the Budget 1992

The Budget Speech

tabled in the House of Commons by
the Honourable Don Mazankowski
Minister of Finance

February 25, 1992

Department of Finance
Canada
Ministère des Finances
Canada

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INTRODUCTION

I am honoured to present my first budget as Minister of Finance. I want to thank the Prime Minister for the confidence he has placed in me and for his counsel and support.

When I began work on this budget a few months ago, I wanted to ensure that it would be built from the ground up, with the help of Canadians in all parts of the country.

I wanted a budget that would deliver a strong bottom line: one that supports the well-being of Canadians and their families; one that promotes the success of our business people in expanding and creating jobs; one that contributes to a strong and more united Canada. And that's the bottom line of the budget I am delivering today.

In preparing the budget, my colleagues and I listened carefully to Canadians in business, labour, the voluntary and social sectors; to workers, students, managers, farmers, investors, and Canada's youth.

I received hundreds of letters from individual Canadians. We heard from Members of Parliament and from provincial governments.

During the past two months, the Prime Minister met twice with the provincial premiers, and they will meet again soon. I met with provincial finance ministers in December and January.

During these consultations, we talked of the challenges we face, of the hardship of economic slowdown in Canada, the United States and the major industrial countries; of the reality of global industrial restructuring to which we must all adjust.

Throughout the process, I was struck by the sincerity, the understanding and the realism reflected in the advice of Canadians on how best to tackle our economic problems.

Listening and leading

This budget reflects the good advice we received.

It also provides the leadership and direction that Canadians want to help meet the economic challenges that confront us.

It will keep Canada firmly on course for better times ahead; for renewed and sustainable growth, for job creation and for deficit reduction.

The direction we are setting will not appeal to those who believe there are shortcuts to economic success, the same quick fixes that were tried by others in the past and failed. That's not the direction that a majority of Canadians want to take.

Growth and job creation

Canadians want realistic, lasting solutions to our economic problems, not quick fixes that lead to long-term breakdowns or further burdens for the taxpayer.

- They are ready to work together to help Canada compete and win in a tough, uncertain economic world. They know that when Canada wins, Canadians win.

Canadians want to cut the deficit.

- They do not believe that governments can borrow us out of the trouble that governments borrowed us into. They know that higher debt means higher taxes, and they want an end to rising taxes.

Canadians want government streamlined and made less wasteful to meet the changes and demands of the 1990s.

- They want government to adjust to the same budget realities that households and businesses must face every day.
- They want the burden of government reduced. They want less regulation, less overlap and duplication.
- They want less government and better service.

Canadians want to ensure better development of Canada's most valuable resource – our people.

- They want better opportunities for people to improve their skills, and to use their initiative and talent to build a better future for their families, their community and their country.

Canadians are concerned about the growing costs of health care and about the social safety net. They want steps taken to ensure that our social programs meet the basic needs of Canadians and remain a vital part of our Canadian identity.

- Canadians know that good social policy and good economic policy go hand in hand – and that each supports the other.

Most of all, Canadians want a renewed basis for confidence – confidence that jobs will be created and jobs maintained.

Responding with action

In this budget we will respond. This budget will bolster recovery this year and strengthen growth and job creation in the years ahead.

- **We will substantially reduce the deficit.**
  - Despite the economic slowdown, we will hold the deficit to $31.4 billion in the 1991-92 fiscal year. We will reduce it by almost $4 billion to $27.5 billion in 1992-93.
- **We will cut spending and we will cut taxes.**
- **We will cut spending by $1 billion in 1992-93 and by $7 billion over five years. These savings will be used to cut taxes.**
  - We will act to strengthen Canada's competitive position.
  - We will reduce the tax burden for the manufacturing and processing sectors.

- We will increase support for research and development and encourage productive investment.
- We will provide measures to help small business.
- We will simplify, streamline and substantially enrich our support for families and children.
- We will assist Canadians with registered retirement savings plans (RRSPs) to buy a home.
- We will increase our support for Canadians with disabilities.
- We will provide additional tax assistance to students.
- We will reduce personal income taxes for all taxpayers.

- **We will restructure and streamline the operations of government to improve both efficiency and service to Canadians.** Forty-six government organizations will be eliminated, deferred, merged with other operations or privatized.

This budget responds to the desire of Canadians to have a more expansive economy and a less expensive government. It will help ensure:

- a stronger, more productive economy better able to create the jobs that Canadians need; and
- a leaner, more efficient government better able to deliver the services Canadians need.

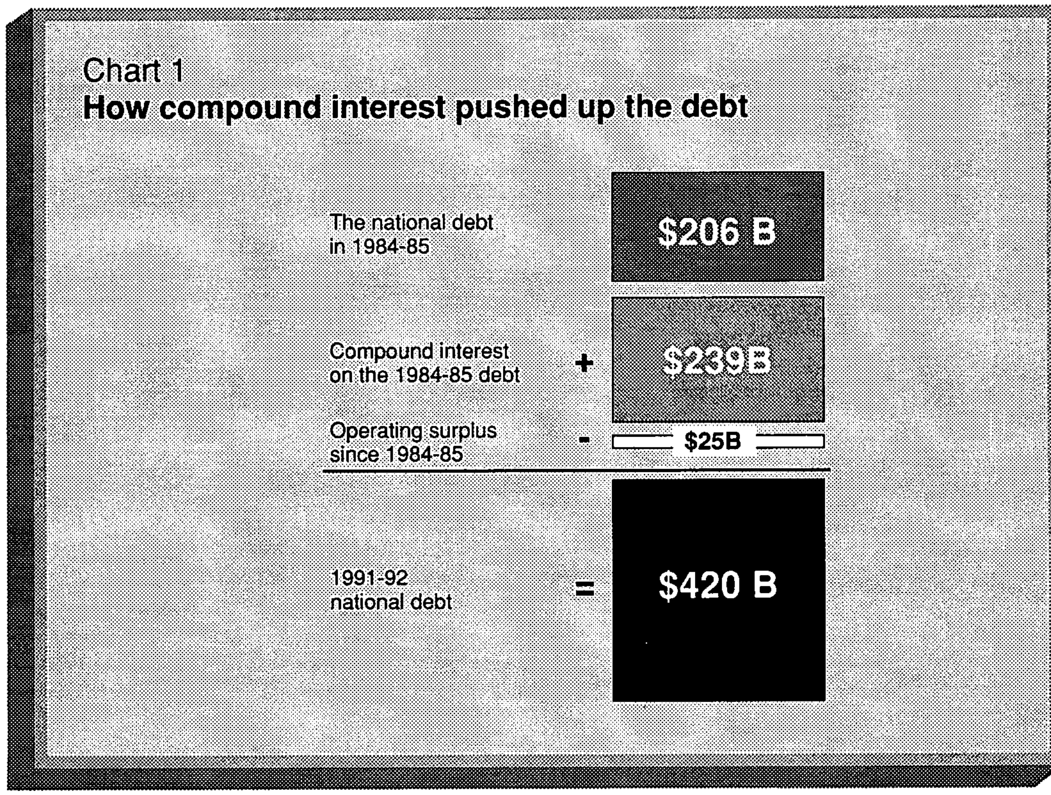
To help prepare Canada's economy for the 21st century, the government will also step up its effort to work with business, labour, the voluntary and social sectors, and other governments. We will seek to renew the national tradition of partnership on which this country has been built and sustained through many challenging times.

A STRONG FOUNDATION FOR RECOVERY AND SUSTAINED GROWTH

The measures in this budget are economically, socially and fiscally responsible. They provide help where needed. They are paid for by reducing and reallocating expenditures, not by increasing the burden of borrowing and taxing.

In the same responsible way, year after year, the government has acted in response to need. Over the past few months:

- We provided assistance to the agriculture, fisheries, transportation, housing and publishing sectors.
- We strengthened support for a more productive and competitive aerospace sector.
- We increased worker training and adjustment funds under the unemployment insurance program.
- We are enriching the equalization program to help the less wealthy provinces.
- We introduced measures to give Canadian retailers a fairer chance to compete with their American counterparts.
- We reaffirmed our commitment to a healthier environment by taking further action to implement Green Plan initiatives in priority areas such as global warming, air and water quality and sustainable forests.



