AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

[*English*]

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Allan J. MacEachen (Deputy Prime Minister and Minister of Finance) moved:

That this House approves in general the budgetary policy of the government.

He said: Madam Speaker—

Some hon. Members: Hear, hear!

Mr. Hees: That is the last applause you will get, Al.

Mr. MacEachen: —I am honoured to have the opportunity to present to Parliament the first budget of this new decade. It is a budget which sets new directions for the economy, directions which will ensure both energy security and economic security for Canadians in the years ahead.

● (2010)

It would be no service to this House, or to Canadians, to deny that there is a deeply troubling air of uncertainty and anxiety around the world and, I am sure, in the hearts and minds of Canadians. As well, we have inherited many difficulties from the decade of the seventies. But it would be just as wrong to deny that the decade of the eighties provides extraordinary opportunities for Canada and Canadians.

Only ten years ago, the world was riding high on the long wave of postwar economic expansion. While inflation was beginning to creep up in many industrial countries, we all felt confident in our collective abilities to manage growth as the world economies expanded in concert. But ever since the oil crisis of 1973 industrial countries have had to struggle with the problems of inflation and stubbornly high rates of unemployment. In 1979 the world was shaken by a second major oil shock. For the industrial world this has meant a sharp renewal of inflationary forces and real income losses. For the developing world this second oil shock has been a tragedy. Their international deficits are now three to four times the sum they receive in aid from the rest of the world.

The long-heralded recession in the United States has become a reality with a sharp drop in real output in the second quarter and output is drifting downward in almost all OECD countries. The rate of inflation in the U.S. remains disappointingly high despite the recession. Interest rates fell in the early summer but have risen again in recent months.

Barring some new disruption in international oil supplies, it seems reasonable to expect that the period of sharp decline in U.S. output is over, and that the worst of the dramatic surge in international inflation directly associated with the OPEC price increases is behind us. It is widely recognized, however, that the world economy now faces an extended period in which recovery from the recession is likely to proceed at a relatively modest pace and in which gains on the inflation front will only be won slowly.

In this environment the tasks of economic policy obviously present a great challenge. Within industrial countries, we have all learned that we cannot achieve full employment, stable prices and other economic goals simply by influencing the demands for goods and services by cutting taxes or by increasing government expenditure—or alternatively by raising taxes and cutting spending. The problems are obviously deeper and more complex, and they relate to our basic ability to produce. The oil problem is an example of that. The world is having to use higher-cost sources as the cheap ones are used up. Even more generally, the amount of goods and services which each worker produces on average is not growing as fast as it was, because we are not investing enough and because we are not doing enough to keep up the pace of technological improvement. Shortages of resources and slower productivity growth mean that costs go up faster and this makes the problem of inflation more intractable.

We cannot live with double-digit inflation for two fundamental reasons. It is unfair to those who cannot protect themselves, the less fortunate members of society and especially the elderly. It also imposes a very heavy cost in terms of lower output and loss of jobs. It could well endanger our ability to compete in world markets. It means high interest rates. It weakens the incentives for business investment. It undermines consumer spending and slows down the building of houses.

So these two problems of the high real costs of additional output and inflation compound each other. They are not just Canadian problems, Madam Speaker, they are world-wide problems. At the Venice Summit and at meetings of finance ministers of the IMF and OECD, we have seen these new themes emerge—the need to direct attention to the fundamental problems of productivity growth through attention to technological change, investment and incentives to greater effort and the overriding importance of slowing down inflation to lay the basis for the sustained growth of output and jobs.

[*Translation*]

The economic problems the international community is facing cannot be solved by nations acting on their own. This government fully realizes the difficult challenges posed to international economic co-operation in the unsettled period ahead of us and is ready to assume its full share of responsibilities in achieving an international economic system adapted to the world of the eighties.

[*English*]

We are particularly concious of the plight of the developing countries and so we must put new momentum behind our aid programs and our support of international lending institutions both public and private. I was most gratified by the welcome given by the Commonwealth finance ministers to our decision to restore the growth in our official development assistance.

As a great trading nation and as a responsible member of the world community, Madam Speaker, we in Canada cannot insulate or isolate ourselves from the rest of the world. I cannot understand why we would wish to do so. In our energy resources, our other natural resources, our developed industrial structures and our people, we are a nation with opportunities second to no other nation.

