

*The Budget—Hon. Michael Wilson*

will consider a Ways and Means Motion by the Hon. Minister of Finance (Mr. Wilson).

At 4 p.m. the sitting of the House was suspended.

## SITTING RESUMED

At 4.30 p.m. the House resumed.

## THE BUDGET

## FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

**Hon. Michael Wilson (Minister of Finance)** moved:

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

He said: Mr. Speaker, on September 4, Canadians voted for a new approach to Canada's problems and potential.

[*Translation*]

They voted not only for a change in policies.

[*English*]

They voted for a new approach to making public policy. In doing so, they opened the way for a fresh start, based on national reconciliation and economic renewal.

Two months later, on November 8, we charted a course of action to create growth, jobs and opportunities. I set out our guiding principles and new policy directions in an Agenda for Economic Renewal. We pledged to consult before we acted. And we pledged to act fairly.

Today, I am putting before this House and the Canadian people a budget of opportunity. A budget to encourage private initiative. A budget to build growth and lasting jobs for Canadians.

This budget is designed to produce more efficient and more effective government. It contains the tough measures necessary to reduce the deficit.

The actions I am proposing are realistic, effective and fair. They represent a fundamental break with the past. For too long, government decided what is best for Canadians. Government set priorities, directed activity and subsidized effort. My budget calls for Canadians, not government, to choose what is best for Canada. And it challenges Canadians by rewarding success, not subsidizing effort.

The actions in this budget are consistent with the urgent priorities for international economic renewal affirmed by the leaders of the major industrial nations at the Bonn Summit. At home and in concert with our international partners, we are working to free up the entrepreneurial spirit of our citizens, to remove obstacles to productive growth, to lower barriers to international trade, to control and reduce high deficits, and to let the dynamism of our renewed economies produce jobs and opportunities for all.

[*Translation*]

## WORKING TOGETHER

Step by step, we have been building a clear and growing sense of harmony and purpose with our international trading partners and among all Canadians.

Since November, my colleagues and I have spoken with and listened to people from all parts of Canada. The National Economic Conference, chaired by the Prime Minister, brought Canadians together in a unique and historic forum to discuss with each other, and with government, how to achieve our shared objectives.

[*English*]

My colleagues and I are grateful for the enthusiastic and positive response we have had from Canadians across the country. I have personally benefited from the most extensive round of pre-budget consultations ever held. These have had an important influence on this budget.

Canadians recognize that, in this uncertain world, we must work together with patience and determination to secure economic renewal. The Prime Minister (Mr. Mulroney) has carried this message consistently, vigorously and unceasingly—to labour leaders and business leaders; to the provincial First Ministers at the Regina Conference last February; to the National Economic Conference; to President Reagan at the Quebec Summit in March; and to the leaders of our major trading partners at the Bonn Economic Summit.

And working together, we have made progress.

We have achieved a measure of federal-provincial harmony absent for many years. We have brought a new spirit of co-operation to government relations with business, with labour and with other groups. We have restored Canada-United States relations to the status worthy of two sovereign nations who are not only close neighbours but who share similar goals and ideals. And we have refurbished Canada's image around the world as a secure and reliable partner. We have begun, at home and abroad, a process of reconciliation and rejuvenation.

## A RECORD OF ACTION

We can point with pride to our record of action in the past eight months. Consider some of these achievements:

The Minister of Employment and Immigration (Miss Macdonald) is implementing a series of employment and training initiatives with the full support and co-operation of provincial governments and groups in the private sector. I will be committing additional funds to support these programs.

The Minister of Regional Industrial Expansion (Mr. Stevens) has moved to establish Investment Canada in place of the Foreign Investment Review Agency. This has already provided a clear signal to investors around the world that Canada is once again "open for business".

The Minister of Energy, Mines and Resources (Miss Carney) has concluded energy accords with both Newfoundland and the western producing provinces. These historic agreements mark an end to a decade of federal-provincial bitterness and lost opportunity for Canada. They signal a new

beginning that will benefit Canadians in all regions of this country.

