Economic Statement

Hon. Michael Wilson (Minister of Finance): Mr. Speaker, I asked my colleagues if they would sit down in order that they did not waste their energy now, in the hope that they might do that after as well as before.

Less than two months ago, this Government came to power with a national mandate for change. We did so because on September 4 the Canadian people made a clear and confident judgment about the future of this country.

Canadians voted for change, and for a better future, because they knew that as a country we could do much more to create that future; to create new growth, jobs and opportunities for all Canadians. In doing so, they have opened the way for a fresh start, for new confidence and a new national consensus toward achieving the promise and potential of Canada.

They voted not only for a change in policies, they voted for a change in the approach of government to the making of those policies. That is our mandate. That is our challenge.

[*English*]

The mandate of September 4 reflects as well a sombre judgment about the recent past. When Canadians looked back, they saw an unprecedented decade of soaring government deficits and rising unemployment; of expansive, intrusive government and sluggish, uncertain economic growth. They saw an economic world that had changed and a country that had not kept pace with that change. They saw their government and their economy dangerously off course and off balance.

Few Canadians will say that things are better today than they were in that great year of hope and achievement, our centennial year. Yet, fewer still believe that we can turn back the clock and return to the "good old days". There are new realities, new challenges. But something fundamental has not changed: our country is still blessed with rich natural resources, with the technological and financial capacity and, above all, the people to fulfill its great promise. It is not time to reclaim that future for all Canadians.

Toward that goal, we have taken stock in these past two months. I want to thank my colleagues for their help in charting our course during this challenging first stage of our mandate. Tonight I will share with Canadians the results of our intensive period of activity so that together we can plan our direction for the next four years.

There has been no holiday from decision-making for this government during this period. We have moved quickly to deal with the urgent need for action on a wide front. A number of decisions have already been announced. Tonight I will be announcing further important measures which make a good start on fulfilling our promises.

But most importantly, I wish clearly to set out the direction which we, as a new government, propose to take to fulfil our mandate for change. And I want to begin the national process of discussion and consultation that is so essential to achieving our goals. I will, therefore, be tabling a paper called "A New Direction for Canada: An Agenda for Economic Renewal". This Agenda paper is a statement of national purpose. It will be the focus for consultations with all parts of the Canadian community.

[*Translation*]

The Agenda paper recognizes the important economic responsibilities of provincial governments. Our aim is to promote economic growth in concert with the provinces. Dialogue will take the place of confrontation.

Canadians know that this country has been missing opportunities to create new growth and jobs. They know that our competitive position has eroded; incomes have barely kept pace with inflation; confidence in the future has seeped away; and they have seen that the efforts of government to solve problems have too often made things worse instead of better.

● (1840)

[*English*]

For too long, the Government of Canada has responded to serious problems in our economy by dealing with the symptoms of those problems and ignoring the causes. For too long, government has tried to substitute the judgments of politicians and regulators for the judgments of those in the market place, through excessive regulation and by trying to buy its way, with borrowed money, out of each new problem that arises. We have suffered, for too long, from the growing gap between the rhetoric of reliance on the private sector and the reality of increasing government intervention.

The Government has all too often acted to delay change by protecting, at the taxpayer's expenses, those enterprises which have been too slow to increase their productivity or unable to seize new market opportunities. By being a captive of the past, we have risked forfeiting the future.

As a result, business—and especially small business—has been hamstrung by increasing regulation which has sapped the creative energy necessary to take risks, improve productivity and create permanent and satisfying jobs.

Our objective is to release the creative energies of Canadians to build a better future for themselves, to give young people a chance to make a productive contribution and to open up new opportunities for women in the work place and for older workers who have lost their jobs. We want to put Canada back to work.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): Indeed, our nation's elderly and disabled cannot feel economically secure while so many of our youth are unemployed and the prospects for our economy are so uncertain.

Economic renewal will not come quickly or easily. It will come step by step. This government has resisted politically-appealing "quick-fix" prescriptions. There are no easy solutions for problems which have built up over a decade. Nor will economic renewal come without the co-operation of governments, business, workers and union leaders and other Canadians. Step by step, we must begin to direct our combined efforts toward expansion of the economic pie and away from an increasingly divisive struggle for a share of a static or declining one. We will not only have to work hard, we will have to work together in a truly national effort of economic reconstruction.

