

*The Budget*

should be, and that they will make a contribution to this committee. I hope that any subcommittees or commissions appointed to carry out the work of the National Capital Commission after receipt of the committee studies, will be representative of all regions of Canada. If we are going to build a truly national capital we must use the history of the country to do so. Regionalism must go by the board, and pride in our nation as a whole must be the substitute for partisan politics.

Some hon. Members: Hear, hear!

Mr. Deputy Speaker: Is the House ready for the question?

Some hon. Members: Question.

Mr. Deputy Speaker: Is it the pleasure of the House to adopt the said motion?

Some hon. Members: Agreed.

Motion agreed to.

Mr. Sharp: Mr. Speaker, perhaps your view of the clock is not quite the same as mine, but could you call it six o'clock?

Mr. Deputy Speaker: It being six o'clock I do now leave the chair until eight o'clock tonight.

At 5.45 p.m. the House took recess.

---

**AFTER RECESS**

The House resumed at 8 p.m.

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

Hon. John N. Turner (Minister of Finance) moved:

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

He said: Mr. Speaker, this has been a tough budget to prepare. In working on it I have talked with and, more importantly, listened to a lot of people in all walks of life. Many members of this House have been helpful and generous in their advice. A budget is, of course, an economic document. In it a minister of finance should give an accounting to the country of the existing situation and propose his ideas for the future. But it also must be a human document. If its policies are to succeed, it must strike the right note and take into account the mood of the country.

When I brought down my budget last November I warned of the grave risks arising from the uncertain and precarious state of the world economy.

During the intervening seven months, the situation has become more difficult. The decline of world economic activity has turned out to be more severe and prolonged than we or anyone else anticipated.

At the same time the underlying problem of world inflation remains. The rate of change of prices in a number

[Mr. Hopkins.]

of industrial countries has slowed significantly in the early months of this year, but there is a danger that inflation will re-emerge when the tempo of world economic expansion is restored.

[Translation]

The world recession has put a brake on our own economy and we have thus been compelled to scale down our projections for Canadian economic growth this year. But we have escaped the full impact of the deep recession in the United States. To a significant extent this is the result of the expansionary policies we have followed in the past, the effects of which are still working their way through the economy. Recent public opinion surveys suggest that most Canadians feel today that they are better off than they were a year ago. The disposable income of the average Canadian remains high. But we must look down the road to see the terrain that lies ahead. We have experienced a considerable increase in our costs in the last several months. This acceleration of our costs if it continues, poses grave difficulties for the future.

We are now faced with a dilemma. If we follow more expansionary policies at this time we run the risk of making inflation worse. If, on the other hand, we follow contractionary policies, we risk worsening unemployment.

In my November budget I spoke of the need for a national consensus about what various groups can safely take from the economy over the next few years. If such a consensus had emerged by now we would have been faced with a less difficult policy choice.

Since a consensus has not been reached, the government has had to examine a wide range of other options for dealing with the problems of inflation and unemployment. I propose to describe them fully. It is most important that the people of this country understand the nature of the economic problems which confront all of us and the hard choices which have to be made.

[English]

At the same time we are confronted with major problems in the field of energy. We are fully conscious of the short-term adverse effects of a sharp increase in the domestic price of oil and natural gas. We are, however, faced with a growing dependence on imported oil. We have to recognize the long-term need to develop new sources of supply in Canada and to promote greater economies in the consumption of these scarce resources.

Faced with these conflicting requirements in dealing with inflation, unemployment and energy, I have had to strike a careful balance in the choice of policies. Taking into account the climate of opinion in the country, the government must give a lead that will enable us to improve our economic performance. The faster rise of costs in this country than in the United States is casting a shadow over our economic future. Should this trend continue our prospects for the expansion of output, employment and real incomes will be endangered. Dealing with this inflation problem without adversely affecting our immediate employment prospects constitutes the heart of this budget.

**International Developments**

I should like to begin my review of the situation by referring to a number of developments on the international scene.

One of the brighter aspects of the global picture over the past several months has been the success of the international monetary system in coping with massive balance of payments problems created by the quadrupling of world oil prices. To date at least, the process of adjustment has worked much more smoothly than most observers had expected.

We are not out of the woods yet. Although the collective deficit of the oil-consuming countries will be a little smaller this year than it was in 1974, large imbalances will continue. Unfortunately, the over-all deficit of the less-developed oil-consuming countries will be significantly larger this year than last, even if there is no further increase in oil prices. In these circumstances, wealthier countries will have a larger role to play in ensuring that financial help keeps flowing to countries facing the greatest difficulties. For the people of some of these countries, it's not just a question of austerity. It's a question of survival.

● (2010)

We made some progress this month at the meeting of the Interim Committee of the Board of Governors of the International Monetary Fund—although not as much as I should have liked. We are seeking to resolve important issues in the working of the international monetary system. It is urgent, particularly for the developing countries, that we settle the interconnected questions of Fund quota increases, the use of gold held by the IMF and the exchange rate arrangements that members of the Fund should observe. The settling of these issues would facilitate several promising plans for opening further channels for the flow of assistance to developing countries. The settling of these issues will also permit the Committee of Ministers to tackle its principal continuing task. This task should be to maintain a surveillance over a volatile international economy and to achieve the essential co-ordination of national economic policies.

This can be done only by the collective political will of responsible ministers. Economics is too important to be left to economists. The choices to be made are essentially political decisions.

I have spent a good deal of time on behalf of Canada in the international sphere. It was time well spent. We Canadians depend for our prosperity on international trade and a stable world. Moreover, the economic posture I will announce tonight owes something to the insights I have received from my colleagues from many nations.

Countries of the Third World are themselves seeking new ways to improve their longer-term growth and development. Canada is prepared to join them in seeking out the areas where progress can be made. We believe that this search should encompass new measures to assist these countries in expanding their economies and raising the standard of living of billions of people. We are looking at the ways of financing international trade and of helping them expand their exports and increase their export earnings. But these new initiatives must be firmly based on economic realities, not empty rhetoric.

[*Translation*]

In many countries the economic slowdown has generated pressures for increased trade protection. Producers inevitably seek to insulate themselves from the sharper winds of international competition. Fortunately, most governments have resisted the temptation to resort to new restrictive trade policies. At the recent Ministerial meeting of the Organization for Economic Cooperation and Development, member countries reaffirmed their pledge against the use of trade restrictions in dealing with their balance of trade problems. Canada supported this extension of the pledge. We believe that if we can abstain collectively from raising new barriers to trade, we will all be better off.

The multilateral trade negotiations underway in Geneva offer the possibility, both of more liberalized trade and a more effective use of our resources. The negotiations are far-reaching. They will cover non-tariff as well as tariff barriers, and agricultural as well as industrial products. Canada is playing an active part in these negotiations.

At the same time, we are moving to strengthen bilateral economic relations with our major trading partners. We continue to place the highest priority upon the maintenance of our longstanding network of commercial and economic relations with the United States. But we are now trying to establish new and stronger economic links with other countries, particularly with Europe and Japan. The responses to the Prime Minister's initiative for establishing new relations between Canada and the European Economic Community have been most encouraging.

I should also report that I was particularly impressed during my recent visit to the Middle East by the opportunities there for new business. I have already urged Canadian businessmen to do more to take advantage of the rich and rapidly growing markets in that part of the world.

[*English*]

One of the most unfortunate of international developments has been the slide of the United States into the deepest and most prolonged recession since the war. The sharpness of the U.S. decline has been unexpected. This has adversely affected the performance of the industrial world. About 15 million people are now unemployed in 24 OECD countries. Partly as a consequence of this industrial recession, inflation rates have receded somewhat from the very high rates of 1974, particularly in the United States, Germany and Japan.

As the recession has deepened, the prospects for the future have been scaled down. Last December the OECD was forecasting real growth of 0.5 per cent for its 24 members in 1975. Now, in a sharp reversal of that earlier forecast, it is anticipating that total output will decline again this year. While it is widely expected that the U.S. economy will begin to move out of recession in the latter half of this year and some of the other major OECD countries by year-end, there is much less agreement about the strength and speed of the recoveries. The view most generally expressed is that a considerable shortfall of output and high rates of unemployment will extend well into 1976. For some countries the immediate outlook for inflation is encouraging because of falling of some world commodity prices, prospects for good harvests, and consid-

*The Budget*

erable success in bringing costs under control. But in other countries the immediate outlook for inflation is much less promising.

The Canadian Economy

It is against this international background, Mr. Speaker, that we must assess the state of the Canadian economy and the risks that we face.

We should begin by recognizing the extent to which our recent economic performance has differed from that of the United States. As I pointed out earlier, the United States is going through its deepest recession of the postwar period, with an absolute decline in real output of over 7½ per cent since the peak at the end of 1973. On the other hand, Canada has experienced an absolute decline in real output since early 1974 of only 2 per cent. While unemployment has risen in Canada, it remains more than two percentage points below that in the United States.