All of us are learning lessons from the hardship of recession and global restructuring. One of the most important lessons is that government must never again allow itself to be financially crippled by debt:

- Governments do not have the capacity to inject massive stimulus into the economy. To try to do so by further borrowing would hurt us down the road. We cannot get out of a hole by digging it deeper.

Restoring the balance, easing the burden

Reducing the deficit is essential for sustained economic growth and prosperity. It is also an essential foundation for the confidence, at home and abroad, that will ensure a strong recovery.

We have made substantial progress since 1984 by cutting the deficit-to-GDP ratio almost in half from 8.7 per cent to 4.6 per cent. Fiscal balance has been further supported by firm, consistent policies. These have enabled us to maintain tight control of program spending, to make faster-than-expected progress in reducing inflation and interest rates, and to respond quickly to contain upward deficit pressure over the past several months.

As a result, we are able in this budget to cut spending and direct the savings to tax cuts that will help individual Canadians and support economic growth.

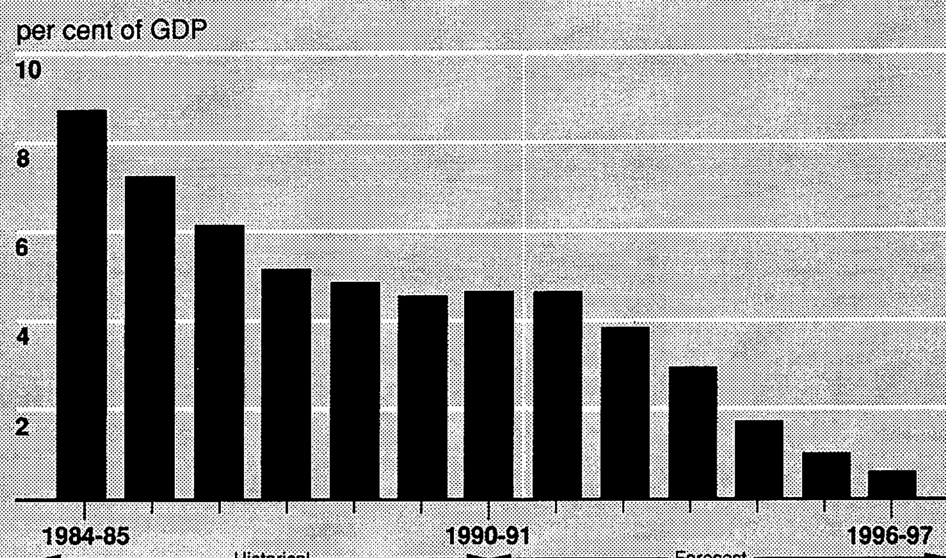
The progress we have earned together will yield further dividends. As growth resumes and we make further progress toward price stability, the deficit will fall steadily and quickly.

Action to restrain expenditures

This budget implements a wide range of spending cuts.

- We will broaden and deepen the Expenditure Control Plan which was introduced in the 1990 budget and extended by last year's budget. This will be done in a way that does not affect major transfers to provinces.
- The defence review of last September and further measures taken with this budget yield a substantial peace dividend for Canadians. Since September 1991, the world has changed a great deal. This has allowed us to reduce our longstanding presence in Europe without lessening our commitment to NATO solidarity. The planned withdrawal of our troops from Europe can be advanced and a task force stationed in Europe is no longer necessary. Defence spending will be cut by a total of $2.2 billion over the next five years.
- We will cut the non-wage operating budgets of departments by 3 per cent to save $150 million next year and $800 million over a five-year period. International travel will be reduced. First-class travel for Members of Parliament, Senators and senior public servants will be eliminated.
- We will save $75 million a year by reducing communications budgets. A no-frills publishing policy will substantially reduce the number of government publications.
- The growth in spending by Canada Mortgage and Housing Corporation (CMHC) on social housing will be held to an average of 3 per cent per year.

Chart 2
The budgetary deficit
1984-85 to 1996-97



- Other program reductions will save $170 million next year.
- As a result of government decisions taken last year, ministerial, Parliamentary and public service pay is currently frozen. In addition, the Prime Minister and all Ministers will take a 5-per-cent cut in their ministerial salary beginning April 1.
- We will strengthen cost recovery and improve the collection of outstanding tax liabilities.
- We will continue to privatize Crown corporations where they no longer serve public policy objectives. We will dispose of surplus assets.
- Our measures to streamline government will also contribute substantial savings over the next five years.

We are also taking action to manage future spending pressures in a fiscally responsible way. The government is prepared to act when necessary to counter the serious fiscal effects that may come from legal challenges to government programs. For example, while the government will continue to implement equal pay for work of equal value, it will not make any further retroactive payments for the period prior to November 1, 1990.

All these measures respond to a clear message from Canadians: difficult times are no excuse for governments to live beyond the taxpayers' means. It has not been business-as-usual for thousands of Canadian taxpayers, farmers, fishermen, business people, workers and families. It cannot be business-as-usual for any government that truly cares.

Working together for recovery

The economic recovery began with great promise in the second quarter of 1991, but subsequently weakened as conditions deteriorated in the economies of our major trading partners, particularly the United States.

Real output in the fourth quarter of 1991 was flat or may have declined. Available evidence suggests this weakness has carried over into early 1992.

Times are difficult. There are serious economic problems to solve. But there is no substitute for sound policies. That is the realistic perspective in which this budget was developed.

Neither I, the Prime Minister nor any other member of this government is going to tell Canadians that one budget can meet all our economic challenges.

But in times like this, it is too easy to lose perspective: to allow pessimism to feed on itself, and to lose sight of the improving outlook for renewed growth.

We need to look beyond the gloom and give optimism a chance. I'm not talking about blue-sky, hope-for-the-best optimism. I'm talking about down-to-earth optimism based on a realistic assessment both of the proven character of Canada's people and of the improving prospects for our economy.

Time and again, Canadians have demonstrated their ability to overcome adversity, to adapt to change, and to succeed in maintaining this country as one of the best in the world.

We have done this by listening to each other, believing in each other, working with each other, and seeing things through. Many things have changed in Canada. But from listening to Canadians, I believe more than ever in the fundamental strength of our people, and our ability to meet our economic challenges.

There are good reasons to look forward to an early resumption of solid economic growth. Some negative factors will soon turn positive.

- The United States and other countries we export to are working to revitalize their economies. We will soon begin to benefit as they return to solid growth.
- The impact of the measures in this budget should strengthen business and consumer confidence. Once confidence starts moving in the right direction, it will reinforce itself as spending and investment decisions further strengthen economic activity.

But as the economy turns upward, it will be powered by much more than this reversal of negative factors.

Strengthening the fundamentals

Our economy is poised for a sustained recovery on its own fundamental merits; a recovery that draws on the strength of a dramatic improvement in interest rates, inflation and production costs.

- Inflation has come down dramatically over the past year. It is now running at an annualized rate of less than 2 per cent, its lowest level since the early 1970s. Inflation in Canada is about one percentage point lower than U.S. inflation.
- Wage settlements also show how inflationary pressures have eased. For the last quarter of 1991, public sector settlements averaged 2.4 per cent, down from an

Chart 3
One-year mortgage rates

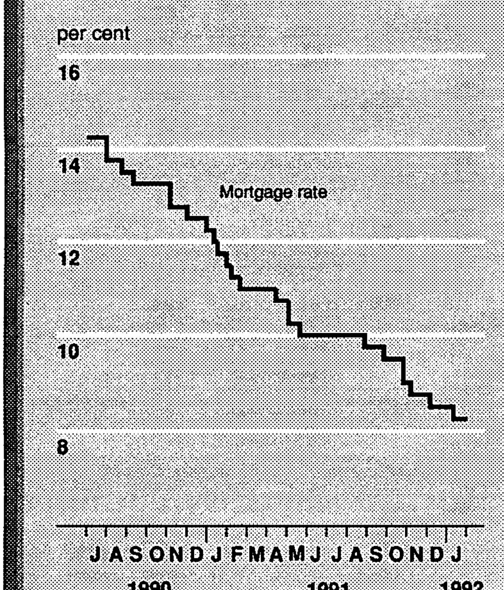
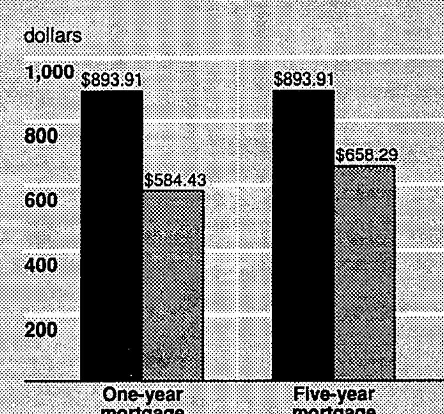


Chart 4
Impact of lower mortgage rates on typical monthly payments[1]



[1] Based on $75,000 principal amortized over 25 years. 1990 calculations are based on typical one-year and five-year mortgage rates of 14 1/4 per cent. The 1992 calculation is based on rates of 8 1/4 and 9 3/4 per cent respectively.

average of 6.4 per cent in the first quarter of last year. Private sector settlements have fallen to 3.3 per cent, down from a first-quarter increase of 5.1 per cent.

