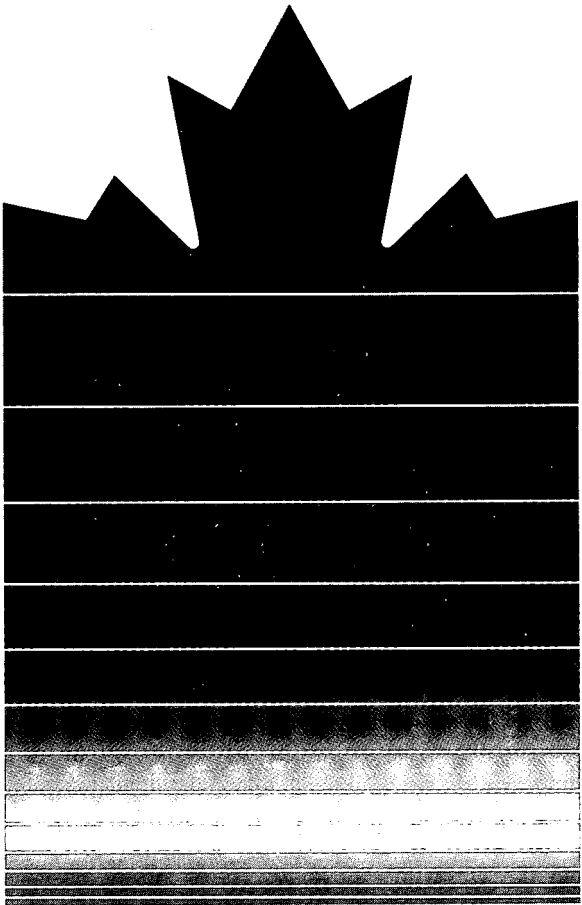


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Economic Renewal

Budget in Brief

February 10, 1988



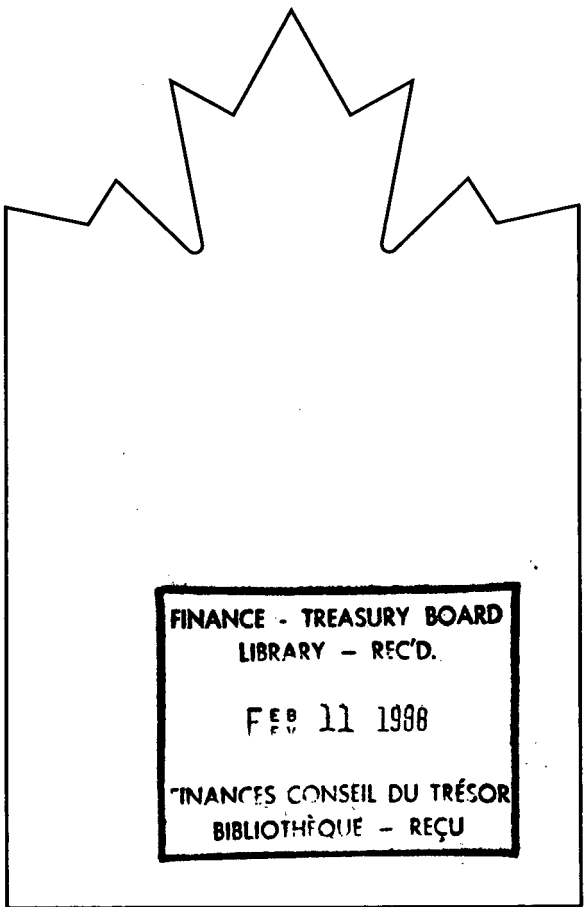
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Department of Finance
Canada

Ministère des Finances
Canada

From the Budget Speech

February 10, 1988

The Honourable Michael H. Wilson

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

"Our economy is growing stronger, more dynamic, better able to compete. Many more Canadian men and women have jobs. Canadians are successfully meeting new challenges and seizing new opportunities."

"The budget I am tabling today is a record of how our policies and initiatives have worked in building the framework for the economic success we now enjoy.

"It is also a statement about the economic and social progress still to be achieved by holding to the course we have set – progress measured in rising standards of living and an improving quality of life that fully reflects the distinctive priorities and values of Canadians."

A handwritten signature in black ink, reading "Michael H. Wilson". The signature is written in a cursive style with a large, sweeping initial "M".

A Record of Strong Economic Performance

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

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

- Consumers are confident; consumer spending has continued to grow strongly.

Policies for Growth and Jobs

“This solid record of progress didn’t just happen.

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

“To make this vision a reality, we set out a long-term plan – our Agenda for Economic Renewal – to transform the economy so that it can meet the challenges of a more competitive world. Step by step, we have been putting in place a wide-ranging series of actions.”

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

Revitalizing the Private Sector

“The driving force behind productive growth and job creation is a dynamic private sector. To encourage this dynamism, the government has taken far-reaching measures.”

Modernizing the Regulatory Environment for Business

“We deregulated the energy and transportation sectors.

“We opened financial markets to global opportunities and stimulated greater competition in financial services.

“We modernized business framework legislation for competition policy, copyright and patents, providing better protection for the public interest.