It is difficult to disentangle the factors which have helped to shelter us from the deep American recession. In part, this resulted from the nature of the preceding worldwide expansion. Food and other primary products are very important in Canadian output, and the high world demand and exceptionally high prices for these commodities gave a strong impetus to Canadian incomes. Our position as a major oil producer enabled us to protect ourselves from the full shock of the increase in world oil prices. There has also been a stronger and more sustained increase in business investment in Canada in recent years, an expansion which has been encouraged by our manufacturing incentives. The rapid growth in employment, the increasing number of families with two or more pay-cheques, the indexing of personal income taxes, the increase and indexing of social security benefits—all of these have contributed to the expansion of income and expenditures and the confidence of Canadian consumers.

More recent expansionary policies in Canada have also helped to buttress the economy. Our measures of last November, which preceded the change in U.S. economic policy by several months, provided a significant stimulus. They have been supported by unemployment insurance and other features of our taxation and welfare system which automatically cushion the economy in periods of declining income. Further strong stimulus has been provided by the provincial budgets introduced in the spring. We estimate that their cash requirements will be up by something of the order of \$1½ billion this fiscal year. The general stance of monetary policy since the end of last summer has also helped to cushion the temporary weakness of demand. All of these factors and policy initiatives have helped to maintain spending, employment and confidence in Canada at higher levels than in the United States.

[*Translation*]

The fact remains, however, that the world recession has had a dampening effect on economic activity in Canada by restricting the growth of our exports. This is the main reason why our real output, after peaking in the first quarter of 1974, was virtually unchanged in the second and third quarters, and has declined somewhat since. At the same time, the volume of our imports has grown rapidly due to the continued expansion of domestic demand in Canada. While the prices which we received for our

exports continued to increase in the first half of 1974 more rapidly than the prices of our imports, more recently the terms of trade have moved against us. As a result of all these factors, the current account deficit reached over \$6 billion at annual rates in the first quarter of 1975.

Certain sectors of the Canadian economy have been particularly hard-hit. While automotive sales have held up reasonably well in this country, the severe contraction of demand for North American vehicles in the United States has led to a major reduction in Canadian automotive production for sale in the U.S. market. The sharp decline in U.S. residential construction, which provides the most important single market for Canadian lumber, has severely curtailed demand for exports of wood products—a problem compounded by the decline in our own housing activity. Exports of a number of other primary commodities have also been cut back because of declining foreign demand.

Residential construction has been the major domestic source of weakness in the economy. The record levels of activity reached early in 1974 could not realistically be maintained. It was also to be anticipated that rising interest, land and building costs would lead to some scaling down of new housing starts. The decline, however, was sharper than we foresaw, with the number of starts reaching a low point in March before rebounding in April and May. The fall in residential construction has resulted in a decline in demand for a wide variety of household furnishings and appliances.

Business capital investment has continued to expand as work goes forward on projects that have already been started. But we must face the fact that the current economic slowdown, sharply rising costs and falling profits seriously jeopardize the continued strong growth of new productive capacity needed to increase output, employment and real incomes in the future.

The slowdown of the economy did not begin to have a marked impact on the creation of new jobs until the turn of the year. So far, employment has been relatively well maintained, but the number of Canadians without jobs has risen substantially as a result of the continuing rapid growth of the labour force. We need strong employment growth to get unemployment down. The key to this is a better performance on costs and prices. We have to remain competitive to sell, and sales are the only guarantee of jobs.

● (2020)

[*English*]

Up to now, Canada's price performance has compared reasonably favourably with that of most of the major industrial countries other than Germany. I have already noted that consumer prices in most countries have been rising less rapidly in recent months. The annual rate of change in Canada for the three months ending in May was 7.1 per cent compared with nearly 15 per cent in the three months ended in December. But these comparisons mask the reality of underlying developments in our cost-price structure. Wholesale prices are already moving up more rapidly again. The fact is that we have been building serious cost increases into our economy which threaten to

*The Budget*

erode the competitive position of our industries both at home and abroad.

The major cause of this increase in costs has been the accelerating rise of wages and salaries, which account for some 70 per cent of our total national income. It is quite true that the rate of wage and salary increases in Canada has been exceeded in many industrial countries overseas. But we can never forget that the United States is our major competitor and our major market, buying and selling some 65 per cent of all the goods we export and import. And it is in relation to the United States that our competitive position is being most seriously undermined.

Mr. Speaker, some supplementary material that I shall table later provides a detailed picture of wage and salary developments in Canada and the United States. I recognize fully the difficulty of making precise comparisons of this kind. The preponderance of the evidence, however, is that wages and salaries, whether fringe benefits are included or not, are rising much more rapidly in Canada than in the United States.

In spite of this more rapid rise in wage and salaries, the increase in labour costs per unit of output has been only moderately higher in Canada than in the United States because productivity declined much less in Canada than in the United States. As the U.S. economy begins to pull out of its present deep recession, however, it is likely to experience a much greater improvement in productivity than our country. Under those circumstances, the gap between our unit labour costs and those in the United States will progressively widen and our competitive position progressively deteriorate.

It is perhaps not surprising that wages and salaries in Canada over the past several months should have been rising more rapidly than in the United States. Like the increase in our current account deficit, that is a consequence of the relatively much stronger performance of the Canadian economy since the beginning of last year. What is surprising and disturbing is the size of recent increases in Canadian wages and salaries and their continuing acceleration in a period of slow growth and high unemployment.

I very much understand the concern of working men and women everywhere to maintain and improve their standard of living. It was natural that they should have pressed for increased wages and salaries when faced with rapidly rising costs for almost every purchase and when corporate profits were apparently soaring to record levels. But the increase in corporate earnings, much of which was generated by temporary and illusory gains from inventory profits, has been sharply reversed during the past six months. The share of wages, salaries and supplementary labour income in the national output declined significantly in the earlier stages of the inflation, but the balance has since been fully restored. Wage and salary increases are now running well above the increase in the cost of living. These increases in large measure reflect the effort to restore or improve relative positions, and the widespread fear and expectation that inflation will continue or even accelerate. But a number of recent wage and salary demands appear to bear little relationship to economic reality.

There are some who believe that the surge of wage and salary increases has crested and that we can now expect a substantial reduction in the rate at which we add to our costs. I very much hope that this will be the case, but there is little evidence yet that it is happening.

There are others who point out that we have a flexible exchange rate and if our cost increases continue to exceed those of our major trading partners, our resulting competitive disadvantage can be overcome by a depreciation of the Canadian dollar.

The weakening of our balance of payments has already produced some depreciation. But a continuous depreciation of the Canadian dollar over any length of time is no substitute for bringing the spiral of our costs and prices under control. Indeed, it would aggravate the inflationary process by driving up the prices of the billions of dollars worth of goods and services we buy from abroad. Further, depreciation of our dollar raises the domestic prices of some products which we both export and consume at home. Unless we as a nation are able to conduct our affairs in a way that will maintain confidence at home and abroad in the soundness of our economy, we risk paying a heavy penalty in terms of lower capital investment, lower output, lower employment and lower real income.

Thus we are brought back to the central question of the emerging trend in cost increases.

If the rate of increase in our costs does come down, we will be able to look forward to a sustained expansion of output and employment, supported by the major new investment projects which lie ahead of us. But I cannot overlook the danger that our costs may continue to rise both in absolute terms and relative to our major trading partners. In that event, growth and employment will be impaired. The outcome will depend on whether we are moderate in the claims which all of us will be making in the coming months.

[*Translation*]

#### Policy Choices

Let me discuss now the question of policy. In doing so, I recall that my first words to this House as Minister of Finance were that my most urgent priority was jobs. I continue to believe that our greatest challenge is the creation of productive and satisfying jobs for the rapidly growing numbers of Canadians who want to work. One million more Canadians are at work today than when I took this office. But statistics alone are not a measure of human fulfillment. This achievement must be measured by the new opportunities for our young people to pursue their chosen careers, for students to help pay for their education, and for increasing numbers of women to enrich their lives in a meaningful way.

The policies of this government have played a crucial role in making this happen. We have used fiscal and monetary policy, but have never believed this alone to be sufficient. We have stressed the necessity of a high level of business investment and encouraged it by tax incentives and a wide variety of other policies. We have launched new direct employment programs. We have broken new ground in the training of workers and in aiding those who have had to move to other parts of the country where jobs

*The Budget*

are available. We have introduced large new programs of regional development to bring jobs to people.

Today the task of job creation is made immeasurably more difficult by inflation. In its present cost-push form, inflation threatens to price our goods out of world markets and to lessen the capacity of our business firms to expand their operations. It disrupts financial markets and impairs rational planning by business and government. It undermines the effectiveness of the traditional instruments of demand management policy to keep the economy on course. When inflation reaches a certain point, the stimulation of spending may simply lead to higher prices rather than more goods and more jobs; in the longer run, it actually makes unemployment worse.

Not only that, but inflation ultimately inflicts grievous damage to the fabric of society. It lowers the living standards of those on fixed incomes, including pensioners. It leaves people without reliable, understandable guideposts by which to arrange their economic affairs. It injects grave uncertainty into decisions on family budgets, housing, savings and provision for old age. It provokes deep frustration, social tension and mistrust of private and public institutions. Collective bargaining is embittered. Industrial relations are damaged. We in Canada are already beginning to live some of these experiences.