This government is prepared to lead this process of economic renewal. We have set for ourselves four challenges:

first, to put our own fiscal house in order so that we can limit, and ultimately reverse, the massive build-up in public debt and the damaging impact this has on confidence and growth;

second, to redefine the role of government so that it provides a better framework for growth and job creation and less of an obstacle to change and innovation;

third, to foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise; and

fourth, to bring about these changes in a way that is fair, open and consistent with the basic sense of compassion, tolerance and justice that is characteristic of Canadian society.

[*Translation*]

We will not weaken the basic income support programs. Indeed we will seek to find room, within our own capacity and through stronger economic performance, to provide even greater assistance to those Canadians who truly need it.

[*English*]

We have clearly set out in the Agenda paper the direction we believe the country should take, but we had another choice. We could have made more decisions and taken more action now, but to do so in the absence of full consultations would undermine not only the spirit of this undertaking but its effectiveness. We want to discuss further the means of achieving these goals with other governments, labour, business and other Canadians. We want their advice and their co-operation.

These consultations will be critical in determining the specific measures we will take and the timing of these actions. But however difficult the decisions will be, let me be very clear: we are determined to act. I intend to return to this House with my first budget in the spring to lay out the next phase of our program for econoic renewal.

Let me now turn, Mr. Speaker, to the economic and fiscal situation which confronts us.

Our economic legacy is one of high unemployment, inadequate investment, eroded confidence and personal hardship. From mid-1981 to the end of 1982 we suffered through the worst recession since World War II. The recovery, which began in 1983, has been only moderate by post-war standards and has been distinctly weaker than the recovery in the United States. After almost two years of recovery, business and consumer confidence remains weak. Cautious households, facing uncertain employment prospects and little real income growth, continue to save at high rates. Businesses, facing excess capacity, high interest rates and uncertain future prospects, have been reluctant to invest and to hire. Investment is more than 20 per cent lower than it was prior to the recession and employment has barely recovered to pre-recession levels.

We are talking here not just of economic failure, but of human tragedy; of real economic hardship suffered by thousands of families; of the social and emotional suffering caused by the loss of a job; and of the loss of hope and self-esteem of young people who find themselves unable to make a productive contribution to society after spending so many years at school. This is the unacceptable price of the failure to provide adequate employment growth.

No less serious or troublesome than the economic legacy is the deficit and accumulated debt situation which we have inherited.

In each of the past ten years the expenditures of the federal government have exceeded its revenues. These continuing deficits have led to an enormous growth in the burden of debt and the costs of interest on that debt. Moreover, unless we begin now to put our fiscal house in order, that burden of debt will continue to mount rapidly in the future. We are on a very dangerous treadmill.

To underline the seriousness of the situation, let me briefly review our economic and fiscal prospects. They are based on the assumption of slower U.S. growth in 1985, a significant decline in U.S. interest rates after 1985 and reasonably healthy world economic growth from 1986 to the end of the decade.

Based on these assumptions, growth in Canada would likely decline from about 4.2 per cent in 1984 to about 2.4 per cent in 1985. Over the second half of the decade, growth would increase and average about 3.4 per cent per year. While inflation would stay at or below 4 per cent for the remainder of the decade, unemployment would remain unacceptably high—11 per cent through 1985 and then declining gradually to about 7 per cent by 1990.

With this set of projections and no policy changes, the deficit for this fiscal year would be $34.5 billion, almost $5 billion higher than projected last February by the previous government. That is bad enough but that is not the worst of it. Current projections show the deficit increasing next year to more than $37 billion and remaining between $34 and $38 billion in every year for the balance of this decade. This is in marked contrast to previous projections that showed the deficit declining over that period.

• (1850)

Next year's deficit, at $37.1 billion, would be more than $9 billion higher than projected last February. And this increase would have been even greater if the previous government had not budgeted for a decline in support for direct job creation and training from $2.2 billion this year to only $1.2 billion next year. The increase in the deficit this year and next and its failure to come down in this decade, even with continuing growth, are major reasons for concern.

Economic Statement

This is what we inherited. Not only is the situation serious today. If we don't take action it will be even more serious by 1990.