We have experienced falling output this year. Productivity has dropped quite sharply and the inflation rate has moved back up to 10 per cent. It is time that we moved to realize our great potential. We are more likely to do so if we understand that the problem is not a simple matter of ensuring an appropriate demand for goods and services but is more deep-seated. There are no quick solutions, so we will need to be patient and plan in a longer-term framework. There are no single solutions either, so we need to combine structural, industrial and regional policies with the right setting of fiscal and monetary policy. But we can then feel confident that we are dealing with the fundamental issues and embarking on the new directions which can secure the future of the country.

THE ECONOMIC STRATEGY OF THE GOVERNMENT

Like previous ministers of finance, I have sought and been offered a wide range of advice on the management of our nation's economic affairs. Much of that advice has been, in my view, extreme. Some urge a dramatic retrenchment by government and an almost exclusive reliance on the mechanisms of the private marketplace. Others have urged us to intervene broadly, not only in shaping our industrial purposes, but in controlling the setting of prices, wages and the distribution of economic benefits generally. I reject both these extremes. Instead I have sought a strategy that I fervently believe will serve our national and individual interests while preserving essential individual freedoms.

[*Translation*]

It is a strategy which balances restraint with essential measures to give support to the growth of productivity and productive capacity. It is a strategy in the best traditions of the Liberal party. It is a strategy totally in keeping with the commitments we made to the Canadian people in recent election.

Its elements in brief are as follows:

the maintenance of government expenditures within the rate of growth in the economy to ensure that the federal government does not take up an ever-growing proportion of the flow of income;

over the period to fiscal 1983-84, a steady reduction in the government deficit and financial requirements;

the avoidance, in so far as possible of personal and corporate tax increases;

a resolve to support the Bank of Canada in its pursuit of monetary policies that will not accommodate inflation;

• (2020)

[*English*]

within the commitment to expenditure restraint, the need nonetheless to provide for major new expenditures in energy, economic development, industrial adjustment and manpower retraining;

the need, also, to expand our assistance to the developing world;

a resolve to sustain social and economic assistance to those people and those communities most in need; and

a resolve to see the competitive forces in our economy strengthened and the weight of government regulation reduced.

These are the central elements. Madam Speaker. They are designed to ensure a steady reduction in the rate of inflation, the resumption of strong investment and productivity growth and the restoration, over time, of a fully-employed, strongly-growing, non-inflationary society. I wish to say a few words about each element of the strategy before developing the principal themes more fully.

One of my main tasks as Minister of Finance will be to reduce the very large deficits in the government's accounts to more manageable proportions. This is important not only to restore our flexibility to meet future needs and to slow growth of our interest payments, it is also essential if the rate of inflation is to be brought down. Otherwise we will run the risk of a new outbreak of inflationary pressure. The immediate outlook is for rather slow growth and I, therefore, judge that only a modest reduction in the deficit is needed next year. But larger declines in the deficit will be required as growth speeds up. I see great disadvantages, however, in general increases in taxation other than those which form part of the energy program. Higher sales taxes have a direct impact on prices. Higher income taxes reduce incentives as well as dampening consumer spending and may well lead to demands for higher increases in wages and salaries. I am glad to say that I have been able to avoid such general increases. Indeed, I am delighted to be able to announce that I have made no changes to the indexing of the personal income tax—

Some hon. Members: Hear, hear!

Mr. MacEachen: —and, therefore, will be describing later the income tax reductions that flow from this decision.

In order to achieve the essential reduction in the deficit, great restraint over expenditures has, therefore, been required. On the side of monetary policy, the Bank of Canada will have my continuing support in holding down the rate of monetary expansion. This is now widely agreed to be a pre-condition of success in the containment of inflation. It makes it clear that we will not accommodate double-digit rates of inflation.

Perhaps the most critical area demanding an active government role is energy. I have been working closely with my colleague, the Minister of Energy, Mines and Resources (Mr. Lalonde), in the development of our energy policy. I will shortly provide the House with a brief outline of its main features. The new energy policy limits the rise in prices of oil and gas to domestic consumers and thus continues to protect us from the violent shocks of OPEC price increases. It strengthens our specific measures to promote the most economical use of energy and in particular the displacement of oil by other fuels. It provides new impetus to the development of new sources of supply, through direct government programs and through new incentives of particular value to Canadian-owned producers.