During the past few months, I have had the opportunity to talk with many people all over the country—from labour, from business, from our farms, from the professions. I have found a widespread understanding of the risks to our country from persistent inflation. I now wish to share with the House and with the people of Canada the government's thinking as it has developed in the course of the consultations and during the intensive review we have conducted in recent weeks. If we are to find a way out of our present difficulties, no single step is more important than to promote the widest possible public understanding of our problems and the real choices which we have to make.

Among the various policy options open to us, there is one which this government has rejected, and rejects again, in the most categorical manner. This is the policy of deliberately creating, by severe measures of fiscal and monetary restraint, whatever level of unemployment is required to bring inflation to an abrupt halt. Such a course of action would be completely at odds with my own instincts. The cost would be much too high. The hard-won sense of security in our society would be replaced by a sense of fear and anxiety, and the cost in terms of lost output and lowered standards of living would be unacceptable. In human terms for me it would be unthinkable.

● (2030)

[English]

It was because we rejected this course of action that we launched the series of consultations with the leaders of labour and business, provincial governments and many other groups and associations in the country. Our objective was to seek a better solution to inflation and slow growth. We sought a consensus on a new framework to govern the setting of incomes and prices in a manner which would be fair to all.

[Mr. Turner (Ottawa-Carleton)]

Members will recall that my parliamentary secretary—and at this stage I should like to pay tribute to him as an outstanding member of parliament.

**Some hon. Members:** Hear, hear!

**Mr. Turner (Ottawa-Carleton):** The hon. member for Sarnia (Mr. Cullen) has been invaluable to me in the discharge of my duties in this House and in the country. He tabled in the House the report I gave on this subject to the conference of first ministers. Let me now summarize the impressions we gathered from the whole series of meetings.

First, all those who took part in these meetings gave generously of their time, often at short notice. They spoke frankly about what worried them. They gave their opinions constructively. They helped me and my colleagues a good deal and I want to thank them.

Second, those who joined us at those meetings welcomed the opportunity to exchange views with the government on problems and policies. I think they have learned more about the problems we are facing. Certainly, my colleagues and I have greatly benefitted from hearing their views. We must find ways of keeping these channels of communication open and I intend to do so.

Third, there is now, I believe, a clearer understanding in the country of the fact that if each and every group tries to improve its position by pushing up its own money income, the total effort in the end is bound to be self-defeating. If Canadians generally come to recognize that moderation and restraint are in the interest of everyone—that will in itself dampen inflation. The most useful result of the consensus exercise has been increased public awareness and understanding.

Despite these positive aspects, consensus on a set of voluntary guidelines has not been reached. The impression was created that this has been due to an inability to formulate a set of proposals that were fair and equitable. I believe this is not so. The proposals were evolving, and I think we were on the way to rounding them out in a manner which would have met the main concerns of the various parties. But we had to struggle against a persistent doubt whether the voluntary guidelines would in fact be followed. Each group feared that others would be less exposed to the force of public scrutiny or less able to commit its membership. There was a general concern that the burden would not be shared equally.

Faced with the deadline of a budget and in the absence of a consensus, I had to consider other options.

We gave careful consideration to the imposition of statutory controls over prices and incomes. In contrast to the situation in 1973 and 1974 when our inflation primarily reflected international forces, and controls couldn't possibly have worked, we are now faced with escalating domestic costs in an under-employed economy. In these circumstances, controls could provide the most direct response to the problem. Thus, unlike our position on severe monetary and fiscal restraint, we did not reject controls in principle. Indeed, in one respect, they would have had an advantage over a voluntary consensus. By using the powers of the law to make all groups obey the rules, each would have had the assurance that all would be making a contribution.

But there would have been—and are—immense difficulties and disadvantages in such a course of action. Government would have to interfere in every type of business decision and wage settlement. To a far greater extent than in a voluntary program, a new bureaucratic apparatus would have to be set up. New types of inequity would be created. The flexibility of the market economy in directing resources where they are most needed would be impaired. Dislocations would occur.

These costs would be worth paying if direct controls could be successfully imposed. If this were the case, we might well achieve lower price and cost increases without higher unemployment. But the success of such a program would depend crucially on widespread public support. As I have said before, I believe that we can resort to direct controls only when there is a public conviction of the need for such action. That point has not been reached.

As another option, we looked at several alternative ways of using the tax system as a method of controlling prices and costs. We examined the possibility of taxing away all increases in income in excess of specified amounts. We came to the conclusion that this would provoke administrative nightmares, create massive inequities and yet would not ensure that the inflation of costs and prices would be effectively brought under control.

The policy I have chosen is to use our powers over taxation and spending to create the climate and set the example by which I believe we can still meet the inter-related problems which confront us. I would remind the House that the stimulus of the measures taken in the November budget was reflected in my forecast of cash requirements amounting to \$3 billion. Because of the slowdown in the economy, and its unavoidable impact on tax revenues and social security payments, I now expect that our requirements will be in excess of \$5 billion. I do not believe that this amount should be further increased. I believe there is enough stimulus already injected into the economy. There are, however, some areas in which further action is imperative. I will be announcing certain measures tonight to sustain business investment, to assist housing and to create jobs. But as I have said, our goals would not be served by a further net injection of demand. The government cannot underwrite—or appear to be underwriting—ever higher rates of inflation by further expansionary policies. It would be no service to the people of Canada to hide the underlying reality that unrestrained demands for higher incomes will sooner or later mean fewer jobs and lower living standards.

A further reason for not increasing the over-all expansionary thrust of our policies is that much of the slack in the economy is concentrated in our export industries. In spite of our best efforts to promote export sales, we cannot stimulate general demand in the economies of our trading partners. We can only try to check the deterioration in our international competitive position.

On the other hand, since unemployment is already too high, I do not see any justification for weakening the expansionary thrust which is already in place.

I have therefore decided to stay on our existing fiscal course in terms of our cash requirements and their impact on the economy. Within that framework, however, it is

### *The Budget*

essential that the government should exercise greater restraint over its own spending. I will therefore be announcing a series of measures the government is taking to limit its total outlays and to reduce their growth over the longer run.

● (2040)

One thing we have learned from our meetings with labour and business was that if we expected restraint from the country, the country expected restraint from governments. We are determined that this budget shall show clear leadership in the exercise of moderation and restraint. We will thereby add force to our assertion that Canadians generally will have to moderate their individual claims against the economy if we are all to enjoy the benefits of a sustained expansion in output and employment.

[*Translation*]

### The Control of Government Expenditure

I come now to specific measures. None is more important than the control of public expenditure. The outlays of the federal government, both budgetary and non-budgetary, have risen rapidly in recent years. So have the outlays of provincial governments. This rapid rise has occurred in response to insistent public needs and public demands. It has contributed to the achievement of the whole range of our objectives, economic, social, cultural and international. It has been mirrored in the experience of countries around the world. But the portion of the national income spent by governments on goods, services and transfer payments, and financed by taxation, has now risen to levels previously reached only during the Second World War. This rise is now causing concern in our inflationary environment. The competition for shares of the total national income has become intense. The government proposes to set an example of restraint in this regard by imposing strict control over its activities and programs.

Our budgetary expenditures and our loans, investments and advances this year are already coming under severe upward pressure, as a result of inflation, the growing cost of our statutory programs and the new programs and new commitments which have been pressed upon us from all sides. Unless we act now, the estimates I gave in my last budget will be exceeded by many hundreds of millions of dollars. Moreover, there are strong indications that the cost even of our existing programs will rise substantially further next year.

The government has therefore decided upon a wide-ranging set of measures, covering our statutory as well as our non-statutory programs, budgetary as well as non-budgetary spending, our salary as well as our hiring policies. All are directed to bringing outlays under more effective control and to slowing down their rate of growth this year and into the future. Our target of cuts this fiscal year is \$1 billion.

[*English*]

The first element in this strategy has been a careful scrutiny of all non-statutory programs authorized in the main estimates of expenditure or subsequently approved by the Cabinet for submission to Parliament. Under the leadership of the President of the Treasury Board, we have identified a series of items which, although desirable and important, must nonetheless be reduced or postponed.

### *The Budget*

The Treasury Board has been successful in applying cuts to almost every department of government and to many of the Crown corporations. These cuts will cause distress and disappointment to Canadians in all walks of life. But they are required if we are to demonstrate responsible fiscal restraint.

Reductions totalling \$100 million are being made to the planned capital expenditures of the Departments of Transport, Defence, Public Works, Environment and others.

Reductions totalling \$250 million are being made in the planned grants and contributions of the Departments of External Affairs, Industry, Trade and Commerce, the Secretary of State and others.

In the non-budgetary field, planned loans, investments, and advances will be reduced by about \$350 million, by cutting back on allocations and by deferring the start-up of some new enterprises. Crown corporations and agencies which will be affected include Petro-Canada, the Federal Business Development Bank, the Federal Mortgage Exchange Corporation and the Farm Credit Corporation.

Over and above these reductions, departments and agencies are being required to cut planned program expenditures by \$130 million, and ministers are now directing changes in their programs in line with their reduced resources. The Treasury Board is also directing departments to restrict expenditures on travel and consultants' fees.

