

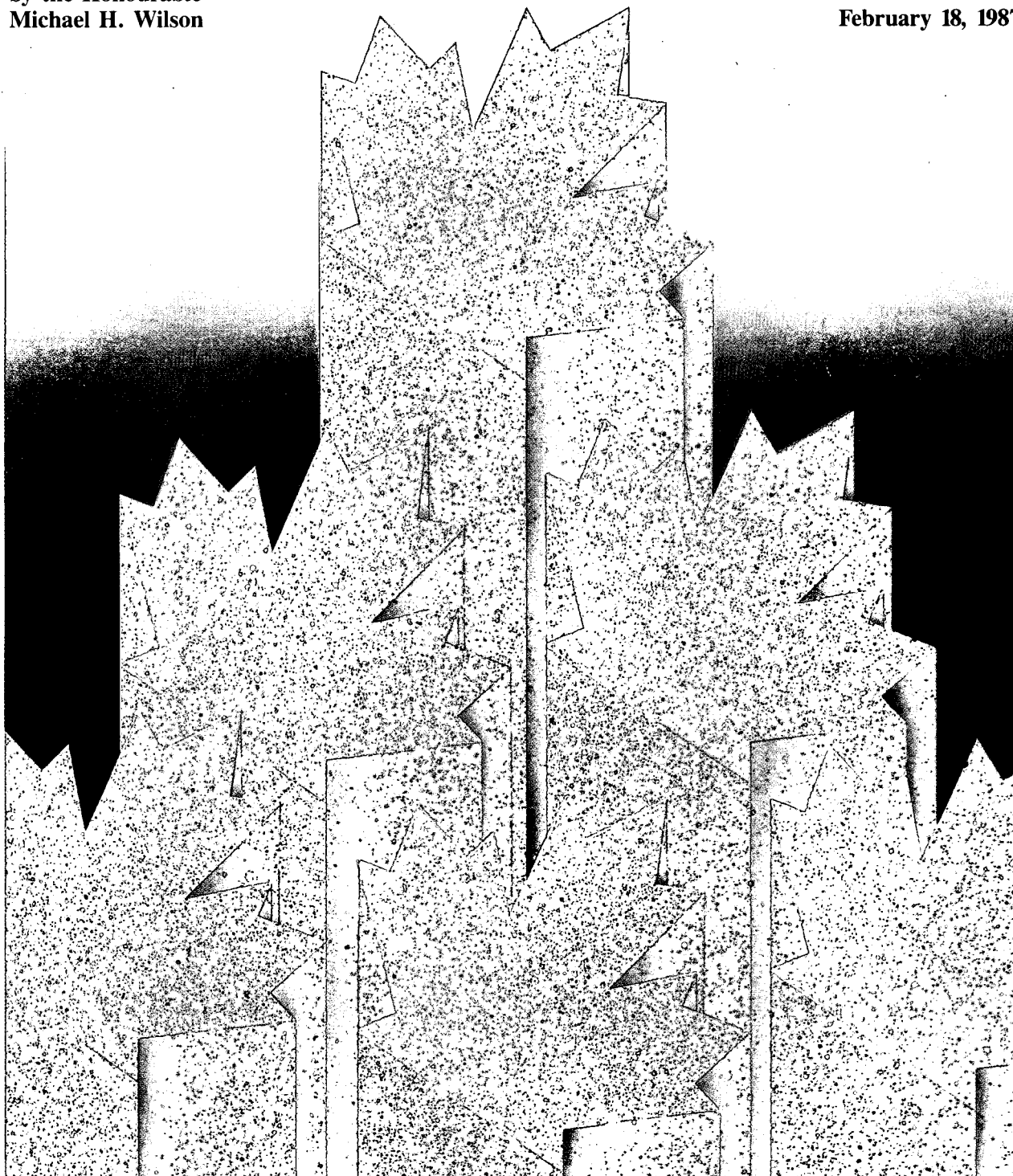
Res.  
HJ13  
A29a  
1987

Economic Renewal

# The Budget Speech

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

February 18, 1987



Canada

**Securing Economic Renewal**

# **The Budget Speech**

**Delivered in the House of Commons  
by the Honourable Michael H. Wilson  
Minister of Finance  
Member of Parliament for Etobicoke Centre  
February 18, 1987**



**Department of Finance  
Canada**

**Ministère des Finances  
Canada**

# Table of Contents

Introduction .....	1
Progress on our Agenda .....	2
The Economic Record .....	4
The Economic Outlook .....	5
Continuing Fiscal Progress .....	5
The Fiscal Principles .....	6
Maintaining Fiscal Flexibility .....	7
Management Initiatives .....	8
Revenue Measures .....	9
Trade and Tariffs .....	10
Tax Avoidance .....	11
Tax Reform.....	11
Personal Income Tax .....	12
Corporate Income Tax .....	12
Federal Sales Tax .....	13
Conclusion .....	13
Annex .....	15

## **Introduction**

Canadians have good reason to be encouraged by the nation's economic progress during the past year. Despite some difficult problems, our economy performed well in a challenging world environment.

Today I want to review with this House and with Canadians the substantial progress we have been making on our program of action to renew Canada's economy.

Last year, our rates of economic growth and job creation exceeded those of all the major industrial countries.

We achieved these results in a world economy that has become not only more competitive, but also more uncertain and volatile. The world economy will continue to be challenged:

- by serious imbalances in trade positions among industrial countries;
- by the persistent, large U.S. budget deficit;
- by the external debt problems of developing countries; and
- by the rising tide of global protectionism.

These challenges underline the need for the government to work more closely than ever with our trading partners to promote balanced and healthy world growth.

Events outside Canada have affected the nation's economic performance in 1986. Low world grain and oil prices have had a serious impact, particularly in Western Canada. The benefits of steady growth and job creation have been substantial, but they have not been fully shared in all regions.

The government has responded to regional needs through a number of measures that have cushioned the impact of international events. We have been able to respond because of the progress that the national economy has been making.

Without our success in achieving lower interest rates and lower inflation, the regional problems facing us would have been even more serious.

Let there be no doubt that our future ability to contribute to the economic development of all the regions of this country will continue to depend on our ability as a nation to compete against the best from around the world.

## **Progress on our Agenda**

Before this government came to office, the confidence of Canadians had been badly eroded by a severe recession. The severity of the recession and the decline in confidence were symptoms of disturbing trends that posed a threat to our goals of sustained growth, permanent jobs and greater opportunities for Canadians.

- The deficit was more than \$38 billion and rising.
- The national debt had doubled in only three years.
- The government was consuming more and more of the country's resources.
- Private initiative was increasingly stifled by excessive regulation.
- Growing industrial subsidies were inhibiting change.
- Undisciplined spending was leading to waste, excessive bureaucracy and unproductive activity.

Government was very much part of the problem.

A nation over-burdened by deficits and debt is a nation made more vulnerable to economic shocks. But what government does, and how it does it, are as important as how much of the nation's resources it borrows.

That is why, in November 1984, we placed before Canadians a comprehensive economic renewal agenda.

That is why, steadily and consistently, we have acted to make government more efficient; to restore prudent financial management; and to provide an economic environment that encourages private initiative and risk-taking and that rewards success.

Without decisive action to restore the health of the nation's finances, the spiral of deficits and debt would have quickened; confidence would have sagged even further. We had to act. And we did.

- We reduced the deficit to \$34.4 billion in our first full year in office.
- This year we will further reduce the deficit to \$32 billion. And we will hold our program spending to \$89.4 billion, the target I set out in my budget one year ago.
- I am also announcing today that, in our third year, we will get the deficit down to \$29.3 billion. (Annex Chart 1)

Let me emphasize the full measure of our efforts. When we came to office, the federal deficit relative to the size of the economy was more than 1 1/2 times the size of the United States deficit, using equivalent measures of comparison. As a share of the economy, our deficit has been brought down to the point where it is now identical to the deficit of the United States. (Annex Chart 2)

This progress has not come easily. It has required tough decisions and it has required firm, disciplined management. These actions have been taken as part of our comprehensive program to achieve our central objective of improving Canada's international competitiveness. For it is improved competitiveness that will create sustained growth and permanent jobs.

