

The Budget—Mr. Chrétien

Mr. Knowles (Winnipeg North Centre): Mr. Speaker, earlier today there was some discussion about this and it was understood that the hon. member for Nickel Belt (Mr. Rodriguez) was tied up in committee this afternoon and so would not be able to proceed with that bill. Perhaps there is another one.

If there is no other bill to take, this would be a good day for the House to take my bill to abolish the Senate.

Mr. Speaker: Do I understand then that the bill standing in the name of the hon. member for Nickel Belt will not proceed at this time and will stand?

Some hon. Members: Agreed.

Mr. Baker (Grenville-Carleton): Mr. Speaker, perhaps I could help the government out of a dilemma. There is a bill on the order paper in my name dealing with lobbyists. I think there may be some way of having us proceed with private members' bills. If we cannot do that, or if it is inconvenient to do that, I would think, since this is budget night and many members are preparing themselves for budget night, that it would not be inappropriate if we called it six o'clock.

Mr. Speaker: Is that agreed?

Some hon. Members: Agreed.

Mr. Speaker: Agreed and so ordered. It being six o'clock, I do now leave the chair until eight o'clock this evening.

At 4.59 p.m. the House took recess.

● (2002)

AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

[Translation]

THE BUDGET**FINANCIAL STATEMENT OF THE MINISTER OF FINANCE**

Hon. Jean Chrétien (Minister of Finance) moved:

That this House approves the budgetary policy of the government.

He said: Mr. Speaker, I welcome this opportunity to place before the House an assessment of the state of the Canadian economy and my proposals for improving our economic performance.

In recent weeks I have travelled to many parts of Canada. I have talked to many Canadians—my provincial colleagues,

[Mr. Speaker.]

businessmen, labour leaders, economists and laymen. Everywhere I have been told that my budget must be responsible, that it should create an atmosphere of stability and certainty in the country and that it should aim at lowering costs, including the costs of government.

[English]

The General Economic Situation and Outlook

Let me begin by reviewing our current economic situation. The economy in 1978 made much progress, although the results have fallen short of my earlier expectations.

It is true that employment has risen strongly. In October, 362,000 more Canadians had jobs than a year earlier. A larger proportion of Canadians is working now than ever before, but unemployment is still too high.

The increase in the gross national product in current dollars is likely to be close to the 11 per cent I forecast in the April budget. But prices have risen by more and output has gone up by less than was forecast at that time.

The prices of the things we produce are likely to be up about 6½ per cent. The growth in output should be close to 4 per cent. We had a slow first quarter when the United States economy was depressed by the coal strike. We have not been able to catch up fully since.

The consumer price index rose more sharply than had been expected. In September, it was 8.6 per cent higher than a year earlier. This renewed outburst of inflation was not the result of any acceleration in our own incomes or our own domestic costs. It was the result of higher food prices and the decline in the dollar.

This faster rise in the CPI reduced the growth rate of real income and real purchasing power of Canadians. The result was that consumer spending rose by less than had been expected, and this was the main reason for the shortfall in growth. Consumer spending has risen this year, in real terms, by 3½ per cent to 4 per cent. Employment is higher and personal income taxes have been cut. A special stimulus has been provided by the temporary reductions in provincial sales taxes, largely financed by my April budget. But higher prices of food and other imported consumer goods have weakened the impact of these expansionary forces.

Since the Bonn summit, several countries have taken measures to stimulate their economies. Growth is expected to be rather more rapid in 1979 than in 1978 outside of North America. But it will slow down in the United States. The outlook is for expansion in Canada at a greater rate than in the United States next year. But because our most important trading partner will be growing more slowly, it will be hard for us to reduce the slack in our economy. Moreover, our trade balance will not improve as rapidly as it should, given our improved competitive position, although it will be higher this year. In these circumstances, we must get better access to the markets of other countries, especially those which continue to run very large trade surpluses. The success of the Tokyo Round of trade negotiations remains critical to us. In our

bilateral relations with other countries, we will press hard for greater opportunities to trade.