[*Translation*]

Energy policy is only the most urgent element of our new strategy. Renewed growth in productivity and lower costs are needed throughout the economy. Within the over-all expenditure plan which I will lay before the House, we have assigned clear priority to economic development. Sufficient funds have been made available in the expenditure plan to finance major expansion of our activities in such areas as industrial development programs, research and development, export promotion and the improvement of transportation.

[*English*]

We are also very much aware of the shortage of skills in this country. Even in the midst of recession, those shortages were apparent in many trades and employers have had to look for skilled craftsmen in other countries. Our manpower training and mobility programs will be redirected to deal with this problem.

One of the best ways of ensuring that prices are kept in line and efficiency is maintained is to foster healthy competition. We are seeking to do so in our legislation relating to financial institutions and in our concern over business concentration. We believe that small business makes a vital contribution to the economy by keeping it competitive. Competition means that the most efficient and enterprising will flourish and grow; it also means that the less efficient decline. That should not be prevented, and measures to assist declining industries to adjust to changing economic circumstances should be limited to helping the process of adjustment and easing the social costs.

We intend to reduce the burden imposed on the economy by unnecessary regulation. The work of the Parliamentary Task Force on Regulatory Reform and of the Economic Council of Canada will be of great assistance in this endeavour.

Madam Speaker, I believe that the various elements of our strategy when taken together do indeed create a framework within which we can look forward with confidence to declining inflation and sustained economic recovery. They do not guarantee these results in the short run, however, for we live in an uncertain world in which all forecasts are at risk. We could do better if we enjoy good fortune at home and abroad. But we could also do worse, if we are faced with new shocks coming from the price of oil or food or if the upward momentum of costs and prices proves impervious to the economic climate I am seeking to create.

I have noted suggestions for new measures to limit the growth of prices and incomes, either by direct controls or by the use of the tax system. The objective of reducing the rate of inflation at less cost in lost output is one we can all embrace. I am most reluctant, however, to contemplate the massive degree of government intervention and perceived inequities which would inevitably be required. Moreover, I am conscious of the fact that any new program of controls would be much more difficult than the 1975 program. There is no scope this year and little next for the real income increases that were part of that program. Furthermore, there is little evidence of unreasonable price increases or unreasonable wage demands.

What is important now is that we should continue to act with moderation and work together to make the economy more productive and efficient. I hope I have fostered a wider understanding of the fact that our future prosperity depends on getting the rate of inflation down. I look forward to a further discussion with my provincial colleagues of these fundamental economic issues. It is time to consider how we can broaden the existing processes of consultation among government, business and labour.

● (2030)

[*Translation*]

I am confident that the strategy I have described tonight is the right one. But I want to make it quite clear that the pre-condition of our success must be the achievement of lower rates of inflation. If continued indexing is interpreted as a readiness to accommodate unlimited inflation rates, I may be faced with no alternative but to impose some limit on the indexing factor. As Canada's national government we have responsibilities and we will not shrink from them.

[*English*]

NATIONAL ENERGY PROGRAM

Madam Speaker, I would like to speak first, in detail, about energy. To fail to solve our energy dilemmas would be to fail to realize our greatest source of opportunity in this decade. It is, therefore, of utmost strategic importance. As we all know, energy has been the subject of intense debate in Canada for a number of years, and the negotiation of an agreement on oil and gas pricing and revenue sharing with the producing provinces, particularly Alberta, has been a major preoccupation of the last two federal governments. The Minister of Energy, Mines and Resources has made repeated efforts to reach agreement with his provincial colleagues. The Prime Minister carried on intensive discussions with the Premier of Alberta.

Time is running out. While Canada is a net exporter of energy and is dealing from a basic position of strength, the chink in our armour is our dependence on imported oil. Today, we are a net importer of oil and, under a continuation of previous policies, we could expect to become increasingly dependent on foreign supplies and, therefore, unnecessarily subject to the vagaries of the world oil market. The federal government feels compelled to put Canada's energy house in order. On behalf of my colleague, the Minister of Energy, Mines and Resources, I am tabling tonight the Government of Canada's National Energy Program. I would like to present some highlights of what is a very comprehensive program.

It is founded upon three basic principles:

security of supply and ultimate independence from the world oil market;

opportunity for all Canadians to participate in the energy industry, particularly oil and gas, and to share in the benefits of its expansion; and

fairness, with a pricing and revenue-sharing regime which recognizes the rights and needs of all Canadians.