Our program also includes action:

- to deregulate key sectors of the economy;
- to support science and technology;
- to assist small business;
- to privatize Crown corporations that can perform better in the private sector;
- to modernize financial services regulation;
- to pursue trade policy initiatives to secure markets for Canada into the next century.

Our trade initiatives are of central importance. They will ensure that our improved competitiveness is translated into more jobs. We remain committed to seeking an agreement with our largest trading partner, the United States – an agreement that must clearly benefit Canada. We are also playing a leading role in the new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade. These negotiations will deal with a number of issues of vital importance to Canada, including agricultural trade. As the Prime Minister has made clear, the government will spare no effort in seeking an international resolution to agricultural trade conflicts and an end to the damage they cause in Canada and around the world.

Another major initiative on our economic agenda is tax reform. I cannot emphasize strongly enough the importance of developing a tax system that is more fair, less complex and that encourages productive economic activity. I will return to tax reform later in my remarks.

In this budget I am presenting our economic prospects and fiscal plan for 1987-88. I will propose a number of management initiatives and revenue measures that will ensure further substantial reductions in the deficit and borrowing requirements. I remain committed to medium-term economic and fiscal planning. The fiscal plan for the coming year is an additional step in our commitment to ensure continuing deficit reductions in the years ahead. Our medium-term economic and fiscal prospects will be significantly affected by tax reform. When my proposal for tax reform is released, I will set out clearly Canada's medium-term economic and fiscal prospects.

This budget consolidates and extends the fiscal progress we have made. In the Speech from the Throne, the government established clearly the priorities it would pursue. These priorities have been chosen for action within the limits of our fiscal

plan. We have demonstrated our ability to set priorities and to responsibly allocate resources to achieve our goals. The government will, in due course, be announcing programs to give effect to the priorities and policies identified in the Speech from the Throne.

I want to emphasize that the actions we have taken and will continue to take to pursue our program for economic renewal are not unrelated. They are part of a co-ordinated, cohesive program to strengthen Canada's competitive position.

I am tabling with this budget a report on the substantial progress that we have made in implementing many of the elements of our Agenda for Economic Renewal. I commend this report to the attention of Honourable Members and all Canadians. It sets out what we have achieved together and the principles that will guide us as we continue to implement that agenda.

## **The Economic Record**

Our actions have contributed to strong economic performance over the last 2 1/2 years. This performance is graphic proof that Canadians are responding positively to the opportunities flowing from our progress in implementing our program of action. Since September 1984:

- the real growth of Canada's economy has averaged about 3 1/2 per cent per year, second only to Japan and much stronger than the United States;
- consumer confidence has risen to a very high level and spending by consumers has provided a major impetus to growth;
- the improving Canadian economy has created 675,000 new jobs;
- employment growth in Canada has been stronger than in any major industrial country; (Annex Chart 3)
- the unemployment rate has dropped by two percentage points;
- short-term interest rates are at their lowest levels in nearly a decade; (Annex Chart 4)
- five-year mortgage rates have fallen by more than 3 percentage points – equivalent to a reduction in interest costs of \$1,360 a year on a \$50,000 mortgage amortized over 25 years;
- with home ownership now more accessible to Canadians, housing starts are at an eight-year high – and without the artificial boost of government subsidies.

For 1986 I estimate that our economy grew by 3.3 per cent, a growth rate which outpaced all other major industrial countries. (Annex Chart 5) This performance was achieved despite the severe domestic impacts of lower world grain and oil prices.

If I had to choose just one message for Canadians today, it would be this: Our economic renewal program is working. It is delivering more growth, more jobs and more opportunities now. It is building new confidence at home. By changing our image abroad, it is helping to attract the investment that Canada needs.

The benefits of our strong economic performance have not been evenly shared across the country. Some regions are hurting. We have helped provide support over the past year and we are working with provincial governments and industry to find ways of developing a sound base for improved, sustained growth in all regions.

Better economic performance is the key to providing more help for disadvantaged Canadians wherever they live. As a result of this better performance, the government has been able to direct more resources in a variety of ways to individuals most in need of assistance. We have improved social benefits. We will continue to work to increase assistance to those in need.

We intend to ensure that our program of economic renewal works for all Canadians. It is the key to future prosperity.

## **The Economic Outlook**

This year will mark the fifth consecutive year of expansion. This economic upturn is the second longest of the postwar period. Prospects are excellent that it will continue.

Consumer confidence is strong. Interest rates are expected to remain relatively stable this year. Housing starts will continue at high levels and business investment will recover and grow modestly this year. Inflation will average less than 4 per cent in 1987 and decline through the year, leaving Canadians with more spending power. (Annex Chart 6) I am projecting real output growth of 2.8 per cent in 1987.

Our rate of job creation this year is expected once again to exceed that of any other major industrial country. Strong employment growth will be accompanied by large numbers of new entrants to the labour force, a sign that many once again are seeking work as a result of greater confidence about our economic prospects. I expect unemployment to decline through the year and the unemployment rate to fall to 9 per cent by year-end. (Annex Chart 7)

Our stronger competitive position leaves Canada well placed to benefit from expected improvements in international economic activity. Recent interest rate declines, (Annex Chart 8) exchange rate realignments and some firming of commodity prices will help increase Canadian sales in foreign markets.

## **Continuing Fiscal Progress**

Continued progress in improving our economic outlook, next year and beyond, depends on keeping to a fiscally responsible course.



We want our children and grandchildren to enjoy the opportunities they deserve by right. We must not burden them with a legacy of intolerable debt that robs their future of opportunity.

We want to improve our social programs and provide more help for those in need. We must restrain government debt that diverts tax dollars from human needs to interest payments.

We want Canada to retain the fullest flexibility to set its own course in a world of international change and competition. We must not allow ourselves to be constrained by a strait-jacket of debt.

Dealing positively with deficits and the debt is, ultimately, about improving the well-being of Canadians. That is why we have made it clear from the beginning of our mandate that we are committed to fiscal responsibility.

## **The Fiscal Principles**

Last September, I set out clearly the four fundamental principles that have guided our fiscal policy. We committed ourselves to these principles in 1984 and reaffirmed our commitment last September. We are acting to fulfill these commitments.

Our first principle is to reduce the growth of the national debt to less than that of the economy by the end of this decade.

When we took office, the public debt had been growing in the previous four years at an average annual rate of more than 23 per cent. The growth rate will be cut to 11 per cent in 1987-88 – still too high, but a substantial improvement in a short time.

Our second principle is to achieve continuing, sizeable year-over-year reductions in the deficit.

When we took office, the deficit was more than \$38 billion. We will meet the 1986-87 deficit target of \$32 billion that I set out on September 18. By the end of 1987-88, in just three years, we will have reduced the deficit by almost 24 per cent.

Our third principle is to ensure substantial year-over-year reductions in the government's financial requirements.

When we took office, financial requirements, excluding foreign exchange requirements, were \$29.8 billion. In the current fiscal year, financial requirements will fall by \$5.8 billion to \$24 billion. This will be cut further to \$21.3 billion in 1987-88 – a drop of 28.5 per cent in three years.

Our fourth principle is to ensure that the greater part of the progress is through expenditure restraint and disciplined management.

When we took office, government spending on all programs was growing by almost 14 per cent a year and had done so since the start of the decade. Since then, program spending has grown on average by only 2.8 per cent a year, well below the rate of inflation. (Annex Chart 9) Spending on government programs is being reduced in real terms and relative to the economy. About 63 per cent of the decline in the deficit relative to the size of the economy will have been achieved by reductions in spending. (Annex Table 2)

The progress we have made in applying these principles is substantial. We are determined to continue until the job is done.

### **Maintaining Fiscal Flexibility**

Last September, in recognition of the difficulties facing hard-hit regions and sectors of the economy, I set out a revised deficit target of \$32 billion for 1986-87.