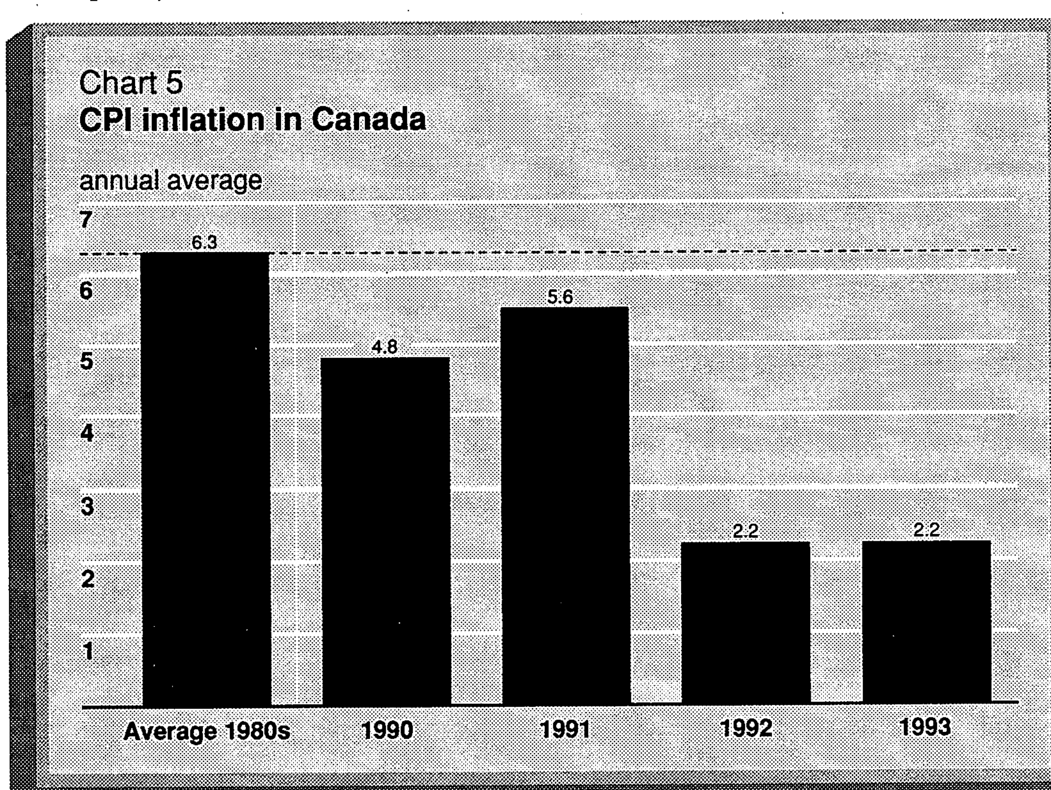
- Progress in reducing inflation and wage pressures has made it possible to ease monetary conditions. Interest rates have dropped sharply, down by about seven percentage points since the spring of 1990.
- The one-year mortgage rate is now the lowest it has ever been. A family taking out a $75,000 mortgage today would save more than $300 a month in carrying costs compared to the spring of 1990.

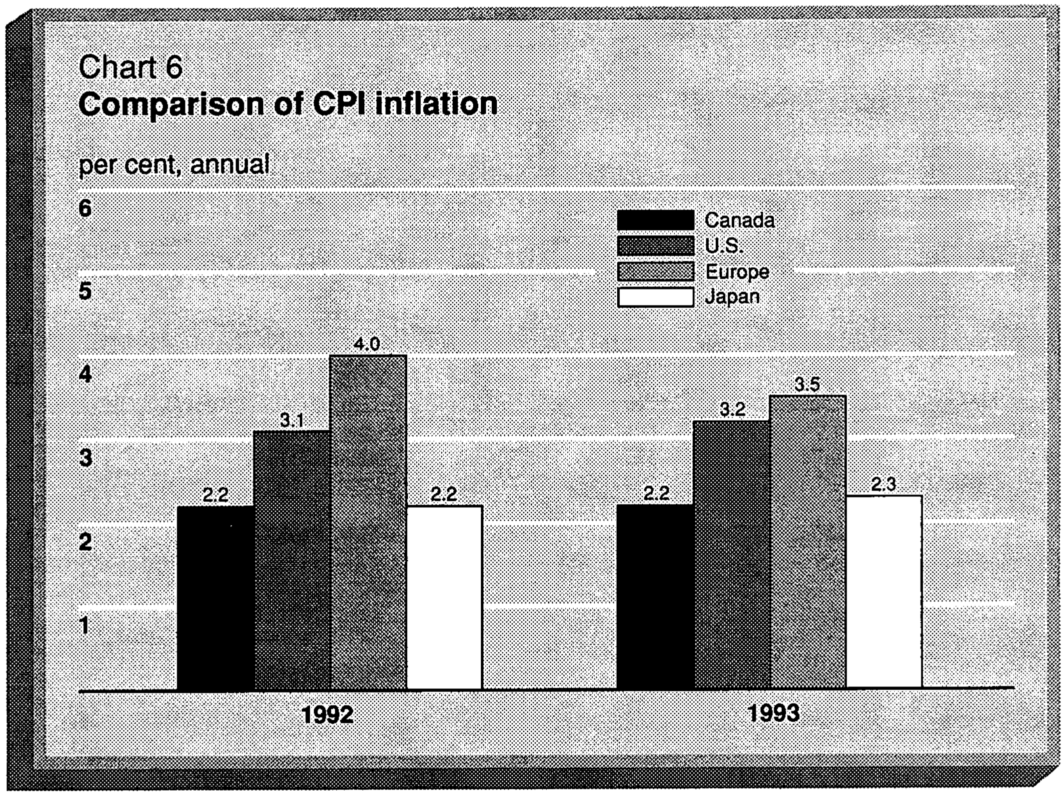
The emerging new Canadian economy

In assessing Canada's economic prospects, it is impossible to overstate the importance of this dramatic turnaround in the cost of living and doing business in Canada. This will have an increasingly positive effect on all families and all enterprises in Canada.

As an indication of just how much things have changed, consider these facts:

- For a senior citizen on a fixed pension, inflation at 9 per cent – the average rate from 1974 to 1984 – cuts that income in half in just eight years. At 2 per cent, it would take about 35 years.
- For a worker, a wage increase of 2 to 3 per cent today provides more real purchasing power than an increase of 11 per cent 10 years ago. In fact, 11 per cent in 1982 was a real wage decrease because the rate of inflation was even higher than 11 per cent.





The benefits of low inflation are clear:

- Higher inflation undermines our standard of living.
- Lower inflation helps to raise living standards.
- It restores confidence in the value of money.
- It helps to protect people on fixed incomes.
- It improves our cost competitiveness in the global economy.
- It improves the climate for the long-term investment that will further expand the productive, job-creating capacity of our economy.
- It paves the way for longer-term home mortgages at affordable fixed rates.

As a more competitive and productive Canadian economy emerges, we will hear more and more about Canadians developing their skills and realizing their potential; Canadians innovating and investing in a more productive economy; Canadians achieving the excellence that consumers around the world are demanding in the goods and services they buy.

In support of excellence, we will hear more and more about Canadian business, labour and government combining their talents, putting outdated adversarial relationships behind them in their own best interests.

