Budget Speech

delivered by the Honourable John Crosbie
Minister of Finance
and Member of Parliament for St. John's West
in the House of Commons

December 11, 1979

Department of Finance
Canada

Ministère des Finances
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Mr. Speaker,

As I begin my first budget speech I wish to express my thanks to the Prime Minister for entrusting me with this heavy responsibility, and to express my thanks to my colleagues and to the officials in my own department and in the other departments involved for their assistance to me in this budget. I also wish to take the opportunity to express my appreciation to the members of the government caucus for their support.

As well, I wish to express my appreciation to the electors of St. John's West who have given me their confidence in four provincial elections since 1966 and who elected me on October 18, 1976 and on May 22, 1979 to represent them in this national institution. My three years in this House have been active and rewarding. I have come to know the country and Members on all sides of this House in a way that convinces me beyond all doubt that Canada has immense possibilities. What do we need to realize them? All we need is the initiative, the willingness to work hard, the spirit of enterprise and the risk-taking and vision of our forefathers, whether English or French, or of other nationalities who came to settle in our part of the new frontier of North America.

This is an "achieve our potential" budget. This is a realistic budget that faces the facts and sets out our view of how Canada can realize its potential. Laurier said that the 20th century belonged to Canada. That prophecy may not yet be realized. But if our fiscal and energy policies are adopted, the 1990s will indeed belong to Canada.

This budget is a "first" in several respects. It is the first which it is my privilege to present to this House; the first of the new government; the first federal budget ever presented by a Newfoundlander; and the first Progressive Conservative budget in 17 years. Perhaps most important, it is the first budget of a new era in the economic and financial affairs of this country—an era of new realism and an economic climate to provide improved opportunities and incentives for Canadians.

Since last May, I have met with Finance Ministers from many countries. I have discussed our economic and fiscal problems with my provincial colleagues. I have listened to the views of business and labour leaders throughout Canada. I have sought advice from economists in universities, research institutes and business corporations.

All these contacts and the independent advice offered at the Tokyo Summit, by the International Monetary Fund, the Organization for

Economic Co-operation and Development and the Economic Council of Canada have strengthened my conviction that four overriding considerations should guide this budget.

The first is that the Canadian economy has great potential and offers brighter prospects than almost any other country in the world. Second, our economic performance, which has been disappointing during the 1970s, can be improved substantially by improving the framework of economic incentives for private individuals and firms. Third, to be successful our policies must face realistically the problems posed by energy costs and shortages and the huge and swelling budget deficit which we inherited from our Liberal predecessors. And finally, our policies must focus more than in the past ten years on the medium- and longer-term potential and opportunities of the country and less upon fine-tuning in the short run and the political subterfuges of the moment.

The need for a new approach is apparent from our experience during the 1970s. In broad terms, the performance of the economy has been about half as good on average as during the 1960s. Our rates of price inflation and unemployment have been roughly twice as high and our rate of productivity growth has fallen by half. Over the past five years, productivity growth, the essential source for increases in the living standards of Canadians, has approximated zero.

This deteriorating performance reflects a number of factors, some beyond our control. These include international developments such as the huge increase in energy prices and the unhappy combination of slower economic growth and general price inflation found in most countries, including the United States. In addition, domestic developments such as changes in the composition and location of the population and changes in labour force participation have been outside the control of government.

In addition to these unavoidable influences, however, part of the reason for our disappointing economic performance during the past decade has been the failure of governments, particularly the federal government, to face up to economic reality and to make the most of the country's opportunities. In my view, one of the main reasons Canadians elected a new government last spring was to set a new and realistic course for this country. This I and my colleagues are determined to do even if it means risking some unpopularity, hopefully short-term. We are committed to the proposition that in the longer run good economics is good sense and thus good politics.

Challenges Facing the New Government

What are some of the challenges we face as a government charting a new course? There has been little or no productivity growth during the past five years. This year prices have been rising at almost 10 per cent. This is the seventh year in a row in which prices have been rising in the range of 7½ to 11 per cent. Unemployment is about 7½ per cent, below the rate in 1977 and 1978, but still high, especially in certain regions of the country, such as my own native isle, Newfoundland.

In addition, two yawning "gaps" have emerged in the economy, the Government of Canada deficit and the deficit in the current account of the balance of international payments. At present, federal government expenditures exceed revenues by 25 per cent and the size of the deficit exceeds the total size of the budget in our centennial year of 1967. Our current account deficit is equal to over 2 per cent of the Gross National Product, that is, over 2 per cent of the total value of all the goods and services produced by our country. This is the highest deficit ratio among the major industrialized countries. As a country and as a government we must face the fact that we have to pay our bills and cannot continue by borrowing ever more at the expense of our future.

Because of these deficits our interest rates have increased excessively, private borrowers have been crowded out of the domestic market for funds and our Canadian dollar has depreciated. Our ability to undertake new initiatives to promote the development of the country would be all but eliminated if we were not acting to reduce these deficits.

Our recent experience proves again that simply printing money and increasing government expenditures and the deficit does not help. Such actions only make our difficulties worse. A disciplined and realistic fiscal and monetary framework is essential. It is evident that a system of incentives in both the private and public spheres is critical. Individual choice in response to positive incentives is much more effective than attempts by governments to persuade, dictate and direct. A major priority in this and our subsequent budgets will be to create a system of incentives that will encourage Canadians to work, to save, to invest, to take risks in Canada, to become more efficient in production and to conserve energy and other scarce resources.

The Main Features of this Budget

Tonight, I fulfill our election promise by providing detailed projections of our revenues, expenditures and deficits out to 1983-84. I am also releasing a paper which sets out and describes the economic assumptions on which the fiscal projections are based.

I will now set out the main elements of this budget.

The fundamental objective of our fiscal plan is to bring about a steady reduction in our deficits. Our cash requirements will be cut in half from almost $10 billion this year to less than $5 billion by 1983-84.

To achieve this objective, a tight ceiling is placed on our expenditures. We will limit growth to 10 per cent a year. This means no growth in expenditures after allowing for inflation.

I now refer to a series of major new measures in the energy field to achieve our goal of self-sufficiency in oil by the 1990s.

Let me make the situation as clear as I can. The revenue and expenditure figures relating to 1980-81 and the following fiscal years are based on the assumption that we will conclude an agreement with the oil and gas producing provinces on our new energy policy and on oil and gas pricing. The agreement involves oil and natural gas price increases over the years 1980-84 so that prices rise at a measured pace toward 85 per cent of the lesser of U.S. levels at Chicago or the international price.

The Government of Canada intends, in connection with any increase in oil and natural gas prices, to ensure that excess profits are not made by the industry as a result of accelerating prices but that the industry has an adequate rate of return and retains the necessary revenues for continuing exploration and development of new energy sources. We intend to ensure, through our new energy tax, that the Government of Canada obtains roughly half of the returns from oil and gas price increases that exceed $2.00 per barrel and 30 cents per thousand cubic feet per year. On this basis the Government of Canada will have sufficient revenues from the increases in oil and gas prices to carry into effect energy programs, conservation programs and offset programs to assist the regions and people of Canada.

The exact form of our energy tax has not yet been fully worked out, but it will be a tax sufficient to give the Government of Canada the revenues we have indicated we need from oil and gas price increases to carry out the programs we have indicated are necessary. I have every confidence that the agreements now reached will go forward and that a new energy tax will be in place before July, 1980.

Because of the absolute necessity of further encouraging our people to use fewer oil products, to conserve oil products now having to be imported in ever larger quantities and at ever greater prices as our own domestic supplies dwindle, and in order to raise badly needed revenues for the Government of Canada in a manner that also serves another vital national purpose, an excise tax of 25 cents per gallon is imposed on gasoline, diesel and other transportation fuels effective tonight. This tax will not apply to heating oil in the home or elsewhere. The tax will apply to all users of transportation fuels and will replace the current tax of 7 cents a gallon on gasoline which applied only to non-commercial users. Thus the increase is 18 cents a gallon for those using gasoline for personal use only. Farming, commercial fishing and urban public transit systems will be entitled to a rebate of 10 cents per gallon and so will be taxed effectively at 15 cents.

All federal proceeds from the new energy tax and a substantial part of the proceeds from the excise tax will be returned to the economy in the form of direct measures to assist in developing alternate energy sources, conservation methods and to assist regions and people in Canada in absorbing these higher costs.

The former government stated that it was never its intention to maintain indefinitely the present regime of cheap energy in Canada while the rest of the world was adjusting to the new realities. They said then that there was no practical alternative to continuing a phased adjustment to higher energy prices. They stated that this was essential to provide for future supplies and to conserve this scarce resource. The problem that they left with us is that they did not have the courage to carry out their own policy. We have to act now so that Canada can be self-sufficient in all energy sources, including oil, by the 1990s and to protect Canada from chaos whenever international oil supplies are interrupted. Unlike the previous government we will not declare a policy and then fail to act.

I am announcing tonight an income-tested, refundable, energy tax credit of $80 per adult and $30 per child per year, phased in over two years, for the benefit of lower- and middle-income Canadians. The cost of this measure when in full effect will be $1 billion each year.

If the opposition parties permit our mortgage interest and property tax credit legislation to be passed into law, reductions in federal personal income taxes will be $1.2 billion in 1980, rising to $2.9 billion in 1982. Federal income taxes will also be reduced in 1980 by $1.4 billion through indexing.

Investment in common stocks of businesses in Canada will be encouraged by a new investment plan, the Canadian Common Stock Investment Plan, and by changes in the Registered Retirement Savings Plan rules.

To assist small unincorporated businesses, and to recognize the contribution many wives make to running them, salaries paid to wives or husbands by such businesses will be deductible. This will be another step along the continuing road towards equal status for Canadian women.

Tax measures will be introduced to reduce the borrowing costs of small business corporations during the present high-interest situation by means of a small business development bond.

New tax incentives will encourage regional development and promote investment in Atlantic fishing vessels built in Canada.

Farmers will receive substantial relief from problems caused by the taxation of capital gains on farm land.

Income tax changes of importance to family law reform will be introduced.

A surcharge of 5 per cent on corporate income taxes will be imposed for a period of two years as a contribution from the business sector to our overwhelming need to reduce the deficit.

The super depletion allowance for frontier drilling will be extended at a reduced rate to the end of 1980 and then replaced. The write-off for Canadian oil and gas property, including land bonus payments, will be reduced from 30 per cent to 10 per cent.

Taxes on alcoholic beverages, tobacco and some other products will be increased.

Measures will be taken to eliminate certain abuses in the tax system.

Unemployment insurance contribution rates will be increased while the employment tax credit will be enriched.

The Economy

Before turning to our specific objectives for reducing the deficit and a fuller discussion of the budget measures let me review our current economic situation and the general economic environment we face over the next several years.

Output and employment in the Canadian economy were stronger in the third quarter than had been generally expected. Gross National Expenditure in real terms is likely to increase by something like 3 per cent in 1979. Over the past four quarters, business investment in particular has been growing strongly, showing an increase in real terms of 12 per cent.

Job creation has also been impressive. About 440,000 more people were employed in October, 1979, than in October, 1978. More than 135,000 of the new jobs were in the manufacturing sector.

But the news has not all been good. Of particular concern was the deterioration in our balance of payments on current account. During the first three quarters of 1979, imports of goods and services exceeded exports at an average annual rate of $6.1 billion, compared to $5.3 billion in all of 1978. Export growth slowed because of the slowdown in the U.S. economy while import growth accelerated, reflecting the high level of expenditures in Canada for machinery and equipment, most of which is imported.

