will be presenting to this House legislation covering these income tax reforms in the near future.

Still ahead of us is reform of the federal sales tax. We will replace the archaic and distorting sales tax system we now have with a multi-stage system that will be effective in supporting growth and job creation.

We have been working with the provinces and others to develop the most effective means of implementing this new system – particularly the opportunity of an integrated National Sales Tax. While the progress so far has been good, we have more work to do. We are actively pursuing these discussions to ensure that, coupled with the major reforms in the personal and corporate income taxes, Canadians have a tax system that meets both our shared commitment to fairness and the demands we face in a competitive world.

I want to emphasize that tax reform is not a “cut now, pay later” proposition. There are many who have failed to understand, or who choose to ignore, that stage two of tax reform, like stage one, will neither increase nor decrease the deficit. It will not raise additional revenues. The revenues from sales tax reform will be used only to replace the current sales tax, support further income tax reductions for middle-income Canadians, fund a generous sales tax credit for low-income Canadians and remove the income tax surtaxes.

### **Securing and Improving Access to World Markets**

Another key element of our strategy for the 1990s is to secure improved access to world markets for Canada's exporters.

The government supports the liberalization of world trade. That is why we are determined to resist the forces of protectionism that ultimately damage the spirit and health of any nation's economy.

And it is why we worked so vigorously for a new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade. The current negotiations in Geneva are an important opportunity to overhaul and strengthen the rules that are essential to an open world trading system.

In January, the Prime Minister signed a free trade agreement with our largest trading partner, the United States.

The free trade agreement with the U.S. is a major building block in the government's strategy to strengthen Canada's competitive position in the world and enhance the prosperity of our people.

The economic benefits of the free trade agreement will start to be realized shortly after its implementation on January 1, 1989. Prices for a wide range of consumer goods will begin to decline, expanding the purchasing power of Canadian households. Investment in plant and equipment will expand as Canadian firms move to take advantage of their enhanced access to the huge U.S. marketplace. Increased consumer and investment spending will lead to stronger economic growth and more job creation.

The free trade agreement will provide greater opportunities for economies of scale in Canadian production and marketing and this will encourage greater productivity and stimulate innovation. In short, the agreement will lead to a more efficient and lower cost Canadian economy. A stronger and more productive economy will allow us to better support our social programs and further advance our cultural identity.

The government has completed a number of detailed studies on the impact of the free trade agreement on the Canadian economy. We estimate that there will be a net increase of at least 120,000 new jobs by 1993. We expect, too, that by the time the agreement is fully implemented, the real incomes of Canadians will be increased permanently by about \$1,800 per year for a family of four.

There are further benefits to the economy that cannot be estimated in advance but that will be every bit as important – intangible benefits that result from greater incentive to invest and expand and the confidence built by broader horizons and opportunities.

The agreement itself is a symbol of our maturity – of our confidence as a sovereign and independent nation in our ability to compete successfully with products from around the world inside our own borders as well as in foreign markets.

## **Reducing the Deficit and Controlling the Growth of the Debt**

Nothing is more basic to a strong framework for economic growth and job creation than responsible management of government finances.

In 1984, the federal deficit and the national debt were out of control. The deficit was more than \$38 billion – up from \$14.9 billion just three years before. The national debt had doubled in the same period and was growing at an average rate of 26 per cent per year.

If we had continued to pile up public debt at the same rate, today the debt would be more than \$100 billion higher than it is – equivalent to \$16,000 more for a family of four.

When government loses control of its finances, everyone is affected. It leads to higher interest rates for mortgages and for business and consumer loans; it means declining economic confidence, less growth and fewer jobs; it threatens our ability to provide the kinds of government programs and services Canadians need and want.

I believe that this generation of Canadians wants to leave our children and grandchildren a legacy of opportunities and optimism, not one of crushing debt and crushed hopes.

Our challenge in 1984 was to restore fiscal stability and rebuild credibility in the management of government finances.



The only way to do that was to set out a medium-term fiscal plan with sustained deficit reduction – and then hold to that plan.

That is exactly what we did. We embarked on a series of actions to restore fiscal order by cutting government spending and increasing revenues.

### **Bringing Spending Under Control**

The first priority had to be to get government spending under control.

In the four years before we came to office, government spending on programs had increased at an average annual rate of 14 per cent – far in excess of the rate of inflation and enough to double spending in about five years.