The second element in the strategy relates to the growth of the public service. The Treasury Board is directing departments to restrict their salary budgets. The effect of this restriction will be to reduce the rate of increase in man-years in the public service this year from 4.1 per cent to 3.1 per cent, a rate that is down substantially from the levels of six to seven per cent in each of the two previous years.

One significant exception to this plan for restraining staff growth should be noted. The Office of the Auditor General has long acted on behalf of this House to monitor and report to it on the prudence and probity with which the government has implemented its programs. The government has always recognized the vital importance of the work of the Office of the Auditor General in assuring this House, and through it the people of Canada, that the operations of the government are being conducted properly and legally.

However, the increasing complexity of government operations and financial transactions demands major improvement in the capacity of that office to scrutinize objectively and thoroughly all financial transactions and systems. The most sophisticated technical and professional judgment must be available to carry out this work. The Auditor General has submitted that he needs additional staff at the most senior executive levels to fulfil these responsibilities. The government accepts this position, and has already increased his executive complement. It will now accept a further obligation to more than triple that senior executive complement to give the Auditor General the staff he needs to do his job.

The third element of our expenditure restraint strategy concerns the wage and salary policy of the federal govern-

ment as an employer. The policy of the government is to compensate its employees by way of pay and benefits comparable with those provided by other Canadian employers. The policy of comparability is a demonstrably fair one and will be adhered to strictly.

The vast majority of our public servants are represented by bargaining agents, and their salaries, benefits and conditions of work are established by collective bargaining. The government accepts and indeed initiated collective bargaining in the public service. This democratic process provides great protection against unfair or arbitrary treatment. An essential element is the legal right to strike in all but the most essential occupations. But the government is not prepared to grant increases that are unwarranted by any reasonable standard. This may lead to legal work stoppages. The resulting inconvenience to the public will have to be accepted.

Beyond this, the government cannot condone and will use every legal remedy within its power to deal with unlawful deprivation of service to the public.

The fourth element of our expenditure restraint strategy relates to the two main statutory programs in the health field—hospitals and medical care insurance. Honourable members are aware that the federal government pays about one-half of the costs of these important programs. The provinces pay the remaining half and administer the plans. Total costs this year will exceed \$6 billion.

These programs have been in effect for some time—hospital insurance since 1958 and medicare since 1968. The fundamental objective of providing comprehensive hospital and medical care services to all Canadians, regardless of income, has long since been met. But even after the development of these plans as mature systems, the annual increase in their cost has on average run well ahead of the growth of national income. These cost trends are due in part to the basic nature of health care; but the statutory rigidity of the programs, the lack of national standards, and the open-ended nature of cost-sharing arrangements with the provinces has made it almost impossible to achieve effective cost planning or control. Last year, for example, federal contributions to the provinces in respect of these two programs had to be increased by 19.8 per cent over the previous year.

For several years, the federal and provincial governments have worked hard to try to devise a more flexible and efficient system to provide better services at a lower cost. This applies particularly to hospital insurance, and intensive discussions are going forward to achieve this goal.

In anticipation of a successful conclusion to these ongoing discussions, it will be necessary to amend the existing Hospital Insurance and Diagnostic Services Act and cost-sharing agreements with the provinces. Under the act, the federal government must give five years' notice before the present agreements can be terminated and new arrangements undertaken. I therefore wish to announce that the government will give immediate notice of its formal intention to undertake these steps.

A second measure aimed at more effective cost control involves the establishment of a ceiling on the yearly rise in the contributions the federal government makes to the

provinces under the Medical Care Act. Since provincial administrations will need some time to adjust their planning, this ceiling will be made effective for 1976 and subsequent years. More specifically a ceiling will be placed on the per capita rate of growth of federal contributions to provinces. This ceiling will be 13 per cent in 1976-77, 10½ per cent in 1977-78 and 8½ per cent in 1978-79 and subsequent years. The per capita approach means that varying rates of population growth between provinces or from year to year will be automatically taken into account in total contributions to provinces. My colleague, the Minister of National Health and Welfare Mr. Lalonde will shortly introduce legislation to effect this change.

The gradual diminution of allowable rates of increase will take account of the need to discourage unnecessary use of services, but will provide adequately for the servicing of a growing population. The continuation of the existing cost-sharing arrangements involving the same federal per capita contribution to all provinces and the territories means that incentives to keep costs down will remain. Lower-cost provinces will continue to have a larger proportion of their program financed by the federal government, compared with higher-cost provinces.

I want to make it clear on behalf of my colleague, the Minister of National Health and Welfare, that the commitment of the federal government to share the costs of encouraging the development of less-expensive health care services still stands.

● (2050)

[Translation]

### Unemployment Insurance

The fifth major element in the government program for expenditure restraint concerns the unemployment insurance system.

There is no doubt that the system, as expanded in 1971, has proved its worth in stabilizing the economy and in providing substantial support for those without work.

I fully support the principles underlying this system. It gives many breadwinners who have the misfortune to be unemployed, a steady flow of income. It helps relieve the anxiety arising from unemployment.

Honourable Members are well aware that some difficulties have been associated with this new program. The government has been reviewing it carefully and in the last Speech from the Throne announced its intention to amend the Unemployment Insurance Act. This continuing review has already shown the need to strengthen certain elements of flexibility and fairness in the Act. It has also shown that some features of the new system have undesirable effects on work incentives. Moreover, both society and the structure of the Canadian labour market have been undergoing significant changes over the past five years. This has led us to review the application of the principle of self-financing.

It is well known that the costs of running the new system have proved to be very large. Total benefit payments amounted to \$2.3 billion in 1974-75. They are expected to exceed \$3.75 billion in 1975-76. Employer-employee contributions provided \$1.6 billion in 1974-75 and are expected to provide \$2 billion in 1975-76. The balance—

### *The Budget*

\$1.75 billion this year—has to be provided by the general taxpayer.

Important changes have already been made to ensure fair and efficient administration of the program. But there still remain a number of important areas that cannot be dealt with by administrative action alone. These require amendments to the Act itself. All Canadians want an Act which is not only fair but credible. The amendments will deal with the benefit features of the Act and the level at which Canadian taxpayers as a whole should be expected to pay for this program in conjunction with the contributions by employers and employees.

My colleague, the Minister of Manpower and Immigration, will shortly introduce legislation proposing five main changes relating to benefits, and a number of technical and administrative amendments:

- first, the maximum period of disqualification from benefits for those who quit their jobs without just cause, refuse to accept suitable employment or are dismissed for misconduct, will be doubled from three to six weeks. This measure will create a greater incentive to remain at work or to search more actively for a job;
- second, the payments of premiums and the receipt of benefits will be terminated at age 65. Government-financed programs such as Old Age Security, the Guaranteed Income Supplement, and the Canada Pension Plan are now available to people of that age on a regularly indexed basis. Those 65 years and over who wish to work are able to do so without reducing their entitlements to CFP benefits under legislation recently passed by Parliament. Taking all of these factors into account, it is no longer appropriate that older citizens who choose to continue to work should be required to pay premiums for benefits which are already available to them under other government programs. The provision for the three-week lump sum payment for those qualified will remain;
- third, the special benefit rate of 75 per cent to claimants with dependants eligible for extended benefits, or who are so-called "low-income" claimants, will be brought into line with the standard benefit rate of 66⅔ per cent. The recent tripling of family allowances and the many tax reductions I have introduced mean that a special benefit rate for this group of people is no longer required;
- fourth, the Act will be amended to recognize the special circumstances of certain workers now unable to qualify for benefits for reasons beyond their control—those suffering temporary disability or on special training courses. For these workers, the period during which a claim can be established and benefits received will be extended;
- fifth, the payment of the maximum 15 weeks of sickness benefits will be made more flexible by allowing eligible recipients to receive such benefits at any time during the first 25 weeks on claim rather than the first 15 weeks as now provided.

These changes, along with others to be introduced in the legislation will increase the incentive to work, adapt coverage and benefit levels more to current social circumstances, and deal more favourably with certain hardship cases.

Finally, the proposed legislation will provide for a change in the method of calculating that part of unemployment insurance benefits financed by employer and employee contributions. The 1970 White Paper on Unemployment Insurance stated that program costs "over and above the self-financing aspects" represent a reasonable charge to the government. This basic position remains unchanged. The White Paper established a 4-per-cent benchmark on the basis of "long term average national unemployment". An updating of the benchmark used for measuring the self-financing part of the system is now needed. This new benchmark will be adjusted annually and automatically on the basis of a moving average of unemployment rates over the preceding eight-year period.

### *The Budget*

The principle of an eight-year moving average is the same as that now incorporated in the Act to adjust the maximum level of insurable earnings. This will mean some increase in premiums.

I might note that had this formula been operative in 1975, the new benchmark would have been 5.3 per cent. This level derives from actual experience over the immediately preceding eight-year period. It reflects broad social and demographic changes in the structure of the labour market, such as greater participation by married women, young people, students and other secondary wage earners. The regular up-dating of the benchmark will relate only to the sharing of the costs of initial benefits payable under the Act. Extended benefits payable to those who are unemployed for longer periods will continue to be based on the existing 4-per-cent benchmark, and the cost of these benefits will continue to be financed entirely by the federal government.