This decision to accept a slower decline in the deficit was taken consciously and positively to cushion the blow that lower world oil and grain prices have dealt to some parts of Canada. Even with this decision, the revised deficit target still represents a sizeable decline from the previous year, and is consistent with our fiscal principles.

But I also said in September that we would hold our program spending to the target of \$89.4 billion that I set out last February. We will do so. We have responded to unforeseen developments in a fiscally responsible way. Where necessary, we have reallocated resources, reassessed priorities, made mid-course adjustments and acted to achieve our targets.

We will continue to set realistic and responsible expenditure targets and manage so that we can meet them.

Our fiscal situation in 1987-88 will continue to be affected by low prices for oil and grain. For example, additional support to grain farmers through ongoing federal programs will be \$1.5 billion higher than I anticipated in my February 1986 budget. Similarly, corporate income tax revenues will be substantially lower than forecast a year ago.

Government actions to provide additional assistance to farmers and to the oil and gas industry will also affect expenditures and revenues in 1987-88. In October of last year we eliminated the Petroleum and Gas Revenue Tax, thereby providing additional cash flow to the petroleum industry. We enhanced the fuel tax rebate for all farmers, effectively removing the tax on their farm fuel. And to further ease the current financial problems of Canadian grain farmers, we are providing a \$1 billion Special Canadian Grains Program.

In these changed economic circumstances, the prospective deficit for 1987-88 would have been higher than appropriate to maintain an acceptable rate of progress toward our medium-term goals. I am therefore proposing a combination of management initiatives and revenue increases to keep us on course. These measures will enable us to get the deficit down to \$29.3 billion in 1987-88.

## **Management Initiatives**

Better management of government operations and public resources has played an important part in our renewal program. We have cut back overhead costs and operating and maintenance expenditures. We have increased cost recovery and asset sales. All of these initiatives will have ongoing fiscal impacts.

### **Accelerated Remittance of Source Deductions**

We are actively pursuing areas where further cash management improvements can be made. One of these is the regularity with which employers remit to the government deductions they make for their employees on account of personal income taxes, and contributions to the Unemployment Insurance Fund and the Canada Pension Plan. These deductions are now remitted monthly.

For larger employers, I am proposing to move to twice-monthly remittances, effective January 1, 1988. This will not increase taxes paid by individuals.

Smaller businesses, those with average monthly remittances of less than \$15,000, will be excluded from this requirement.

### **National Defence**

Over the last three years, we have allocated substantial resources to defence even while we have had to control overall expenditures. To help meet our fiscal objectives in the coming year, the government will defer \$200 million from 1987-88 defence spending levels and restore this amount in 1988-89. The Minister of National Defence has confirmed that this action will not affect the rebuilding of our defence capability that is now under way. Annual defence spending in 1987-88 will be \$1.4 billion higher than when we took office. As a share of program expenditures, defence spending will have risen from 10.1 per cent in 1984-85 to 10.8 per cent in 1987-88.

This year the government will release a White Paper which will provide Canadians with our view of the appropriate direction for defence policy to the end of the century. This White Paper will deal with program priorities and resource implications.

### **Official Development Assistance**

Since taking office, this government has given strong support to developing countries. Canada's foreign aid expenditures next year will be \$450 million higher than in 1984-85, an increase of 21.8 per cent. We have also been acting to improve the quality of our aid and to manage these growing expenditures more effectively. For example, we are now providing all financial assistance in the form of grants rather than loans. We have taken measures in other areas too, such as in providing duty-free access to our market for a range of goods from Commonwealth Caribbean countries.

The government is committed to achieving the objective of 0.5 per cent of GNP for official development assistance. We expect that through adjustments in cash management and in our international reporting practices we will be able to meet this commitment while contributing to fiscal restraint. This will result in cash savings of \$150 million in 1987-88.

### **Air Transportation Cost Recovery**

The air transportation tax recovers part of the cost of providing air transport facilities and services. In order to recover a greater proportion of these costs from those who benefit from the services, and to help provide enhanced levels of security at airports, I am proposing to increase this tax. Accordingly, on the recommendation of my colleague, the Minister of Transport, I am announcing that the air transportation tax will be increased by \$4 per ticket effective May 1, 1987 for tickets purchased in Canada and August 1 for tickets purchased abroad. The existing \$50 ceiling on the tax will continue to apply.

### **Revenue Measures**

I am announcing today a limited number of tax increases.

The excise tax on motor gasoline and diesel fuel will be increased by one cent per litre effective tonight. The rebate to farm producers will be increased accordingly, so that farmers will continue to be relieved of effectively all tax on their fuels for farm use.

I am also acting to equalize the federal sales and excise tax burden on leaded and unleaded gasoline. This action will support the efforts of my colleague, the Minister of the Environment, who has announced a program in co-operation with the petroleum and automobile industries to eliminate lead emissions from gasoline by the end of 1992.

Effective tonight I am increasing the excise tax on cigarettes and other tobacco products by 4 per cent.

As of July 1, 1987, I am extending the federal sales tax to a limited range of snack foods that compete with similar products that are currently taxed.

The rules introduced in 1982 with respect to the taxation of accrued interest on investments are very complex. I am continuing to examine ways to simplify these rules. As an interim step I am proposing to expand eligibility for prescribed annuities to include persons of all ages. I am also proposing, for the 1987 taxation year, to provide relief for holders of pre-1982 compound interest bonds, including over one million holders of Canada Savings Bonds.

To complement the major reforms that my colleague, the Minister of State for Finance, has announced, I intend to propose amendments to the Income Tax Act to allow investment dealers to offer self-administered RRSPs directly to their clients. I will be consulting with the securities industry before proposing these amendments.

I am also announcing that the Indian Remission Order will be extended for 1987. My colleague, the Minister of Indian Affairs and Northern Development, and I are developing proposals to rationalize the treatment of employment income of Indians on reserves, in order to eliminate the need for the Remission Order. We will consult further with Indian representatives and other interested parties when the proposals are made public.

## **Trade and Tariffs**

The government has been working to make Canada a more effective world trader. In today's rigorously competitive world, we will not always see eye to eye with our trading partners. We must act to resolve our differences in a manner that is fair but that does not compromise Canada's interests.

The government acted last June when the United States moved to impose a 35-per-cent tariff on Canadian exports of red cedar shakes and shingles. We needed to send a strong expression of concern to the United States about their protectionist action. We had to guard against a loss of Canadian jobs.

Our response was two-fold: We took measures to increase tariff rates on a number of goods imported principally from the U.S. We also tightened controls on the export to the United States of cedar logs and bolts.

As a result, the U.S. tariff has not enhanced the competitiveness of the American shakes and shingles industry. Its main impact has been to increase costs to American consumers.

The export controls have protected the competitive position of the Canadian industry, which has been able to return to almost normal production levels. Having achieved our purpose, we can maintain the strength of our response by confining it to the restrictions on the export of cedar logs and bolts.

Accordingly, I am announcing that for all products affected by the tariff measures the rates of duty are being reduced, effective tomorrow, to those rates in effect immediately prior to June 6, 1986. This will reinstate duty-free entry for books, computer parts and Christmas trees.

The export restrictions on cedar logs and bolts which have proved essential in safeguarding the Canadian shakes and shingles industry in the face of the American tariff will remain in place as long as necessary.

Canada's steel industry faces serious competitive problems due to the world-wide excess in steel-making capacity. To help our industry deal with these circumstances, the government has decided, effective tomorrow, to withdraw the General Preferential Tariff on imports of most specialty and carbon steel mill products.

I am also proposing a number of miscellaneous tariff changes, primarily in response to requests from Canadian industry for changes in tariff rates and to fulfill obligations undertaken in the Tokyo Round of GATT negotiations.

## **Tax Avoidance**

I am concerned that abusive tax-avoidance transactions are a significant factor in eroding corporate tax revenues. They also undermine respect for the integrity of our tax system. Such schemes permit some corporations – often large and profitable – to avoid paying income tax.