In the first three full years of our mandate, we cut the average annual rate of increase in government spending to just 3.5 per cent – less than the rate of inflation.

We achieved this record because we put in place a new, disciplined approach to the management of government and its finances.

An increase in government revenues is also an important part of our fiscal progress. Almost 80 per cent of the increase in revenues comes from the job and income growth that our policies are helping to create. Tax increases account for a relatively small part of the revenue gains.

With these actions, we have systematically reduced the deficit.

We said we would cut the deficit in each and every year. We did.

For the current fiscal year, I said we would cut the deficit to \$29.3 billion. We will meet that target.

We said that control of expenditures would be the main source of deficit reduction. It has been.

We said that we would respond to the priorities and needs of Canadians in a fiscally responsible way. We have.

### **Maintaining Fiscal Progress**

Sound financial management was essential in 1984. It is essential now and it will be essential in the future. We must hold to our fiscal principles and we will.

- First, we are reducing the growth rate of the national debt to no more than that of the economy by 1990-91.
- Second, we are achieving steady year-to-year declines in the deficit. The reduction projected for 1988-89 will be the first time in the postwar period that the deficit has declined four years in a row.

- Third, we are ensuring substantial reductions in the government's financial requirements.
- And fourth, we are achieving the greater part of this progress through expenditure restraint and disciplined management.

Through continued adherence to our fiscal principles, through the measures taken in this budget and through the structural improvements designed to encourage our economic expansion, we will stay on the fiscal course that I set out last June.

In June, I proposed measures to prevent the erosion of the sales tax base that results from the creation of marketing companies by related manufacturers. Following consultations on these proposals, an improved approach has been developed. To ensure that sales tax revenues are maintained, the Excise Tax Act will be amended as set out in the supplementary information and technical notes tabled with this budget. We will also tighten the provisions which permit the purchase of inventory by wholesalers on a tax-free basis.

In 1988-89, government program spending will increase by only 4.3 per cent. To ensure continued deficit reduction, this budget includes further expenditure reductions.

Today I am announcing a reduction in non-statutory spending by government departments of \$300 million beginning in 1989-90. This reduction will be carried out in a similar way to the \$500 million in expenditure cuts announced in the 1986 budget. Details will be made known by the President of the Treasury Board later this year.

These reductions, together with the continuing impact of our earlier restraint measures, will ensure that spending on non-statutory programs, excluding foreign aid and defence, will be lower in 1989-90 than it was when we took office. This is a real reduction, after inflation, of almost 20 per cent over a five-year period.

To raise revenues, the tax on gasoline will be increased by one cent per litre effective April 1. The rebate on gasoline purchased by farmers, fishermen and other primary producers will be increased by this amount. These measures do not apply to diesel fuel.

I am tabling Notices of Ways and Means Motions covering the changes I have announced and a number of further amendments to the Income Tax Act, the Excise Tax Act and the Customs Tariff. These additional amendments are described in detail in the supplementary information.

Legislation will be introduced shortly to amalgamate the three import institutions – the Canadian Import Tribunal, the Tariff Board and the Textile and Clothing Board – into one new institution: the Canadian International Trade Tribunal. This action will remove the duplication that currently exists.

Pursuant to a motion of this House, I will also introduce today a bill seeking borrowing authority for the 1988-89 fiscal year.

## **Economic Outlook**

The steady progress we have been making in carrying through our fiscal and economic policies is reflected in the economic record and outlook for the Canadian economy.

The performance of our economy in 1987 surpassed most expectations. At the start of last year, forecasters were saying that the economy would grow by just over 2 per cent. When the final numbers are in, the growth of the economy will be close to 4 per cent. With growth driven by high levels of business investment, housing starts and consumer confidence, employment growth was very strong and the unemployment rate declined by 1.3 percentage points over the year.

For 1988, the Canadian economy is on course for a sixth consecutive year of expansion. Business confidence remains high and our corporate sector is in good financial health; we are competitive in international markets.

However, even without the October decline in the stock market, we could not have expected to sustain last year's rapid pace of economic growth. This year I expect the rate of growth to moderate to just under 3 per cent. Employment will continue to grow. Interest rates are expected to remain relatively stable over the course of the year.

Inflation has averaged just over 4 per cent over the last three years and in recent months has declined from the levels reached in mid-1987. To maintain a positive climate for growth and job creation, it is essential that wage and price pressures continue to be restrained and that further progress be made over time in reducing inflation. Both monetary and fiscal policy have an important role to play in this regard.