Consumer prices continue to show year-over-year increases in excess of 9 per cent, despite some slowing of the rate of increase in food prices. At the same time, energy and other non-food prices increased at above average rates.

Our prospects for 1980 are clouded by the recession which now appears to be under way in the United States. Although their output may actually fall, we estimate Canada's will rise about 1 per cent. This means that fewer jobs will be created in Canada in 1980 than in this year, and that our unemployment rate is likely to increase to about 8¼ per cent.

The rise in energy prices will put upward pressure on the Consumer Price Index. This will tend to be reflected in continuing upward pressure on wages. There is already cause for concern in the rising trend now showing up in wage settlements.

We must look beyond 1980 even though forecasting is hazardous. Our policies are geared to improving the longer-run outlook for the Canadian economy and they are based on a realistic assessment of potential economic performance.

With recovery in the United States we believe that a growth rate of 3½ to 4 per cent in Canada for 1981-85 is attainable. This will mean some reduction in unemployment. But changes in the composition of the labour force, together with the influence of unemployment insurance and other social programs, have made unemployment rates in the 4- or 5-per-cent range a thing of the past.

Our major challenge is to bring down the rate of inflation. This government fully endorses the Bank of Canada's policy of gradually reducing money supply growth. The government's overall fiscal plan, and the tax measures I am presenting tonight, indicate our determination to reduce our deficit. Fiscal policy will now share in the task of reducing inflation and so provide a better balanced restraint than is the case when monetary policy is left to attempt the job alone. More funds for investment will be available for the private sector, hopefully at lower interest rates.

If confidence in our determination to reduce inflation can be fully established then the public's expectations may adjust downward. Future price and wage increases may then be lower than could normally be expected given the recent history of price inflation, the rather high levels of capacity utilization which prevail in many sectors and the impact of increases in energy prices.

The other main challenge is to improve our balance of payments position. Most projections suggest that the current account deficit will continue to widen, mainly because of the growing burden of interest payments, although it does not increase as a percentage of GNP. To do better than this we must export more and import less. We need more investment and we need more skills in order to increase our share in both foreign and domestic markets.

A major contribution to improving our balance of payments can come from energy through our new oil pricing and conservation policy which will lessen our imports of oil. As honourable Members know, my colleague, the Minister of Energy, Mines and Resources, has announced approval of the additional exports of natural gas recommended by the National Energy Board. The Board's findings are good news indeed. The intensive exploration and development effort in the Western Basin has paid off. We now have greater security of supply for our expanding domestic gas market and can increase exports. The effect on the balance of payments will be substantial. At today's export price, the 3.8-trillion-cubic-foot surplus would be worth about $15.5 billion, and this figure will be a good deal higher as export prices increase.

Let me return now to a more detailed discussion of our plans for deficit reduction.

Reducing the Government's Deficit

We plan to cut the government's financial requirements from about $10 billion this year to $4.8 billion in 1983-84. There will be a reduction of $1¾ billion next year to bring the 1980-81 level to $8.2 billion, and further reductions each year thereafter. Relative to the size of the growing economy the reduction in financial requirements will be even more dramatic, falling from 3.9 per cent of GNP this year to 1.1 per cent by 1983-84. By that year we will have accomplished a substantial, if not complete, repair of the damage of the fiscal position incurred over the last five years when financial requirements were allowed to rise from $2 billion, or 1.4 per cent of GNP in 1974-75, to this year's $10 billion.

The most fundamental element in our plan to lower the deficit is severe restraint over government expenditures. We are planning to hold total expenditure growth to 10 per cent in each of the next four years. In real terms there will be no growth at all. To achieve a lower deficit next year we have had to reinforce this expenditure strategy with the tax increases introduced tonight. Continuation of this degree of expenditure restraint under conditions of more normal economic growth will bring substantial further reductions in the deficit without further tax increases.

The decrease in financial requirements of about $5 billion over the next four years results both from an increase in the government's non-budgetary sources of funds and from a reduction in the budgetary deficit. The budgetary deficit will decline each year, from $11.2 billion, or 4.4 per cent of GNP this year, to $9.1 billion, or 2.1 per cent of GNP in 1983-84. With the current level of the budgetary deficit the government's net debt is increasing at an annual rate of 20 per cent. This of course implies a rising ratio of debt to government revenue and to GNP, and is a major contributor to rapid growth in interest costs which would sooner or later have to be met by higher taxes. It is not a sustainable position. This progressive reduction in deficits will bring the growth rate of net debt below 10 per cent by 1983-84. Government debt will then no longer be increasing relative to the size of the economy and public debt charges will no longer be pre-empting a larger and larger share of government expenditures.

The deficit on the national accounts basis declines very much in line with financial requirements. It is projected to fall from $10.2 billion in 1978-79 to $4.4 billion in 1983-84. On this accounting basis the consolidated position of all governments in Canada, federal, provincial and local, taken together, is expected to be in balance by 1983.

At this point I wish to make an announcement with respect to Canada's gold holdings. The great rise in the price of gold in the last three years, at a time when the other components of our official international reserves have been declining, has led to a substantial shift in the composition of our reserves portfolio. At the current market price the 22 million ounces of gold held by the Exchange Fund now constitute almost 75 per cent of our reserves. This is a far higher proportion than we have held in the past. It is also higher than the proportion now held by other industrial countries, with the exception of the United States which holds only small amounts of foreign currencies. From the standpoint of the efficient management of our reserve assets, I think it would be more appropriate if this proportion were reduced somewhat. This would provide a more balanced portfolio and allow us to invest more funds in interest-earning assets. Accordingly, I plan to sell up to one million ounces of gold in the relatively near future if the market for gold continues to be firm. Part of this may be purchased by the Mint in connection with its "Maple Leaf" coin program. The balance will be sold in the market.

Limiting the Growth of Government Expenditures

The 10-per-cent planned expenditure growth rate is well below the nominal growth rate projected for the economy as a whole. It will mean that the ratio of federal government outlays to GNP will decline from 20.6 per cent in 1979-80 to 18.2 per cent in 1983-84. Relative to the size of the economy federal expenditures will be brought back to the level of the late 1960s.

An increasing portion of the fixed expenditure total will be devoted to new energy initiatives. Expenditure growth in all other areas combined will have to be restricted to about 9 per cent per year.

It is estimated that spending under existing major statutory programs will increase, on average, by 9.3 per cent over the next four years. The public debt charge component would be increasing much faster were it not for the reductions in deficit we are planning. Even so, public debt charges are expected to increase by 19.5 per cent or $1.7 billion next year. Excluding this item, growth in outlays will be held to 8.1 per cent in 1980-81. Our commitment to provide substantial funds for new energy initiatives over the next several years, our desire to mount some new programs in other areas and our need to maintain reserves for contingencies mean that significant cuts will be required in existing programs. In general, new initiatives will have to be financed by reductions elsewhere. But the basic principle of support to less well off people and regions will be maintained, though programs will be re-examined and may have to be more selective.

In order to improve our control over expenditure, the government has put a new expenditure management system in place. This is described in a paper I tabled last week. I have also tabled an analysis of tax expenditures to draw attention to their importance and to the need for their control.

Energy Policy

Mr. Speaker, energy has become an issue of fundamental concern to every Canadian. This government, under the leadership of the Prime Minister, has pursued extensive consultations with provinces on energy policy. Our objective is clear. It is to move Canada rapidly away from dependence on oil imports and towards self-sufficiency by 1990. Our goal is to achieve this in three ways:

— constrain demand for oil;

— encourage substitution from oil to other forms of energy; and

— bring on new oil supplies.

In 1979 imports of oil will exceed our exports by about 50 million barrels a year and without new action this gap will widen rapidly. If no action is taken, by 1985 our net imports will be about 200 million barrels which valued even at today's prices would seriously undermine our balance of payments.

As long as Canada is so dependent on oil imports we will be vulnerable. Recent events in the Middle East have underlined that point for us. We must protect ourselves from international oil politics. If we do not, despite the fact that we are one of the few industrialized nations that has this potential, our children and our children's children would be right to scorn us for the desperate straits we had left them in.

We believe that the best way to begin to reach our goals is to establish realistic prices. Crude oil prices must ensure an adequate return to producers to finance needed exploration and development. Retail prices to consumers must encourage conservation. Both must be high enough to eliminate our oil trade deficit by 1990. Our own Canadian conventional oil reserves will be seriously diminished by the late 1980s. We cannot wait for a cataclysm to occur.

As the Government of Canada we have a responsibility to all Canadians. The effects of more rapid increases in oil prices will be felt in every corner of the economy and by every Canadian. The Government of Canada must have the ability to soften the impact of higher prices where it is essential to do so. We want to take steps to ensure that those hardest hit by energy price increases are helped. There are inter-regional consequences to be addressed. The rights and aspirations of producing provinces must be respected. Industry must have an adequate cash flow. The federal government must have a fair share of the increased returns flowing from energy price increases to discharge our national responsibilities. These are the elements that we have balanced in developing an energy policy.

We are prepared, once full agreement is reached with the producing provinces, to permit oil prices to rise in stages, by $4 a barrel in 1980 and by $4.50 a year thereafter, subject to further adjustment after 1982 if necessary. Gas prices on existing flows of natural gas will rise to maintain the present 85-per-cent relationship with oil but, to encourage substitution of gas for oil, distributors will pay a lower price on additional volumes calculated at 65 per cent of the commodity value of oil. The difference will be used by distributors to aid householders and industry in converting from oil to gas.

The new energy tax, to be introduced by a tax bill in this House in 1980 with a request for passage before August 1, 1980, will recoup amounts roughly equal to half of the return from oil price increases in excess of $2 per barrel annually and natural gas price increases in excess of 30 cents per thousand cubic feet annually. The technical details of this tax have still to be worked out in a co-operative effort. The additional price increases to commence on July 1, 1980, over and above the $1 increase already scheduled for January 1, 1980, will not take effect before the new tax is in place.

Producing provinces would levy their royalties on the full price increases and receive additional revenues. Over the next four years, under this projection, from 1980 to 1983 the total net revenues from oil and gas would amount to $90 billion. Of this, the provinces would receive about $40 billion and the federal government $17 billion. The industry would receive $33 billion net of all production costs and taxes. The funds flowing to the industry should be ample to support all needed new energy investments. If this does not turn out to be the case, adjustments will be made to ensure sufficient cash flow to the industry for all needed energy projects.

We need immediately, however, an added incentive to conserve our petroleum resources. Consumption of motor gasoline over the first nine months of 1979 was *up* 4.3 per cent. In contrast, in the United States, gasoline use was down about 4 per cent. Canadian prices of gasoline, diesel fuel, and heating oil are low by international standards. Indeed, our prices for gasoline are substantially lower than those of all major industrialized countries. They are now 30-35 cents per gallon lower than those in the United States. The difference is all the more significant when it is realized that, historically, our prices have been higher than those in the U.S. by a few cents per gallon. Canadians now pay less for gasoline, when allowance is made for general price inflation, than they did 25 years ago. For example, in 1954 the price of gasoline was about 45 cents per gallon. If gasoline prices had risen as much as consumer prices in general, the price today would be about $1.20 per gallon,. In fact, in large Ontario cities the price today is around $1.07 per gallon.