The government has acted repeatedly to curb these and other such abuses with a series of specific rules. Where required, the government will continue this practice. In addition, to ensure a fairer and more stable income tax system, I intend to propose improved general anti-avoidance rules as part of tax reform.

Recent court decisions have called into question the fair price provisions of the Excise Tax Act. These judgments have raised the possibility of substantial erosion of the sales tax base. In the light of the jurisprudence, I am examining ways to rectify the law to prevent this erosion.

To further address this concern, I am moving the point at which sales tax is applied on a number of specific commodities from the manufacturer's level to the wholesale level. The goods affected include microwave ovens, televisions, video recorders, snack foods, candy and confectionery, and pet foods. These changes will ensure a fairer application of the sales tax to both domestic and foreign products and thus reduce the bias favouring imports under the current system.

These actions are in line with our commitment to bring greater equity to the federal tax system.

## **Tax Reform**

Comprehensive tax reform presents one of the most promising opportunities we have to strengthen our economy and improve the quality of our society.

A fairer and more effective tax system will complement and reinforce economic opportunities for individual Canadians. Tax reform will inaugurate a new era of tax fairness, permitting us to rely less on personal income taxes and provide improved benefits for low-income Canadians. It will play a crucial role in stimulating investment, encouraging dynamic business activity, job creation and economic growth. It will give Canadians greater assurance that revenue goals will be met, and met fairly.

Last October I set out the government's guidelines for reforming the tax system. I am developing an integrated proposal for tax reform in all three areas of our tax system – personal, corporate and federal sales tax. I have benefited greatly from the views I have received from individuals and corporations, from labour unions and business associations, from the voluntary sector, from provincial governments and members of Parliament.

The central objective of tax reform is to reduce tax rates. There can be no better incentive for growth, investment, savings and job creation. Lower income tax rates will allow all Canadians to keep more of each additional dollar they earn – to spend, save or invest as they choose.

To get tax rates down, we must reduce tax preferences and broaden the tax base. A wide range of specific tax preferences, of primary benefit to corporations and upper-income earners, would be eliminated, reduced or modified right across the system.

What tax reform would mean for taxpayers is that those who have been making extensive use of tax preferences will pay more tax. Those who have been making little use of preferences will pay less tax. The large majority of individual taxpayers will pay less tax in total.

## **Personal Income Tax**

I aim to achieve substantially lower personal income tax rates and significantly fewer tax brackets.

I am also considering the conversion of personal exemptions and some deductions to tax credits. Exemptions favour those in higher income brackets. A tax credit, on the other hand, provides the same dollar benefit to taxpayers regardless of their income level. With a system of tax credits, lower-income taxpayers would receive greater benefit than they do now, while those at higher income levels would receive less.

In my last budget, I announced the government's intention to propose further measures to reform our system of social transfers and related tax provisions. Converting exemptions into appropriate credits would represent a major step toward fulfilling this commitment. It would also reduce the number of low-income individuals who now pay personal income tax.

I am also examining ways in which I can build on the existing refundable sales tax credit that I introduced in my last budget. By increasing the credit and paying it more frequently we can make our personal tax system more progressive.

## **Corporate Income Tax**

Our fundamental strategy in reviewing the corporate income tax is to ensure that profitable corporations pay their fair share.

I have been seriously concerned about tax loss trading. It has made our corporate tax revenues uncertain. It has led to profitable corporations not paying tax. To preserve respect for the tax system, we must further reduce the source of the problem by cutting back special corporate tax write-offs. This is the direction I set out in May 1985 and acted on last February.

Cutting back corporate preferences would balance the reduction of corporate tax rates to levels competitive with those in other countries, while providing increased and more stable corporate tax revenues.

## **Federal Sales Tax**

The federal sales tax is unfair and inefficient. It is a silent killer of jobs. It levies a higher tax – on average, one-third higher – on domestic manufacturers than on competing imports. This leads to plant closures and lost Canadian jobs. The base is narrow and similar goods can have very different burdens of tax. The sales tax is coming under increasing pressure and reform is increasingly urgent.

We will aim to broaden the base and lower the rates, and ensure equal treatment of imports and domestic goods. Building on the existing sales tax credit would improve the fairness of our system.

Over all, the major thrust of tax reform will be to simplify the tax system, to limit special preferences and provide incentives through lower tax rates. To achieve these goals, we must deal with the three elements of our tax system together, as an integrated package.

Our proposal for tax reform will make our tax system more fair, less complex and more understandable. It will reflect our commitment to economic progress and social justice.

I am tabling the document I referred to earlier, as well as supplementary information, and Notices of Ways and Means Motions covering tax and tariff measures. I will also, pursuant to a motion of this House, introduce today a borrowing authority bill. In light of the increase in Canada's foreign exchange reserves, I will be seeking supplementary authority for this fiscal year. I will also be seeking borrowing authority for 1987-88.

## **Conclusion**

This government has acted on initiatives of fundamental importance to the Canadian economy. This reflects the scope of the challenge that we inherited, and our determination to meet that challenge. We will continue moving forward with our program for economic renewal in a carefully managed, consistent way.

From the standpoint of new initiatives, this budget represents a breathing space prior to the presentation of major proposals for tax reform. But I have also made clear in this budget that while great progress has been made on the nation's deficit problems, there can be no holiday from fiscal responsibility.

The challenge is to maintain sound, steady management of both the fiscal and economic situation. We are meeting that challenge. We will continue to do so.



I have talked with and heard from thousands of Canadians these past 2 1/2 years. I can say with confidence that Canadians from coast to coast will not be daunted by the challenges ahead.

Economic renewal is not just a test of government. It is a test of all of us and our ability to share in the effort to build a stronger economy. And the most important test of our success is the economy's progress, the progress of all Canadians who, individually and collectively, make the economy what it is.

Our progress is measured in growth, jobs and new opportunities and in a stronger economy better able to meet the challenge of rapid economic change and increasing international competition.

The results tell the story. We are on the right track. Our program of economic renewal is working. And we have only begun to see the results that we as a nation can achieve if we stay the course. We must continue to build a stronger, more dynamic and more flexible economy that works for the benefit of all Canadians.