Mr. Speaker, our five-fold strategy of expenditure restraint will enable us to meet our priorities without placing undue strain on the economy. While many of the particular economy measures will prove to be very painful, I am convinced that the package as a whole will be welcomed by the country at large. By giving a lead to others in the exercise of restraint, this strategy will help to break inflationary expectations and get inflation under control.

[*English*]

#### Measures to Create Jobs

Certain special problems in the economy require policy responses if we are to sustain the level and growth of job opportunities and of production. I am now going to propose measures, Mr. Speaker, to deal with these special problems.

#### Measures to Sustain Business Investment

If our economy is to remain productive and competitive and capable of providing jobs, we must ensure that we have modern capital facilities with which to work. We must guard against any slowdown in investment. I have been pleased that capital investment has continued to expand in present circumstances and I want to do what government can do to ensure that this expansion continues.

It is well known that our policies have sought to encourage a strong manufacturing sector. We have provided long-term tax incentives to assist our manufacturers and processors to compete in domestic and foreign markets. The evidence presented in the final report on these tax measures demonstrates their effectiveness. But new and broader initiatives are needed under current economic circumstances.

I am therefore proposing to introduce an investment tax credit as a temporary extra incentive for investment in a wide range of new productive facilities. The credit will be 5 per cent of a taxpayer's investment in new buildings, machinery and equipment which are for use in Canada primarily in a manufacturing or processing business, production of petroleum or minerals, logging, farming or fishing. The cost of new, unused machinery and equipment acquired after tonight and before July, 1977, will be eligible. In the case of buildings, the entire cost will

[Mr. Turner (Ottawa-Carleton).]

qualify for the credit if the building is commenced during this same period. For buildings now under construction, additional costs incurred during the period will qualify.

A simple illustration demonstrates how this credit will work. If a taxpayer acquires a machine for \$10,000, he will be entitled to a credit of 5 per cent, or \$500, which he can apply against his federal tax liability. In other words, the cost of the asset to the taxpayer is reduced by 5 per cent, and his rate of return on the investment is thereby improved.

● (2100)

The credit will be claimable to the extent of the first \$15,000 of federal tax liability for the year and one-half of any excess over that amount. Any balance of credit not so claimed in the year may be carried forward against federal tax for the five succeeding years, subject to the same limits. It will be available to individual small businessmen, farmers and fishermen as well as corporations. The cost of the credit, which will be borne entirely by the federal treasury, will be about \$200 million in this fiscal year.

A further measure will make it easier for all Canadian companies to borrow abroad to meet their investment requirements over the next several years. Earlier this year, the Income Tax Act was amended to provide an exemption from the non-resident withholding tax on interest payable on government securities issued before 1979. I now propose to extend a similar exemption for interest on long-term corporate bonds, debentures and other debt securities, including mortgages. The exemption will apply to all interest on securities issued after tonight and before 1979 paid to lenders at arm's length with borrowers.

Full details of these measures and a number of technical amendments to the Income Tax Act will be found in the Ways and Means Motions.

#### Measures to Stimulate Housing

In the November budget, I stressed the importance the government attached to residential construction for both social and economic reasons. Faced with the prospect of a rapid decline in housing starts, we announced a series of measures to improve the situation. These included a further expansion and adaptation of programs of the Central Mortgage and Housing Corporation, the right to deduct capital cost allowance on new rental units from other income, and reduction of the sales tax on building materials. As a long-term measure to assist people in acquiring homes we also introduced the Registered Home Ownership Savings Plan. There is every reason to believe that this plan will be an important additional source of funds for housing finance.

We have seen a large increase in the price of housing in recent years; construction costs have risen, land costs in particular have soared and mortgage interest rates remain high although they have fallen from the peak levels of last year. This is therefore an area where the effects of inflation have been felt with particular severity. Provincial governments as well as the federal government have taken steps to mitigate the problem. But more needs to be done.

The number of housing starts fell from an annual rate of 284,000 in the first quarter of 1974 to 161,000 in the first

*The Budget*

quarter of this year. The rate has since recovered to a level of 213,000 in May. This recent increase has been welcome, but the level reached in May is still below what appears to be needed over the longer run to look after the housing needs of Canadians. Construction of single-family dwellings has increased, but activity in rental accommodation remains depressed. I believe that further action is appropriate in order to achieve an adequate recovery as soon as possible. On behalf of my colleague, the Minister of State for Urban Affairs, (Mr. Danson), I wish to announce the following measures.

First, the government has decided to increase substantially the level of housing activity directly financed from public funds. The \$1 billion commitment authority for housing already provided to CMHC this year will be increased by a further \$200 million. This will permit increased lending to limited dividend rental projects, to purchasers of new homes under the Assisted Home Ownership Program and to provincial and other non-profit housing agencies. All these programs are directed towards meeting the housing needs of Canadians of modest means.

Second, I wish to announce a temporary increase in the grants available for housing financed by the private sector. Hon. members will recall that legislation was passed recently authorizing direct payments by CMHC in order to bring the cost of new privately financed housing, both rental and owner-occupied, down to a reasonable proportion of the budget of moderate-income families. This important innovation extended to housing financed in the commercial mortgage market certain benefits previously available only on housing financed by the government. We are now introducing a temporary increase in these grants from an annual maximum of \$600 to \$1200 for owner-occupied housing and from a maximum of \$600 to \$900 for rental accommodation.

These measures will stimulate demand and help make adequate housing more accessible to Canadians of moderate means. They will also give an important stimulus to a sector of the economy which has not in recent months played its full role in providing jobs for Canadians.

Mr. Speaker, the details of these new grant provisions and the increased lending authority for CMHC will be provided by my colleague, the Minister of State for Urban Affairs. I estimate that their total budgetary and non-budgetary cost in 1975-76 will amount to about \$125 million.

[*Translation*]

#### Direct Employment Programs

In addition to providing for the continuing improvement of our capital facilities and the recovery of our housing industry, specific measures are needed to create jobs among those people and in those areas where the need for employment is greatest.

A further direct employment program will therefore be initiated immediately. The program is designed to act as a catalyst for governments, industry and private groups, enabling them to co-ordinate their efforts to improve the skills of our work force and to create useful jobs. The total program will involve a financial commitment of \$450 million over the next two years and a disbursement this fiscal year of \$150 million. It will consist of five distinct ele-

ments: occupational training, manpower placement and mobility, a new local initiatives employment program, an employment program for students for the summer of 1976, and a federal program of labour intensive works and activities.

The additional allocation to occupational training over the next two years will be \$70 million. Half of this amount will be available for training in industry and half for training in educational institutions. This will encourage and assist many unemployed persons to acquire specialized technical skills that have a continuing value, thereby increasing their employability and earning capacity. It will also provide employers with a substantial number of trained workers and assist them to make effective use of plant facilities. We will also be allocating about \$10 million to intensify job placement and mobility programs of the government. These programs have proven to be a highly effective instrument in bringing together jobs and workers.

An allocation of \$285 million over the next two fiscal years will be provided for a new local initiatives employment program. This program will operate from November to June in each of the two years. Our experiments in this kind of job creation have proved effective in expanding employment at the community level through a wide range of projects sponsored by private citizens and municipalities. Special emphasis will be placed upon municipal works and projects. The new program is expected to provide over 400,000 man-months of employment.

The federal government is already engaged in a substantial program of student summer employment this year and a further amount of about \$60 million is being set aside for this purpose in the summer of 1976.

We are also proposing a temporary \$25 million to finance labour-intensive federal projects, particularly in regions where unemployment is most severe. Based on previous experience, this program should provide about 30,000 man-months of employment over the next two years.

My colleagues, the Minister of Manpower and Immigration (Mr. Andras) and the President of the Treasury Board (Mr. Chrétien), will elaborate on these measures in the next few days.

Mr. Speaker, I have been outlining measures needed in present circumstances to sustain and improve the pace of production and employment in the economy. They will cost money. This is the kind of cost government should be incurring in present circumstances. These additional costs, taken together with the expenditure cuts I announced earlier, give the kind of structure and balance to government programming which is needed today.

[*English*]

However, the general balance of ways and means which I shall summarize later tonight, does require some increment of revenue to help pay for these special programs. Under current circumstances this contribution should come from the higher income groups of our country. I therefore propose that the income tax reductions effected in my budget of last November should be changed in one significant respect.

Members will recall that as a result of that budget the federal tax cut was increased. At the present time every

### *The Budget*

taxpayer is entitled to a tax credit of 8 per cent of his federal tax, with a minimum reduction of \$200 and a maximum of \$750.

This evening I am proposing to roll back the increase in the \$750 maximum to its 1974 level of \$500. No change is proposed to the 8-per-cent rate nor to the minimum tax credit of \$200. This ensures that taxes will increase only for those who are most able to bear the increase. For example, in the case of a married wage earner with two children under sixteen, his before-tax income would have to be in excess of \$27,000 before he would be affected by this change. The increase in federal revenues in a full year will be about \$50 million.