“We privatized Crown corporations to reduce the intrusion of government in the marketplace.

“We created Investment Canada to encourage and welcome investment capital from abroad, investment that is creating jobs for Canadians.”

Making the Tax System Fairer and More Effective

“To build a firm foundation for success in the 1990s, we need a tax system that is fairer for individual Canadians, more effective in supporting growth and job creation.

“We are meeting these objectives. On January 1, 1988, major reforms to the personal and corporate income tax systems went into effect. The results are compelling.

“More than eight out of 10 households will see their personal income taxes reduced. About 850,000 lower-income individuals will have their income tax reduced to zero. Almost nine out of 10 Canadians aged 65 and over will have income tax reductions.

“The corporate tax system will be more competitive with systems in other countries. Business and investment decisions will be based more on economic merit than on tax considerations. At the same time, many more profitable corporations will pay tax and corporate income tax will contribute a larger share of total tax revenues.

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

others to develop the most effective means of implementing this new system - particularly the opportunity of an integrated National Sales Tax. While progress so far has been good, we have more work to do."

Securing and Improving Access to World Markets

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

"The government supports the liberalization of world trade. That is why we worked so vigorously for a new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade."

"The free trade agreement with the United States is a major building block to strengthen Canada's competitive position in the world and enhance the prosperity of our people. Prices for a wide range of consumer goods will begin to decline, expanding the purchasing power of Canadian households. Investment in plant and equipment will expand as Canadian firms move to take advantage of their enhanced access to the huge U.S. marketplace.

"The government has completed a number of detailed studies on the impact of the free trade agreement on the Canadian economy. We estimate that there will be a net increase of at least 120,000 new jobs by 1993. We

expect, too, that by the time the agreement is fully implemented, the real incomes of Canadians will be increased permanently by about \$1,800 per year for a family of four.

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

Reducing the Deficit and Controlling the Growth of the Debt

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

“In 1984, the federal deficit and the national debt were out of control. The deficit was more than \$38 billion – up from \$14.9 billion just three years before. The national debt had doubled in the same period and was growing at an average rate of 26 per cent per year. If we had continued to pile up public debt at the same rate, today the debt would be more than \$100 billion higher than it is – equivalent to \$16,000 more for a family of four.”

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

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

“Our challenge in 1984 was to restore fiscal stability and rebuild credibility in the management of government finances. The only way to do that was to set out a medium-term fiscal plan with sustained deficit reduction – and then hold to that plan.”

“We embarked on a series of actions to restore fiscal order by cutting government spending and increasing revenues.”

“In the first three full years of our mandate, we cut the average annual rate of increase in government spending to just 3.5 per cent – less than the rate of inflation. We achieved this record because we put in place a new, disciplined approach to the management of government and its finances.”

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

“With these actions, we have systematically reduced the deficit. For the current fiscal year, I said we would cut the deficit to \$29.3 billion. We will meet that target.”

“To ensure continued deficit reduction, this budget includes further expenditure reductions. Today I am announcing a reduction in non-statutory spending by government departments of \$300 million beginning in 1989-90.

“These reductions, together with the continuing impact of our earlier restraint measures, will ensure that spending on non-statutory programs, excluding foreign aid and defence, will be lower in 1989-90 than it was when we took office.”

“To raise revenues, the tax on gasoline will be increased by one cent per litre effective April 1. The rebate on gasoline purchased by farmers, fishermen and other primary producers will be increased by this amount.

Economic Outlook

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

“The performance of our economy in 1987 surpassed most expectations. For 1988, the Canadian economy is on course for a sixth consecutive year of expansion. Business confidence remains high and our corporate sector is in good financial health; we are competitive in international markets.

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

Implementing Priority Programs and Responding to Unexpected Developments

“Our expanding economy provides the means for government to maintain the social services that are an integral part of the Canadian way of life. But strong economic growth coupled with our fiscal progress has enabled us to do more.”

- We are introducing a National Child Care Strategy which will offer parents greater choices in caring for their children and will make available more good quality, affordable child care facilities.
- We are implementing a new approach to regional development that is more responsive to regional needs and priorities and that draws fully on the ideas and the initiative of people living in the various regions.
- We are embarked on a long-term strategy to apply science, technology and innovation in strengthening economic growth and development.
- We have begun to implement proposals to strengthen and modernize the Canadian Forces in order to protect Canada's sovereignty and meet our commitments to our allies.
- We are providing substantial support to Canada's farm community in the face of severe international conditions, through existing programs as well as supplementary assistance.
- We have provided wide-ranging support for the development of Canada's vital energy industry, through energy accords with the producing provinces and additional assistance following the collapse of world oil prices.

Canada and the World Economy

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

“To succeed in this turbulent environment, we must be able to adjust quickly and be flexible in responding to change.

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

“By working together, the major industrial nations can improve the prospects of all countries, including the developing countries.”

Conclusion

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

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

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

“We must continue to improve our ability to adapt, to seize the opportunities created by an ever-changing world. In the decade to come, we cannot be satisfied simply to do as well as other countries. We must continually strive to do better, to be the best.”

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