We have been through a period of great disturbance in international financial markets. The American dollar has come under severe downward pressure. The United States government has taken steps to rectify the situation, including sharp increases in interest rates. Our own situation has necessarily been made more difficult by the higher interest rates that have accompanied our efforts to control the rate of monetary expansion and maintain an appropriate relationship with interest rates in other countries.

[*Translation*]

Laying the Basis for Future Growth

While recognizing the setbacks and difficulties we have encountered, I want to emphasize that Canada has made great progress since the introduction of the Anti-Inflation Program in 1975. We have been getting the fundamentals right and laying the basis for sustained growth in the 1980s.

In the last three years the Bank of Canada has gradually reduced the rate of growth of the money supply. It has set target ranges for monetary expansion, successively reduced them and consistently succeeded in staying within them.

Expenditures by all levels of government have been brought under tight control. The growth of total federal outlays has been held to less than the growth of the gross national product since 1976-77 owing in large part to the tough leadership of my colleague, the President of the Treasury Board.

The ceiling on total outlays for next year has been established at \$52.6 billion, an increase of 8.9 per cent over this year's ceiling. This increase is well below the expected growth of the GNP. Many programs will have to make do with a lower level of real resources; some activities have been eliminated. We are having to cut back on the rapid growth in our transfers to the provinces. Even so, our expenditure budget is coming under great pressure from the rising cost of our statutory programs, especially interest on the public debt. There can be no weakening in our determination to keep expenditures under tight control.

Average increases in wages and salaries have been brought down from a high of 15 per cent to 6 per cent in the last year of controls. I do not attribute all of this to our prices and incomes policy, because no doubt there would have been some slowdown in any event. But I am sure that controls made a contribution to the process. That appears to be the view of economists who have closely examined the record.

While domestic costs were being brought under better control, the decline in the exchange rate reversed the loss of competitiveness which we suffered earlier in the decade. Canadian firms are now in a good position to increase their sales in foreign markets and win back the share of our domestic markets which they had lost to foreign competitors. This is already happening. The good September trade figures

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suggest that we will have a record trade surplus this year of close to \$4 billion.

Industrial Policy

Mr. Speaker, our manufacturing industries are benefiting most from this improvement in our competitive position. They suffered most when we priced ourselves out of world markets. The decline in manufacturing output and employment was a major concern, but the latest data show a turnabout in the past year.

Manufacturing production in August was 7 per cent higher than a year ago. New orders have risen sharply. Capacity utilization is back up to 86.4 per cent, which is above the long-term average. Manufacturing employment in October was up 110,000 or 5.7 per cent over a year ago.

The government has recognized the strategic importance of the manufacturing industry and provided assistance to it in many ways—through the tax system, through the Export Development Corporation, the Federal Business Development Bank and the Enterprise Development Program. In the reallocation of government expenditures announced September 8, we set aside an additional sum of \$300 million to assist industry to exploit new markets, to develop new technology and to reorganize to meet the challenges which lie ahead. This will reinforce the measures contained in the last two budgets which have provided generous tax incentives for research and development.

I am frankly sceptical about the search for a single grand industrial strategy in a competitive market system. But we must have a set of sensible industrial policies, designed to provide a healthy framework for all industries and specific incentives tailored to particular needs. This government has gone a long way to putting these in place, and I will go further tonight.

The effective process of consultation between business, labour and government launched by my colleague, the Minister of Industry, Trade and Commerce (Mr. Horner) is contributing to the further development of our industrial policies.

● (2012)

[*English*]

Energy

There is good news from another critical sector of the economy—energy. The massive increase in world energy prices in the early 1970s created severe difficulties for all consuming nations. Because we are relatively rich in energy, we have been able to cushion the shock by phasing in higher prices gradually. At the same time, we have provided generous incentives to spur the development of new energy sources and we have put in place a number of conservation measures to restrain demand.

Our policies are working. In contrast to the perspective only two years ago, the outlook for energy self-reliance and the

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sector's contribution to our economic performance are most encouraging.

This is true of all the main energy sources, but particularly of oil and gas.

According to the National Energy Board, domestic oil shipments to Montreal can continue until at least 1995 and exports of light oil could be maintained at 55,000 barrels per day for three years. Compared with the Board's 1977 forecast, the new figures indicate the basis for an improvement in our trade balance of more than \$2 billion in total over the next three years.