Canadians know that this new economy won't just emerge by itself, just as lower inflation, lower interest rates and lower wage settlements didn't just happen. We made progress against inflation because clear inflation objectives were set, leadership in wage restraint was demonstrated and Canadians responded to the challenge.

Working together, Canadians will build our new, more successful economy by continuing to face up to fundamental economic challenges in a realistic and determined way.

Strong framework for growth

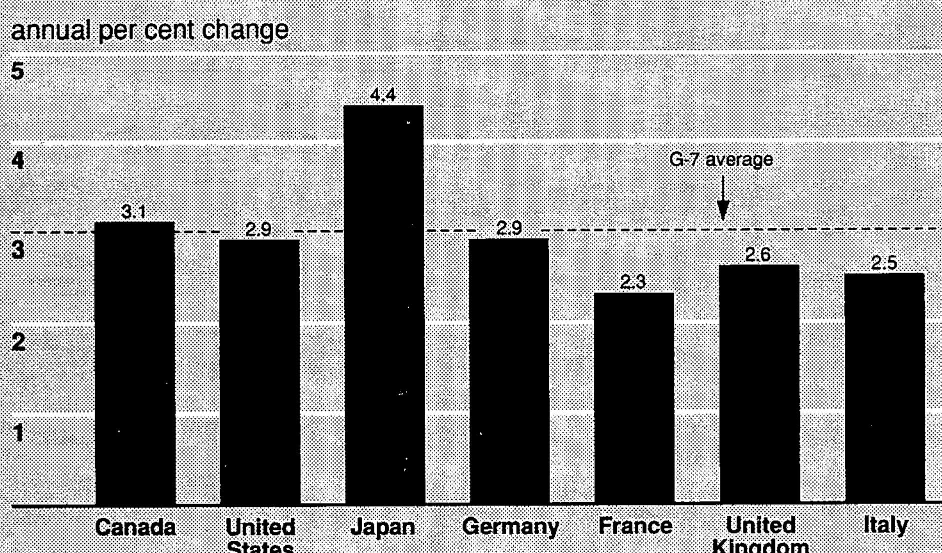
Step by step since 1984, the government has implemented a comprehensive program of economic renewal. We have carried out a wide range of fundamental reforms to improve the framework of government policies affecting the efficiency and the productivity of the economy.

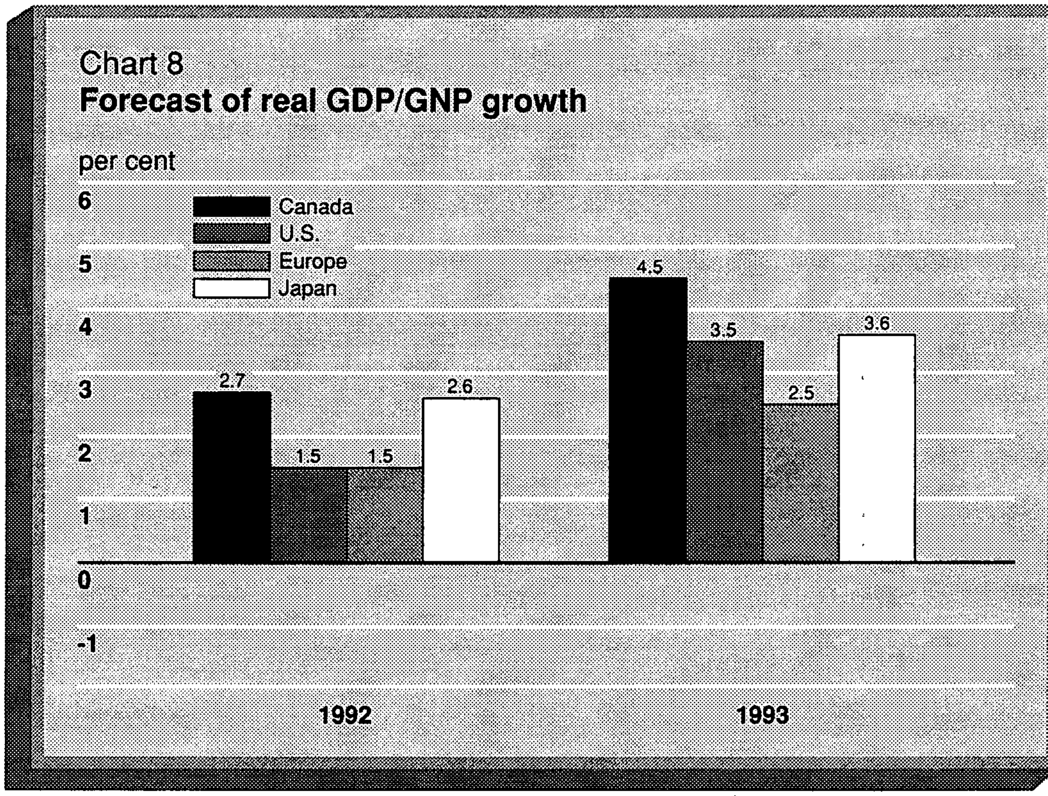
Whether in the area of trade, training, tax reform, science and technology, privatization or deregulation, the approach underlying our reforms has been consistent and clear: the real source of growth, wealth creation and jobs is the initiative of people in the private sector. Governments must create a positive environment to allow this initiative to flourish.

The Canadian economy will soon respond to the positive conditions now in place for recovery.

Earlier this month, the Conference Board of Canada forecast that growth in Canada would be the highest among the G-7 countries this year. This view is also shared by the Organization for Economic Co-operation and Development and the International Monetary Fund.

Chart 7
Real GDP/GNP growth 1983-1991 average





We expect growth to pick up in the second quarter, averaging 2.7 per cent for the year as a whole and rising to 4.5 per cent for 1993. The recovery will be led by a strong increase in residential construction and consumer spending in response to lower interest rates.

Continuing progress toward price stability will allow for further easing in interest rates. The 90-day commercial paper rate is projected to average 6.9 per cent this year and 6.5 per cent in 1993.

More than 500,000 jobs will be created before the end of next year, with employment increasing by 3 per cent in 1993. However, strong growth in the labour force will keep the unemployment rate this year at about current levels. It will decline to 9.5 per cent by the end of next year.

From 1994 to 1997, we expect growth to average 4.4 per cent. Inflation will be in line with our inflation targets. More than one million jobs will be created and the unemployment rate will decline to 7 per cent.

There is good reason to be optimistic, but we must also be realistic. The world economy is changing. Barriers to the movement of goods, services, capital and information are coming down. Industry all around the world is restructuring to take advantage of new opportunities. In the process, the Canadian workplace is being transformed.

These events have repeatedly driven home the same message: no country, no government, no corporation and no worker is immune from the competitive forces that are reshaping the economic world.

Canadians will have to work together to build a more prosperous future. That's why the government launched its prosperity initiative last year as a broadly based consultation process. Our goal is to develop a national action plan to strengthen Canada's ability to adapt, to compete and to prosper.

At the recent First Ministers' meeting, many governments stressed the important contribution that adequate infrastructure makes to our competitive position. The Government of Canada agrees this is important. We are, for example, working with the private sector to develop airport infrastructure. And we are actively pursuing the building of a fixed link from the mainland to Prince Edward Island, with private sector financing. We are prepared to work with the provinces to explore ways in which the national highway system might be upgraded in a fiscally responsible manner.

In the same spirit, the government will work closely with the provinces to strengthen the framework that our economic union provides for future growth and job creation. Among our key objectives will be action to reduce interprovincial trade barriers; to cut overlap and duplication among government programs; to better harmonize our tax systems; and to co-ordinate our approaches to budgetary policies.

The provinces will be setting their own budgets in the near future. It is important that they pull in the same direction as this budget: toward better fiscal balance, lower deficits, greater spending restraint and control of the tax burden. There is only one taxpayer, and the taxpayer deserves a break.

ACTION FOR RECOVERY AND SUSTAINED GROWTH

This budget builds on the foundation we have put in place.

Action to bolster recovery

We will help bolster the recovery by providing a welcome break for Canadian taxpayers and home buyers. The equation is simple: we are reducing spending in order to cut taxes.

Reducing the personal income surtax

- Personal income taxes will be cut. The personal income surtax will drop from 5 per cent of basic tax to 4 per cent on July 1, 1992 and to 3 per cent on January 1, 1993.
- This will increase Canadians' after-tax income by $500 million in 1992-93, and more than $1.2 billion per year thereafter. All 14.6 million taxpayers will benefit.