---

# **Annex**

## **Charts and Tables**

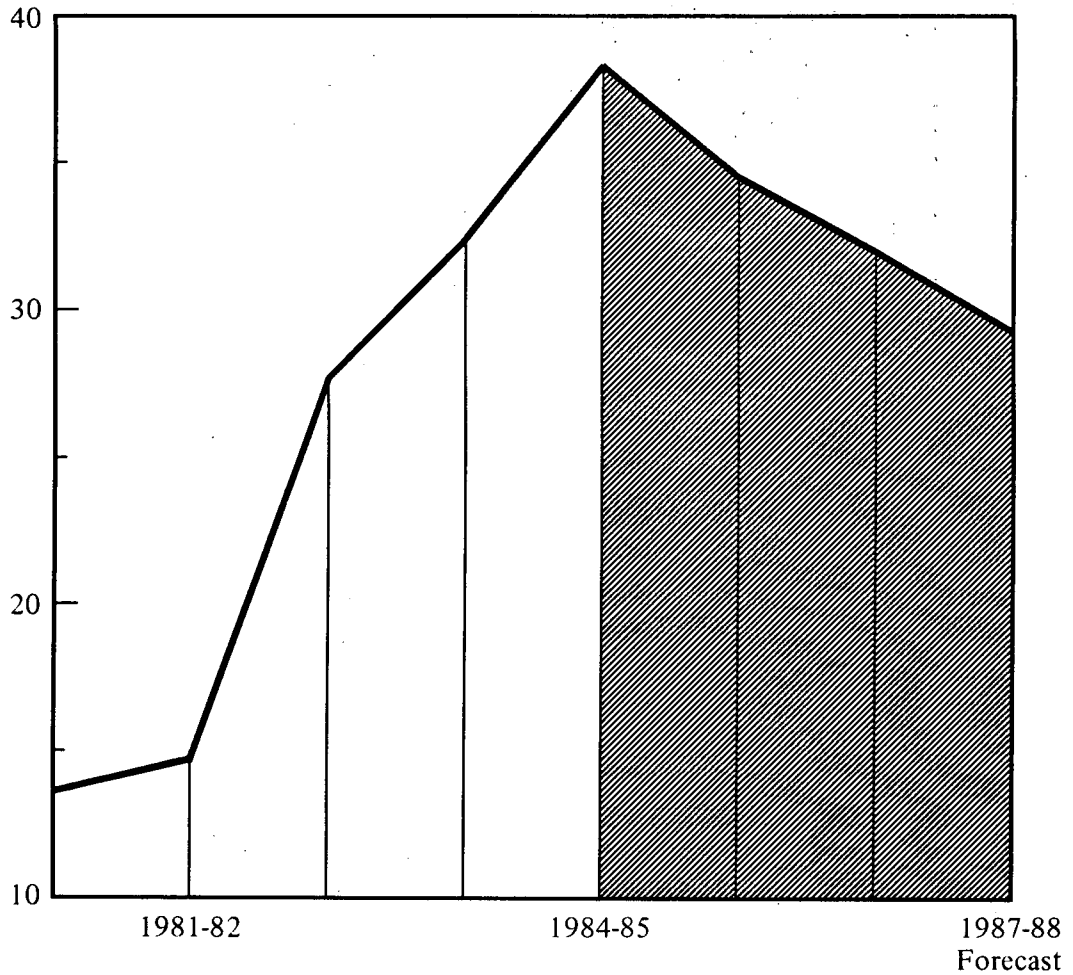
---

---

Chart 1

**The Deficit in the 80s**

billions of dollars



Fiscal years end March 31.

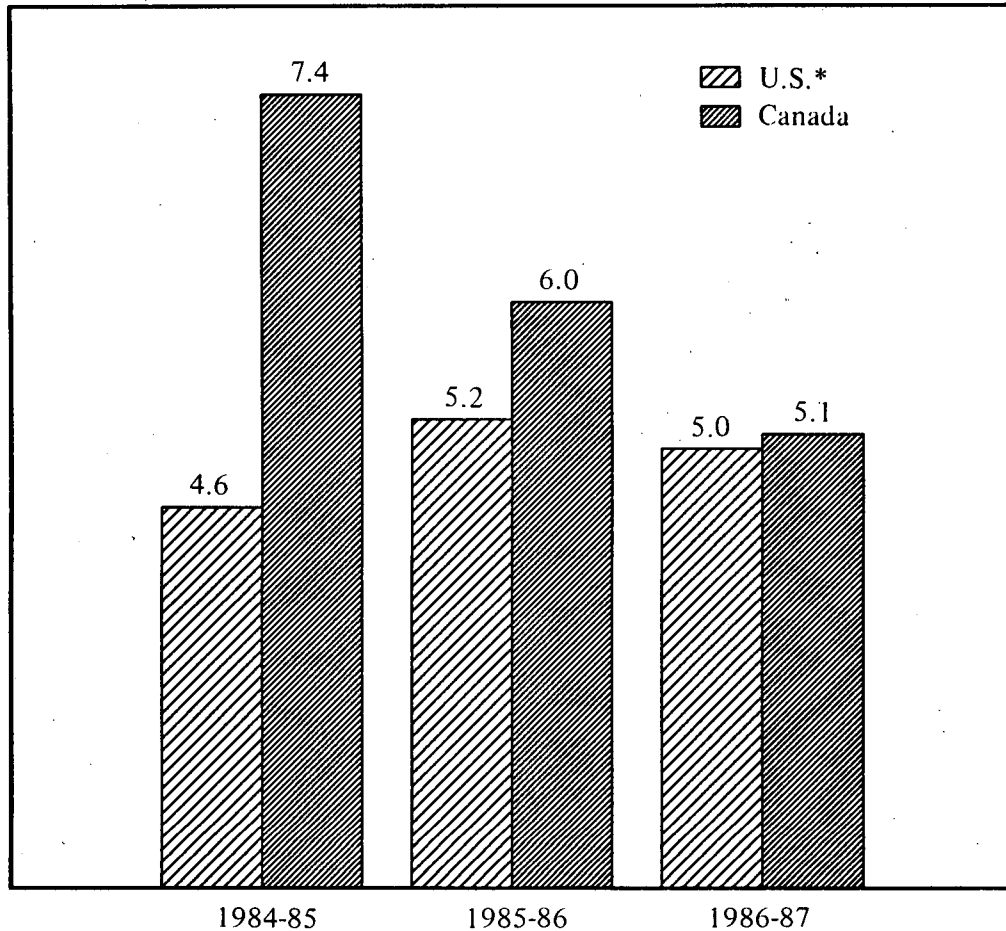
In 1984-85, the deficit was a record high of \$38.3 billion. The deficit is down to \$34.4 billion in 1985-86 and \$32.0 billion in 1986-87, and is projected to decline further to \$29.3 billion in 1987-88. This will be the first consecutive three-year decline in the deficit in three decades.

Source: *The Economic Outlook and Fiscal Plan*, Chart 1.1.

Chart 2

**Canada-United States Deficit Comparison,  
National Accounts Comparable Basis**

per cent of gross domestic product



\*The U.S. deficit figures are calculated on an equivalent (April to March) fiscal year basis.

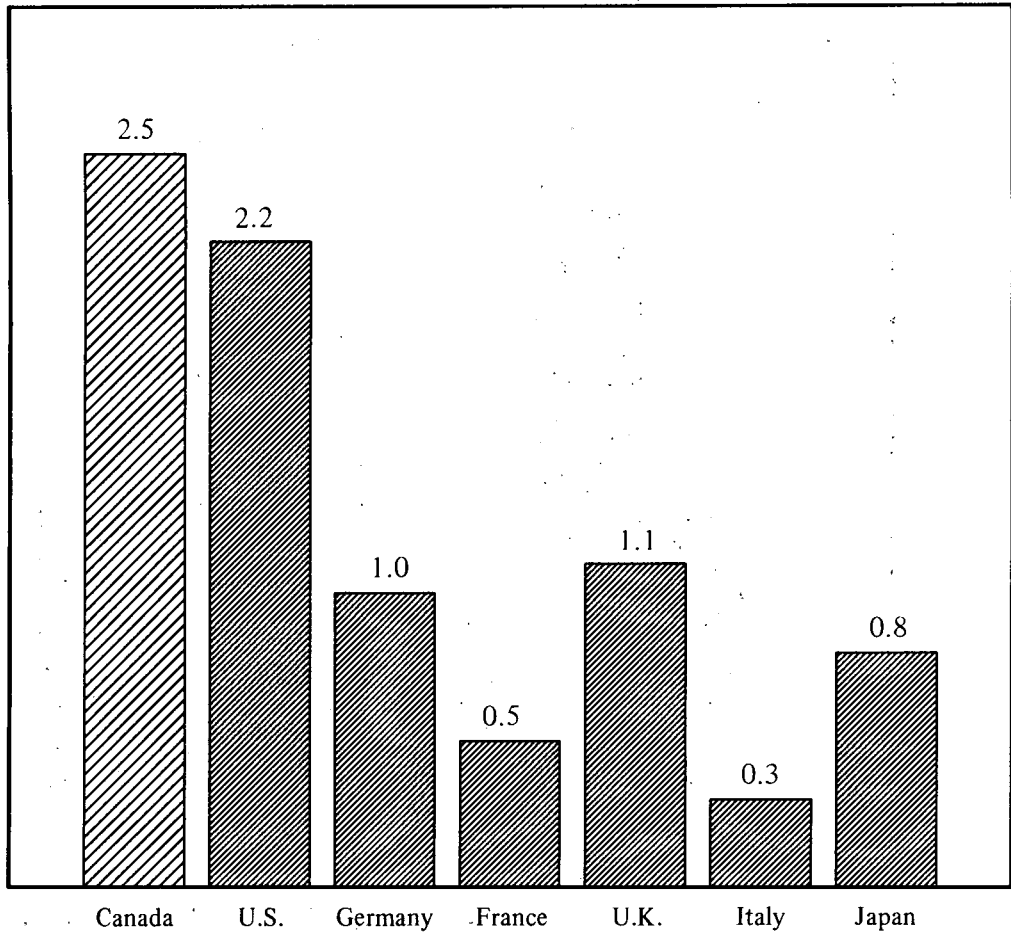
As ratios to GDP, the Canadian deficit is down 2.3 percentage points whereas in the United States the deficit is up 0.4 percentage point, from 1984-85 to 1986-87. The deficits in Canada and the United States, relative to GDP, are virtually identical in 1986-87.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 8.