Hon. members will be aware that the National Energy Board is holding hearings on the supply and demand for natural gas and is expected to report in February. There is mounting evidence that our reserves of natural gas are significantly more than estimated just a few years ago. The indications are that there may be more than enough to meet our foreseeable domestic needs. But the whole magnitude of our reserves remains to be determined. Primary emphasis must be laid on expanding the use of gas in Canada, and this in itself will displace imported oil. The favourable trade effects of the new gas outlook will be substantial. For example, an additional 500 millions cubic feet per day, whether used to displace imported oil or for exports, would improve our trade surplus by \$500 million a year.

Growing Confidence in the Economy

All of these developments are building the greater confidence in our medium-term prospects which I found in my pre-budget consultations. There is a growing faith that Canada can launch itself on the sort of sustained expansion which I portrayed for the February meeting of first ministers.

We should not underestimate the strength of the expansionary forces that are at work. A powerful stimulus to sound economic growth is now coming from a more competitive dollar. This will not only improve our trade performance: it will also lead to more investment as Canadian firms increase their productive capacity and modernize their equipment in order to take advantage of the new opportunities.

A recent survey showed that 300 large corporations are planning to increase their spending on plant and equipment next year by 16 per cent. Allowing for rising costs, this represents a substantial increase of about 8 per cent in the volume of investment. I welcome this evidence that firms are pressing ahead in 1979 with the investments we will need in the 1980s. We should do all we can to encourage this development. We must respond to the particular problems confronting individual sectors of the economy. We must strengthen our efforts to encourage investment and growth in the less favoured regions.

The Outlook for Costs and Prices

Our most immediate challenge, however, is to hold onto the gains we have been making in our competitive position, as we come to the end of mandatory controls over prices and incomes. Decontrol is not an easy business at the best of times; our phased approach was designed to reduce the chances of a

post-control bulge. It is all the more difficult when we have been through a surge in the cost of living, caused not by any acceleration in our domestic costs, but by the rise in food prices and the fall in the dollar.

These unfavourable influences are coming to an end. We have already seen some decline in food prices in August and September which brought about a welcome pause in the rising cost of living. A great deal more stability is expected from now on if crops are normal around the world.

● (2022)

There is good reason to believe that the major adjustment in the exchange rate that was required to restore our competitive position has been completed.

This can only have a lasting effect if the feedback on the domestic economy from the higher price of imports and export-related goods does not result in a fresh outbreak of large, leap-frogging wage and price increases in Canada.

Steadier food prices and a steadier exchange rate will mean that we have every chance of a much lower rate of inflation emerging even though we will probably see a jump in the cost of living for October. This will be mainly because of the ending of provincial sales tax cuts. But that should be no more than a temporary interruption of the trend unless we Canadians become unreasonable in our income demands.

In the last year, wage increases in Canada have been lower than those in the United States. So far, post-control wage settlements are showing only a very modest acceleration. I commend labour and management for the responsibility they have generally shown; increased competitiveness means more jobs. The federal and provincial governments agreed in February that compensation in the public sector should follow rather than lead the private sector.

While I urge Canadians to exercise self-discipline in their income demands, I would stress the fact that Canadian workers have done well in the last three years. Real disposable income per employee in Canada has increased by over 7 per cent. In the United States real disposable income per employee has declined by nearly 2 per cent in the same period.

Even so, there is some risk that we will launch ourselves again on a price-wage spiral which will undo all the progress we have made. We must reduce the rate of inflation to 6 per cent as soon as possible, but it will not be good enough to stabilize the rate of inflation at that level. Inflation must keep on declining if we are to expect really good economic performance.

[*Translation*]

Fiscal Policy Choices

I have now spelled out in some detail the economic background to this budget as I see it. In considering what action I should take on taxes, the obvious question is how much room do I have.

A wide range of views on this question has been put to me in my recent talks. I have been urged to cut taxes massively in

order to stimulate the economy. Given the expansionary forces which are already at work, I do not think this would be wise, particularly when our cash requirements are so high.