The Home Buyers' Plan

- We will introduce the Home Buyers' Plan to allow Canadians to use existing funds in their registered retirement savings plans (RRSPs) to buy or build a principal residence. Individuals may withdraw up to $20,000 tax-free for this purpose and repay the amount over 15 years. This measure takes effect immediately and will apply until March 1, 1993.

The Home Buyers' Plan responds to requests from industry groups, provincial governments and individuals. It will assist Canadians in taking advantage of low mortgage rates, moderation in housing prices and the recently announced reduction in the downpayment required for CMHC-insured mortgages. It will support strong growth in the housing sector this year.

Action for investment, initiative and jobs

We are taking a number of actions to encourage initiative and productive investment. These measures will assist Canadian industry to create jobs.

Manufacturing and processing

The manufacturing and processing sector is vital to Canada's economy. It accounts for almost one-fifth of Canada's economy and its jobs. It operates in international markets, with over 40 per cent of its output exported, and is highly exposed to international competition. This sector has been particularly hard hit as manufacturers in Canada and other countries restructure their operations.

To help the Canadian manufacturing and processing sector meet the challenges of globalization:

- The manufacturing and processing tax rate will be reduced from 23 per cent to 22 per cent, effective January 1, 1993, with a further reduction to 21 per cent on January 1, 1994.
- The capital cost allowance rate will be increased for manufacturing and processing machinery from 25 to 30 per cent, effective for acquisitions made after today.

New activity in all sectors will be encouraged by reducing the withholding tax rate on direct dividends to 5 per cent. The government is prepared, in tax treaty negotiations, to begin reducing the rate on January 1, 1993. This will help Canada compete for international direct investment. It is particularly important now, as international businesses restructure their worldwide operations.

A number of other measures in this budget will assist in financing the growth of Canada's economy and in preserving and creating jobs.

Research and development

The government recognizes the importance of research and development. Canada's system of tax incentives to support research and development is already one of the most generous in the world.

- This budget commits an additional $230 million over the next five years to improve these incentives by making them more easily accessible to users.

Lifetime capital gains exemption

Currently, taxpayers can receive tax-free capital gains up to a lifetime limit of $100,000. This limit will not be changed. However, the lifetime capital gains exemption will be targeted toward more productive investments.

- Capital gains accrued on real estate after February 1992 will no longer qualify for this exemption. Gains accrued prior to March 1992 will continue to qualify. This restriction does not apply to real estate used in an active business. Nor does it affect the $500,000 exemption for small business and qualified farm property.

- Principal residences will continue to be fully exempt from tax on capital gains.

Small business

Small businesses are key to the healthy growth of Canada's economy. The federal tax treatment of small businesses is among the most favourable in the world. In these difficult times, however, many small businesses are experiencing serious cash-flow problems.

In response, the government is announcing two measures to help small business:

- The Small Business Financing Program will help small businesses in financial difficulty, including farmers, to obtain loans at lower interest rates.
- In addition, the ceiling for loans to individual small businesses under the *Small Business Loans Act* will be doubled from $100,000 to $200,000.

Venture capital

Venture capital makes an important contribution to innovation, wealth creation and job creation. The government provides tax assistance to encourage venture capital investments.

In May 1985, this government provided initial support to the creation of Labour Sponsored Venture Capital Funds. These funds are growing in importance and should prove to be a useful source of venture capital.

- This budget will make it easier to establish such funds and will provide further tax assistance to them.

Ethanol and methanol fuels

The government will encourage the development and use of ethanol and methanol fuels made from renewable feedstocks. Such fuels offer important environmental benefits, including low levels of carbon monoxide and carbon dioxide emissions.

- Effective April 1, 1992, we will eliminate the excise tax on the ethanol and methanol portions of blended fuels that are mainly gasoline.

A social dividend

Building a healthy economy is good social policy, and good social policy helps to build a healthy economy.

Spending restraint and progress toward fiscal balance will allow the government to increase assistance to Canadian families, consistent with the values and expectations of Canadians. This social dividend is financed by spending cuts in many areas, including savings in defence in response to the changing world order.

Enriching benefits for families with children

In May 1990, on behalf of the Government of Canada, the Prime Minister signed the United Nations Convention on the Rights of the Child. This Convention, which aims to protect the rights of children around the world, was one of the main agenda items at the World Summit for Children which the Prime Minister co-chaired later that year. On December 11, 1991, the Prime Minister announced that Canada has formally ratified the Convention.

My colleague, the Minister of National Health and Welfare, has been consulting Canadians on how best to meet the needs of children in Canada. As part of a package of measures he is developing to strengthen support for children, he has recommended a major reform of the existing system of child benefits.

Under the current system, $4.5 billion in financial assistance is provided to families with children through the family allowance and the tax system. This has evolved over the years into a patchwork of measures which is neither well-targeted nor easily understood.

Under the proposals outlined by the Minister of National Health and Welfare, child benefits will be completely restructured and substantially enriched.

There will be one monthly child benefit. Unlike the family allowance, it will not be subject to tax. Children under the age of 18 will be eligible.

- The new benefit will include a new earned-income supplement of up to $500 per year for low-income working families with children.
- The benefit will be as much as $144 per month for one child, for a total of $1,733 per year. Benefits will be targeted toward lower- and middle-income families.

The new system will increase total federal child benefits by $400 million per year.

The single monthly payment will make the system simpler and more responsive to family needs.

The Minister of National Health and Welfare is releasing a White Paper that outlines details of this important proposal. The package that he has developed reflects this government's commitment to the family and to the wellbeing of children, a commitment vital to the Canadian way of life.

This budget proposes two further measures affecting the taxation of families, effective for the 1993 income tax year.

- The maximum child care expense deduction will be increased by $1,000 – to $5,000 for each child under age seven and to $3,000 for other eligible children. This will benefit 600,000 taxpayers, 75 per cent of whom are women in the work force.
- In addition, common-law couples will be treated the same as married couples under the tax system. This will ensure consistent tax treatment of different types of families – a key element in improving the fairness of the tax system. Existing tax disadvantages to the traditional family unit will be eliminated.

Assisting Canadians with disabilities

Over the past several years, and in many of our budgets, this government has dramatically improved assistance for Canadians with disabilities. This past

September, the Prime Minister announced a $158 million Strategy for the Integration of Persons With Disabilities. This budget builds on this record of action.

- We will expand the definition of expenses eligible for the medical expenses tax credit. We will also broaden the range of expenses eligible for the tax deduction, introduced in the 1991 budget, for modifications by businesses to buildings and devices to assist Canadians with disabilities.
- We will make the education tax credit available to disabled individuals who attend a post-secondary educational institution on a part-time basis.
- We will recognize disability pensions under the Canada Pension Plan and Quebec Pension Plan as earned income for purposes of contributions to registered retirement savings plans.

More than 400,000 disabled persons currently benefit from assistance through the tax system. These changes reflect a constructive process of ongoing consultations with representatives of Canadians with disabilities. These consultations will continue and will focus, in particular, on how to alleviate work disincentives for persons with disabilities.

Increasing the education credit

The budget provides additional tax relief to students.

- The amount on which the education credit is calculated will be increased by one-third from $60 to $80 per month of full-time study.
- The limit on the total amount of tuition fee and education credits which may be transferred to another taxpayer will be raised from $600 to $680.

These measures will assist all full-time post-secondary students.

In addition, my colleague, the Secretary of State, will be negotiating new arrangements for student loans with financial institutions. The expected savings will provide scope to improve the Canada Student Loans Program and to eliminate the 3-per-cent administration fee on student loans.

Retirement planning and savings

This budget provides greater flexibility in retirement planning by extending the payout period for registered retirement income funds over the lifetime of the holder.

We will also delay by one year the phase-in of higher contribution limits for registered pension plans and RRSPs.

Streamlining government and improving service

To streamline government, we will eliminate, consolidate, defer or privatize a total of 46 government agencies, boards, commissions, corporations and advisory bodies.