Low prices have led to excessive consumption. Canadian energy consumption, per capita, is the highest in the world. Our oil supply picture is tight and fragile. Stocks of fuel are lower than last year. Any major disruption of international or domestic oil supply, or an abnormally cold winter, could lead to major difficulties. It could raise the possibility of rationing. To sit back and do nothing would be criminal.

In order to further energy conservation efforts and to increase revenues, I have announced tonight a federal excise tax on transportation fuels. Even with this tax, the price of these products will generally be lower than in the United States.

These measures taken in total will produce tangible results. I expect that by 1985 they will result in import savings of 100 million barrels a year, or some $2.5 billion even at today's prices.

All of the revenues from the envisaged energy tax and a substantial part of the revenues from the excise tax will be used to finance a number of energy-related measures and offsets to the impact of energy price increases. These form an integral part of our energy program. I would like to provide some examples of the programs we envisage, some of the details of which are in the supplementary budget material.

First, we will be moving quickly to set up a National Energy Bank. It will help fund a wide range of energy-related projects.

Second, we will provide increased funding for the Canadian Home Insulation Program.

Third, we will be mounting a major effort to ease the burden of adjustment to higher prices in the Atlantic region. We will provide grants to compensate for the additional costs of electicity generation resulting from oil price increases in excess of $2 per barrel per year.

Lower- and middle-income Canadians need some protection from the price increases. A good deal of protection is already afforded to many by the indexing of social programs and the income tax system.

In addition, the refundable energy tax credit I announced tonight when in full effect will return about $1 billion to lower- and middle-income Canadians. The credit will commence with the 1980 tax year. It will be phased in to reflect the fact that the full impact of energy price increases is not felt until later next year. One-half of the benefit will thus be claimable in 1980, with full benefits claimable in 1981 and subsequent years. Credit benefits will be reduced for families with incomes over a threshold amount. For 1980 the threshold is $21,380. For every $100 of income in excess of this threshold, benefits will be reduced by $5. When the plan is in full effect a family of four will receive the full benefits of $220 each year as long as their income is below the threshold amount. If benefits exceed a family's tax otherwise payable, the excess will be refundable to them.

Other Tax Measures in the Energy Field

I will now give more detail on other significant tax changes in the energy field.

The depletion allowance for frontier drilling, the so-called super depletion, expires in April of next year. It has been attracting significant Canadian participation in frontier exploration. To achieve our energy goals, it is important that efforts to find new supplies not slacken. However, under the current system, high-income individuals can receive tax benefits that are actually larger than the costs of their investment. This is not tolerable. I propose to reduce the richness of the incentive.

This modified incentive will terminate at the end of 1980, at which time a new policy of the Minister of Energy, Mines and Resources for encouraging frontier exploration will be put in place.

I propose also to modify other aspects of resource taxation. Two types of schemes have recently developed that are resulting in undesirable tax leakage. Some non-residents have found ways of escaping tax on income from sales of resource properties. Measures are proposed in this budget to preclude this possiblity. As well, rules are to be introduced to ensure that tax-exempt institutions cannot be used as vehicles to circumvent the income tax rules relating to resource taxation.

Currently, amounts paid to acquire leases to explore, including bonus payments to provinces, can be written off at 30 per cent per year. The generosity of this provision has contributed to aggressive bidding up of prices for exploration rights, making it harder for small, new companies to compete. I am therefore reducing the write-off for Canadian oil and gas properties from 30 per cent to 10 per cent per year.

Finally, there is a serious anomaly in the federal sales tax on gasoline and diesel fuel. This tax is now a specific amount per gallon. It does not rise as prices rise. It will now be converted to 9 per cent of sale price to retail outlets. This change will ensure that the sales tax remains at 9 per cent on gasoline and diesel fuel as prices rise.

The two-year write-off provision for energy conservation equipment will be extended for five more years. At the same time I propose to broaden its scope to include certain solar-heating equipment, small-scale hydro projects and other conservation equipment.

To encourage Canadians to experiment with fuel substitutes I am relaxing the licensing requirements under the Excise Act for the experimental production of alcohol.

Tax Measures

Let me now turn, Mr. Speaker, to other tax matters.

Encouragement to Private Sector

I believe that the economic goals of this country can best be served by a revitalized private sector. Enterprise has to be rewarded, equity investment encouraged and incentives restored.

The new tax incentive measures I am announcing tonight are fully consistent with and reflect the commitments we have made to the Canadian people.

Equity Investment

It is our policy to promote equity investment by Canadians for Canadians. I have announced tonight two important tax measures to achieve this goal.

First, I am removing the impediments to investments in common stocks by Registered Retirement Savings Plans. After 1979, capital gains realized in an RRSP will no longer be fully taxed as income when distributed but will only be taxed at half rates upon withdrawal at retirement. Dividends on shares held in an RRSP will also be taxed at half rates when the funds are withdrawn. This tax treatment will be roughly equivalent to that available if the dividends and capital gains were received directly. The measure will apply to dividends and capital gains on common shares of public Canadian companies listed on Canadian stock exchanges. The changes should result in a significant shift of RRSP funds toward common stock investments.

Second, a Canadian Common Stock Investment Plan is created for investment in the common stock of Canadian companies listed on stock exchanges in Canada. The plan is structured so that it can be administered by investment dealers and stockbrokers—the acknowledged experts in this field.

Each investor will be able to contribute up to $10,000 per year to the plan, with a lifetime limit of $100,000. In order to give the plan a good start an investment of $20,000 will be permitted in 1980. Contributions will not be deductible when going into the plan and will not be taxable when withdrawn. Capital gains on eligible amounts invested in public company shares will not be taxed as long as the investor remains in the market through his plan.

These measures will significantly lessen the impact of the tax on capital gains on common stocks. They will mitigate the impact of inflation on taxation of capital gains. Canadians will have increased incentives to own a wide range of Canadian companies.

I want to announce yet another measure concerning capital gains. Capital gains on farm land are one of the major sources of retirement income for farmers. Tax on those gains is now deferred as long as the farm remains in the family. But farms are not always left to family members. Starting tonight bona fide farmers may put $100,000 of taxable capital gains on farm land into an RRSP without tax consequences. This will mean that on the sale of his land a farmer will be able to receive $200,000 in a capital gain without incurring any immediate tax liability. Farmers will then also be able to take further advantage of the various options for deferring tax when their RRSPs mature. They will of course continue to be able to place up to $5,500 annually in RRSPs out of income and to acquire an income-averaging annuity contract with capital gains proceeds not rolled into an RRSP.

We now have some seven years of experience with the taxation of capital gains. In 1980 I estimate that federal and provincial revenues from that source could amount to over $1 billion. A number of proposals have been made, and a number of concerns expressed, regarding taxation of capital gains. I have reviewed them all. I intend to table shortly a discussion paper on the tax treatment of capital gains and will refer it to a parliamentary committee for consideration. It will deal comprehensively with this whole issue, including the question of indexing capital gains and providing special exemptions for certain gains such as those on farm land and publicly-traded Canadian shares. After I have heard the views of the committee I will consider what further action should be taken in my next budget.

Small Business

The small business sector is one of the great strengths of this country.

For the 1980 and subsequent tax years unincorporated businesses will be allowed to deduct salaries paid to spouses who work in the business. This measure is costly. It will reduce federal revenues by some $150 million a year. But, in addition to aiding small business, the measure is sound tax policy. It properly recognizes the contribution that many wives make to running small businesses.

I recognize, Mr. Speaker, the impact of recent increases in interest rates. I want to do what I can to alleviate the situation for small business corporations. As a temporary one-year measure, small Canadian-controlled private corporations will be able to issue up to $500,000 of special bonds. Interest paid on these small business development bonds will be treated as dividends. It will not be taxable to the lending institution nor deductible to the borrower. This form of after-tax financing will substantially reduce the borrowing costs of small business corporations. I emphasize that this is a temporary measure of special benefit and so it is proper to apply a "sunset" provision to it. It will be limited to indebtedness issued before the end of 1980 with a term of at least one year and no more than five years and each borrower will be eligible for only one such bond issue at any time.

Regional and Sectoral Development

Mr. Speaker, I want to encourage further the important contribution that the private sector can make to regional development. I am proposing to do this by facilitating the use of selective tax incentives. They will take the form of tax contracts with firms for investment projects in the Atlantic Provinces and the Gaspé region of Quebec. This stimulant will add to the range of federal incentives now available in the designated regions of Canada. The nature of the tax incentive will be determined on a project by project basis and will be administered by the Department of Regional Economic Expansion in consultation with the Department of Finance. This selective approach will provide the flexibility to promote those economic activities which are most promising.

I also have particular measures to announce concerning the Atlantic fishing industry. After tonight, capital cost allowance on leased fishing vessels, newly-built in Canada for use in the Atlantic fisheries, may be used to reduce other taxable income. This will draw new sources of private financing into the sector and will permit an improvement in the quality of the fleet for vessels ranging in size from the long-liner to the freezer trawler.

Revenue-Raising Measures

There is need for a short-term temporary tax increase to ensure that the deficit comes down. There will be a simple, straightforward corporate surtax of 5 per cent of federal taxes otherwise payable by all corporations. The measure has an explicit "sunset" clause. It will terminate at the end of 1981. It will yield some $370 million in the 1980-81 fiscal year. The advantage of this simple surtax is that it leaves intact the structure of tax rates and tax incentives. For example, small businessmen and manufacturers who pay tax at lower rates will pay a smaller amount of surtax.

I have reviewed the federal commodity tax structure. The federal levies on alcohol products have not been increased for a number of years. With inflation, the real burden of these taxes has fallen significantly. Moreover, the taxes on alcohol need to be rationalized. The tax per unit volume of absolute alcohol varies dramatically from product to product. I am proposing a series of tax changes that will reduce this disparity and will, overall, yield some $130 million in 1980-81. Taxes will rise on spirits, brandy, fortified wines, table wines and regular and light beer. Taxes will fall on sparkling wines and on malt beer. The tax increases amount to about 11 cents on a bottle of spirits, 13 cents per bottle of table wine, and 1 cent per bottle of beer.

There will also be an across-the-board increase in specific excise taxes and duties on tobacco and tobacco products of about 10 per cent. These taxes have not been increased since 1974 and their real value has also fallen. The increase on cigarettes will amount to 2.5 cents per pack of 20.

Other Tax Changes

Let me outline briefly some changes needed to tighten the law or to relieve tax burden. Details are contained in the Notices of Ways and Means Motions I will table tonight.

On the income tax side, I am introducing a number of important relieving measures in the area of taxation and family law. In future, new attribution rules will ensure that income on property transferred from one spouse to the other will not be attributed to the spouse transferring the property after the date of a written separation agreement. The deduction for maintenance payments will be extended to cover amounts paid under a court order on account of illegitimate children and common-law spouses.

For the 1980 and subsequent taxation years, the tax exemption for allowances paid to volunteer firemen will be raised from $300 to $500.

The government attaches great importance to the voluntary sector. We have referred the whole matter of encouragement of the voluntary sector to a special parliamentary committee chaired by the honourable Member for Fraser Valley West. I have undertaken a review of this area, including the tax treatment of charitable donations, and will provide a paper to that committee. The recommendations of the committee will be carefully considered before my next budget.