● (2110)

### Tariff, Sales and Excise Tax Changes

There are certain measures relating to the Customs Tariff which I wish to announce. Many of the requests which have been received for tariff changes will have to be considered in the course of the negotiations now underway in Geneva. I am, nevertheless, proposing a number of tariff changes of a relieving nature. There changes will become effective tonight.

Free entry for petroleum products such as gasoline, aviation fuels, fuel oils and diesel fuel will be extended until June 30, 1977; this was scheduled to expire on October 23, 1975. Free entry for aircraft and aircraft engines of types or sizes not made in Canada, due to expire at the end of this month, will be extended for a further year. Duty-free entry will also be extended to a number of other goods either by the amendment of existing tariff items or by the introduction of new ones.

I would also like to announce three sales and excise tax changes of significance. The first is a special step to assist in energy conservation. Effective tonight I propose to remove the remaining 5-per-cent sales tax on building insulating materials. It has been amply demonstrated that good insulation can effect savings of 20 to 40 per cent in the annual costs of space heating for homes and buildings. The complete elimination of the tax will affect all purchases of insulating materials as well as double-pane glass, storm windows and storm doors.

Second, I have also been persuaded by many representations that the increased excise imposed last fall on wine is seriously affecting the domestic wine and grape growing industry of the country. The excise will therefore be reduced to its previous level effective tonight.

Third, I propose this evening that the Excise Tax Act be amended to effect a modest increase in the air transportation tax to help lessen the heavy deficits in airport construction and operation. The increases, to be effective August 1 this year, are essential to reflect the general policy that those who benefit most directly from facilities provided by the government help to pay for them.

Full details of these and other tariff items changes will be found in the Ways and Means motions tabled tonight.

### Further Steps in Tax Reform

Mr. Speaker, may I take a moment to speak about the next stages in the process of tax reform.

[Mr. Turner (Ottawa-Carleton).]

Last January, I stated in the House that a public review of the commodity tax system would shortly be initiated and that a timetable for public participation would be announced before the end of the current session. Tonight, I am formally initiating the review program by tabling a discussion paper on federal sales and excise taxation. The analysis and proposals contained in this paper are intended to provide a focal point for public discussion which ultimately should lead to significant improvements in the commodity tax system.

The discussion paper analyzes the major problems with the present federal sales tax. Our evaluation of alternatives leads us to believe that shifting the federal sales tax from the manufacturing to the wholesale level would have distinct advantages. I would like to emphasize, however, that the government is not committed to this course of action. Representations from the general public and from groups with particular problems on all aspects of commodity taxation, including alternative approaches, are welcome.

I am also tabling a discussion paper on the treatment of charities under the Income Tax Act. This paper had its genesis in the many letters I have received and public discussion about the role of charities in our society. The paper contains proposals dealing with such matters as fund-raising expenses, the public's right to know about the operations of charities to which they contribute, and the distribution of funds by charities. I hope that both individuals and charitable organizations will respond to the discussion paper by submitting their views. Once I have had a chance to assess the public response to these proposals, I shall proceed with the necessary legislation.

### Government of Canada Annuities

I turn now to the situation facing holders of Government of Canada annuities.

Hon. members will be aware that inflation and high interest rates in recent years have left holders of these annuities at some disadvantage relative to persons who bought private annuities having more flexible contractual terms.

Mr. Speaker, I am pleased to announce that the government will be introducing legislation to increase the rate of return on existing Government of Canada annuities, which are held by more than 270,000 Canadians. This will bring the rate of return closer in line with that in the private sector and increase benefit payments.

When combined with recent tax provisions for interest and private pension income, this will help to protect those who have been prudent and provided for their own retirement.

Sales of government annuities have been on a small scale in recent years in the light of attractive alternatives from financial institutions. I am therefore announcing that the sale of Government of Canada annuities will be discontinued.

[Translation]

### Oil and Gas Pricing

I would now like to turn to the critical issue of oil and gas prices.

Honourable Members will be familiar with the events which have led up to our present situation. When interna-

tional oil prices rose sharply in the fall of 1973, most countries, particularly those wholly or largely dependent on imported oil, allowed their domestic prices to reflect fully those prevailing in the world market. This is what normally occurs in Canada when the prices of internationally traded goods rise. There are good reasons for allowing this to happen. If the price of a commodity is kept lower in our own market than in international markets, this discourages domestic producers from increasing supplies, and discourages consumers from economizing on the use of a scarce commodity.

In the case of petroleum, Canada took a different course. We concluded that if the full increase in oil prices were allowed to affect the domestic economy directly, this would raise serious adjustment problems. Very large shifts in income among regions, industries and individual Canadians would have occurred in one step, and those using oil and gas would have had to accept a harsh adjustment to the conditions they faced. There would also have been adverse economic effects of a general nature. A sharp rise in the price of oil and gas would have raised the cost of living and reduced the income people had available to spend on other goods and services.

The government's first response therefore was to effect a voluntary freeze on domestic prices and to impose an export tax as a necessary part of this policy. Then, at their meeting in March, 1974, the First Ministers provided Canadians with a further breathing space by agreeing to a single national oil price well below that prevailing in world markets. The federal government, acting in co-operation with the provinces, took advantage of the availability of domestic supplies and framed a policy which served our national interest well. We established a single national price for crude oil in Canada of \$6.50 per barrel, plus transportation, which was substantially below the delivered international oil price of around \$11. We succeeded in holding down the domestic price of oil, introduced an export tax and used the proceeds of this tax to protect consumers of imported oil in Eastern Canada from the full impact of the international price.

In my view, this was a very successful policy. As Honourable Members know, however, it was never the intention of the government to maintain indefinitely the present regime of cheap energy in Canada, while the rest of the world was adjusting to the new realities.

[English]

We must accept the fact that our existing supplies of both oil and gas from Western Canada are limited. They are so limited, in fact, that Canada's capacity to supply its own requirements will likely diminish steadily from now until the early or mid-1980s.

The National Energy Board has reported upon our oil prospects and will soon present a similar analysis for natural gas. The oil report has demonstrated, and by all available public evidence the gas report will demonstrate, that we face great difficulties in this country over the next decade in supplying established markets for Canadian oil and gas.

We shall only be able to increase our self-reliance if we are prepared to pay the prices required to meet the high cost of finding, developing and transporting petroleum from new sources of supply. Neither the tar sands nor the

### The Budget

frontier will yield up their treasure without massive commitment of human and material resources.

We have no practical alternative to continuing a phased adjustment to higher energy prices. This is essential to provide for our future supplies and to conserve the use of this scarce resource. As the Prime Minister pointed out at the First Ministers' Conference on April 9: "We cannot go on year after year being extravagant in our use of oil beyond what every other country in the world consumes—mainly because it is being sold cheaply in Canada, a lot cheaper than our future supplies will cost."

There was widespread recognition of this hard truth by First Ministers at their recent conference. It was generally acknowledged that an increase in prevailing oil and gas prices was essential to ensure the development of the new petroleum supplies we require so urgently in the future. What First Ministers could not agree on was the extent and timing of future price increases. Subsequent bilateral discussions with provincial governments, between officials, ministers and most recently involving the Prime Minister and all provincial premiers, were helpful in shaping views. But these discussions indicated that it was not possible to reach a consensus on this issue.

Energy considerations alone indicate the need for a large upward adjustment in oil and gas prices this year. We have, however, decided that we should move cautiously. There is still a good deal of uncertainty about the future world price of oil. We have also been very conscious of the need to moderate the size of the adjustment which particular regions and the economy as a whole will have to make.

At the same time we have tried to meet the legitimate claims of the producing provinces. Without the co-operation of Alberta, the natural gas which Ontario so badly needs might not readily be released. Further, on the price side, we have been anxious to avoid the necessity of employing the federal government's powers in the Petroleum Administration Act.

● (2120)

In all matters, we have been anxious to avoid acting unilaterally. But we are confident that the decision we have ultimately reached will be supported by many provinces.

Against this background I would like to announce on behalf of the government and my colleague, the Minister of Energy, Mines and Resources, that on July 1 this year the price of crude oil and its equivalents will rise by \$1.50 per barrel to \$8 per barrel. We are again asking industry to refrain from reflecting this increase in their product prices until 45 days have passed. By that time inventories held at the former crude oil price will, on average, have been used up. This is our decision for the next year but we are committed to see the price of crude oil continue to move towards international levels in succeeding years.

Further, on November 1 next, the price of natural gas in Alberta will be established on the basis of an increase in the price at the Toronto city gate from the current level of approximately 82 cents to \$1.25 per 1000 cubic feet. We are convinced that natural gas must be priced at parity with crude oil at Toronto within not less than three years, but no more than five years.

### *The Budget*

The new domestic oil price of \$8 plus transportation may be compared with the present cost of imported oil of over \$12 laid down in Canada. The new domestic gas price of \$1.25 at Toronto may be compared with the recently announced export price of \$1.60 at the border for natural gas sold to customers in the United States.