In our centennial year the net federal debt was $18 billion; by the end of this fiscal year it will be about ten times higher, $190 billion; by 1990, if there are no changes, it could approach $410 billion. Let me put this in more personal terms. In 1967 this debt represented about $4,000 per family; this year it represents about $24,000 per family. And by 1990, if we do not take action, it will be the equivalent of about $54,000 for every Canadian family.

I know that economists will tell me that this is not a perfect analogy, but I want to express the problem in its simplest terms. Many of us have taken on heavy debts in the form of a mortgage or a personal loan at some time in our lives. But we have done so because we believed our future incomes would increase faster than the costs of carrying that debt. If our debts and our interest payments continue, year after year, to grow faster than our incomes, we know we have a problem. If we reach the point where we must start borrowing money just to pay the interest on our debts, we know we have a serious problem. But this is the situation in which the Government of Canada finds itself today. This year almost 50 per cent of government borrowing is required just to cover interest costs and, if we do not take action, this will rise to more than 76 per cent by 1990. We believe we must act now to avoid a future crisis.

[*Translation*]

There is no easy solution to the problem we face. We cannot just grow our way out of it. Next year we will have completed the third year in this economic recovery and in each of those years the deficit will have increased—from $25 billion in 1982-83 to $31.8 billion last year, to $34.5 billion this year to a projected $37.1 billion next year.

[*English*]

Moreover, the economic and deficit projections I have given—distressing as they are—are based on an assumption that interest rates will fall to more normal levels in the second half of the 1980s. This assumption follows from my expectation that the returning United States administration and the new Congress will act to reduce the U.S. budgetary deficit and that this will allow the achievement of lower interest rates.

I would be the first to acknowledge that there can be no guarantee that this will be the case. And if interest rates do not fall, our economic and fiscal situation would be even worse. Growth would be lower and the unemployment rate could remain above 10 per cent for the balance of this decade. The federal deficit would continue to increase and could reach $50 billion per year by the early 1990s.

Finally, let me make it perfectly clear that the deficit projections I am presenting tonight are calculated on the same basis as those of the previous government, with one exception. For a number of years, the Auditor General has rightly argued that the accounting policies of the previous government did not give this House or Canadians an accurate presentation of the government's financial position. In order to provide a clear picture of the country's finances. I am announcing tonight that the government is prepared to implement most of the suggestions made by the Auditor General.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): These changes result in an increase in the projected deficit for this and subsequent years by amounts ranging from $500-$800 million annually. Full details are set out in the Agenda paper.

[*Translation*]

The projections for economic growth, unemployment and the deficit which I have presented are unacceptable. We can do better, but only if we approach this major challenge in a realistic way. And that means facing up to the deficit and debt outlook I have just described. The simple fact is that the mounting federal debt has become a powerful obstacle to growth and to private sector job creation.

[*English*]

A continuously rising ratio of debt to income threatens growth in three ways. It puts upward pressure on interest rates by raising expectations of future inflation and by competing for private savings. It limits the Government's ability to meet priority economic and social needs. And it symbolizes a state of economic mismanagement that undermines confidence and threatens the job-creating private investment that Canada dearly needs.

To promote growth and jobs, interest rates must be as low as can reasonably be attained. Confidence must be restored. That is why we must take action to limit the deficit. We must assure savers and investors, in Canada and abroad, that the impressive gains we have made on inflation will be consolidated and continued and that the federal government will not place undue demands on Canadian capital markets. Such assurances can be provided only by responsible monetary and fiscal policies. Monetary policy must continue to stand firm against inflationary pressures. Fiscal policy must ease the burden on monetary policy and contribute directly to increased confidence and to lower interest rates.

This government is committed to act now. Because I believe that deficit reduction is the key to rebuilding confidence, and confidence is the key to growth and job creation, controlling the deficit must be our priority for this year and for each year of our mandate. The goals of deficit control and increasing job opportunities cannot be separated.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): For us the question is not whether to act or when to act, but how best to act.

We believe that there are things government should do more of in this country to promote growth, jobs and social justice. We set out earlier this year a number of policy initiatives and I will announce action on some of these tonight. But, as the Prime Minister (Mr. Mulroney) said during the summer, we are committed to implement these policies within an over-all framework of fiscal responsibility over the course of our mandate. And this means that to do more in some areas, we must do less in others.