Among the agencies that we will eliminate are the following:

- the Petroleum Monitoring Agency
- the Pay Research Bureau
- the Law Reform Commission
- the Canadian Institute for International Peace and Security

Government streamlining

Wind Up

Canadian Institute for International Peace and Security
The Law Reform Commission
The International Centre for Ocean Development
The Veterans Land Administration
The Petroleum Monitoring Agency
The Agricultural Products Board
The Demographic Review Secretariat
CN (West Indies) Steamships Ltd.
The Science Council of Canada
The Economic Council of Canada
The Pay Research Bureau
Canadian Environmental Advisory Council
International Aviation Advisory Task Force and Committee
National Advisory Committee on Development Education
Canada Employment and Immigration Advisory Council
Advisory Council on Lay Members of the Competition Tribunal
Advisory Committee on La Francophonie
Advisory Committee on le Musée de la Nouvelle France
Montreal Science and Technology Museum Advisory Committee
Advisory Committee for le musée des arts et du spectacle vivant (de la scène)
Marine Advisory Board on Research and Development

Defer

Canadian Race Relations Foundation
Canadian Heritage Languages Institute
The Sentencing and Conditional Release Commission

Merge/consolidate

The Enterprise Cape Breton Corporation
Emergency Preparedness Canada
The International Development Research Centre (converted to departmental corporation)
The Patent Appeal Board, the Trade Marks Opposition Board and the Copyright Board
The RCMP External Review Committee and the RCMP Public Complaints Commission
The Canadian Commercial Corporation
The Privacy Commissioner and the Information Commissioner
The Procurement Review Board
The Canada Council, the Social Sciences and Humanities Research Council and International Cultural Programs
Communications Research Centre Advisory Committees (3)

Privatize

The Co-operative Energy Corporation
The Dosimetry Services Unit
The Cape Breton Development Corporation (examine)
The Royal Canadian Mint (examine)
The Blainville Motor Vehicle Test Centre (examine)

- the Economic Council of Canada
- the Science Council of Canada, and
- the Demographic Review Secretariat.

We will consolidate the operations of several other agencies, to save overhead and focus resources. For example:

- the Patent Appeal Board, the Trade Mark Opposition Board and the Copyright Board will be merged into a new Intellectual Property Tribunal;
- the offices of the Privacy and Information Commissioners will be merged;
- the mandate of the Canada Council will be expanded to include the Social Sciences and Humanities Research Council and international cultural programs now run by the Department of External Affairs.

As well, 13 advisory councils will be terminated.

As a result of these actions, there will be 160 fewer government appointments and 500 fewer employees. Savings will amount to $22 million per year on an ongoing basis.

The government will continue to privatize Crown corporations and will take a more aggressive approach to the disposal of assets. We will sell our interest in the Co-operative Energy Corporation. We will examine, on a priority basis, the feasibility of privatizing the Royal Canadian Mint, the Cape Breton Development Corporation and the Blainville Motor Vehicle Test Centre.

We will sell surplus lands at Downsview, Pickering and elsewhere in Canada. And we will sell properties abroad that are no longer needed – including properties in Paris, Bordeaux and Washington.

Improving service to Canadians

Canada benefits from one of the most highly regarded, professional and competent public services in the world. For some time now, as part of Public Service 2000, the government has been encouraging a process of revitalization and modernization – to ensure that Canadians continue to be well served by their federal public service.

An important part of this process is to free up the creativity and entrepreneurial spirit of public servants – to cut away the red tape and allow them to do their job of serving the public better. Consistent with this approach, this budget proposes a number of measures to allow public servants to better serve the public.

- Federal departments and agencies offering related services to individuals and businesses will take all reasonable steps to bring their services together in one place.
- Procedures for dealing with the federal government will be simplified. Currently, businesses may need up to six different registration numbers in their dealings with the federal government. We will move toward a single registration number. We will make greater use of simplified tax forms. We will develop standards of service to promote more accessible hours of service and faster response times.

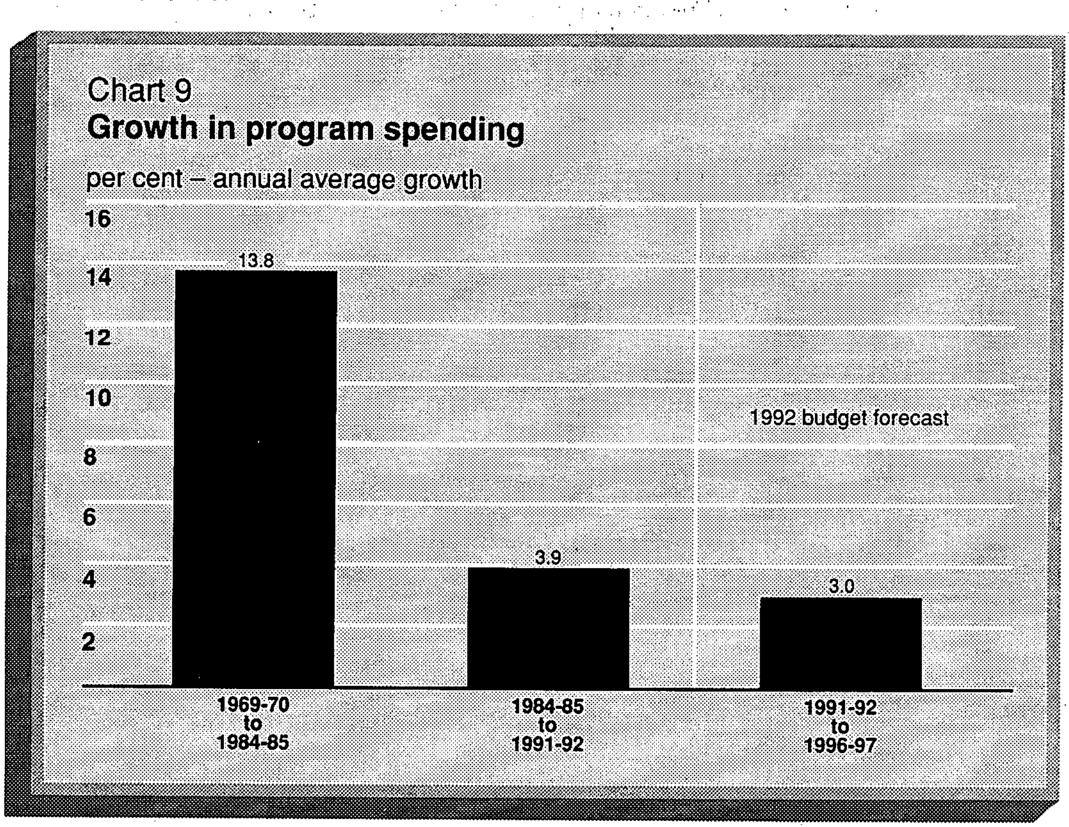
- We will implement a department-by-department review of existing regulations, beginning with Agriculture Canada, Transport Canada and Consumer and Corporate Affairs. Existing regulations that should be kept will have to be publicly rejustified. The government will ask the Standing Committee on Finance to assist in this process and report by September 30, 1992.