PRICING

Madam Speaker, at the time of the last federal election we promised to establish a blended pricing regime for oil in Canada. Effective tonight, the framework for such a regime will be put in place. The principle is simple. Henceforth, the price of oil paid by Canadian consumers will be an average of the cost of foreign oil, for which we must pay the world price, and the cost of domestic oil. The mechanism for blending in higher-cost supplies will be a petroleum compensation charge levied on all refiners. The new regime will be phased in so that the increase in the wellhead price plus the import component of the compensation charge will be less than $4 per barrel in 1980.

Some hon. Members: Hear, hear!

Mr. MacEachen: A charge of 80 cents will be effective immediately. This will be in addition to the $3 increase in wellhead prices which has occurred this year. The increase in the wellhead price plus the increase in the compensation charge will be $4.50 in each of the three subsequent years. Madam Speaker, this fulfills the government's commitment to the Canadian people.

Some hon. Members: Hear, hear!

Mr. MacEachen: Crude oil price increases will be smaller than those proposed in last December's budget and gasoline prices will be considerably lower. And there will be no increase in the excise tax on gasoline.

For conventional oil, the wellhead price will rise by $1 per barrel every six months, beginning January 1, 1981. Starting January 1, 1984, the semi-annual increase will be $2.25 per barrel and, in 1986, it will be $3.50 per barrel semi-annually and these increases will continue at that pace until the wellhead price reaches the "reference price". The reference price, Madam Speaker, is a special incentive price which will be offered to synthetic crude from the oil sands. Effective January 1, it will be $38 per barrel escalated annually by the consumer price index.

The government is also prepared to offer incentive prices for enhanced oil recovery and for upgraded heavy oil.

The blended oil pricing regime which I have just described should result in a made-in-Canada price which is well below international levels. This made-in-Canada price will rise over the decade and will never be allowed to exceed 85 per cent of the price of imported oil or the price of oil in the United States, whichever is lower. A competitive advantage for Canadian industry will, therefore, be preserved.

To complete the picture on oil pricing, my colleague, the Minister of Energy, Mines and Resources will be taking measures to remove the anomaly that marine and aviation fuels used in international transportation have been eligible for the lower prices available to domestic consumers in Canada. Finally, the government proposes to pay to the producing provinces, Alberta and Saskatchewan, 50 per cent of our collections from export charges on crude oil.

Some hon. Members: Hear, hear!

Mr. MacEachen: The price of natural gas to Canadian consumers will increase less quickly than the price of oil and will, therefore, provide a major incentive for consumers to switch off oil to gas. As in the case of oil, natural gas prices paid by consumers will be significantly less than those proposed in the December budget. Specifically, the price at the Toronto city gate will go up by 30 cents per 1,000 cubic feet on November 1, 1980, by 15 cents in 1981 and by 45 cents in 1982 and 1983. The mechanism for bringing this price about in the case of natural gas is different from the one I have described in the case of oil because of our very different situation with regard to the two products. We do not import natural gas, and we, therefore, do not have the problem of sheltering consumers from world prices. On the other hand, we export large quantities of natural gas and the producing companies and provinces gain the benefit from world prices. The logical solution to this problem and our preferred approach was to impose an export tax which would recapture some portion of the difference between the world price and the Canadian consumer price. The producers under this solution would ultimately have received some premium over the price paid by domestic consumers for the gas being sold in Canada. The producing provinces have strongly objected to this proposal, even though export taxes are fully within the federal government's jurisdiction.

● (2040)

In these circumstances and after careful consideration the Minister of Energy, Mines and Resources and I have concluded that it would be desirable to abandon our preferred plan and seek an alternative approach which we hope will meet the concerns of the producing provinces.

Some hon. Members: Hear, hear!

Mr. MacEachen: Under this alternative approach there will be no reduction in the current returns to producing companies and provinces for gas sold in the U.S. market and they will continue to receive the great bulk of the revenues derived from the higher prices prevailing there.

The Budget—Mr. MacEachen

This alternative approach involves the imposition of a new uniform federal tax on all natural gas. It will also apply to liquefied petroleum gases, except those produced from oil. Initially, the tax will be set at 30 cents per 1,000 cubic feet, effective November 1, 1980, for domestic sales and February 1, 1981, for sales to U.S. consumers. This tax will be increased by 15 cents on July 1, 1981, January 1, 1982, and January 1, 1983.