I have also considered the vitally important matter of providing adequate and effective incentives for research and development. Our future growth is heavily dependent on how we handle this issue. Some rather complex tax incentives for R&D have only recently been legislated and I want to study these more closely before I introduce any other tax changes.

I will immediately introduce relieving measures for overseas remuneration of Canadians temporarily employed abroad. This will help the competitive position of Canadian corporations that obtain certain export contracts including construction, installation and engineering projects abroad.

I am going to introduce a number of technical changes relating to prepaid expenses, the so-called capital gains strips, deferred employee compensation plans, term preferred shares, corporate partnerships, transfers of corporate residence, options to acquire control and certain others. Many of these are designed to check tax avoidance arrangements.

Finally, I have reviewed the special capital cost allowance provisions for multiple-unit residential buildings. This tax shelter was introduced in 1974 and has been extended many times since. The pressure on vacancy rates is not now as serious as previously. Thus, I am letting this provision expire, as currently provided, on December 31 of this year.

There are also a number of tax structure changes in the federal sales tax. Manufacturers of cosmetics are not paying their fair share of tax. I am proposing that the tax on cosmetics apply to the full sale price to retailers. I am also moving to ensure that the photo-finishing industry pay its fair share of sales tax.

Amendments will be made to ensure that the exemption from sales tax for transportation equipment does not extend to service equipment mounted on the vehicles. The exemption for aircraft will exclude aircraft used for recreational purposes and flight training and put them on the same basis as automobiles. The exemptions for containers and coverings will be modified to confine them to manufacturers only.

Employment Programs and Unemployment Insurance

This government considers it essential to increase employment. We strongly believe that the jobs created should be of a permanent nature, be in the private sector and be available to those who are most vulnerable to unemployment.

The central feature of our approach will be an improved tax incentive to increase employment opportunities, particularly for the young. This will replace the current Employment Tax Credit Act and a number of other programs. It will include an $80-per-week tax credit to help create jobs in the private sector for more than 100,000 people.

When this program is fully implemented, about $250 million per year in tax expenditures will be made available to the private sector for job creation for young people and for the long-term unemployed. This represents a substantial expansion from the $100 million set aside by the previous government.

We also wish to ensure that our programs respond to the differences in employment opportunities across the country. In addition to the tax credit, an amount of $50 million will be made available to initiate new measures, or to supplement existing programs, aimed at stimulating employment and economic development in Eastern Canada.

This government is committed to achieving greater consistency with insurance principles and to bringing greater financial integrity to the unemployment insurance program. To this end, effective in 1980, the costs of unemployment insurance benefits, except those associated with high regional rates of unemployment, will be financed by employer and employee premiums. The costs of job referral and related employment services will also be financed by premiums.

The weekly employee rate of unemployment insurance contributions for 1980 will be increased from $1.35 per $100 of insurable earnings to $1.60. The employer rate will be increased from $1.89 to $2.24.

This is only the first step in a comprehensive review of the unemployment insurance program started last June. Further proposals are now being developed in full consultation with provincial governments, labour and business. When these changes become effective, the premiums will be re-examined.

Trade Policy

In the Multilateral Trade Negotiations (MTN) we reached agreement with our trading partners on tariffs and on a number of non-tariff measures. In most cases implementation of these agreements will not require changes in legislation. With respect to customs valuation, we have not yet concluded negotiations with our trading partners.

We hope the results of these negotiations will provide important incentives to improve Canada's overall economic performance. Clearly, if Canadian producers are to be exposed to increased competition at home and abroad, it will be important that we have the means to act at least as quickly and effectively as other countries to deal with unfair trading practices and imports which injure Canadian producers. This means that we should strengthen our emergency procedures, particularly on anti-dumping and countervailing duties and safeguards generally. I intend to issue early in the new year a White Paper proposing a number of changes in Canadian legislation and practice in these areas. The government will be asking that the Finance, Trade and Economic Affairs Committee be empowered to hold hearings on the White Paper.

I intend to introduce tomorrow a Notice of Ways and Means Motion to give effect to the tariff reductions agreed to in the MTN. The Motion will include full details of the phase-in schedule for the reductions. The Ways and Means Motion will also provide for the withdrawal of the benefits of the British Preferential Tariff system from the United Kingdom, Ireland and the Republic of South Africa.

Meanwhile I am introducing tonight a separate Notice of Ways and Means Motion setting out a small number of tariff changes not related to the results of the MTN.

The Budgetary Process

Mr. Speaker, this government is committed to open government and to ongoing appraisal of the effectiveness of existing programs and policies. I am determined that this include the budgetary process and programs based on tax incentives.

Excessive budget secrecy should be eliminated. To facilitate this process, I am taking the following steps. First, by publishing the major study on tax expenditures I am enabling Canadians to gain a better appreciation of how their government is using public funds to provide special tax incentives to particular industries and groups.

Second, I am undertaking to refer special studies on tax policy and tax system problems to a parliamentary committee for detailed review, beginning in the near future with a paper on the taxation of capital gains. I will also be referring the Report of the Commodity Tax Review Group back to the Committee on Finance, Trade and Economic Affairs so that it may complete its deliberations.

Third, in future, prior to tabling tax bills I will make available to the public a draft of the legislation so as to enable tax practitioners to make technical suggestions for improvement.

Fourth, I am undertaking a general review of tax measures to which "sunset" provisions might be attached. I have taken such action already in this budget.

I am convinced that a more open budgetary process is desirable. I think it can be achieved and still ensure that sensitive tax changes are not revealed in advance of the budget.

Mr. Speaker, I would now like to table projections of the government's revenues and expenditures together with explanatory notes, the Notices of Ways and Means Motions, supplementary information giving details of the measures I have proposed tonight, background material on our energy situation and strategy, and a paper setting out the economic assumptions underlying the fiscal projections. I would ask the consent of the House to include in Hansard the tables which provide four-year projections of the government's fiscal position on the public accounts and national accounts bases, and of the principal components of budgetary revenues.

In Conclusion

Mr. Speaker, I would like to conclude on a personal note. Fifty-one years ago my grandfather, Sir John Crosbie, delivered his fifth and final budget speech to the House of Assembly of what was then the Dominion of Newfoundland. The revenue of that Dominion in the previous year had been $8,932,000. The expenditures had been $10,533,000. There had been a deficit of $1,601,000. In that framework, Mr. Speaker, they had administered a dominion government, built and operated a railway, created the fishery, commenced mining projects and industrial development in pulp and paper mills, started a highway system and had that year completed a drydock in St. John's. They had little in the way of resources but they had vision, confidence and courage.

How much more do we Canadians have today and how much better off are we in comparison to our own country 51 years ago. How much better off are we in comparison to nearly all of the other nations of the world today. Few have our potential or our resources, especially in energy.

I have great faith in Canada. The people of Newfoundland share that faith today with renewed confidence in the fishery and with offshore energy resources. The members of this government believe the possibilities for the future in Canada are tremendous and we are determined to create the conditions which will achieve these possibilities.

I believe that with the measures announced tonight we are at a new beginning for Canadians. I hope that you will agree that this is a budget that faces the facts and a budget that will help Canada achieve its potential. The future truly can belong to Canada. It is up to us.

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

	1978-79*	1979-80(1)	1980-81(1)	1981-82(1)	1982-83(1)	1983-84(1)
			($ millions)			
Budgetary transactions						
Revenues	35,215	40,720	46,835	53,040	59,715	66,640
Expenditures(2)	−47,318	−51,950	−57,300	−62,800	−68,975	−75,700
Surplus or deficit (−)	−12,103	−11,230	−10,465	−9,760	−9,260	−9,060
Non-budgetary transactions						
Loans, investments and advances(2)	−1,052	−1,150	−1,100	−1,450	−1,700	−2,050
Annuity, insurance and pension accts	2,377	2,145	2,575	3,210	3,985	4,740
Other transactions	−161	295	790	700	1,295	1,580
Net source or requirement (−)	1,164	1,290	2,265	2,460	3,580	4,270
Financial requirements						
(Excluding foreign exchange transactions)(3)	−10,939	−9,940	−8,200	−7,300	−5,680	−4,790

(1) Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates.
(2) Total outlays are composed of budgetary expenditures plus loans, investments and advances.
(3) These figures do not reflect foreign exchange transactions in 1978-79 which provided a source of $4,088 million, thereby reducing total financial requirements to $6,851 million. Foreign exchange transactions, to the end of November 1979, have provided a source of $456 million in the current fiscal year. No forecast is made of foreign exchange transactions in the balance of the period.
* —This table reflects the major changes in the Accounts of Canada set out in the 1978-79 *Public Accounts*. In particular, figures for 1978-79 have been adjusted to the accounting basis which will be in effect in subsequent years and thus differ from those published in the 1978-79 *Public Accounts* which are on the old accounting basis with a separate 'once-and-for-all' provision for conversion to the new accounting basis. See Appendix A-2 for the 1979-80 forecast on old and new accounting basis, and Appendix A-3 for historical data on the two bases.
—Financial requirements do not include direct market borrowing of agent Crown corporations. See final paragraphs of the loans, investments and advances subsection of Appendix A-1.

Table 2
Government of Canada
Fiscal Position
Public Accounts Budgetary Revenues

	1978-79	1979-80[1]	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)			
Personal income tax	14,048	16,455	17,805	19,705	22,045	24,890
Corporation income tax	6,262	7,740	8,920	10,620	12,210	13,830
Non-resident tax	568	655	740	800	895	985
Customs duties	2,747	3,205	3,395	3,680	3,990	4,285
Sales tax	4,729	4,405	4,805	5,525	6,355	7,180
Oil export charge	328	735	630	435	305	210
New energy tax	0	0	415	1,640	2,650	3,630
Gasoline excise tax	516	935	2,945	2,895	2,870	2,855
Other excise duties and taxes	1,453	1,580	1,805	1,890	1,975	2,065
Total tax revenues	30,651	35,710	41,460	47,190	53,295	59,930
Non-tax revenues	4,564	5,010	5,375	5,850	6,420	6,710
Total budgetary revenues	35,215	40,720	46,835	53,040	59,715	66,640

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

Table 3
Government of Canada
Revenues and Expenditures
National Accounts Basis

	1978-79	1979-80[1]	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)			
Revenues						
Direct taxes, persons	18,136	20,910	23,320	25,955	29,155	32,955
Direct taxes, corporations	5,996	7,230	8,455	10,090	11,510	12,925
Direct taxes, non-residents	636	725	815	880	980	1,075
Indirect taxes	9,904	10,925	14,245	16,205	18,290	20,370
Other current transfers from persons	16	15	15	15	20	20
Investment income	3,973	4,275	4,870	5,490	6,180	6,700
Capital consumption allowances	651	730	815	935	1,070	1,210
Total revenues	39,312	44,810	52,535	59,570	67,205	75,255
Expenditures						
Current goods and services	12,315	12,700	13,950	15,450	16,950	18,600
Transfer payments to persons	14,670	15,000	16,725	18,375	20,550	23,050
Subsidies	2,335	3,450	3,250	3,075	2,925	2,875
Capital assistance	470	625	900	950	1,000	1,075
Current transfers to non-residents	732	715	775	825	875	900
Interest on the Public Debt	6,869	8,450	10,200	11,400	12,650	14,050
Transfers to provinces	10,441	11,750	12,925	14,325	15,750	17,175
Transfers to local governments	371	400	450	500	550	600
Gross capital formation	1,285	1,150	1,200	1,250	1,300	1,350
Total expenditures	✓49,488	54,240	60,375	66,150	72,550	79,675
Surplus or deficit (−)	−10,176	−9,430	−7,840	−6,580	−5,345	−4,420