[*Translation*]

Our immediate goal is to reduce the deficit through expenditure reductions and not through major tax increases. We have begun a searching examination of our own operations and of government programs. My colleague, the President of the Treasury Board, has directed an assessment of expenditure reductions and revenue recovery measures that can be implemented immediately, in order to begin to reduce the deficit and to create room for us to take new initiatives. He has had the full and complete co-operation of all ministers.

• (1900)

[*English*]

As a result of this review, I am able to announce that more than $4.2 billion of expenditure reductions and revenue recovery measures will be implemented in 1985-86.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): That is the first full year of our mandate and the first opportunity that we have to make a meaningful cut in the size of the federal Government spending. These measures, though, will have a continuing impact. On behalf of my colleague, the President of the Treasury Board (Mr. de Cotret), I will be tabling the full details of these measures later this evening.

In developing these measures, we have made every effort to look first and look hard at our own operations. About $700 million of the total expenditure reductions I am announcing tonight comes from overhead reductions and general restraint measures.

At a time when Canadians are being asked to accept reductions in government programs and services, it is appropriate that Cabinet and Parliament also contribute.

Ministerial pay of the Prime Minister and Cabinet members will be reduced by 15 per cent and 10 per cent respectively for the year beginning January 1, 1985.

Parliament will be asked to reduce its expenditures. The government will ask the appropriate authorities in both Houses of Parliament to examine the expenditures of Parliament as thoroughly as we have examined the expenditures of government, including greater cost-recovery in the operations of the parliamentary restaurant.

Some Hon. Members: Hear, hear!

Some Hon. Members: Oh, oh!

Mr. Deans: Make the press pay.

Mr. Broadbent: Make the press pay their fair share.

Mr. Wilson (Etobicoke Centre): Thank you for the advice. If you want to join in, you are perfectly welcome.

The Government will propose the establishment of a parliamentary committee to study two other issues of concern. The current system of pensions for Members of Parliament warrants review. It is more generous than most plans in the private sector. Some differences may be appropriate because Members are forced temporarily to abandon their normal careers, but careful scrutiny of all the features of the current system is justified at this time.

A second matter which the committee will be asked to study is the issue of multiple sources of compensation for those who retire with a federal pension and subsequently are re-employed in the federal public sector. Included in this group are Members of Parliament, judges, public servants, members of the Armed Forces and the Royal Canadian Mounted Police and employees of Crown Corporations. The present situation is very complex and raises questions of equity which should be examined.

[*Translation*]

In our broad expenditure review we have sought measures which would be consistent with the following objectives: to promote growth and employment, to treat all regions of the country equitably, to ensure that those in need are not unduly affected, to honour existing agreements with provincial governments and others and to fulfill our pledges.

[*English*]

I want to stress that we went as far as we could in the short time available. We do not believe that the job is finished. Further action will be required. A committee under the chairmanship of the Deputy Prime Minister (Mr. Nielsen) is continuing its review of federal programs and regulations, with a view to consolidation, simplification, ending duplication and improving service to the public. It will report shortly with recommendations.

In the coming months we will have to examine all government programs, to streamline those that can be made more effective in meeting economic, social and national security objectives and to eliminate those that no longer serve a vital public purpose.

I have described in the Agenda paper the process which we must now follow to gain greater fiscal flexibility. We will review a number of major programs including our economic development and foreign aid programs, unemployment insurance, housing and transfer payments to individuals and provinces. Changes in these programs cannot be made without substantial public consultations. With regard to our aid responsibilities, I want to confirm that we remain committed to making steady progress attaining our target of .7 per cent of Gross National Product devoted to Official Development Assistance.

Let me emphasize that our agenda for further action is clear, open and on the table. We will consult fully with Canadians to ensure the changes we will make will be fair, will assist our economy to grow and to create jobs and will not violate the sacred trust of assisting those individual Canadians who need our help.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): We believe in a planned approach to expenditure reduction which allows sufficient time for those affected to adjust. The state of the economy will also be an important factor in how fast we move.