Taking account of the increases in consumer prices I have announced, there will be no increase in 1981 in the field price of natural gas sold in the domestic market. Thereafter, the current practice of increasing the producer price by 15 cents per 1,000 cubic feet for every $1 per barrel increase in the wellhead price of conventional oil will be continued.

The new pricing regime for both oil and gas will be established under the Petroleum Administration Act. The relevant parts of the act will be proclaimed in effect as of today. For oil, the regulations governing prices will be effective as of today while for gas the regulations will be effective as of November 1, 1980, the expiry date of our gas pricing agreement with Alberta. For provinces willing to enter into agreements on the basis of prices set out in the National Energy Program, the federal government is prepared to rescind the pricing regulations.

Madam Speaker, before I leave the pricing question let me emphasize again that the prices of both oil and natural gas will be less than the prices proposed in the December budget.

Some hon. Members: Hear, hear!

Mr. MacEachen: Indeed, given the changes in OPEC prices that have occurred since that time and given the fact that the prices proposed by the former government would have escalated dramatically because they were tied in the later years to those OPEC prices, our prices will be considerably less.

And as I turn to the question of revenue sharing I would emphasize that the benefits accruing to western Canada over this and the next three years will be at least equal to the $40 billion which was promised in the December budget.

Some hon. Members: Hear, hear!

REVENUE SHARING AND TAXATION

Mr. MacEachen: The question of oil and gas prices is, of course, bound up with the issue of revenue sharing. In the absence of changes in the fiscal regime, rising prices for oil and gas would generate excess profits for the industry and result in an inappropriate balance between governments. The difficulty is that the federal government has borne much of the burden of energy price increases but receives few of the benefits.

The new natural gas tax will yield revenues of $250 million in 1980-81, $1.3 billion in 1981-82 and $6.6 billion over the whole period to 1983-84. I am also announcing tonight a federal tax, effective January 1, 1981, to be levied at a rate of 8 per cent on net revenue from the production of oil and gas in Canada. This will yield $1.4 billion in 1981-82 and $5.1 billion over the next three fiscal years. These new revenues will finance the major federal spending initiatives in the field of energy and the western development fund which I will shortly describe.

In recent years, the federal government has received about 10 per cent of petroleum production income. Producing provinces have received somewhat more than 45 per cent and the industry has received somewhat less than 45 per cent. As a result of the pricing regime and the new tax measures which I am announcing tonight, the federal government's share will increase to about 24 per cent over the four-year period 1980 to 1983. Provinces will receive about 43 per cent and industry about 33 per cent.

In establishing the new fiscal regime, the federal government has been careful not to intrude into areas which provinces regard as their own. The federal taxes reflect the capacity of the oil and gas industry to pay and bring its contributions more closely into line with what other industries are required to pay.

Some hon. Members: Hear, hear!

Mr. MacEachen: I am satisfied that the regime will provide the financial capacity necessary if the national government is to meet its responsibilities for economic management and energy policy. Any additional changes required to the sharing arrangement will be for provinces and the industry to resolve.

PRODUCTION INCENTIVES AND ENERGY INITIATIVES

Madam Speaker, our energy strategy incorporates major new production incentives and expenditure initiatives.

The depletion allowances in the Income Tax Act for oil and gas exploration and development activities have primarily benefited large established corporations which are for the most part foreign owned or controlled. They have been of little use to the smaller Canadian-owned corporations which do not have sufficient income to benefit from tax incentives. As part of the national energy program, these allowances are to be fundamentally altered. Among the most important changes are the elimination of depletion for development expenditures effective January 1, 1981, and the phasing out of depletion for exploration over the next three years. Depletion will be retained only for selected activities, such as tar sands plants, and for frontier exploration. These changes in the depletion allowance will not affect the mining industry.

[*Translation*]

The government remains committed, however, to providing strong incentives to the industry. The orientation of the incentive regime will be changed in a way which will encourage Canadians to participate more fully in this country's oil and gas future. A petroleum incentives program will be established to provide grants of up to 80 per cent of exploration expenditures in the north and the offshore, and up to 35 per cent in other areas. Grants of up to 20 per cent will also be provided for development expenditures in all areas of the country. The grants will vary according to the level of Canadian ownership and control of enterprises. Details of these changes are described in the documents I am tabling tonight.