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

Appendix

A. The Fiscal Projections—Notes and Additional Tables

1. Fiscal Projections, 1979-80 to 1983-84—Public Accounts Basis
   —Introduction
   —Budgetary Revenues
      Table A1.1—Growth Rates of Budgetary Revenues
      Table A1.2—New Tax Measures with Major Impacts on Revenue Growth
   —Outlays
      Table A1.3—Projected Expenditures under Major Statutory Programs
   —Other Non-budgetary Transactions

2. Comparison of 1979-80 Forecast with Forecasts in November 1978 Budget and July 26, 1979 Statement

3. Revisions to the Accounts of Canada
      Table A 3.1—Historical Summary Public Accounts Data on Old Accounting Basis
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4. Fiscal Projections—National Accounts Basis
      Table A 4.1—Summary—Extended National Accounts presentation
      Table A 4.2—Public Accounts and National Accounts Reconciliation—Revenues
      Table A 4.3—Public Accounts and National Accounts Reconciliation—Expenditures
      Table A 4.4—Public Accounts and National Accounts Reconciliation—Non-budgetary

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

C. Impact on 1980-81 Revenues of Tax Changes from 1972 to May 1979

D. Background Material on Energy

A. The Fiscal Projections—Notes and Additional Tables

Unless stated otherwise, all fiscal figures referred to in this appendix reflect the accounting changes set out in the 1978-79 *Public Accounts.*

A.1. Fiscal Projections, 1979-80 to 1983-84 Public Accounts Basis

Introduction

The fiscal projections are based on the economic assumptions shown in a paper accompanying the budget.

The projection of revenues, taking account of the measures introduced in this budget and consistent with the underlying economic projection, combined with budgetary expenditures consistent with the total outlays growth target of 10 per cent, results in a gradual decline in the budgetary deficit from the $11.2 billion expected this year to $9.1 billion by 1983-84. With an increasing net source of funds from non-budgetary transactions, financial requirements decline more sharply than the budgetary deficit, falling from $9.9 billion in 1979-80 to $4.8 billion in 1983-84.

Budgetary revenues

Budgetary revenues are projected to grow faster than the economy, i.e. faster than the Gross National Product (GNP) in current dollars, in 1979-80 and 1980-81, and slightly more slowly than GNP in the following three years (Table A1.1).

Table A1.1
Growth Rates of Budgetary Revenues (Public Accounts Basis)

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
			(Per cent per year)			
Personal income tax	4.5	17.1	8.2	10.7	11.9	12.9
Corporation income tax	7.4	23.6	15.3	19.1	15.0	13.3
Non-resident tax	12.9	15.3	13.0	8.1	11.9	10.1
Customs duties	18.8	16.7	5.9	8.4	8.4	7.4
Sales tax	6.8	−6.9	9.1	15.0	15.0	13.0
Oil export charge	−24.1	124.1	−14.3	−31.0	−29.9	−31.2
New energy tax	n.a.	n.a.	n.a.	295.2	61.6	37.0
Gasoline excise tax	−13.7	81.2	215.0	−1.7	−0.9	−0.5
Other excise duties and taxes	2.3	8.7	14.2	4.7	4.5	4.6
Total tax revenues	5.8	16.5	16.1	13.8	12.9	12.5
Non-tax revenues	17.4	9.8	7.3	8.8	9.7	4.5
Total budgetary revenues	7.2	15.6	15.0	13.3	12.6	11.6

n.a. = not applicable

Table A1.2
New Tax Measures with Major Impacts on Revenue Growth

	Fiscal Year Impact				
	1979-80	1980-81	1981-82	1982-83	1983-84
	($ millions)				
Measure					
Personal Income Tax					
—Mortgage Interest and Property Tax Credit	—	–575	–1,245	–2,015	–2,875
—Spousal Salary Deduction	—	–75	–160	–185	–210
—Refundable Energy Tax Credit	—	—	–500	–1,000	–1,000
Sub-total	—	–650	–1,905	–3,200	–4,085
Corporate Income Tax					
—Corporate Surtax	10	370	510	95	—
—Small Business Development Bonds	—	–70	–70	–70	–70
—Revised Employment Tax Credit	—	–135	–250	–250	–115
—Reduced Write-off for Oil and Gas Resource Properties	—	75	120	150	165
Sub-total	10	240	310	–75	–20
Excise Taxes and Duties					
—Increase and Extension of Excise Tax on Transportation Fuels	535	2,545	2,495	2,470	2,455
—Increase Specific Taxes on Alcohol and Tobacco	40	215	220	225	230
Sub-total	575	2,760	2,715	2,695	2,685
New Energy Tax	—	415	1,640	2,650	3,630
MTN Tariff Reductions	–20	–160	–335	–550	–820
Total	565	2,605	2,425	1,520	1,390

Notes: 1. For complete list of budget measures, see Supplementary Material.
2. Many of these estimates are subject to particular uncertainty as they depend to a considerable extent on taxpayer response.

The budgetary revenue growth profile over the forecast period is strongly influenced by the changing impact over time of the budget measures including the mortgage interest and property tax credit, of the new energy tax and of the Multi-lateral Trade Negotiations (MTN) tariff cuts. The impacts on budgetary revenues, from 1979-80 through 1983-84, of the major discretionary changes are displayed in table A1.2. The first full year impact of the budget package, combined with a partial year impact of the new energy tax, outweigh the negative impact of the mortgage and property tax credit on 1980-81 revenue growth. Beyond 1980-81, the phase-in of the mortgage interest and property tax credit, of the refundable energy credit and of the MTN tariff cuts, the removal of the temporary corporate surtax, and the decline of oil export charge revenues combine to dampen overall budgetary revenue growth.

Personal income tax revenues are projected to increase 17.1 per cent in fiscal year 1979-80. The rebound in the growth of this revenue source, relative to the previous year, reflects the increase in the underlying personal income base, the impact on 1979-80 revenues of the large 1978 Canada Savings Bond encashment, and the absence of any large year-to-year swings in the net value of discretionary measures. Discretionary measures are an important factor in the explanation of the personal income tax growth profile beyond 1979-80. Reflecting both the projected slowdown in economic activity in 1980 and the impact of the mortgage interest and property tax credit, personal income tax revenues are projected to increase by only 8.2 per cent in fiscal 1980-81. The positive impact of more favourable economic performance in 1981 and subsequent years on personal income tax revenues is tempered by the negative impact of the growth in the value of the two new major tax credits. The mortgage interest and property tax credit is successively phased in at one-quarter, one-half and three-quarter rates for taxation years 1979 through 1981, and applies at full rates for 1982 and subsequent years. The refundable energy tax credit applies at a one-half rate in respect of tax year 1980 and then at the full rate of $80/adult and $30/child for 1981 and following taxation year. Given the lags between taxation year liabilities and tax collections (or refunds) applicable in the case of these measures, these impacts on liabilities tend to be reflected in tax collections in the following fiscal year, e.g., the impact on 1979 tax year liabilities mainly affects 1980-81 collections.

The corporate income tax revenue projections generally reflect the underlying corporate profit profile in the economic projection. Growth of this revenue source in 1979-80 reflects the projected 25.9 per cent growth in corporate profits. The temporary corporate surtax causes some variation around this basic relation, partially offsetting the impact on 1980-81 revenues of the relatively weak corporate profit growth in 1980, accentuating revenue growth in 1981-82, and dampening revenue growth on its termination in 1982-83.

The 1979-80 projection of federal sales tax revenues reflects the first full year impact of the general rate reduction from 12 per cent to 9 per cent introduced in November 1978. Beyond the current fiscal year, the growth pattern of sales tax revenues reflects the projected growth pattern of the underlying tax bases with relatively weak growth in 1980 and a more vigorous growth in the nominal tax bases in 1981 and subsequent years.

Customs import duties are influenced by the MTN tariff reductions which are assumed to be phased in over the period January 1, 1980 to January 1, 1987. The successive annual tariff reductions keep the growth of this revenue source below the projected growth of merchandise imports throughout the forecast period.

Petroleum based taxes are an important component of the total budgetary revenue forecast. The expanded excise tax on transportation fuels contributes to overall revenue growth in both 1979-80 and 1980-81 with the full year impact in the latter year accounting for approximately ⅓ of total budgetary revenue growth. Beyond 1980-81, revenues from this source are expected to decline reflecting reduced consumption of these fuels and the specific nature of the tax. Oil export charge revenues are projected to decline over the forecast period from the projected 1979-80 level of $735 million as a consequence of the narrowing of the domestic and international price differential on which the export charge is based and a reduction in the volume of taxable exports. The new energy tax, which is assumed to yield 50 per cent of the return from price increases above a base case semi-annual profile of $1.00 barrel/15¢ m.c.f. for crude oil and natural gas prices respectively, is triggered by $2.00/30¢ increase on July 1, 1980. On this basis, the yield of the tax is currently estimated at $415 million in 1980-81, increasing steadily to a level of $3,630 million in fiscal year 1983-84.

The growth of other duties and taxes, the majority of which are specific taxes on alcohol and tobacco products, is a function of the volume growth of the underlying tax base. The growth pattern is altered in 1979-80, and especially in 1980-81 by the increases in taxes on these items introduced in the budget.

Non-tax revenues are composed of return on investments, postal revenues and other miscellaneous non-tax revenues.

Outlays

The government's 10 per cent expenditure growth target has been established in terms of total outlays, the sum of budgetary expenditures and non-budgetary loans, investments and advances. The allocation between budgetary expenditures and non-budgetary loans, investments and advances, which is shown in the summary fiscal table and repeated below, reflects projections of the costs of existing programs, and the fact that a substantial portion of outlays under the new energy initiatives can be expected to be in the form of loans and investments. As the program of energy initiatives is not yet completely specified, and as decisions have yet to be made with respect to other new spending programs and with respect to program reductions, the projected division of outlays into budgetary and non-budgetary components should be viewed as preliminary.

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
			($ millions)			
Budgetary expenditures	47,318	51,950	57,300	62,800	68,975	75,700
(% increase)	(10.1)	(9.8)	(10.3)	(9.6)	(9.8)	(9.7)
Loans, investments and advances	1,052	1,150	1,100	1,450	1,700	2,050
(% increase)	(−41.0)	(9.3)	(−4.3)	(31.8)	(17.2)	(20.6)
Total outlays	48,370	53,100	58,400	64,250	70,675	77,750
(% increase)	(8.1)	(9.8)	(10.0)	(10.0)	(10.0)	(10.0)

Budgetary expenditures

Projections of expenditures under existing major statutory programs, given the economic assumptions, are shown in Table A1.3. These projections provide information on one major factor in expenditure growth, although some of the programs may be subject to alteration before the end of the projection period.

Public debt charges are forecast to grow by 22 per cent in 1979-80, 19 per cent in 1980-81, and about 11 per cent thereafter. The 11 per cent growth rates of later years assume some decline in interest rates, as well as the planned reductions in financial requirements.

Old age security payments are forecast to grow significantly faster than the total outlays target rate of 10 per cent, reflecting the automatic indexing of benefits based on the Consumer Price Index and some growth in the number of recipients.