We are acting vigorously to support our ability to excel as a trading nation. The Minister for International Trade (Mr. Kelleher) is seeking the views of Canadians on how best to secure access to our traditional markets and expand our trade.

● (1640)

[*Translation*]

The Minister of the Environment, working with her provincial counterparts and the private sector, has made significant progress in the fight against acid rain.

The President of the Treasury Board has announced a new deal and a fair deal with the public service unions: a deal that among other things proposes to remove taxpayer subsidies from the financing of public service pensions by establishing the plan on a sound financial basis.

[*English*]

The Minister of State for Finance (Mrs. McDougall) has proposed far-reaching and comprehensive reforms to the rules governing financial institutions in Canada. These proposals will promote competition, increase the availability of business financing and strengthen consumer protection.

We have extended eligibility for the spouse's allowance for the elderly to an additional 85,000 low-income widows and widowers. We have embraced the concept of employment equity that Judge Abella recommended to provide women and minority groups a fair chance at realizing their full potential. We have made progress in advancing the hopes and aspirations of aboriginal peoples and in eliminating discrimination under the Indian Act.

We are moving to modernize the Criminal Code and the divorce laws. And we have initiated a long-overdue study of Canadian broadcasting policy, a vital element of our cultural sovereignty.

In all these areas, and in others, we have consulted, we have listened and we have acted. Today, it is time to take further actions to secure our future.

#### ECONOMIC OUTLOOK

The outlook for sustained and balanced growth in the world economy is better than it has been in years. But that optimism must be tempered by certain realities. There are signs that the American economy is slowing. High deficits continue to put pressure on interest rates worldwide. Protectionist pressures threaten the open trading system that has done so much to increase world prosperity.

In Canada, our economy grew strongly in 1984. Real growth was 4.7 per cent, the highest since 1976. Inflation averaged 4.4 per cent, the lowest since 1971. Inflation has since fallen below 4 per cent.

Interest rates have declined. The prime rate is below 11 per cent for the first time since 1978. Mortgage rates have

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declined substantially. Longer-term mortgages are beginning to appear—a sign of growing confidence.

[*Translation*]

Investment is expected to expand strongly this year. I expect that inflation will continue to be subdued through 1985 and beyond; real economic activity will likely expand by more than 3 per cent this year—about the same as the average for the major industrial nations.

[*English*]

Our recent performance and immediate prospects are encouraging. More than 200,000 jobs have been created since this government took office; the recorded increase in employment last month was the highest in five years. This is very positive, but it is still not good enough. The unemployment rate has recently fallen but remains just below 11 per cent. There are still close to 1.4 million Canadians unable to find work. We can, we must, and we will do better.

The federal government has accepted the responsibility to lead the way in meeting this challenge. But this is more than just a challenge for the government. What is needed is a national effort by the people of Canada. Everyone must participate.

Working together, we can build new confidence in the future of this country. Confidence is rising. It shows in higher consumer spending and growing business investment plans. Our job is to reinforce that confidence through our actions in this budget and to encourage Canadians to accept the challenge of economic renewal.

#### SECURING ECONOMIC RENEWAL

To meet this challenge, I will be proposing a large number of measures in this budget—too many to mention all of them or to provide full details in this speech. Additional information is contained in the Budget Papers I am tabling today. I encourage Hon. Members and others to refer to this material.

The actions I am proposing are consistent with the comprehensive economic strategy that we set out last November. They are designed to deal with the two major problems facing Canada today: high unemployment and our spiralling national debt. High deficits constrain our ability to promote growth and create jobs. High unemployment in turn contributes to even higher deficits.

This budget addresses the vicious circle of unemployment and debt with a range of measures carefully balanced to support economic renewal now and into the future.

We confronted a major problem of rising deficits when we took office last September. This year, in the absence of any action by the government, the deficit would have risen to more than \$38 billion. The actions taken in this budget, together with those introduced in November, will reduce this year's deficit by \$4.4 billion to \$33.8 billion. Next year, the deficit would have been over \$40 billion. Our actions will reduce that deficit by more than \$8 billion to a level of \$32.7 billion.