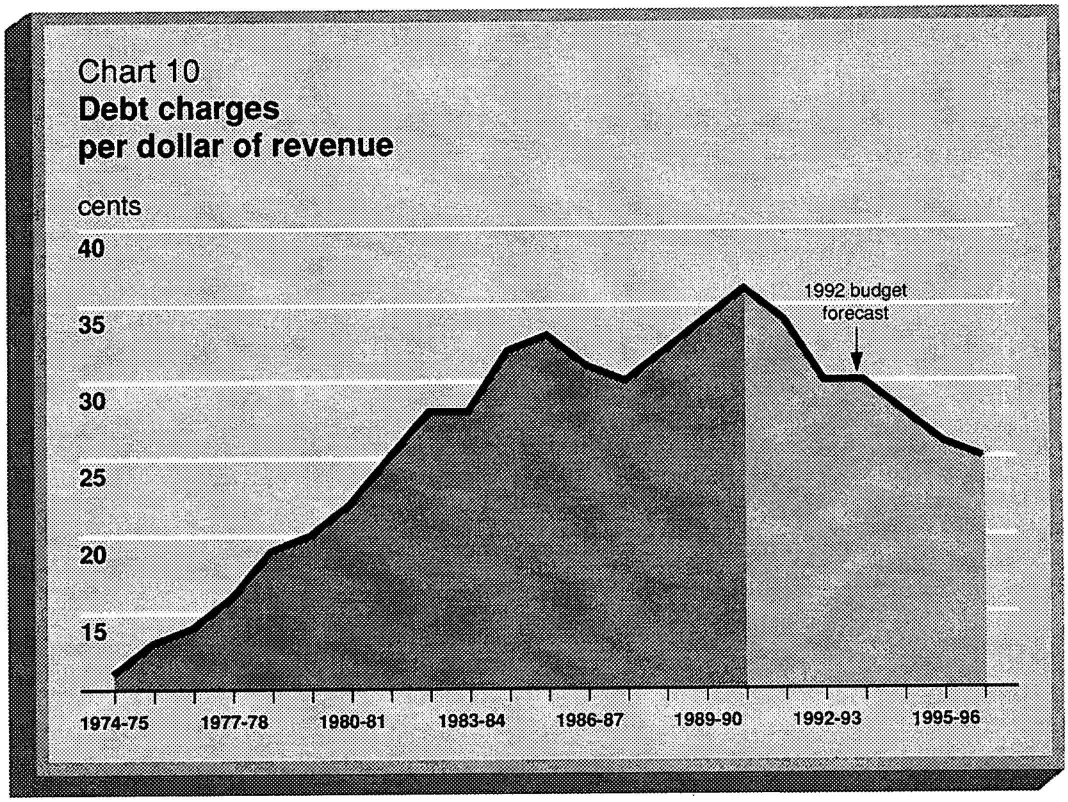
These actions are part of an ongoing process to streamline government organization and improve service to the public. The government will welcome suggestions for further action.

SUSTAINING PROGRESS IN THE MEDIUM TERM

The measures in this budget will improve the economic and social well-being of Canadians. They are being implemented within a responsible and prudent fiscal plan. Reallocation to meet new priorities will not compromise deficit reduction.

- Over the next five years, program spending will grow on average by only 3 per cent per year. Our spending will be within the limits of the proposed *Spending Control Act*.
- The deficit will fall to $27.5 billion in the upcoming fiscal year, decline further to $22.5 billion in 1993-94 and decline continually thereafter.
- Financial requirements will be eliminated in 1995-96. We will then begin to reduce our outstanding debt in the financial markets for the first time since 1969-70.





As we continue to make progress on the deficit and the debt, we will achieve a crucial objective for Canada: to increase our capacity to cut taxes further and make strategic investments in the economic and social development of our country and its people.

- Our progress in restoring this flexibility will be measured by the steady reduction in the share of each tax dollar that will be required to pay for interest on the public debt. From more than 35 cents in 1990-91, it will drop to about 30 cents in 1992-93. By mid-decade, it will fall further to about 25 cents.

I am tabling the budget documents including Notices of Ways and Means Motions. Details of the measures are included in the documents.

Pursuant to an order of this House, I will introduce today a bill seeking borrowing authority for the 1992-93 fiscal year.

I am asking that an order of the day be designated for consideration of those motions.

CONCLUSION

This budget is about listening to Canadians and responding to their views with leadership and action.

But it is not just about the initiatives that I have announced to take effect tonight and in the months ahead. This is about charting a course for the future.

It is a challenging, complex and far from certain future, but a future that is full of opportunity for Canada.

To meet the test of that future, our job as Canadians is to harness our skills, our knowledge, our initiative, our resources and our strength through partnership and co-operation.

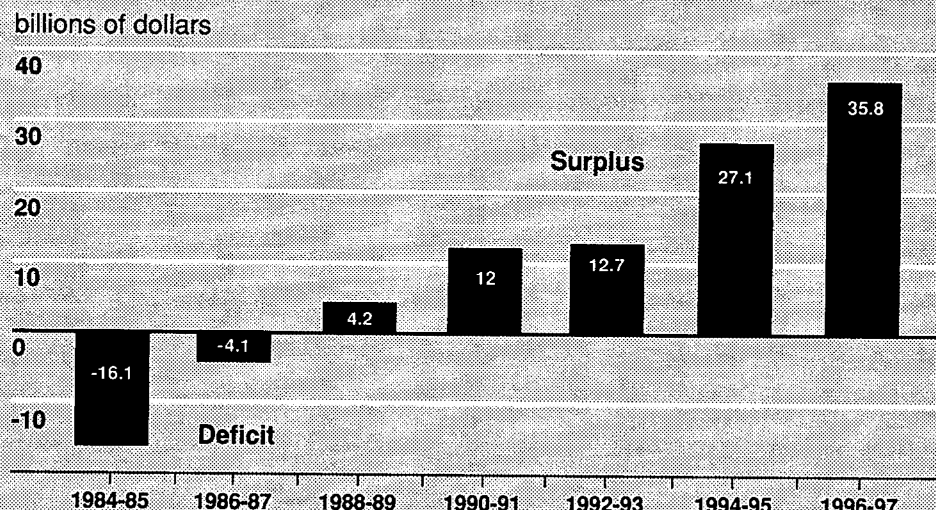
In the consultations leading to the budget, I was inspired by the realism of Canadians and their willingness to contribute to the building of a stronger, more productive economy.

There are many different ways that we can contribute – as many ways as there are Canadians.

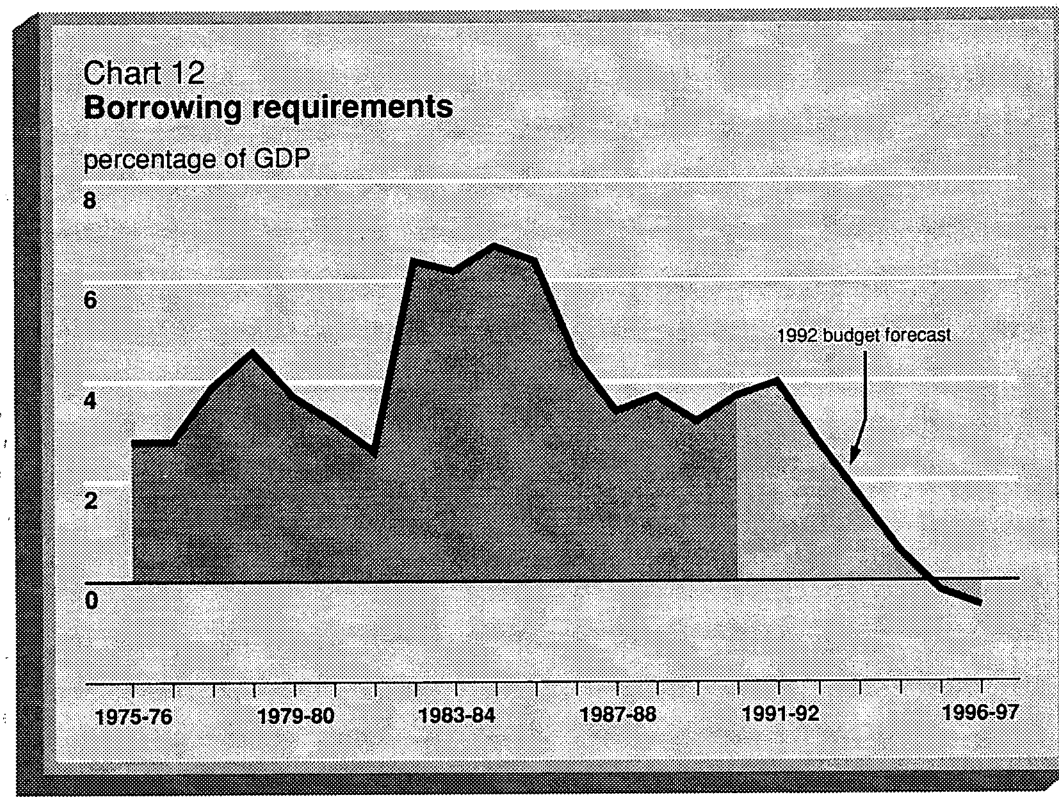
In the budget last year, the government introduced the Debt Servicing and Reduction Account. This Account receives the revenues from the GST and the proceeds of privatization, and ensures that the money will not be used to fund new spending initiatives. The fund has one other source of revenues – contributions from Canadians. During the first 10 months of the current fiscal year, no less than $375,000 has come to the fund in this way. As Minister of Finance, I want to express my gratitude for these contributions to Canada.