The limitation of the present increase of oil prices to \$8 per barrel and the increase in natural gas prices to about 85 per cent of commodity value means, however, that we are still not conserving our non-renewable resources to the extent required by the rise in international prices and depletion of domestic supply. I shall propose a further step this evening to encourage immediate conservation where this will impose the least hardship, and to deal with the immediate financial problem which has arisen in the course of maintaining a single national oil price.

In recent months the gap between compensation payments and oil export charge revenues has grown rapidly. This has come about because the volume of our oil exports has fallen while our oil imports have risen. Moreover, mainly because of competitive factors in world oil transport and weakness in the American market, the average subsidy paid on each barrel of imports is currently higher than the charge we are able to levy on each barrel of exports. Although the increase in the domestic oil price and the forthcoming adjustments in the import compensation program will help, the gap will be substantial.

It is difficult to be precise about the figures because the amount depends upon international prices, export volume and a number of other domestic and international factors. The cost of the subsidy for eastern consumers will be about \$1.3 billion this year. The gap between that cost and the export charge revenues is likely to be several hundred million dollars in fiscal 1975-76 and may widen in the future. We are compelled to take some action to meet this growing cost.

I therefore propose, effective tonight, a special excise tax on gasoline for personal use. The tax will be at a rate of 10 cents per gallon. It will be imposed on the producer or importer of gasoline in a manner similar to the general 12-per-cent manufacturer's sales tax. Provision will be made, however, to refund the full amount of the tax on gasoline used for farming, fishing, construction, mining and most commercial transportation. Refunds of the tax to such users will be provided on the basis of certificates supported by receipts submitted to Revenue Canada.

The tax will yield the federal government approximately \$350 million in the current fiscal year. Further details concerning the tax are included in the Ways and Means Motion.

The increase in the price of crude oil is equivalent to about 5 cents per gallon in the wholesale price across the range of products. This will, of course, be reflected in the retail price of gasoline at the pump together with the excise tax of 10 cents.

The increased cost of gasoline resulting from these measures should encourage motorists to make their driving habits more efficient in terms of saving gasoline. This should not, however, be left totally to the price mechanism. Accordingly, the appropriate departments of gov-

ernment and the Office of Energy Conservation have already been meeting with the motor vehicle manufacturers of Canada and their association. Discussions are proceeding on alternative ways to improve the over-all fuel economy of automobiles sold in Canada, with particular reference to changes in design and the establishment of performance standards. Both improved driving practices and better operating characteristics can make significant contributions to needed fuel conservation. The increased cost of gasoline will also encourage the use of public transportation, thereby helping to relieve the growing congestion in our cities.

I recognize that it will not be easy for the average motorist to adjust to this new situation. I would point out, however, that the retail price of a gallon of gas here will remain far below the prices prevailing in overseas countries. For example, the price of an imperial gallon of regular gasoline in Paris is \$2 and in Tokyo over \$1.80, in London and Geneva around \$1.70 and in Bonn and Stockholm around \$1.60. The average price of gasoline in the United States has been higher than ours in recent months. In the United States the administration has adopted tariff surcharges and proposes measures for decontrolling domestic oil prices which would lead to retail prices roughly comparable to the new levels in Canada. I would stress that the government is continuing to hold the price of oil and natural gas in Canada well below international levels for industrial and agricultural users and for home heating.

The new arrangements which I have announced tonight represent what the government believes to be a reasonable balance among conflicting objectives. The measures will help in increasing the petroleum supplies we will need in the years ahead. They will assist in meeting the heavy financial costs of maintaining a single national oil price well below international levels. They will confront us all with the urgent need to conserve oil and gas.

[*Translation*]

### Resource Taxation

During the past year, Mr. Speaker, the taxation arrangements for the petroleum and mineral industries have posed difficult and contentious issues.

Last November, in recognition of the financial requirements of these industries, I introduced major modifications from the proposals made in the previous May and invited provinces to follow suit. Relieving action by some of the provinces did indeed follow. I have been encouraged by this and by the sense of mutual concern evident in further discussions since with provinces and industry.

I propose tonight to make one further effort to resolve this matter, to the extent the federal government can do so. We must establish a clear and lasting set of rules upon which industry can rely.

My purpose tonight is to accomplish two main objectives. First, I wish to meet, at least in part, the request for some form of deductibility in the tax system for provincial resource levies. Provinces have been seeking a more direct and tangible recognition of their special position in respect of resources. Industry has been seeking recognition of such payments as a business expense. Second, I wish to offer more incentive to those who explore and

develop in Canada and to impose a greater tax liability on those who do not.

Under the present system, resource profits are subject to a basic corporate tax rate of 50 per cent. This rate is reduced by the standard provincial abatement of 10 points of tax and by a special resource tax abatement of 15 points, resulting in a net federal rate of 25 per cent on resource production profits. Under the system which I am now proposing, the extra 15-point abatement of federal taxes would be withdrawn, and the basic corporate tax rate applicable to resource production profits would be reduced to 46 per cent, the same as that applying to most other corporate activity. After deducting the standard provincial abatement, this would result in a net federal rate of 36 per cent on resource production profits in 1976.

At the same time, I am introducing a new resource allowance, which would be an extra deduction from income equal to 25 per cent of production income from petroleum, gas or mineral resources. For this purpose, production income would be calculated after operating expenses and capital cost allowances, but before interest, exploration and development, and earned depletion. This new allowance will be available to both corporate and individual taxpayers engaged in petroleum and mining operations.

All of these new proposals will become effective on January 1, 1976.

[English]

Let me explain how these modifications will meet my two main objectives. First, the new resource allowance is a practical way to recognize that provinces, in one way or another, impose taxes or royalties and to take that fact into account within reasonable limits in determining taxable income.

Second, the new system is even more favourable than our present incentives to those who continue to develop our resources. This arises from the simple fact that the higher the tax rate, the more valuable is a dollar of deductible expenditures. Under the new proposal, exploration and development expenditures and the depletion they earn will be deductible against a net federal tax rate of 36 per cent rather than the present lower rate of 25 per cent. This will augment appreciably the incentives already contained in the present system such as earned depletion and the immediate write-off of exploration expenses.

This improvement in the resource tax system can be achieved within the continuing constraint that a fair share of resource revenues must be preserved for the benefit of all Canadians. There will be some modest cost to the federal treasury, which I estimate for the years 1976 to the end of the decade to be about \$40 million annually based on present forecasts. To the extent that these proposals have their intended effect and stimulate even more exploration and development in Canada than now envisaged, the cost to the federal treasury will be greater. But this additional loss of federal revenue would be well worth its cost if it brings in new reserves.

The impact of these proposals on provincial income tax revenues is more difficult to assess. Several producing provinces are already proposing to rebate to industry increases in federal and/or provincial corporate taxes resulting from the non-deductibility of provincial levies.

### *The Budget*

Such arrangements will no doubt continue, although perhaps in modified form. Provinces with their own corporate tax systems, which now provide that royalties and/or mining taxes are not to be deductible, will no doubt wish to take these new federal proposals into account.

● (2130)

I believe that the measures I have introduced tonight represent a reasonable answer to the main arguments raised by both the provinces and industry and will be welcomed as such by all concerned. I have sought a better tax system, one which would meet provincial grievances and one which would provide more incentive to industry for exploration. At the same time, I have sought to preserve a fair share of the yield of these resources for the people of Canada. I hope that provinces will do their part to resolve whatever problems still remain.

### The Fiscal Position

I now wish to inform the House as to our fiscal position and outlook. The financial requirements for the fiscal year just ended, excluding foreign exchange requirements, were about \$2.3 billion. This compares to the \$1 billion I had forecast in my November budget. Almost half of the increase of \$1.3 billion resulted from the fact that certain corporate tax instalments expected in 1974-75 were received only in 1975-76. Other factors included larger transfers to provinces under the revenue guarantee and equalization programs, and payments to the provinces under the tax collection agreements in excess of the amounts collected on their behalf.

I am tabling tonight a more detailed analysis of the financial requirements for 1974-75. Since the books are not yet closed, the figures are still preliminary. This is the first opportunity for presenting this information to the House. The normal publication of the preliminary financial statements in the *Canada Gazette* will follow later this summer.

I would like to turn to the fiscal outlook for 1975-76. Total financial requirements, excluding foreign exchange transactions, are forecast at \$5.3 billion compared with \$3 billion in my last budget.

This increase in our cash requirements reflects the fact that the economy will not grow as rapidly in this fiscal year as had been expected when we prepared the November budget. The revised forecast has resulted in a downward revision in our earlier estimate of tax collections of approximately \$1.7 billion. It has also resulted in an upward revision in the forecast deficit of the unemployment insurance account of \$800 million. The receipts from the oil export charge are currently estimated to be some \$400 million lower than previously anticipated. This decrease in receipts is due both to a reduction in the export charge and in the volume of exports. Some offset to the above changes has resulted from the delayed receipts of \$600 million of corporate tax instalments referred to earlier.