Chart 3

**Employment Growth Since September 1984**

per cent – average annual rate

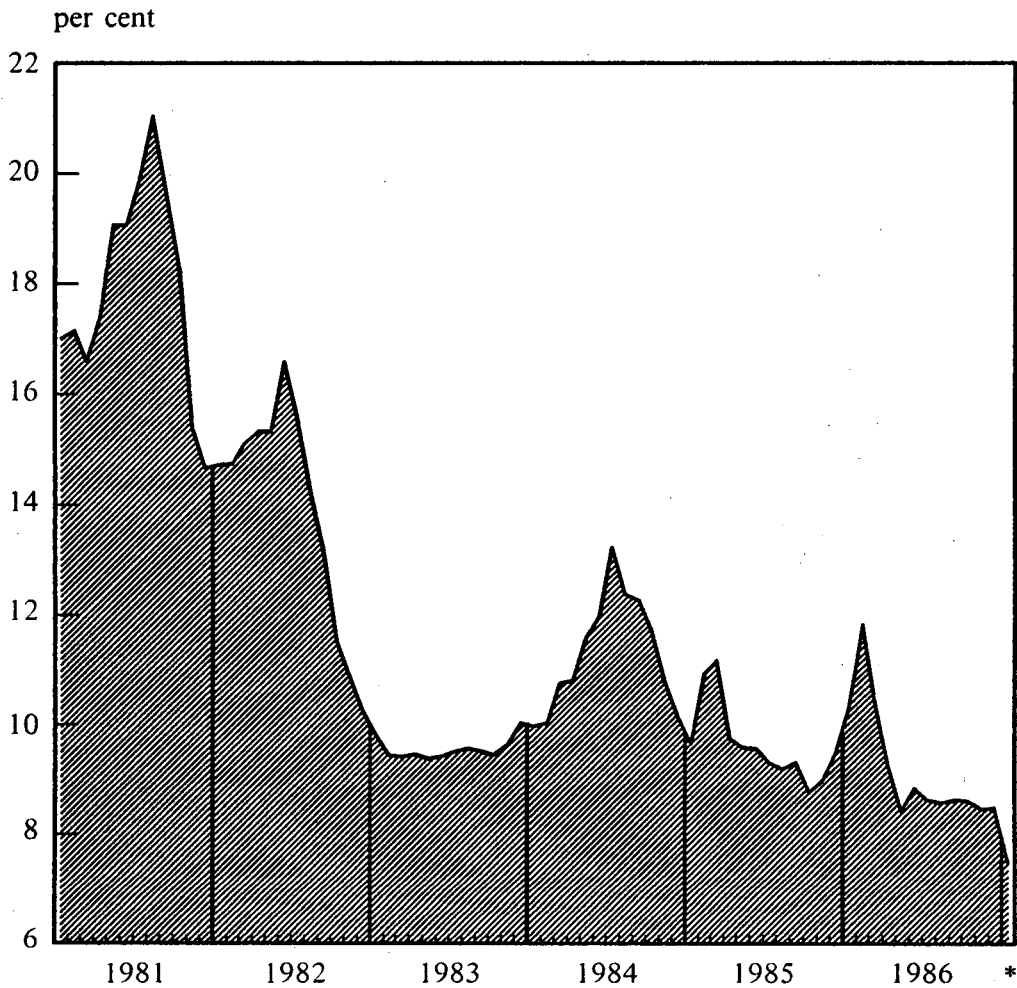


Since September 1984, employment growth in Canada has outpaced the other major industrialized countries.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 12.

Chart 4

**The Bank of Canada Lending Rate  
1981-1987**



\*As of February 12, 1987 the Bank of Canada lending rate was 7.67 per cent.

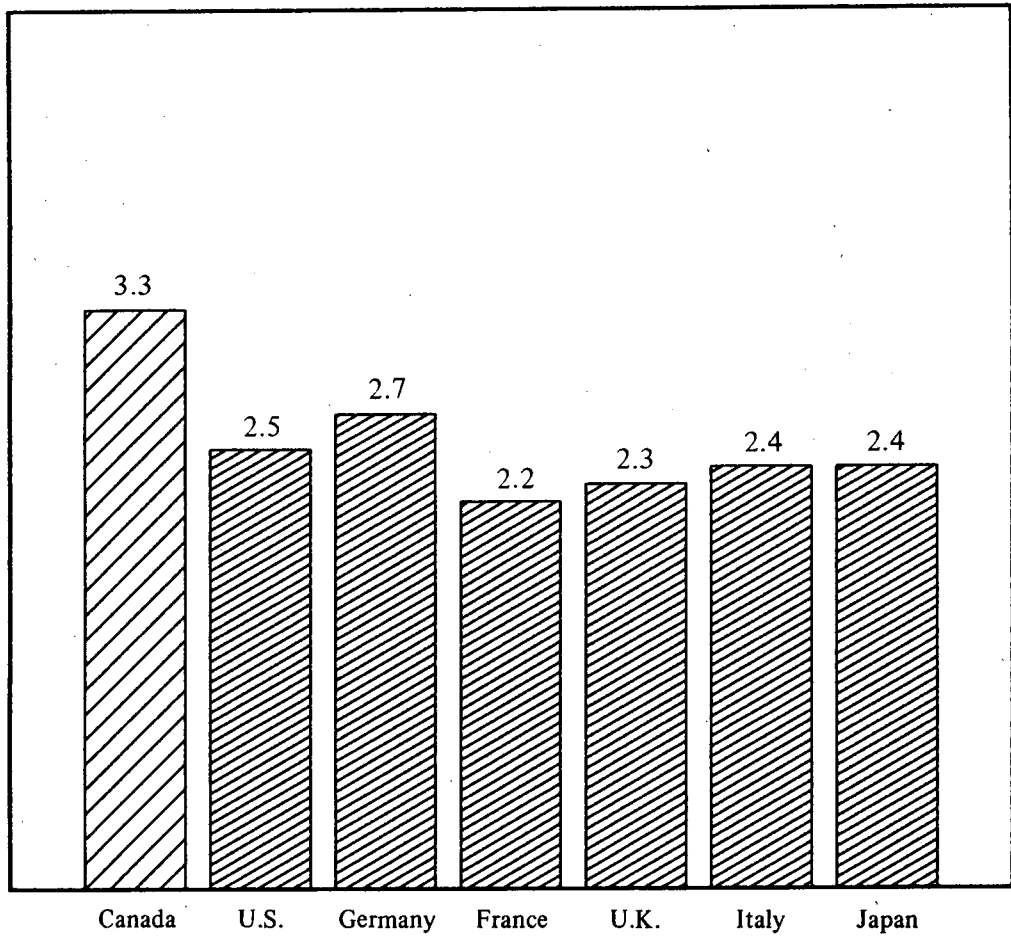
Interest rates have trended down and are currently at levels not seen in nearly a decade. As of February 12, 1987 the Bank of Canada rate was at its lowest level since March 1978.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 5.