On the other hand, I have been told that I should do nothing to add to the \$9.7 billion of cash requirements already forecast for 1979-80. But action is needed now to encourage investment, to respond to the needs of sectors and regions, and to keep our costs competitive, while reducing our cash requirements from the present high level.

I believe I have some room because of the efforts we have made to reduce our expenditures. I think we should share these savings with the public.

I would like now to turn to the tax measures that I am proposing tonight. Let me begin with personal income taxes.

Personal Income Tax

Mr. Speaker, an outstanding feature of our personal tax system is the inflation indexing of personal income tax exemptions and brackets. Canada is one of the very few industrialized countries that provide such indexing. Since its introduction in 1974, indexing has reduced the taxes paid by Canadians by billions of dollars.

I would like to announce that the indexing factor for 1979 will be 9 per cent. As a result, for example, the total personal exemptions for a family of four will increase by \$490 to \$5,970. This indexing adjustment will also increase the \$200 child tax credit to \$218 per child payable in the spring of 1980.

Indexing will reduce federal taxes paid by Canadians by about \$1.2 billion for the 1979 taxation year. It will also reduce provincial income taxes in those provinces with tax collection agreements by some \$400 million. As a result of these built-in reductions, Canadians will pay a lower share of their total income in taxes next year.

I have a further announcement to make with relation to personal income tax. Taxpayers are currently permitted an employment expense deduction of 3 per cent of wage and salary income with a maximum deduction of \$250. I am proposing to double the maximum for this deduction from \$250 to \$500 for 1979 and subsequent taxation years.

This change will benefit most working Canadians. It is estimated that it will reduce their taxes by \$270 million in 1979-80.

Hon. members expressed concern at the time of the last budget over the taxation of registered retirement saving plan proceeds. This concern was directed toward the situation where both parents die, leaving behind minor or disabled children. I undertook to review the situation. I now propose that the provisions be amended for the benefit of these children.

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Unemployment Insurance Premiums

Employees and employers will also benefit from a cut in unemployment insurance premiums. On behalf of my colleague, the Minister of Employment and Immigration, I am pleased to announce that the weekly employee rate for 1979 will be reduced from \$1.50 per \$100 of insurable earnings to \$1.35. The employer rate will be reduced from \$2.10 to \$1.89. The effect of this will be to increase take-home pay and reduce costs to employers by about \$300 million in 1979.

The built-in reductions in personal income tax, the increase in the employment expense deduction, and the cut in unemployment insurance premiums will improve the take-home pay of Canadians by about \$2 billion in 1979. The great majority of Canadians now recognize the inflationary impact of too rapid a rise in money incomes. I am confident that they will take into consideration these improvements in disposable income in setting their income demands over the year ahead.

[*English*]

Tax Structure Changes

Mr. Speaker, I come now to important structural tax changes. A stable tax system is essential for economic growth and development. It must be equitable. It must reward initiative and enterprise. Defects in the system and unchecked abuses lead to unfairness. Special tax incentives that miss their target do more harm than good. For these reasons, tax system stability cannot mean leaving the system unchanged.

We have to keep the tax system under constant review. I am releasing tonight two major studies made by my officials. One is a study that lay behind the decision of the government to introduce the refundable child tax credit. The second makes a comprehensive comparison of the Canadian and United States tax systems. Mr. Speaker, this second study destroys a myth. It shows conclusively the Canadian personal tax system compares most favourably with that of the United States. I have also found that our business taxes are fully competitive. Our system is basically sound. There is, however, need for certain changes—some of a relieving nature and some not.

● (2032)

Commodity Taxes

First, certain changes are needed in federal sales and excise taxes. Some tax measures designed to conserve energy are not working as they should.

In my view the special 10 per cent excise tax on marine engines and private aircraft and the 5 per cent tax on motorcycles are having adverse economic effects. The contribution of these taxes to energy conservation has been minimal. I therefore propose to eliminate them, effective tonight. At the same time, I want to put all non-commercial users of gasoline on the same basis. I am therefore extending the special 7 cents a gallon excise tax on gasoline to aviation fuel for non-commercial uses.

To encourage energy conservation, storm doors, windows and automatic timer-control devices were exempted from federal sales tax. These exemptions have proven extremely difficult to control and to administer. For example, most glass