[*English*]

A number of other federal initiatives will help both individual Canadians and industry to meet Canada's energy objectives. For example, grants will be offered to assist home owners to move off oil, and onto natural gas, electricity and other fuels which we have in greater supply.

Some hon. Members: Hear, hear!

Mr. MacEachen: To ensure the rapid expansion of gas distribution systems, market development bonuses will be provided to distributors as an inducement to vigorous action.

● (2050)

Madam Speaker, because of the nature of our country, any energy program for Canada must have a regional dimension. The program does, therefore, incorporate measures designed to meet the special needs of eastern Canada and the west.

As a matter of national priority, the government will ensure that the natural gas pipeline system is extended beyond Montreal to Quebec City and the maritimes.

Some hon. Members: Hear, hear!

Mr. MacEachen: To encourage the early penetration of gas in those markets, gas prices in Quebec City and Halifax will be set at the same level as in Toronto and Montreal. Under the new pricing regime the private sector has a strong incentive to proceed with the pipeline's construction. But if an immediate commitment is not forthcoming, the federal government will take whatever steps are necessary.

The Atlantic provinces are more heavily dependent on oil than any other region of the country. For this reason, a fund will be established to support the conversion of oil-fired electrical plants to coal. Financial assistance will continue to be given for interprovincial electrical connections and federal equity will be provided in support of hydro development on the Lower Churchill river in Labrador. Net funds will also be available to find ways in which the large reserves of Cape Breton coal can be used to enhance energy security in the maritimes. The P.E.I. conservation and renewable energy agreement will be extended. An industrial conservation program will be implemented and a housing retrofit program introduced for Newfoundland, P.E.I., the Yukon and the Northwest Territories.

The total of our new energy initiatives will cost $8.4 billion between now and 1983-84. They come on top of our existing energy programs which will cost $3.1 billion over the same period.

The resource wealth of western Canada has laid the base for rapid economic growth in that region. This is already occurring, and it is leading in turn to a diversification of the western economy as further processing of the resources develop and as the growth of the market attracts new industries. These trends are being strongly promoted by the provincial governments. The federal government is also anxious to play its part; a number of the growth supporting policies which are required fall within our areas of responsibility. We have, therefore, allocated $4 billion to a western development fund, of which we expect to spend $2 billion over the next three years.

Some hon. Members: Hear, hear!

Mr. MacEachen: Specific development initiatives will be selected in consultation with the governments of the western provinces. They will be designed to address the major economic opportunities and constraints which will challenge the west during this decade. For example, the federal government is hopeful that through consultation with interested groups in the west, agreement can be reached on the modernization of the western grain handling and transportation system which is so vital to the growth and diversification of the prairie economy. We will also consider initiatives relating to industrial diversification and examine ways in which trade and industrial policies can better serve western development. To co-ordinate these efforts and to ensure early action, the Prime Minister (Mr. Trudeau) has established a special group of ministers led by my colleague, the Minister of Employment and Immigration (Mr. Axworthy).

CANADIAN OWNERSHIP

The energy sector is of crucial importance to Canada. It is now dominated by a few large firms, virtually all foreign-owned and controlled. It is the belief of this government that Canadians should be given the opportunity to participate to a greater extent in the energy future of their own country. Specifically, the national energy program establishes the following objectives:

at least 50 per cent Canadian ownership of oil and gas production by 1990;

Canadian control of a significant number of the larger oil and gas firms; and

an early increase in the share of the oil and gas sector owned by the Government of Canada.

Many of the initiatives in the national energy program, for example, the incentive grants which I have announced tonight, will help to achieve these goals. But we are prepared to go further. Petro-Canada will be charged initially with the task of acquiring the Canadian operations of one or more multinational oil companies.

Some hon. Members: Hear, hear!

Mr. MacEachen: As in the past, the financing of such acquisitions will be obtained in large part by borrowing in foreign capital markets. But additional infusions of equity capital may be required. To provide that capital the government will establish a Canadian ownership account. Revenue for the account will be provided by a Canadian ownership charge imposed on all oil and gas consumption in Canada which will come into operation as the acquisition program progresses and will be set at a level to ensure that the program will be totally self-financing, and in no way affect the government's deficit.