In 1989 the rate of economic growth is expected to rebound, with consumer expenditures buoyed by refunds resulting from tax reform and the lower prices resulting from the Canada-United States Free Trade Agreement. Investment spending and exports will also be spurred by the trade agreement.

## **Implementing Priority Programs and Responding to Unexpected Developments**

Strong economic performance is good social policy.

By creating more jobs, more opportunities and better incomes, our expanding economy provides the means for Canadians to improve their own well-being and economic security. That same economic growth also provides the means for the government to maintain the social services that are an integral part of the Canadian way of life.

But strong economic growth coupled with our fiscal progress has enabled us to do more. It has created the financial capacity we need to do things that only

government can do – to act in specific areas of national priority and to respond in support of regions and sectors hurt by unexpected developments beyond our borders.

We have undertaken a number of priority initiatives.

### **Child Care**

One of these is the National Child Care Strategy which was announced in December.

This initiative will benefit children because many more good quality facilities will become available for their care. We expect 200,000 new spaces to be created in all parts of the country in the next seven years.

The initiative is of great importance to Canadian families. It will help to eliminate a barrier facing many women who work, or want to work, outside the home. It also increases tax assistance to many who choose to work in the home.

### **Regional Development**

We are also implementing a new approach to regional development, an approach that will be more responsive to needs and priorities in the regions. It will draw fully on the ideas and the initiative of people living in the various regions as we work to achieve more balanced development across Canada.

- In the Atlantic Region, local entrepreneurship and small and medium business development is being promoted by the Atlantic Canada Opportunities Agency.
- In the West, diversification of the economic base will be assisted by the Western Diversification Office.
- In Northern Ontario, increased private sector activity is being assisted by the Federal Economic Development Initiative in Northern Ontario.

The government has also announced its intention to respond more effectively to the real development needs of the less prosperous outlying regions of Quebec. To this end, an extensive consultation process will be undertaken with the people of the regions, representatives of local business communities and the provincial government.

### **Science and Technology**

We are ensuring jobs for Canadians in the future by investing in knowledge today.

Our ability to grow and create jobs depends fundamentally on our ability to use science and technology to our advantage.

At the National Conference on Science, Technology and Innovation in January, the Prime Minister announced \$1.3 billion in federal funding for new science and technology activities over the next five years. These will include a national program of Centres of Excellence on university campuses and a program of Canada Scholarships in science, engineering and related disciplines.

Canadian companies carrying out R&D receive strong support through the tax system. When deductions and tax credits for R&D are taken into account, the tax incentives for Canadian firms to invest in R&D are among the most advantageous in the industrialized world.

## **National Defence**

To protect Canada's sovereignty and meet our commitments to our allies, we must have a strong and modern defence capability. In the White Paper on defence policy, the government defined three major elements in Canada's renewed defence strategy.

We will strengthen and modernize our naval defences. We will fulfil our commitment to NATO by consolidating our forces in Western Europe. And we will strengthen our defence of Canadian territory by enlarging our reserve forces and integrating them into the regular forces.

This budget begins the process of implementing the White Paper proposals in a manner consistent with our fiscal principles.

## **Agriculture**

The government has provided strong support to Canada's farm community in the face of severe international market conditions.

In addition to agricultural assistance under existing programs, the government announced in December a further series of agricultural initiatives. These initiatives provide income support, help alleviate the pressures of farm debt on many farmers and maintain the economic base of many rural communities.

These actions have been made necessary in large part by falling grain prices caused by the continuing export subsidy war between the United States and the European Economic Community and by the lack of effective international rules governing agricultural subsidies.

At home and internationally, the government will continue to support Canadian agriculture and work to advance agricultural interests. We will continue to seek better international rules. The Prime Minister is at the forefront of efforts to find a resolution to the international grain subsidy problem. We will continue to work through various forums, most particularly the multilateral trade negotiations currently under way in Geneva. In addition, Canada is a leading member of the Cairns Group – a group of countries that account for more than a third of world grain trade. Together we are working to ensure our shared objectives are met.

## **Energy**

Since 1984, we have provided wide-ranging support for the development of Canada's vital energy industry. We signed energy accords with Newfoundland, Nova Scotia and the Western producing provinces to end years of federal-provincial disputes, to make the industry market-responsive and to instil investor confidence.