Established Programs Financing payments are forecast to increase by only about 7 per cent in 1980-81 and 1981-82 as a result of stronger growth in the tax portion of the total EPF transfer than in the total escalator. The growth rate rises above 10 per cent in 1982-83, and to 13.6 per cent in 1983-84, as a result of the increase in the escalator which is based on lagged GNP growth.

The 15.1 per cent growth rate in equalization payments in 1979-80 reflects large prior year adjustments. From 1980-81 onwards the growth in these payments is projected to remain well below the growth of 10 per cent in total outlays.

The reduction in family allowance payments in 1979-80 reflects the decrease of the per child payment to $20 a month in January 1979. In the following years, although the individual payments are indexed according to the growth in the CPI, the projected decline in the recipient population results in total payments growth of less than 10 per cent.

Canada Assistance Plan payments are projected to increase at a rate which is below the target growth rate for total outlays. The government's contribution to unemployment insurance declines sharply in 1980-81 reflecting the decision to finance a larger share of total benefits through employer/employee premiums. Subsequent to 1979-80, only regional extended benefits, which are expected to decline as a proportion of total benefits with the projected decline in the unemployment rate, and fishermen's benefits are covered by the government contribution.

The decreases in oil import compensation payments reflect the narrowing of the gap between the international and domestic price of crude oil and the reduction in imports subject to compensation.

Loans, investments and advances

The bulk of the increase in loans, investments and advances from 1980-81 to 1983-84 reflects the allowance for loans and investment components of the energy initiatives. Requirements for existing programs are limited by the decreasing net requirements of certain mature programs of Canada Mortgage and Housing Corporation (CMHC) which receive substantial funds through repayments of existing loans, and by the fact that the Export Development Corporation and the Federal Business Development Bank are expected to depend largely on direct market borrowings for their funding.

Direct market borrowings by agent Crown corporations which have been authorized to borrow under their respective statutes are not included in Government of Canada financial requirements. At the end of 1978-79 total outstanding market liabilities of these agencies amounted to $1,551 million consisting of borrowing by: Export Development Corporation—$1,291 million; Petro-Canada—$190 million; Eldorado Nuclear—$40 million; and the Federal Business Development Bank—$30 million.

Table A1.3
Projected Expenditures under Major Statutory[1] Programs

	1978-79	1979-80[3]	1980-81[3]	1981-82[3]	1982-83[3]	1983-84[3]
			($ millions)			
Public debt charges	7,058	8,600	10,275	11,425	12,625	13,975
Old age security—Guaranteed Income Supplement and Spouse's Allowance	5,491	6,356	7,169	8,193	9,251	10,282
Established programs financing (incl. extended health care)	4,835	5,373	5,788	6,191	6,851	7,782
Equalization	2,823	3,250	3,410	3,680	3,930	4,220
Family allowances	2,093	1,729	1,874	2,057	2,262	2,467
Canada Assistance Plan	1,465	1,673	1,822	1,972	2,133	2,311
Unemployment Insurance contributions	1,805[2]	1,351	971	951	951	1,034
Oil import compensation payments[1]	628	1,575	1,620	1,220	880	610
Total	26,198	29,907	32,929	35,689	38,883	42,681

[1] Oil import compensation payments are included because of their quasi-statutory nature.
[2] This figure has been revised to incorporate the accounting changes which are set out in the 1978-79 *Public Accounts,* and discussed in A.3 below.
[3] Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates assuming the maintenance of existing expenditure programs.

In 1979-80 direct market borrowings by agent Crown corporations are expected to increase by a further $1,005 million, resulting from borrowings by the Export Development Corporation—$690 million; the Federal Business Development Bank—$352 million; offset to the extent of $37 million as a result of repayments by Petro-Canada. In addition CMHC's requirements from the government were reduced by $160 million in 1979-80 ($400 million in 1978-79) due to the direct sale of mortgages by the corporation.

Other non-budgetary transactions

Other non-budgetary transactions ('Annuity, insurance and pension accounts', and 'Other transactions' in the main fiscal table) are expected to provide a source of funds which grows substantially over the projection period. The rate at which funds build up in government superannuation accounts is projected to increase by $2 billion from 1979-80 to 1983-84, accounting for the bulk of the increase occurring in the 'Annuity, insurance and pension accounts' category. The components of these projections relating to government superannuation assume that certain provisions of bill C-12 introduced in the House on October 26, 1978 by the previous government, including the proposed provision that quinquennial actuarial adjustments be amortized over 15 years commencing the year following the tabling of the actuarial report, will be re-introduced. The projections assume continuation of existing practice with respect to the Supplementary Retirement Benefits Account; no allowance is made for actuarial deficiencies in respect of supplementary retirement benefits.

The increase in the source of funds provided by 'other transactions' is largely accounted for by the Canada Savings Bond components of the interest and debt accounts. Encashment of bonus interest coupons, regular coupons from earlier years, and bonds which matured in the previous year, are expected to exceed the accrual of uncashed interest in respect of the current year and result in a net requirement of some $40 million. By 1983-84, accrual of interest on the compound bond series is projected to exceed substantially the encashment of previously accrued interest, resulting in a non-budgetary source of funds approaching $1,200 million.

A.2. Comparison of 1979-80 Forecast with Forecasts in November 1978 Budget and July 26, 1979 Statement

The following table compares the current fiscal forecast for the 1979-80 fiscal year with the original forecast in the November 16, 1978 budget and with the up-date in the July 26, 1979 release by the Minister of Finance. The current forecast is shown on both the old accounting basis—before extraordinary items (comparable with the earlier forecasts), and the new accounting basis (used in the main fiscal table).

			Current Forecast	
	November 16, 1978 Budget	July 26 Statement	Old Accounting Basis	New Accounting Basis
	($ millions)			
Budgetary transactions				
Revenues	38,150	39,800	40,720	40,720
Expenditures	−51,100	−51,100	−52,450	−51,950
Surplus or deficit	−12,950	−11,300	−11,730	−11,230
Non-budgetary transactions				
Loans, investments and advances	−1,500	−1,500	−1,150	−1,150
Annuity, insurance and pension accounts	2,820	2,600	3,045	2,145
Other transactions	880	200	−105	295
Net source or requirement	2,200	1,300	1,790	1,290
Financial requirements (Excluding foreign exchange transactions)	−10,750	−10,000	−9,940	−9,940

The possibility that budgetary expenditures under existing programs would be higher than forecast in the Main Estimates was noted in the July 26 statement, but the forecast was not adjusted at that time. Higher expenditures, principally as a result of higher oil import compensation payments (some $800 million above *Main Estimates*), increased equalization payments of some $300 million largely reflecting adjustments in respect of prior years, and an increase in public debt charges of some $250 million as a result of the increase in interest rates, have been allowed for in the current forecast. Loans, investments and advances, however, are $380 million less than estimated at the time of the Main Estimates were tabled. This decrease is largely the result of lower requirements by CMHC and Petro-Canada. On the comparable accounting basis to that underlying the July 26 statement and the November, 1978, budget, total outlays in 1979-80 are now expected to amount to some $53.6 billion, $1 billion higher than in the earlier forecasts.

As discussed in the July 26 release, the main changes from November to July were the increase in budgetary revenues resulting from stronger than originally forecast growth in tax bases (particularly corporate profits), and the partially offsetting decrease in non-budgetary sources of funds resulting most importantly from a different pattern of Canada Savings Bond encashment than originally assumed. The further $920 million increase in revenues since July results largely from the increases in federal excise taxes on transportation fuels and on alcohol and tobacco, introduced in this budget, which take effect immediately.

The source of funds provided by the annuity insurance and pension accounts shows an increase of $445 million on the comparable accounting basis. This increase reflects a reduction of more than $300 million in forecast unemployment insurance benefit payments and an increase of more than $100 million in forecast unemployment insurance premiums.

The new accounting basis used in the current projections (see A.3) has the effect of reducing 1979-80 expenditures by some $900 million. (The government contribution to the unemployment insurance account is now recorded on a current basis; the estimated contribution in respect of the current year is $900 million lower than the contribution that would have been recorded in respect of 1978.) The accounts for 1979-80 will be further affected by a change in the procedure of accounting for funds owed by the government at the end of a fiscal year. The current procedure is to record as accounts payable only those expenditures for goods and services received in the year and paid within thirty days from the end of the year. Commencing in 1979-80 all expenditures for goods and services received, together with expenditures under contractual arrangements in respect of the year, will be charged as budgetary expenditures in that year regardless of the actual date of payment. This accounting change known as Pay at Year End, or P.A.Y.E., is expected to increase recorded expenditures by approximately $400 million.

These accounting changes have no cash effect. The change in respect of the government unemployment insurance contribution is offset in the 'Annuity, insurance and pension accounts', and the change in respect of year-end accounting procedures is offset in the 'other transactions' category of non-budgetary transactions.

A.3. Revisions to the Accounts of Canada

The *Public Accounts* for 1978-79 include a provision to effect certain changes in the accounts of Canada. Those changes were recommended in a 1975 report entitled "Report on the Study of the Accounts of Canada" which reviewed the purposes, principles and practices which should govern the form of the accounts of Canada. It was recognized that certain items which were previously included on the Government's Statement of Assets and Liabilities did not meet the recommended criteria for assets and liabilities, and that certain other items on that Statement were only realizable through budgetary appropriation. The changeover was reflected in a one-time adjustment (addition to the budgetary deficit) in the *Public Accounts* for 1978-79.

The accounting changes are as follows:

(a) the government's share of unemployment insurance costs is recorded on a current basis instead of the lagged basis used previously;

(b) the new requirements of revolving and other funds that are deemed internal to the administration of the government are charged as budgetary expenditures rather than as loans;

(c) loans which are deemed to be not recoverable by the government are charged to budgetary expenditures. These items include:

   (i) loans to Atomic Energy of Canada for the Laprade, Glace Bay and Port Hawkesbury heavy water plants;

   (ii) loans to the National Capital Commission with respect to the Greenbelt;

   (iii) loans to the Canadian Broadcasting Corporation that were recorded in the Public Accounts as likely to require parliamentary appropriation for recovery; and,

   (iv) certain loans to the governments of the Yukon and the Northwest Territories.

(d) the unamortized portion of flotation costs of marketable bonds and treasury bills are recorded as charges to budgetary expenditure in the year they are incurred rather than amortized over a period of years; and

(e) budgetary expenditures and also, where appropriate, budgetary revenues, are adjusted for the removal of certain liabilities namely, the undisbursed balances of appropriations to special accounts.

The accompanying tables present summary public accounts data for 1972-73 through 1978-79 on both the old and new bases. Table A3.1 provides historical data on the old accounting basis which is consistent with that presented in the 1978-79 *Public Accounts*. This table includes a separate "once and for all" provision in 1978-79 for conversion to the new system of accounts. Table A3.2 provides revised historical series adjusted to apply the new accounting system throughout the period, and further adjusted to charge the loan write-offs of 1977-78 and earlier years to the year in which the funds were expended rather than the year in which the write-off occurred. The table thus provides historical series on a comparable basis with the new fiscal projections.

None of the above-noted accounting changes affects cash requirements as they are internal to the government's accounts.