In summary, Madam Speaker, the national energy program which is being put forth by my colleague is a bold one which establishes a consistent set of policies to meet Canada's energy needs. Taken together, the pricing and expenditure measures will enhance Canada's energy security by reducing oil consumption and, by 1990, ending our reliance on imported supplies. We will accomplish this with a policy which provides for a fair return to the industry, the producing provinces and the federal government without imposing an undue burden on the Canadian consumer. Finally, I expect energy to be a growing source of strength for the economy as a whole. It is, therefore, particularly important that all Canadians have an opportunity to participate in the development of Canada's energy resources and to share in the employment and production benefits which will accrue to other sectors of the economy.

● (2100)

THE EXPENDITURE PLAN

I now turn, Madam Speaker, to the expenditure plan of the government which constitutes a second major element in our over-all strategy.

As I indicated earlier, the achievement of the desirable degree of deficit reduction without general increases in taxation has required strict control over the rate of growth of our spending.

Our expenditure plan fulfils the promises we made in the election campaign. And it does so even though we have responded to the priority needs of energy, economic development, defence and aid. This has required hard choices. They have been facilitated by the development of the new expenditure planning system. The foundations of this new system were laid under the previous Liberal government. Important further advances were made under the Conservative government. Now we have reached the point of being able to set out for the first time the agreed planning levels for each major category of expenditure or envelope in a multi-year time horizon. This new system requires the government to identify its priorities within the framework of over-all restraint. It permits the delegation of responsibility for program decisions to the policy committees of the cabinet. It provides a framework within which departments will be encouraged to develop medium-term plans and increase the efficiency of their operations, and in which choices can be made between cash outlays and tax expenditures. Throughout the decision-making system, it creates an incentive to find ways of saving money in existing programs, in order to finance new high priority activities.

My present estimate is that total outlays this year will amount to just under $60 billion, an increase of 13.2 per cent over 1979-80. This high rate of growth stems from large increases in oil import compensation payments and in public debt charges. These increases, however, are not as large as seemed likely in April, partly because of the decline in interest rates in the early summer and partly because the new blended price policy reduces the net cost of oil compensation for the balance of this year. The only major new spending programs are the enrichment of the guaranteed income supplement for our neediest old people and in the start-up of the new energy initiatives.

Some hon. Members: Hear, hear!

Mr. MacEachen: We plan to reduce the rates of growth of our spending to 12.8 per cent in 1981-82, to 10.5 per cent in 1982-83 and to about 10 per cent in 1983-84. This will hold the growth of our spending within the trend growth of GNP. Total outlays, the sum of our budgetary expenditures and loans, investments and advances, amounted to 20.3 per cent of GNP in 1979-80. This ratio rises in 1980-81 and 1981-82 mainly because of the lack of real growth in the economy, but it falls again as economic expansion resumes. By 1983-84 it will be back down to 20.3 per cent. Turning now to the envelopes, or the expenditure groupings in the plan, the details are set out in the tables and notes which I am tabling with this budget and I will just summarize the highlights.

A new energy envelope has been established and this includes the new energy initiatives which I have discussed, as well as the cost of petroleum compensation payments net of revenue from the petroleum compensation charge. Funding for new and existing energy programs, excluding net petroleum compensation payments, will almost triple in 1981-82, and increase by a further 21 per cent in 1982-83 and 17 per cent in 1983-84.

Funds allocated to the economic development envelope increase by 22 per cent in 1981-82.

Some hon. Members: Hear, hear!

Mr. MacEachen: This will enable the economic development committee of the cabinet to expand existing programs and launch new initiatives in support of research and development, industrial expansion and export development. These programs which are now under intensive development will contribute to the renewed gains in productivity and to the high levels of business investment on which we depend for our prosperity in the years ahead. This envelope also includes expenditures from the western development fund. The social affairs envelope will continue to be by far the largest block of spending and will remain one of the government's most basic priorities.

Some hon. Members: Hear, hear!

Mr. MacEachen: We are pushing forward with a review of the whole area of pensions and retirement income generally. The present system is defective. While many Canadians are well provided for in their later years, many others have to rely on the old age security and guaranteed income supplement. Not only is the present pension system uneven, it also hinders labour mobility. We are going to have to work out the best way of improving the system, and the respective roles of the private sector and such public institutions as the Canada Pension Plan. Even a large role for the CPP would not, however, involve a major call on new expenditures from the social affairs envelope. Our new spending initiatives in the field of social policy will be directed to those individuals who are most in need.