In 1986, following the collapse of world oil prices, we assisted the oil and gas industry by eliminating the Petroleum and Gas Revenue Tax. We also cushioned the shock of lower prices through the Canadian Exploration and Development Incentive Program.

## **Canada and the World Economy**

I want to place this budget and our economic program in the broader international perspective.

We live in a volatile world economy. Changes in commodity prices, inflation, financial markets and world economic growth have been large and difficult to predict. This situation is not likely to change in the future.

To succeed in this turbulent environment, we must be able to adjust quickly and be flexible in responding to change. At home, we must continue to build the strength and resiliency of the private sector to position the economy to meet the challenges of the 1990s and beyond. We must stick to our fiscal principles. We must continue to implement priority programs and to deal effectively with unexpected developments in a fiscally responsible way.

We will continue to support the individual and collective efforts of the major industrial countries to strengthen the basis for global economic growth.

At this juncture, the Group of Seven industrial nations has a vital leadership role to play. The world's trade problems and the difficulties faced by developing countries will be the focus of attention when the Prime Minister and the other leaders of the major industrial nations meet this June in Toronto for the Economic Summit. In addition, as Minister of Finance, I am in close consultation with my counterparts in the other G-7 countries to assess global developments and to co-ordinate economic policy action.

Canada is committed to this co-operative approach. By carrying forward actions to revitalize domestic economies and by working together, the major industrial nations can improve the prospects of all countries, including the developing countries. I will be introducing legislation which will allow Canada to support the Enhanced Structural Adjustment Facility of the International Monetary Fund to help address debt problems of the poorest developing countries.

## **Conclusion**

To grow and prosper in a more competitive world requires the combined efforts of people in every sector of the economy, every part of the country.

From the day we took office, we invited Canadians to share in these efforts. We have benefited greatly from the advice and co-operation that we have received through our extensive consultations. We have also worked closely with provincial governments on a wide range of initiatives essential to Canada's future.

Through the policy course that we charted in 1984, this government embarked on a series of carefully planned actions to strengthen the fundamental components of economic growth and job creation.

We are staying the course because we know that our policies are working. We also know from the experience of the 1970s and early 1980s the approaches and policies that do not work.

We will continue to take actions requiring tough decisions, difficult adjustments and firm resolve. There are no short cuts to achieving Canada's economic potential.

We must continue to improve our ability to adapt, to seize the opportunities created by an ever-changing world.

In the decade to come we cannot be satisfied simply to do as well as other countries. We must continually strive to do better, to be the best.

For the next two weeks Canada and the world will witness many of the finest athletes competing in the Winter Olympics in Calgary. Their commitment and quest for excellence must be what we as a nation bring to the task of building our economy.

This commitment and this pursuit of excellence are essential to ensure an economic future that provides challenging opportunities for our children, jobs and economic security for all Canadians.

Table 1

**Summary Statement of Transactions**

	1984-85 <sup>(1)</sup>	1985-86 <sup>(1)</sup>	1986-87 <sup>(1)</sup>	1987-88 <sup>(2)</sup>	1988-89 <sup>(3)</sup>	1989-90 <sup>(3)</sup>
(billions of dollars unless otherwise indicated)						
Budgetary transactions						
Revenues	70.9	76.8	85.8	96.1	103.3	106.3
Expenditures	-109.2	-111.2	-116.4	-125.3	-132.3	-134.9
Deficit	-38.3	-34.4	-30.6	-29.3	-28.9	-28.6
Percentage of GDP	8.6	7.2	6.0	5.3	4.9	4.6
Net non-budgetary receipts	8.5	4.1	9.0	8.4	6.6	9.9
Financial requirements <sup>(4)</sup>	-29.8	-30.3	-21.6	-20.9	-22.3	-18.7
Percentage of GDP	6.7	6.3	4.2	3.8	3.8	3.0
Program expenditures	86.8	85.8	89.7	96.1	100.2	101.9
Percentage change	10.5	-1.1	4.6	7.1	4.3	1.7
Percentage of GDP	19.5	17.9	17.6	17.4	17.1	16.3
Net public debt	199	233	264	293	322	351
Percentage change	23.8	17.3	13.1	11.1	9.9	8.9
Percentage of GDP	44.7	48.7	51.8	53.1	54.9	56.1

Note: Figures may not add due to rounding.

(1) Actual.

(2) Estimate.

(3) Forecast.

(4) Excluding foreign exchange transactions.

Source: *The Fiscal Plan*.