Chart 5

**Estimated Output Growth  
in Major OECD Countries in 1986**

per cent



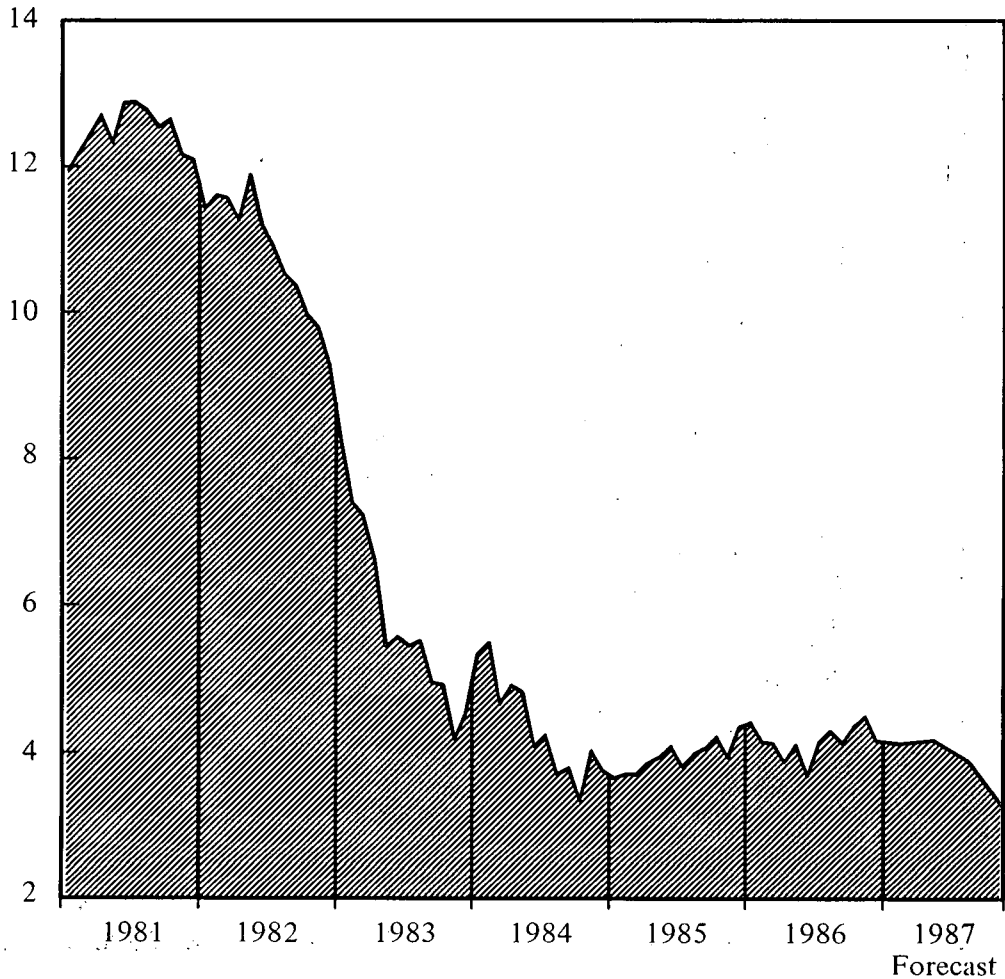
For 1986, the Canadian economy is estimated to have grown by 3.3 per cent, a rate of growth which exceeds those of all other major industrial countries.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.1.

Chart 6

**Consumer Price Index  
1981-1987**

year-over-year per cent change



Inflation is forecast to average 3.9 per cent in 1987, declining substantially over the course of the year to just over 3 per cent by year-end.

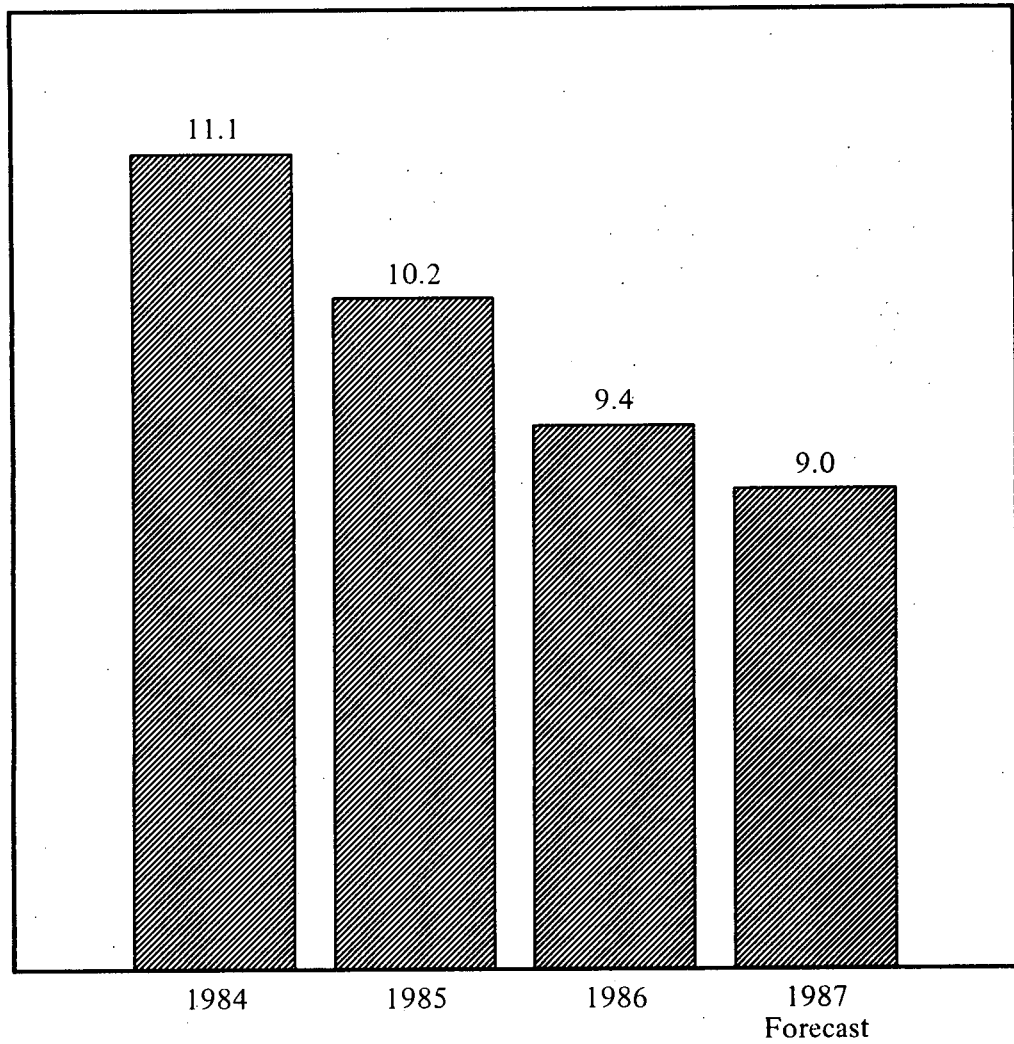
Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 6.