But move we must. Our goal is to reduce the projected level of annual expenditures by 1990 by $10 to $15 billion, inclusive of the measures I am announcing tonight.

[*Translation*]

Improving the fiscal balance will remove a major obstacle to the growth of incomes and jobs. But there are other obstacles which government places in the path of innovation and growth and these must also be removed. This is the second major element of our agenda. We must ensure that government itself—through its taxation, expenditure and regulatory programs—does not impede the change and adjustment necessary to improve productivity and increase our international competitiveness.

[*English*]

Many industries in this country are over-regulated. Others are over-protected, not just from imports but from domestic competition. Some programs designed to assist investment have the perverse result of distorting investment decisions and leading to the establishment of companies that are viable only with continued taxpayer support. Other policies and programs have sent the wrong signals abroad—signals that Canada had turned inward and did not welcome foreign investment, particularly in the energy sector. And many government programs carry on long after they are needed and represent only a fiscal drain. These are obstacles to growth, structural problems which need immediate attention.

As the government scales back its own activities, it is essential to take complementary action to ensure that the private sector can expand to provide durable growth and productive jobs. To do this, we must encourage enterprise in this country. We must reduce the regulatory burden, not as an end in itself, but to release the creative energies of individuals and companies to experiment, to innovate and to produce better goods and services at lower prices.

Thus, the third major goal is to establish a stable policy framework with proper incentives for investment and growth. We don't need a "grand design" by which government dictates what industries will grow and which will wither. We do need clear and reliable rules of the game.

We must create a framework which provides the incentive for new, productive investment and new jobs. We must create a climate of confidence in which companies can undertake research and development and innovation. We must encourage Canadian enterprise to seek out new world markets. And we must improve the opportunities for training and development for all Canadians.

● (1910)

Finally, we must ensure that growth will be for the benefit of all Canadians and that the costs of change will not fall on those least able to bear them. To provide this assistance, we must make certain that those who really require social assistance receive it. We must also ensure that our social support systems encourage self-reliance rather than create a dependency on government. We will examine our child benefit, old age security and unemployment insurance systems to see how they may be improved within this framework.

Our ideas for addressing these four challenges are set out in broad terms in the Agenda paper. It is a major document, signalling a major change in the role of government. More detailed discussion papers on many of these issues will be released in the months ahead by the Ministers responsible for these areas. They will pursue directions for change with their provincial colleagues and other Canadians who are directly affected.

Some Canadians will be daunted by the fundamental nature and broad sweep of these undertakings. I want to underline this Government's commitment not to act prematurely or with insensitivity on these issues. But I want to underline even more strongly the urgent national need to face up to Canada's economic problems. We must be prepared to talk. But then we must act for the benefit of all Canadians.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): Some issues, however, cannot await further consultation. The current regime applying to foreign investment is one such area. My colleague, the Minister of Regional Industrial Expansion (Mr. Stevens), will announce at an early date changes to the Foreign Investment Review Act. Similarly, the Minister of Energy, Mines and Resources will be proposing major changes to the Crown interest or "back-in" provisions of the National Energy Program. The clear message is that Canada wishes to become a better place for foreign investors to do business. This in turn should give domestic investors increased confidence in the Canadian business environment.

Other important matters must also be addressed. First, we must deal with a number of general tax issues which were before the House earlier this year so that taxpayers will know where they stand. Second, we must act now on several energy issues and matters related to the resource sector. Third, we must set the Unemployment Insurance premium rate for 1985. Fourth, we must begin to act on certain matters of social justice. Finally, we must address the issue of employment growth.

Let me deal first with the outstanding taxation legislation. The previous government left much unfinished business, some of it dating as far back as 1982. Some of this legislation does not go far enough to address our concerns. But it is imperative that the status of tax proposals, many of which affect this year's returns, be clarified.

Accordingly, I am announcing tonight that the draft Income Tax Bill published in August containing the proposals from the February 1984 budget will be proceeded with immediately with some minor modifications. We are committed to the small business tax simplification measures in that legislation. I look forward to building on them in future budgets.

The Progressive Conservative Task Force on Revenue Canada made an important recommendation that taxpayers must be considered innocent until proven guilty.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): In this regard, I intend to introduce legislation as soon as possible to permit taxpayers to postpone the payment of taxes in dispute where they are the subject matter of a formal objection or appeal by the taxpayer.