Table A 3.1
Government of Canada
Historical Summary Public Accounts Data on Old Accounting Basis

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
				($ millions)			
Budgetary Transactions							
Revenues	18,821	21,863	28,067	29,956	32,721	32,866	35,215
Expenditures	−18,645	−22,839	−29,245	−33,978	−39,011	−42,902	−46,922
Surplus or deficit (−)	176	−976	−1,178	−4,022	−6,290	−10,036	−11,707
Extraordinary item—provision for valuation of assets and liabilities	—	—	—	—	—	—	−4,478
Deficit after extraordinary item	176	−976	−1,178	−4,022	−6,290	−10,036	−16,185
Non-Budgetary Transactions							
Loans, investments and advances	−1,365	−1,702	−2,230	−3,310	−2,171	−1,217	−1,146
Annuity, insurance and pension accounts	−458	749	1,328	1,020	2,368	1,626	2,078
Other transactions	394	467	38	1,719	704	1,357	−164
Net source or requirement (−)	−1,429	−486	−864	−571	901	1,766	768
Extraordinary item—allowance for valuation of assets and liabilities	—	—	—	—	—	—	4,478
Financial requirements (excluding foreign exchange transactions)	−1,253	−1,462	−2,042	−4,593	−5,389	−8,270	−10,939

Table A 3.2
Government of Canada
Historical Summary Public Accounts Data on Revised Accounting Basis

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
				($ millions)			
Budgetary transactions							
Revenues	18,821	21,826	28,067	29,956	32,635	32,866	35,215
Expenditures(1)	−19,789	−23,231	−29,717	−35,308	−38,728	−42,964	−47,318
Surplus or deficit (−)	−968	−1,405	−1,650	−5,352	−6,093	−10,098	−12,103
Non-budgetary transactions							
Loans, investments and advances(1)	−1,186	−1,261	−1,935	−2,845	−2,109	−1,782	−1,052
Annuity, insurance and pension accounts	523	749	1,441	1,822	2,053	2,267	2,377
Other transactions	378	455	102	1,782	760	1,343	−161
Net source or requirement (−)	−285	−57	−392	759	704	1,828	1,164
Financial requirements (Excluding foreign exchange transactions)	−1,253	−1,462	−2,042	−4,593	−5,389	−8,270	−10,939

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

A.4 Fiscal Projections—National Accounts Basis

In general, fiscal projections on the national income and expenditure accounts basis reflect the same factors that influence revenues and expenditures on the public accounts basis, and which have been discussed under A.1.

As may be seen from the panels below, the trends in the public accounts and national accounts measures of the net fiscal position, and of total expenditures, are broadly similar.

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
			($ millions)			
Net position						
Public Accounts—financial requirements	–10,939	–9,940	–8,200	–7,300	–5,680	4,790
National Accounts—balance	–10,176	–9,430	–7,840	–6,580	–5,345	–4,420
Expenditures						
Public Accounts—total outlays	48,370	53,100	58,400	64,250	70,675	77,750
(% growth)	(8.1)	(9.8)	(10.0)	(10.0)	(10.0)	(10.0)
National Accounts—total expenditures	49,488	54,240	60,375	66,150	72,550	79,675
(% growth)	(8.7)	(9.6)	(11.3)	(9.6)	(9.7)	(9.8)

While the trend over the series of years is very similar, there can be differences in year-to-year changes. The different treatment of unemployment insurance costs and contributions under the two accounting systems accounts for most of the difference in expenditure growth rates in 1980-81. Public Accounts—Total Outlays include the government contribution to unemployment insurance which is projected to decline by some $400 million relative to 1979-80 as a result of the reduction in the government share of costs of the program announced in the budget. Benefit payments, which enter into national accounts expenditures, are not directly affected by this change and are projected to increase by some $400 million between 1979-80 and 1980-81. This factor raises the growth rate of national accounts expenditure by 1.5 percentage points relative to the growth of total outlays. Employer/employee unemployment insurance premiums are included in national accounts revenues. The increase in premiums of some $630 million associated with the increase in the premium rate from $1.35 per $100 of weekly earnings to $1.60 is the main factor underlying the higher rate of national accounts revenue growth (17.2 per cent) than of public accounts budgetary revenue growth (15.0 per cent) in 1980-81.

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

Table A 4.1
Government of Canada
Summary, Extended National Accounts Presentation

	1978-79	1979-80[1]	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)			
National accounts transactions[2]						
Revenues[3]	39,312	44,810	52,535	59,570	67,205	75,255
Expenditures[4]	−49,488	−54,240	−60,375	−66,150	−72,550	−79,675
Surplus or deficit (−)	−10,176	−9,430	−7,840	−6,580	−5,345	−4,420
Loans and other transactions						
Loans, investments and advances	−946	−845	−1,000	−1,200	−1,390	−1,720
Cash vs accrual	−313	85	460	285	850	1,120
Other transactions	496	250	180	195	205	230
Net source or requirement (−)	−763	−510	−360	−720	−335	−370
Total financial requirements (Excl. foreign exchange transactions)	−10,939	−9,940	−8,200	−7,300	−5,680	−4,790

[1] Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates.
[2] Referred to as 'Current transactions' in earlier budget speeches and issues of the Public Accounts. The change is intended to avoid inconsistency with standard National Accounts terminology.
[3] 'Total revenue' plus 'Capital consumption allowances' as per Statistics Canada's National income and Expenditure Accounts.
[4] 'Current expenditure' plus 'Gross capital formation' as per Statistics Canada's National income and Expenditure Accounts.

Table A 4.2
Government of Canada
Revenues, Public Accounts and National Accounts Reconciliation

	1978-79	1979-80[1]	1980-81[1]	1981-82[1]	1982-83[1]	1983-84[1]
			($ millions)			
Budgetary revenues—Public Accounts	35,215	40,720	46,835	53,040	59,715	66,640
Deduct						
Post Office revenues and deficit	−1,275	−1,360	−1,490	−1,665	−1,850	−2,035
Deficit of government business enterprises[2]	−198	−510	−615	−705	−780	−800
Excess of accruals over collections						
Corporate income tax	−133	−510	−465	−530	−700	−905
Oil export charge	39	75	180	150	155	155
Add						
Government pension and social security receipts[3]	5,606	6,020	7,595	8,780	10,065	11,495
Capital consumption allowance	651	730	815	935	1,070	1,210
Miscellaneous adjustments[4]	−593	−355	−320	−435	−470	−505
Total revenues—National Accounts	39,312	44,810	52,535	59,570	67,205	75,255

[1] Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates.
[2] In the Public Accounts, deficits of government business enterprises are a charge to budgetary expenditures whereas in the National Accounts, these deficits are deducted from remitted profits of other government business enterprises.
[3] In the Public Accounts, these government pension and social security receipts and disbursements are treated as non-budgetary transactions whereas in the National Accounts, these transactions are included in government revenue and expenditure.
[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 A 4.3
Government of Canada
Expenditures, Public Accounts and
National Accounts Reconciliation

	1978-79	1979-80(1)	1980-81(1)	1981-82(1)	1982-83(1)	1983-84(1)
			($ millions)			
Budgetary expenditures—Public Accounts	47,318	51,950	57,300	62,800	68,975	75,700
Deduct						
Transfers to funds and agencies(2)	−3,448	−2,600	−2,660	−2,775	−2,890	−3,130
Post Office expenditures	−1,275	−1,360	−1,490	−1,665	−1,850	−2,035
Deficit of government business enterprises(3)	−198	−510	−615	−705	−780	−800
Add						
Expenditures of funds and agencies(2)	1,453	1,560	1,720	1,860	2,025	2,220
Government pension and social security disbursements(4)	5,479	5,310	5,815	6,235	6,620	7,255
Capital consumption allowance	651	730	815	935	1,070	1,210
Miscellaneous adjustments(5)	−492	−840	−510	−535	−620	−745
Total expenditures—National Accounts	49,488	54,240	60,375	66,150	72,550	79,675

(1) Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates.
(2) In the National Accounts, budgetary appropriations to various funds and agencies are replaced by the expenditure actually made by the 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, these government pension and social security receipts and disbursements are treated as non-budgetary transactions whereas in the National Accounts, these transactions are included in government revenue and expenditure.
(5) 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 A 4.4
Government of Canada
Non-Budgetary, Public Accounts and Extended National Accounts Reconciliation

	1978-79	1979-80(1)	1980-81(1)	1981-82(1)	1982-83(1)	1983-84(1)
			($ millions)			
Non-budgetary transactions —Public Accounts	1,164	1,290	2,265	2,460	3,580	4,270
Deduct						
Loans and advances to funds and agencies	107	305	100	250	310	330
Government pension and social security accounts	−2,241	−1,870	−2,555	−3,190	−3,970	−4,720
Excess of accruals over collections						
Corporate income tax	133	510	465	530	700	905
Oil export charge	−39	−75	−180	−150	−155	−155
Miscellaneous adjustments(2)	113	−670	−455	−620	−800	−1,000
Loans and other transactions —Extended National Accounts	−763	−510	−360	−720	−335	−370

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

(2) As in the case of revenues and expenditures, the miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, the adjustments for the treatment of revenues and expenditures in the supplementary period; the change in the reserves and 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.

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

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

	Budgetary Surplus or Deficit (–)		Financial Requirements Excl. Foreign Exchange Transactions		National Accounts Surplus or Deficit (–)	
Fiscal Year	($ millions)	(Percentage of GNP[2])	($ millions)	(Percentage of GNP[2])	($ millions)	(Percentage of GNP[2])
Actuals						
1972-73	–968	–0.9	–1,253	–1.2	–198	–0.2
1973-74	–1,405	–1.1	–1,462	–1.2	186	0.2
1974-75	–1,650	–1.1	–2,042	–1.4	–47	–0.0
1975-76	–5,352	–3.2	–4,593	–2.8	–3,860	–2.3
1976-77	–6,093	–3.2	–5,389	–2.8	–4,240	–2.2
1977-78	–10,098	–4.8	–8,270	–3.9	–9,938	–4.7
1978-79	–12,103	–5.3	–10,939	–4.7	–10,176	–4.4
Projected						
1979-80	–11,230	–4.4	–9,940	–3.9	–9,430	–3.7
1980-81	–10,465	–3.6	–8,200	–2.9	–7,840	–2.7
1981-82	–9,760	–3.0	–7,300	–2.2	–6,580	–2.0
1982-83	–9,260	–2.5	–5,680	–1.5	–5,345	–1.4
1983-84	–9,060	–2.1	–4,790	–1.1	–4,420	–1.0

[1] Figures for 1972-73 to 1978-79 have been adjusted to the new accounting basis in use from 1979-80 onwards. See A.3.
[2] Percentage of GNP for calendar year ending three months before the end of the relevant fiscal year.

C. Impact on 1980-81 Revenues of Tax Changes from 1972 to May 1979

Net tax cuts by the previous government, subsequent to the 1971 Tax Reform, have reduced federal revenues in 1980-81 by some $16 billion, or by almost $9 billion excluding the impact of indexation of the tax system.

Notes to table:

1. The table shows estimates of the fiscal 1980-81 impact of tax and tariff changes introduced subsequent to the 1971 tax reform and prior to the election of the current government. Due to growth in tax bases, the estimated impacts in 1980-81 are generally larger than estimates of the first full year impact after introduction of the measure which would have been provided in the relevant budget speech.

2. The table includes budget measures up to and including the November 16, 1978 budget, although in some cases the relevant legislation has still to be passed.

3. The estimates are of "impact effects" given the current forecast levels of the tax bases, i.e. no allowance is made for possible "feed back" effects from the measures to the economy and back to revenues.