A large element of our expenditures, especially in the social affairs envelope, consists of transfers to the provincial governments. I have already indicated to my provincial colleagues that we will be examining these programs closely as they come up for renewal, and we expect to achieve significant savings here. This will also help to bring about a clearer division of federal and provincial responsibilities which has been one of the stands in recent constitutional discussions. These have also emphasized the high priority we attach to equalization.

[*Translation*]

I would like to announce at this time that a special allocation of $350 million over four years has been made to promote industrial restructuring and manpower retraining and mobility in areas of particular need. The total amount has been divided equally between the economic development and social affairs envelopes. My colleagues, the Minister of Industry, Trade and Commerce (Mr. Gray) and the Minister of Employment and Immigration, will soon be announcing program details.

[*English*]

The envelopes of expenditures administered by the external affairs and defence committee will grow relatively rapidly. We have undertaken to increase our foreign aid programs sufficiently rapidly to reach the target of 0.5 per cent of GNP by mid-decade. Our defence spending will rise by 3 per cent in real terms, reflecting our commitment to our NATO allies to beef up our defence capabilities. We have already contracted to buy the new fighter aircraft and we will be re-equipping our land and naval forces.

General operating expenses of the government will be closely controlled. Departments are being required to meet rising levels of services demanded with no increase in person years apart from those needed for identified purposes like the census. This will require the achievement of further increases in productivity.

● (2110)

I should explain at this point that our expenditure projections make no allowance for the impact of turning the Post Office into a Crown corporation. When this happens, the expenditures of the government will include only the amounts required to cover any deficit of the Post Office, rather than its total expenditures. The new Crown corporation will be expected, however, to cover its costs. For the purposes of my fiscal projections I have, therefore, assumed that postal revenues will rise until they equal postal expenditures.

A major item in the budget is the interest we have to pay on the public debt. This is projected to increase by nearly 19 per cent to $12.4 billion in 1981-82, and will amount to more than one-sixth of total outlays. I am convinced we must slow down the growth of public debt charges, and this is one of the reasons I am determined to reduce the deficit. By 1983-84, the projected rate of growth of public debt charges is less than 13 per cent.

THE TAX STRUCTURE

Madam Speaker, I turn now to questions of taxation. I have a special responsibility to ensure that our tax system is fair and that it contributes to the achievement of our economic and social objectives. On the whole, our tax system is one of the best in the world. Canada's individual and corporate taxes are lower than in many other industrialized countries, including the United States.

One of the reasons for this is our system of indexation. I have already indicated that I have been able to secure an appropriate reduction of the deficit by restraining our spending. I have thus been able to avoid a general tax increase and to continue indexing for 1981. The exemptions, tax bracket limits and the child tax credit will rise by 9.8 per cent over their current levels. The child tax credit will be increased from $238 to $261 per child. As a result, the tax payable by a family of four earning $15,000 will be reduced by $248, or nearly 20 per cent. For 1981 alone, indexing will reduce federal taxes which would otherwise have been paid by $1,580 million. The cumulative reduction of federal taxes since indexing was introduced amounts to $11 billion.

We will only maintain a good tax system, however, if we keep on looking for ways to make it better. I am particularly concerned to ensure that the tax system is fair and seen to be fair. Three areas of the tax system are worth examining from this point of view.

First, tax expenditures. Hon. members will be familiar with the concept, which was described in a paper tabled by my predecessor last year. Within a short period of time I intend to table an updated tax expenditure account. The incentives and preferences identified in the tax expenditure analysis raise important issues. They are expensive and it is incumbent on government to ensure that the incentives are effective and that their cost is justified.

Tax incentives tend to pyramid with the result that a number of profitable corporations or wealthy individuals pay little or no tax. Other countries have responded to this by introducing minimum taxes or special levies on tax preferences. While this approach may be an answer to the problem, perhaps a fundamentally different one would be preferable. We now have a tax system characterized by higher tax rates relieved by a complex network of incentives and tax preferences. One questions whether the economy might not be better served by a tax system with lower rates but with fewer and more selective incentives.

Second, Madam Speaker, let me say a few words about the commodity tax structure. Because the federal sales tax is levied at the manufacturing level, it falls unequally on commodities wherever there are differences in the degree of value added by wholesalers and retailers. It is particularly worrisome that the tax generally falls more heavily on goods produced and sold in Canada than on competing goods imported from