I have already announced that the Government is proceeding with the one percentage point increase in the rates of federal sales tax, effective October 1, 1984. I will be introducing legislation to confirm this and other sales and excise tax measures from the April 1983 and February 1984 budgets. Changes proposed in February in the administration and appeals area of the sales and excise taxes will be dealt with later, after further consultation.

I am also proceeding with the customs and tariff measures that were contained in the February Budget. These measures, modified slightly as a consequence of international negotiations, include changes to the Customs Act to implement the new General Agreement on Tariffs and Trade Code on Customs Valuation and related tariff rate increases on a small number of items.

A number of proposals made by the previous government in the form of discussion papers are also outstanding. The tax proposals for pensions and RRSPs have drawn constructive criticism as well as support. Modifications which address these concerns and achieve the objectives of the previous proposals are under active study. We will also be having discussions with provincial Governments on ways to strengthen both the public pension system and the standards for private pensions.

The gain-sharing proposals have also received extensive comment. The Government is strongly committed to the concept of profit-sharing and will be consulting further with business and labour to determine appropriate ways to support this objective.

I will address these and other outstanding tax issues, such as the transfer of tax deductions and credits, in my spring Budget.

Our resource sector has been slow to recover and commodity markets continue to be weak. Businesses have been making efforts to cut costs and remain competitive in a tough world marketplace. The Government can help. Farmers, fishermen, loggers and mine operators will be able to apply for a fuel tax rebate of 3 cents per litre on motor fuels used off-highway, an amount approximately equal to the federal sales tax.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): This will apply to gasoline and diesel fuel purchased from December 1, 1984 to the beginning of 1987. The cost of this measure is expected to be about $160 million in the fiscal year 1985-86.

[*Translation*]

We are especially concerned about the impact on workers when the principal industry in an isolated or remote community is forced to close. Such closures and the need for individuals to adjust are part of economic life. They cannot be blindly resisted. How they are handled by all concerned—business, labour and government—is a key issue that is addressed in the Agenda paper. The consequences of closures are particularly severe for workers in communities where alternative employment opportunities are limited or simply do not exist. We intend to offer tax relief for termination benefits in these circumstances and will consult with those affected before determining the precise form of assistance.

[*English*]

I have also put into effect orders remitting tax on certain northern allowances. The remission will run until the end of 1985 and I will review the situation and consult with interested parties during the coming year with a view to establishing in the law a more permanent regime.

I am also announcing tonight that the government will soon be referring a number of agricultural taxation issues to a parliamentary committee. These include the taxation of part-time farmers, the question of agribonds and the taxation of capital gains on farmland. The Government will issue a background paper on these issues and will request the parliamentary committee to report expeditiously. Should changes be made to the treatment of farm losses in the next budget, farmers will have the option of applying the 1985 tax regime to 1984.

● (1920)

Let me turn now to the energy sector. We have to deal with oil pricing. This Government believes that the time has come to let the price of oil be determined by the market-place. This would be consistent with the general move toward the reduction of government involvement and regulation in the marketplace that I have signalled earlier in my remarks. Market pricing would provide a stimulus to the oil and gas industry. There would also be positive spin-offs for manufacturing industries in other provinces as exploration and development activity increased. There would, of course, have to be appropriate safeguards for consumers to deal with exceptional price surges. We shall therefore be consulting widely during the weeks ahead on the ways and means of moving away from price controls.

But we must immediately address a financial problem left by the previous government. The Canada-Alberta Agreement of September 1981 provides that the Petroleum Compensation Charge, a tax paid by refiners, be set at a level that covers the full costs of price subsidies for oil imports to eastern Canada and for new oil produced in Canada. The previous government failed to raise this charge earlier this year even though the need for the increase was very clear. The result is a deficit of nearly $1 billion in the petroleum compensation account, a deficit which is now growing by more than $140 million a month.

This is unsustainable. I am therefore announcing that the Petroleum Compensation Charge will be increased, effective November 10, 1984, by $17.50 a cubic metre. This is the maximum increase that could be made without raising oil prices at the refinery above world levels. Yet even this increase will be insufficient to hold the deficit in the account at its present level, much less reduce the inherited shortfall. The Government will continue to look for sources of revenue to offset this shortfall in its upcoming negotiations with respect to pricing and taxation.