4. Only those measures with costs in excess of $100 million are identified in the table although the total includes the cost of all tax and tariff measures. (See, however, notes 6 and 7).

5. The entry associated with changes to resource related income represents the net impact of the non-deductibility of provincial royalties and the 25 per cent resource allowance.

6. No allowance is made for the impact on tax revenues of changes in the tax status of family allowance payments (1974) or for changes in the levels of taxable family allowance payments and unemployment insurance benefits. Further, since the table deals with budgetary revenue, it does not include changes in unemployment insurance contribution rates (nor the impact of these changes on personal income tax revenues).

7. The table does not include the oil export charge which was more than matched on the expenditure side by the introduction of oil import compensation payments, the refundable child tax credit whose introduction accompanied the reduction in family allowance payments, the transfer of personal income tax points to provinces under the Established Programs Financing Arrangement, and changes in charges for various services such as postal rates.

Impact of Discretionary Changes on Revenues for 1980-81

Measure	Budget	Impacts 1980-81
		($ millions)
Two-year write-off for machinery and equipment used in manufacturing and processing	May 1972	−470
Reduction in basic rate for manufacturing and processing profits as of January 1, 1973	May 1972	−450
Increase in basic personal exemption and married exemption	February 1973	−400
Indexing of individual income tax	February 1973	−7,500
Individual income tax cut of 5%, $100 minimum, $500 maximum	February 1973	−1,250
Sales tax exemption for near-foods and children's clothing	February 1973	−225
Increase of 5% tax cut minimum from $100 to $150 as of January 1, 1974	November 1974	−495
Increase in tax cut to 8% with minimum of $200, maximum $500 (as modified in June 1975)	November 1974/June 1975	−650
Deduction of $1,000 for interest income as of January 1, 1974, extended to include dividend as of 1975; $1,000 deduction for Pension Income as of 1975	November 1974	−625
Registered Home Ownership savings plan (as modified in March 1977)	November 1974	−130
Non-deductibility of royalties and taxes net of resource allowance for resource industries in the calculation of taxable income (as modified in June 1975)	November 1974/June 1975	350
Increase in taxable income limit for eligibility to claim a small business deduction (as modified in May 1976)	November 1974/May 1976	−215
Elimination of sales tax on clothing and footwear	November 1974	−480
Reduction in sales tax rate for building materials from 11/12% to 5%	November 1974	−700
Sales tax exemption for transportation, construction and water distribution equipment	November 1974	−290
Increase in excise duties on liquor and tobacco	November 1974	140
Gasoline excise tax (as modified in September 1978)	June 1975/September 1978	400

Impact of Discretionary Changes on Revenues for 1980-81

Measure	Budget	Impacts 1980-81
		($ millions)
Investment tax credit (as extended in March 1977 and November 1978)	June 1975/March 1977/ November 1978	−485
Increase in personal employment expense deduction (as modified in November 1978)	March 1977/November 1978	−390
Enrichment of dividend tax credit	March 1977	−135
Tax relief in respect of business inventories	March 1977	−450
Reduction in rate of federal sales tax	November 1978	−1,170
Items not listed separately		−770
Total Impact on 1980-81 Revenues of above changes		−16,390

D. Background Material on Energy

Prices and Taxes, Transportation Fuels

The following chart and table provide background information on prices of, and taxes on, various transportation fuels in Canada and in other countries. A second table shows the payments under the oil import compensation program and revenues from the oil export charge over the 1973-74 to 1983-84 period.

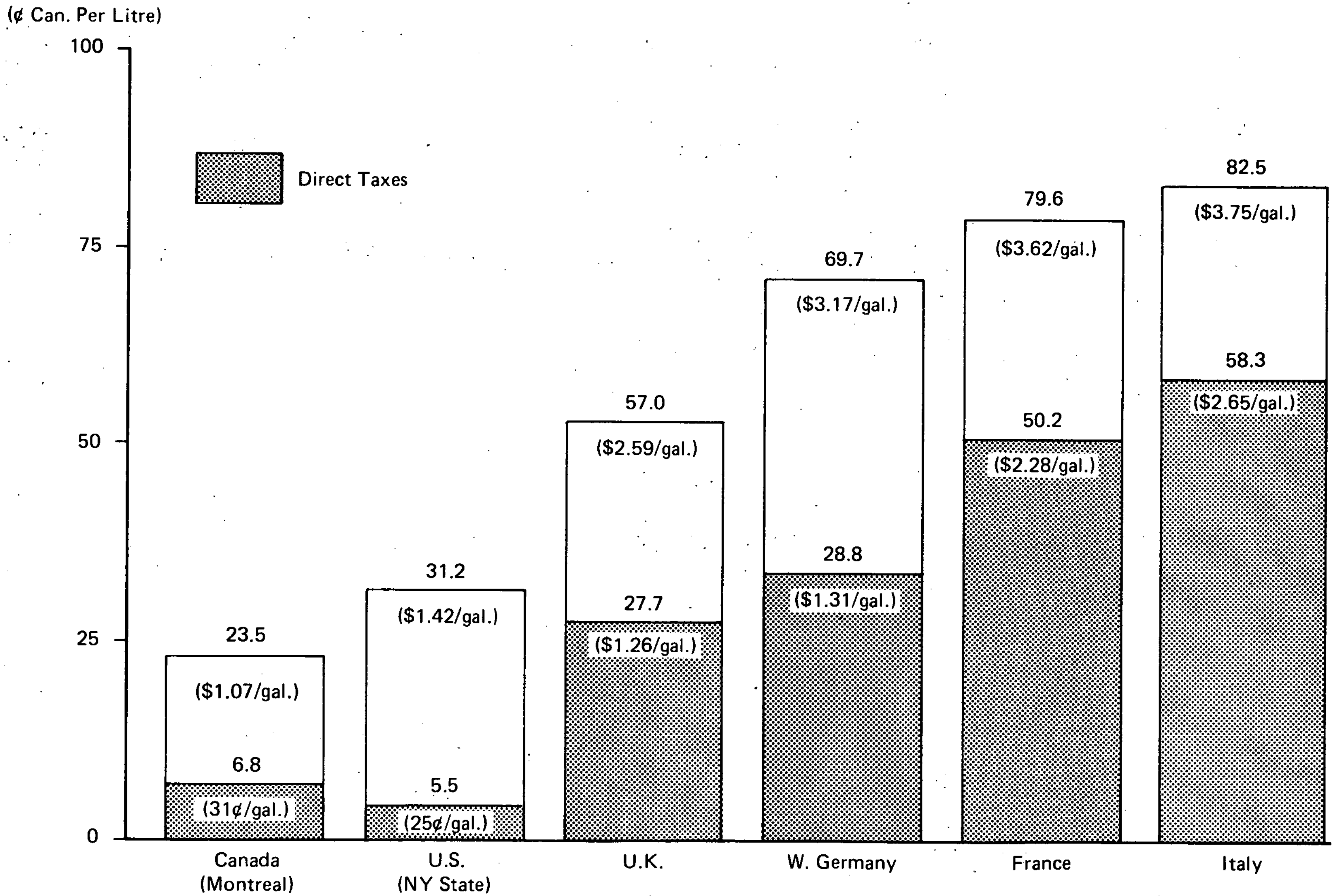
Provincial Retail Gasoline and Diesel Prices and Taxes As of September, 1979

		Price Excluding Provincial Tax	Provincial Tax	Pump Price
		($ per gallon)		
St. John's	Gasoline	.96	.27	1.23
	Diesel	.90	.27	1.17
Goose Bay	Gasoline	.93	.27	1.20
	Diesel	.87	.27	1.14
Charlottetown	Gasoline	.97	.21	1.18
	Diesel	.93	.25	1.18
Halifax	Gasoline	.91	.21	1.12
	Diesel	.86	.27	1.13
St. John	Gasoline	.88	.20	1.08
	Diesel	.82	.27	1.09
Montreal	Gasoline	.88	.19	1.07
	Diesel	.83	.25	1.08
Toronto	Gasoline	.86	.21	1.07
	Diesel	.81	.27	1.08
Winnipeg	Gasoline	.87	.18	1.05
	Diesel	.81	.21	1.02
Regina	Gasoline	.87	.19	1.06
	Diesel	.79	.26	1.05
Edmonton	Gasoline	.83	Nil	.83
	Diesel	.79	Nil	.79
Vancouver	Gasoline	.84	.17	1.01
	Diesel	.83	.19	1.02
Yellowknife	Gasoline	1.31	.14	1.45
	Diesel	1.25	.15	1.40
Whitehorse	Gasoline	1.09	.15	1.24
	Diesel	1.02	.19	1.21

Note: Prices represent typical pump prices prevailing during the month of September. Gasoline refers to grade 2, regular leaded gasoline. The federal excise tax on gasoline for personal use was 7 cents per gallon in September, 1979. The federal sales tax on regular gasoline and diesel fuel was 5 cents and 4.5 cents per gallon respectively.

SOURCE: Energy, Mines and Resources (latest available estimates).

Comparison of Motor Gasoline Prices in Canada and Other Major Countries
(As of September 1979)



Source: Energy Mines and Resources (latest available data). Taxes in Canada include the federal sales tax, federal excise tax and the provincial road taxes.

Revenues from Oil Export Charge and Expenditures for Oil Import Compensation Payments 1973-74 to 1983-84, Cash Basis

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
						($ millions)					
Revenue											
Oil Export Tax	287	224	—	—	—	—	—	—	—	—	—
Oil Export Charge	—	1,445	1,063	661	432	328	735	630	435	305	210
Total Revenue	287	1,669	1,063	661	432	328	735	630	435	305	210
Expenditure											
Oil Import Subsidy	157	1,162	1,582	945	925	628	1,575	1,620	1,220	880	610
Prov. Share of Oil Export Tax	143	111	—	—	—	—	—	—	—	—	—
Total Expenditure	300	1,273	1,582	945	925	628	1,575	1,620	1,220	880	610
Net Revenue (Expenditure)	(13)	396	(519)	(284)	(493)	(300)	(840)	(990)	(785)	(575)	(400)

Energy Pricing, Conservation and Import Savings

The table below provides estimates of the reduction in oil consumption expected to result from the acceleration of domestic price increases for crude oil and natural gas, the incentive pricing arrangement for natural gas and the excise tax on transportation fuels. Oil imports would be reduced by about 100 million barrels in 1985 from the level that would likely occur if the present policy of $2 per year increases in oil prices was continued. At today's international price for oil this would represent a saving in import payments of $2.5 billion. At 1985 prices the saving could reach $4-4.5 billion.

Estimated Reduction in Domestic Oil Consumption

	(millions of barrels)
1980	20
1981	40
1982	60
1983	75
1984	90
1985	100

Up to 1983, the energy pricing package may have a smaller effect on oil imports than on domestic oil demand. This is because existing pipeline facilities for the shipment of western crude to Eastern Canada are expected to be used to capacity during that period. The reduction in oil demand west of the Ottawa Valley could thus result in increased shut-in capacity unless swapping arrangements were made with the U.S. Increased shut-in capacity in the early 1980s would raise production capacity in subsequent years, thus making it possible to effect larger savings on imports in later years.

Estimates of the reduction in oil demand resulting from the assumed oil and gas pricing policy are subject to considerable uncertainty and should be viewed as indicative of the magnitude of the potential savings, rather than as precise predictions.