Chart 7

## Unemployment Rate

per cent level in fourth quarter



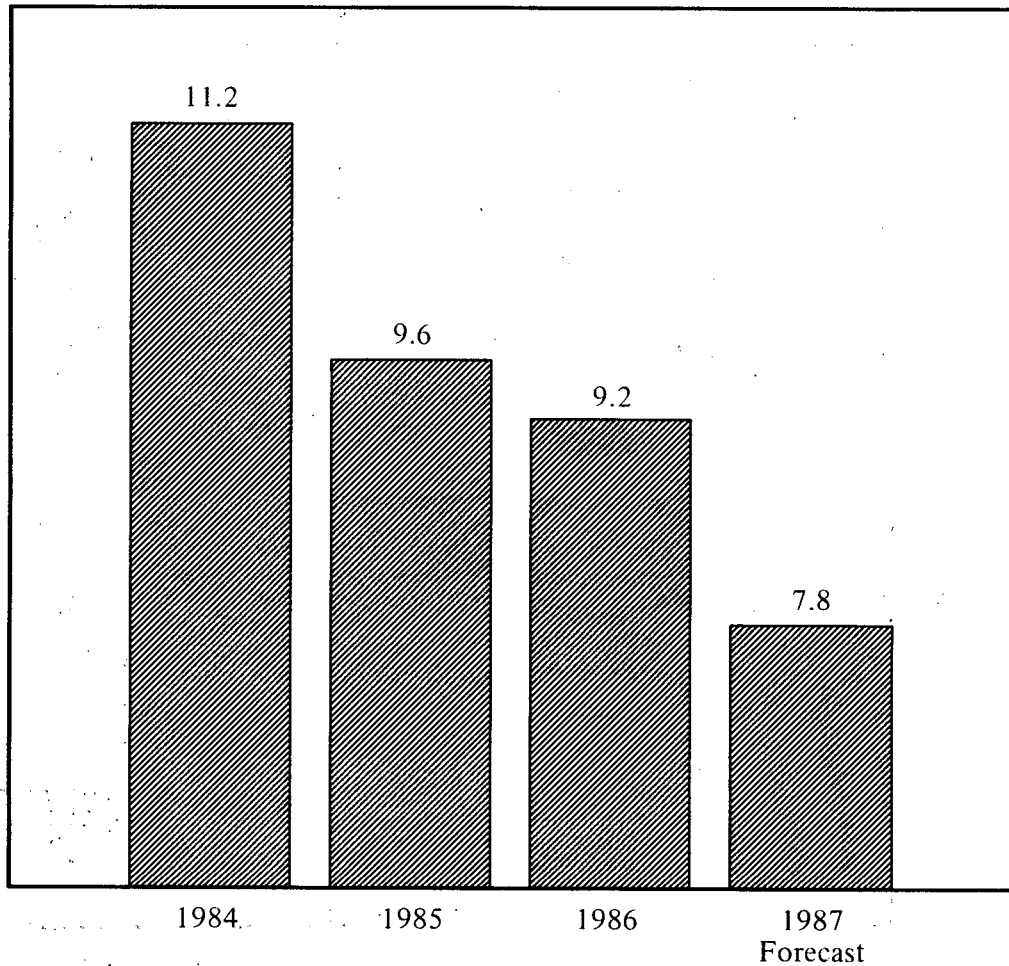
By the end of 1987, with both strong employment and labour force growth anticipated, the unemployment rate is expected to decline to 9.0 per cent.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.3.

Chart 8

**90-Day Commercial Paper**

per cent



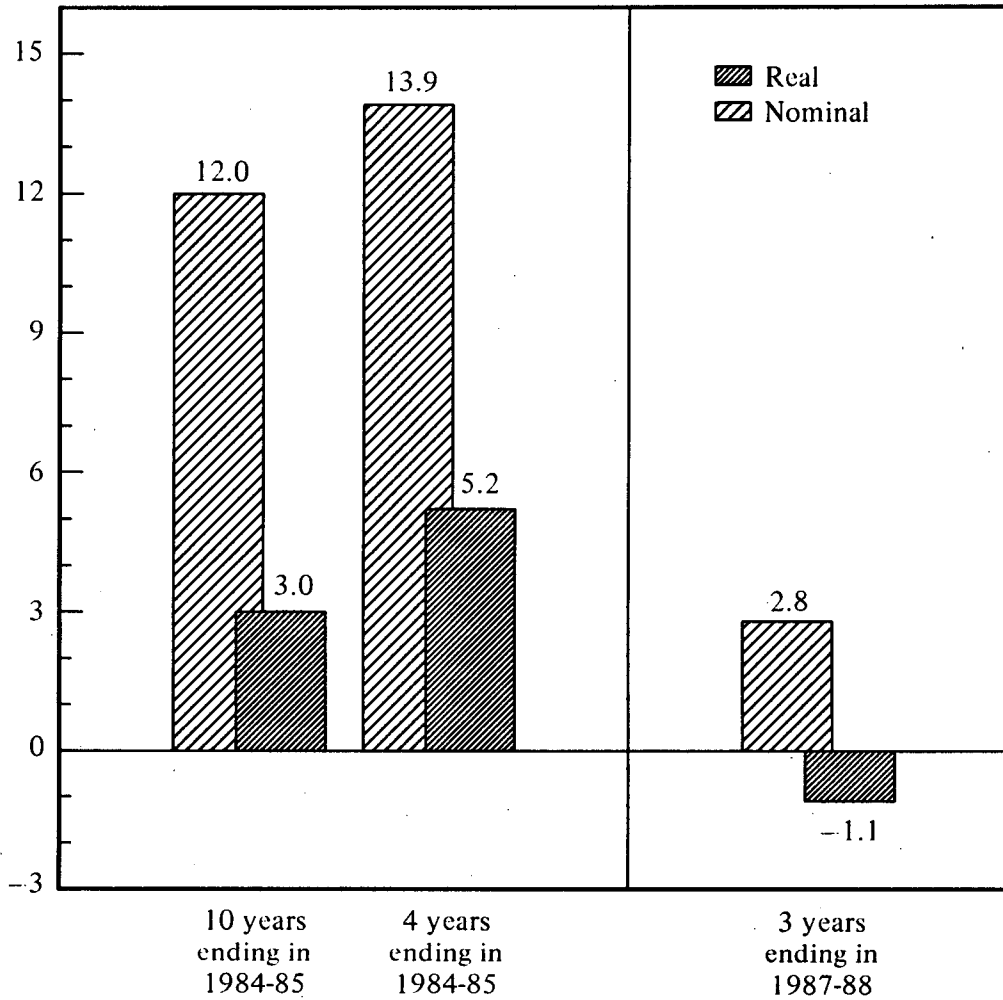
Interest rates declined sharply over the last year. The 90-day commercial paper rate fell from a peak of 12.5 per cent in February 1986 to about 7.5 per cent in early February 1987. During the balance of 1987, Canadian interest rates are expected to remain relatively stable.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.3.

Chart 9

### Nominal and Real Program Expenditure Growth

annual average growth - per cent



Since the start of the 1980s, program spending was growing almost 14 per cent per year, and over 5 per cent per year in “real” terms. In the three years ending in 1987-88, real program spending will have declined by over 1 per cent per year.

Source: *The Economic Outlook and Fiscal Plan*, Chart 3.3.

Table 1  
**Summary Statement of Transactions**

	1984-85 (actual)	1985-86 (actual)	1986-87 (estimate)	1987-88 (forecast)
(billions of dollars)				
<b>Budgetary transactions</b>				
Revenues	70.9	76.8	84.7	93.2
Expenditures	-109.2	-111.2	-116.6	-122.6
<b>Deficit</b>	-38.3	-34.4	-32.0	-29.3
Net non-budgetary receipts	8.5	4.1	7.9	8.0
Financial requirements <sup>(1)</sup>	-29.8	-30.3	-24.0	-21.3
Program expenditures	86.8	85.8	89.4	94.4
Percentage change	10.5	-1.1	4.2	5.6
Percentage of GDP	19.6	18.0	17.7	17.4
Net public debt	199	234	266	295
Percentage change	23.8	17.3	13.7	11.0
Percentage of GDP	44.9	49.0	52.4	54.4

*Note:* Figures may not add due to rounding.

<sup>(1)</sup> Excluding foreign exchange transactions.

*Source:* Budget Papers - The Economic Outlook and Fiscal Plan, Table 3.2.

Table 2

**The Three-Year Fiscal Record  
(as a percentage of GDP)**

	1984-85	1987-88	Change	Contribution to change <sup>(1)</sup> (per cent)
Budgetary revenues	16.0	17.2	1.2	37
Budgetary expenditures	24.6	22.6	-2.0	63
<b>Budgetary deficit</b>	<b>8.6</b>	<b>5.4</b>	<b>-3.2</b>	<b>100</b>
<b>Expenditure components</b>				
Program expenditures	19.6	17.4	-2.2	69
Public debt charges	5.1	5.2	0.2	-6

*Note:* Figures may not add due to rounding.

<sup>(1)</sup> A positive sign indicates a contribution to a reduction in the deficit as a share of GDP.

*Source:* *An Agenda for Economic Renewal: Principles and Progress*, Table 1.