Farmers, fishermen, loggers and mine operators eligible for the fuel sales tax relief which I announced earlier will also be allowed rebates approximately equal to the increase in the Petroleum Compensation Charge—a total of 1.8 cents per litre. In addition, the petrochemical industry will not be burdened with the increase in the Charge. The total cost of these rebates is estimated at $95 million. I must stress, however, that the Petroleum Compensation Charge relief will be available only until oil prices are decontrolled and must not be viewed as an enduring mechanism. Rather, it provides a short breathing space in which to complete the necessary adjustment to market-priced oil.

We are proceeding with changes to the Petroleum and Gas Revenue Tax as proposed by the previous government with two modifications. I am extending for one year the lower rate of Petroleum and Gas Revenue Tax that applies to integrated oil sands projects and will double the threshold level of the small producers' credit from $250,000 to $500,000 effective January 1, 1985. The cost of these measures is estimated at $64 million in 1985-86. These new measures are only a beginning; we remain committed to a full examination of the fiscal regime in the oil and gas sector and the Petroleum and Gas Revenue Tax in particular. But our immediate imperative is to pass the outstanding legislation so that taxpayers can have their tax returns for the last several years processed.

The federal Government is determined that its fiscal regime for oil reflect the importance of energy supply for Canada's future and the economic contribution that will come from greater industry investment. One of the principal challenges is to increase production from the oil sands. We wish to see expansion of the two existing integrated plants. As well, we want to see whether more plants would be built if incentives that adequately recognized the unusually large front-end risks of such plants were made available.

The federal Government is ready to discuss with potential project sponsors and provincial government the incentive framework that would have to be provided by governments to stimulate renewed interest in development of this immense resource, including the effect of the Petroleum and Gas Revenue Tax. We recognize, of course, that many of the factors relevant to oil sands development also apply to frontier projects and that the fiscal regime for the Canada Lands will have to reflect this.

We are concerned about the few high income tax filers who are paying little or no personal income tax because of the combined effect of tax credits and deductions. We are considering the introduction of a tax designed to ensure that the effective tax rate for high income individuals does not fall below some minimum level. In this issue, as in so many tax issues, the challenge is to make the system more equitable without undermining incentives for Canadian investment. We must also take care not to complicate the tax system unduly for the many Canadians not directly affected but who would face a more complex tax return.

The Government will undertake a thorough review of the situation commencing with a discussion paper to provide background information on a minimum tax.

The budgetary process itself and various aspects of the income tax system will be the subject of a discussion paper to be issued early in the new year. Both have come under increasing criticism from tax professionals and the public at large. The present system of developing, enacting and administering the income tax laws is now widely perceived as inefficient and less than fair.

For example, the traditional and long-standing Canadian practice of provisionally collecting taxes before Parliament has enacted the relevant legislation should be reviewed. It is time to improve the parliamentary process of turning budgetary proposals into tax laws and to involve the public more meaningfully in the development of budgetary proposals. Consultation will pave the way for major improvements in this vital area. I hope to be able to resolve these issues in my spring budget.

As a matter of law, the unemployment insurance premium rate and maximum insurable earnings have to be adjusted annually. Maximum insurable earnings will increase from $425 a week to $460 in line with the formula established in the Act. The current state of the account also requires that the premium rate be increased. However, I am concerned about the impact of a significant increase on employment and economic activity. Therefore, I am announcing that the premium rate for 1985 will be kept as close as possible to the minimum rate required by the Act. The rate will be increased by 2 per cent to $2.35 per $100 of earnings for employees and to $3.29 for employers.

In order to make the program more effective and less costly, a number of administrative changes related to the determination of eligibility for benefits will be made. These changes are part of the expenditure reductions I announced earlier.

To ensure that this program meets the needs of individuals in adjusting to rapidly changing labour market conditions at a reasonable cost to workers, employers and the government, statutory changes are likely to be required. Accordingly, the government has initiated a review of the Unemployment Insurance program to be undertaken on an urgent basis. A discussion paper will be published shortly by the Minister of