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I believe that larger reductions at this time would not be prudent in light of current economic conditions. Instead, I am proposing actions which control the deficit now while ensuring that significant reductions will occur over the balance of the decade.

I am implementing a clear and realistic medium-term plan to control our debt. That plan requires tough actions to be taken now. There will be expenditure reductions and tax increases. The impact of these actions, and those taken in November, will continue to grow. Our actions will directly reduce the annual deficit at the end of the decade by more than \$20 billion. Between now and then, our actions will cut a total of \$75 billion from the projected increase in the public debt.

These actions represent an unprecedented response to control the dangerous trend of rising debt.

[Translation]

But this budget does much more than restore fiscal responsibility to government finance. The strategic rebalancing of priorities in this budget constitutes a major step in the direction of securing a prosperous economic future. We will promote growth and job creation by encouraging private initiative, improving government effectiveness and controlling our national debt.

[English]

## ENCOURAGING PRIVATE INITIATIVE

Our priority goal is jobs for Canadians.

Maintaining the jobs we have and creating the jobs we seek requires a strong and healthy business sector. In particular we need to recognize that small and medium-sized businesses across the country are the most dynamic forces for growth and employment.

If we are to stimulate the creation of new businesses and the expansion of existing ones, we must increase our investment in productive activities. We are major savers, but too few of us are willing to invest a part of our savings in new ventures. It is through capital investment that new ideas get implemented, new activities are generated and new jobs are created. I believe Canadians understand this. I believe they will respond to the challenge of taking a direct stake in the future if they are encouraged by government, not discouraged.

● (1650)

I want to encourage risk-taking, but in a way that lets the investor choose where to invest. I do not want to further distort the tax system by measures that tell Canadians where and how to invest. This government wants individual Canadians to pick the winners within a tax framework that rewards success.

I am therefore proposing a major change in the taxation of capital gains.

Individual Canadians will be granted a lifetime capital gains exemption of half a million dollars. All capital property will

qualify for the exemption. The lifetime exemption limit will be phased in over six years beginning this year.

The full exemption will be available immediately for capital gains realized on the sale of farm property. Based on my consultations with the farming community, I believe this to be the most effective way to provide the necessary assistance to this vital sector of the economy.

This measure will encourage more Canadians to invest in small and large businesses. It will help Canadian companies to accelerate their return to a healthy financial position by attracting new equity investment. It will assist smaller businesses in raising capital to pursue new ideas and new directions. It will help raise capital for research and development.

Most important, this is a broadly-based incentive that allows individual Canadians to decide where to put their money and how to create wealth, economic activity and jobs. This is central to our philosophy. The decisions should and will be made by individuals across Canada, not by politicians or public servants here in Ottawa. This is a measure designed to unleash to full entrepreneurial dynamism of individual Canadians.

With this measure we are sending a clear signal to Canadians across this country: invest in Canada's future; help build the strong and prosperous country we all seek; help create jobs. This government wants Canadians to enjoy the rewards of those efforts.

Lack of access to start-up capital has been a constraint for many small and medium-sized businesses.

I am announcing measures to encourage greater investment in smaller businesses by pension funds. Registered retirement savings plans will also be eligible to invest in private Canadian corporations with which they deal at arm's length. This will encourage the redirection of significant amounts of capital from one of the fastest growing pools of savings in the country into a sector of our economy that needs financing to create more jobs.

[Translation]

An innovative venture capital initiative has been taken by organized labour in the province of Quebec, in co-operation with the Quebec government. The Solidarity Fund is managed by the Quebec Federation of Labour and has been used effectively to maintain and create jobs in Quebec, by investing in small and medium-sized businesses. Tax assistance to individuals investing in the fund has been provided by the Government of Quebec. This initiative deserves support, not only in Quebec but across Canada. Because of the unique nature of this initiative, the federal government will provide a tax credit for individual investors in the Solidarity Fund in Quebec or in any similar funds that receive provincial tax assistance.

[English]

A further key to growth and more jobs is investment in research and development. Technological change is the driving force behind economic progress. We must keep pace in order

