There is another kind of contribution to Canada that I hope all Canadians will make in the coming months. It is to reach a little deeper into the reservoir of tolerance and co-operation upon which this country has been built, and to work together to preserve and renew the unity of our country. In this way, we will remove the single greatest obstacle to our future prosperity.

Chart 11
The operating balance[1]



[1] Operating balance is the budgetary deficit excluding public debt charges, i.e. budgetary revenues less program spending.



By working together on all our national challenges, we can ensure that we will do what our parents did, and theirs before them: to build for their children an even better Canada than they inherited.

To meet this challenge, we must renew our pride as Canadians: pride in producing goods and services that can compete with the best in the world; pride in being citizens of a country which is the envy of the rest of the world.

I am confident, from listening to Canadians, that we are ready to face this challenge and to win.

BUDGET HIGHLIGHTS

ACTION FOR RECOVERY AND SUSTAINED GROWTH

This budget cuts spending to cut taxes and boost economic growth and competitiveness. It also ensures substantial declines in the deficit for 1992-93 and beyond.

Action to bolster recovery

Reducing personal income taxes

- Personal income taxes will be cut. The general personal income surtax will drop from 5 per cent of basic tax to 4 per cent on July 1, 1992 and by a further 1 per cent on January 1, 1993. This will put an additional $500 million into taxpayers' hands in the 1992-93 fiscal year, rising to more than $1.2 billion in subsequent years. All 14.6 million taxpayers will benefit.

The Home Buyers' Plan

- Individuals will be able to withdraw up to $20,000 from their registered retirement savings plans tax-free to buy or build a home, and repay the amount over 15 years. This measure takes effect immediately and will apply until March 1, 1993.

Action for investment, initiative and jobs

Manufacturing and processing

- The manufacturing and processing tax rate will be reduced from 23 per cent to 22 per cent effective January 1, 1993, with a further one-point reduction on January 1, 1994.
- The capital cost allowance rate for manufacturing and processing machinery will be increased from 25 to 30 per cent, effective for acquisitions made after budget day.
- Direct investment in all sectors will be encouraged by negotiating reciprocal agreements with trading partners to reduce the withholding tax rate on direct dividends to 5 per cent.

Research and development

- The budget announces a commitment to enrich the tax incentives for R&D by $230 million over the next five years and to improve the system to make it more effective.

Lifetime capital gains exemption

- The $100,000 lifetime capital gains exemption will be targeted toward more productive investments. The exemption will no longer be provided to capital gains accrued on real estate after February 1992.

Small business

- The government will provide a Small Business Financing Program until the end of 1992 to help small businesses in difficulty, including farmers, to obtain loans at lower interest rates.
- The ceiling for loans to individual small businesses under the *Small Business Loans Act* will be doubled to $200,000.

Venture capital

- The government will encourage the growth of labour-sponsored venture capital funds. The maximum credit for investment in these funds will be increased to $1,000 from $700.

Ethanol and methanol fuels

- Effective April 1, 1992, the excise tax on the ethanol and methanol portions of blended fuels that are mainly gasoline will be eliminated.

Action to meet social responsibilities

Enriching benefits for families with children

- The current system of child benefits will be reformed and enriched. One monthly child tax benefit will replace the current patchwork of assistance. Unlike the family allowance, it will not be subject to tax. Children under the age of 18 will be eligible. The new benefit will include a new earned-income supplement of up to $500 per year for low-income working families with children.
- The benefit will be as much as $144 per month for one child, for a total of $1,733 per year. Benefits will be phased out for higher-income families on the basis of family net income rather than individual income.
- The new system will increase child benefits by $400 million per year. It will target them more fairly to low- and middle-income families.
- The maximum child care expense deduction will be increased by $1,000 – to $5,000 for each child under age seven and to $3,000 for other eligible children.

Promoting fairness

- Beginning in the 1993 tax year, the government proposes that common-law couples be treated the same as married couples under the tax system.

Assisting Canadians with disabilities

- The definition of expenses eligible for the medical expenses tax credit for the disabled will be expanded, and the range of tax-deductible business expenses for modifications to buildings and devices to assist the disabled will be broadened.
- The education credit will be made available to disabled individuals who attend a post-secondary educational institution on a part-time basis.
- Disability pensions under the Canada Pension Plan and Quebec Pension Plan will be recognized as earned income for purposes of contributions to registered retirement savings plans.

Increasing the education credit

- The amount on which the education credit is calculated will be increased from $60 to $80 per month of full-time study for the 1992 and subsequent taxation years.
- The limit on the total amount of tuition fee and education credits which may be transferred to another taxpayer will be raised from $600 to $680.

Retirement planning and savings

- The government will provide greater flexibility in retirement planning by extending the payout period for registered retirement income funds for life.
- The government will delay by one year the phase-in of higher contribution limits for registered pension plans and registered retirement savings plans.

Action to restrain expenditures

- **The government will cut spending by $1 billion in 1992-93 and by $7 billion over five years.**
- The Expenditure Control Plan, which was introduced in the 1990 budget and extended by last year's budget, will be broadened and deepened. Major transfers to provinces are not affected.
  - Defence spending will be cut by a total of $2.2 billion over the next five years, a substantial peace dividend for Canada.
  - The government will cut the non-wage operating budgets of departments by 3 per cent to save $150 million next year and thereafter.
  - First-class travel for MPs, Senators and senior public servants will be eliminated. International travel will be reduced.
  - The government will save $75 million a year by reducing communications budgets. A no-frills publishing policy will substantially reduce the number and cost of government publications.
  - The growth in spending by Canada Mortgage and Housing Corporation on social housing will be held to an average of 3 per cent per year.
  - Other programs will be reduced to save $170 million next year.
- **The Prime Minister and all Ministers will take a 5-per-cent cut in their ministerial salary beginning April 1.**

Streamlining government and improving service

- The government will restructure and streamline the operations of government to improve both efficiency and service to Canadians.

Reducing the number of government agencies

- Forty-six government entities will be eliminated, deferred, merged with other operations or privatized. The government will continue to privatize Crown corporations and dispose of surplus assets.

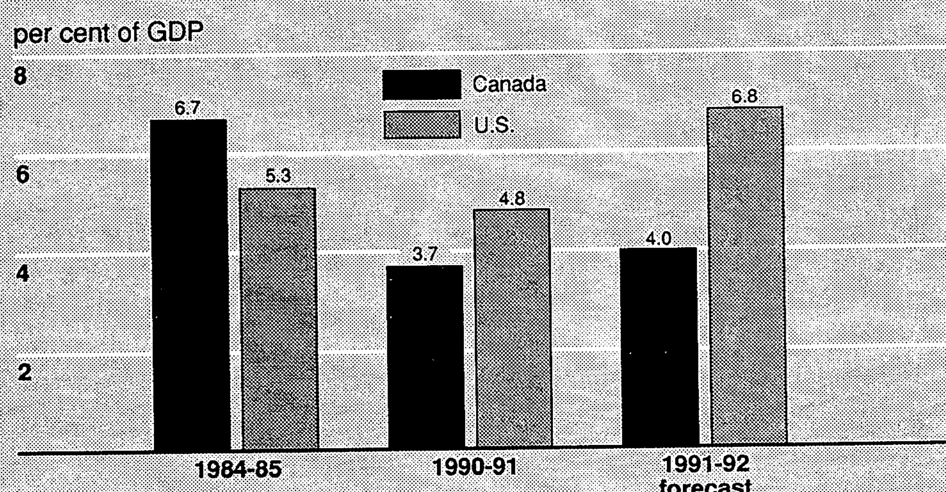
Improving service to Canadians

- Federal departments and agencies offering related services to individuals and businesses will take all reasonable steps to bring their services together in one place.
- Procedures for dealing with the federal government will be simplified, and standards of service will be developed for such things as longer hours of opening and faster responses.
- Government regulations will be reviewed department-by-department. Existing regulations that should be kept will have to be publicly rejustified.

DEFICIT REDUCTION

- The deficit will be held to $31.4 billion in 1991-92. It will decline to $27.5 billion in 1992-93, and fall steadily thereafter.

Chart 13
Comparable Canada - U.S. federal government deficits



Note: Financial requirements for Canada and Unified Budget Basis (UBB) balance for the United States.