The revenue measures I have announced tonight are expected on balance to increase our receipts by \$200 million. The forecast of budgetary expenditures and loans, investments and advances has been increased by a like amount. This is more than accounted for by the direct employment and housing measures I have announced tonight. The very small rise in our outlays has been made

*The Budget*

possible by the very great effort we have made to restrain our expenditures. In 1974-75 our outlays, that is to say budgetary expenditures, OAS and GIS, and our loans, investments and advances, rose by 28 per cent rather than the 25 per cent I forecast last November. The largest elements in this 28 per cent rise were increases of \$1 billion in oil subsidies to eastern Canada, over \$800 million in family allowances, and over \$750 million in fiscal transfer payments to the provinces, including equalization. The increase in our outlays for 1975-76 would have amounted to 15½ per cent, if we have not had the program of expenditure restraint. This program, even allowing for some shortfall in the planned reductions, should hold the increase to under 13 per cent.

The financing of \$5.3 billion in requirements should not put undue stress on capital markets. Our cash position at the beginning of this fiscal year stood at over \$3.2 billion. So far this year sales of foreign exchange have provided an additional source of funds to the government. The Bank of Canada will continue to require federal securities to finance a reasonable rate of monetary expansion. The chartered banks will require treasury bills for statutory requirements and federal securities to add to their liquid assets. I am satisfied that adequate room will be left in the capital market for other borrowers.

The deficit on a national accounts basis in 1975-76 is now forecast at \$3.7 billion compared with \$635 million in 1974-75.

I must remind hon. members that the figures I have presented tonight on the outcome of our accounts are estimates. The actual outcome will reflect the decisions of this House respecting legislation which is now before it or which will be placed before it during the course of this session. All estimates are subject to particular uncertainties in the circumstances of today.

With the permission of the House, I should like now to include in today's *Hansard* supplementary tables showing estimates of Government of Canada cash requirements, details of the budgetary revenues, federal government revenues and expenditures on a National Accounts basis and reconciliations of these figures with those compiled on a Public Accounts basis. The information in these tables applies to the fiscal years 1974-75 and 1975-76.

I should also like to table several Notices of Ways and Means Motions setting out the changes I have proposed tonight and I would ask that they be appended to today's *Votes and Proceedings*. I should also like to table the supplementary information of labour costs, the two discussion papers and the statement of financial transactions for 1974-75 to which I referred earlier tonight.

**Mr. Speaker:** Is this agreed?

**Some hon. Members:** Agreed.

[*Editor's Note: For notices of ways and means motions, see today's Votes and Proceedings.*]

[*The tables referred to above are as follows:*]

## GOVERNMENT OF CANADA FINANCIAL REQUIREMENTS

	1974-75 Preliminary Actual	1975-76 Forecast <sup>1</sup>
(Millions of Dollars)		
<b>Budgetary Transactions</b>		
Revenues	24,856	25,725
Expenditures	-26,001	-28,900
Surplus (+) or Deficit(-)	-1,145	-3,175
<b>Net Non-Budgetary Transactions</b>		
Excluding Foreign Exchange Transactions		
Loans, Investments and Advances	-2,261	-2,700
Other	1,081	575
Total	-1,180	-2,125
<b>Total Financial Requirements</b>		
Excluding Foreign Exchange Transactions	-2,325	-5,300
Foreign Exchange Transactions	767	332 <sup>2</sup>
<b>Total Financial Requirements</b>	<b>-1,558</b>	<b>-4,968</b>

<sup>1</sup> Numbers in this column should be interpreted as mid-points of ranges of estimates.

*The Budget*

## GOVERNMENT OF CANADA BUDGETARY REVENUES

	1974-75 Preliminary Actual	1975-76 <sup>1</sup> Forecast
(Millions of Dollars)		
Personal Income Tax	10,069	11,195
Corporation Income Tax	4,285	4,035
Non-Resident Tax	427	480
Customs Duties	1,810	1,930
Sales Tax	2,906	2,720
Other Duties and Taxes	2,838	2,545
Total Tax Revenues	22,335	22,905
Non-Tax Revenues	2,521	2,820
Total Budgetary Revenues	24,856	25,725

<sup>1</sup> Numbers in this column should be interpreted as mid-points of ranges of estimates.

*The Budget*

GOVERNMENT OF CANADA REVENUES AND EXPENDITURES  
ON A NATIONAL ACCOUNTS BASIS

	1974-75. Preliminary Actual	1975-76 Forecast <sup>1</sup>
(Millions of Dollars)		
Revenues		
Direct Taxes, Persons	14,250	16,120
Direct Taxes, Corporations	4,646	4,445
Direct Taxes, Non-Residents	429	485
Indirect Taxes	8,313	8,200
Other Current Transfers from Persons	7	10
Investment Income	2,036	2,515
Capital Consumption Allowances	362	395
Total Revenues	30,043	32,170
Expenditures		
Current Goods and Services	7,656	8,405
Transfer Payments to Persons	9,123	11,750
Subsidies	2,389	2,790
Capital Assistance	202	230
Current Transfers to Non-Residents	435	510
Interest on the Public Debt	3,157	3,740
Transfers to Provinces	6,598	7,145
Transfers to Local Governments	139	175
Gross Capital Formation	979	1,100
Total Expenditures	30,678	35,845
Surplus (+) or Deficit (-)	- 635	-3,675

<sup>1</sup> Numbers in this column should be interpreted as mid-points of ranges of estimates.

GOVERNMENT OF CANADA REVENUES  
PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION

	1974-75 Preliminary Actual	1975-76 <sup>1</sup> Forecast
(Millions of Dollars)		
Budgetary Revenues	24,856	25,725
Deduct		
Post Office Revenues and Deficit	- 746	- 892
Deficit of Government Business Enterprises <sup>2</sup>	- 219	- 154
Excess of Accruals (+) over Collections (-)		
Corporate Income Tax	- 118	- 71
Oil Export Tax	- 137	- 32
Add		
Government Pension and Social Security Receipts <sup>3</sup>	6,454	7,166
Capital Consumption Allowance	362	395
Miscellaneous Adjustments <sup>4</sup>	- 409	33
Total Revenues, National Accounts Basis	30,043	32,170

<sup>1</sup> Numbers in this column should be interpreted as mid-points of ranges of estimates.

<sup>2</sup> In the Public Accounts, deficits of government business enterprises are a charge to budgetary expenditures whereas in the National Accounts, these deficits are deducted from remitted profits of other government business enterprises.

<sup>3</sup> In the Public Accounts, the government pension and social security receipts and disbursements are treated as non-budgetary transactions whereas in the National Accounts, these transactions are reflected in the determination of government revenue and expenditure.

<sup>4</sup> These miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, the proceeds from the sales of existing capital assets; budgetary revenue items offset against budgetary expenditures; imputed items; and an adjustment for the treatment of revenue in the supplementary period.

## The Budget

GOVERNMENT OF CANADA EXPENDITURES  
PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION

	1974-75 Preliminary Actual	1975-76 <sup>1</sup> Forecast
(Millions of Dollars)		
Budgetary Expenditures	26,001	28,900
Deduct		
Transfers to Funds and Agencies <sup>2</sup>	-2,112	-1,928
Post Office Expenditures	- 746	- 892
Deficit of Government Business Enterprises <sup>3</sup>	- 219	- 154
Add		
Expenditures of Funds and Agencies <sup>2</sup>	1,229	1,263
Government Pension and Social Security Disbursements <sup>4</sup>	6,275	8,367
Capital Consumption Allowance	362	395
Miscellaneous Adjustments <sup>5</sup>	- 112	- 106
Total Expenditures, National Accounts Basis	30,678	35,845

<sup>1</sup> Numbers in this column should be interpreted as mid-points of ranges of estimates.

<sup>2</sup> In the National Accounts, budgetary appropriations to various funds and agencies are replaced by the expenditure actually made by these funds and agencies.

<sup>3</sup> In the Public Accounts, deficits of government business enterprises are a charge to budgetary expenditures whereas in the National Accounts, these deficits are deducted from remitted profits of other government business enterprises.

<sup>4</sup> In the Public Accounts, the government pension and social security receipts and disbursements are treated as non-budgetary transactions whereas in the National Accounts, these transactions are reflected in the determination of government revenue and expenditure.

<sup>5</sup> As in the case of revenues, the miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, reserves and write-offs; purchase of existing capital assets; budgetary revenue items offset against budgetary expenditure; expenditures of reserve accounts and revolving funds; imputed items; and, an adjustment for the treatment of expenditures in the supplementary period.

**Mr. Turner (Ottawa-Carleton):** Mr. Speaker, inflation, recession and energy are three issues facing Canadians. No single approach can solve all three. Nevertheless, I believe this budget strikes the right balance of policy. Throughout, I have had a central aim. This aim is to prepare the Canadian economy for a resumption of economic growth without inflation. I believe the key to achieving this aim is to reduce the increase of costs and prices now. The government is not prepared to do this by deliberately putting people out of work. Nor is the government prepared to put at risk the supply of energy for the future by adopting a short-sighted pricing policy today.

[Mr. Speaker.]

Our broad thrust is to allow the forces of expansion already at work in the economy to have their full effect and, as an example to others, to exercise restraint as a government in our own claims on the economy.

[Translation]

The government has responded tonight to the advice we received during our consensus meetings, with a clear and evident determination to constrain the growth of its own expenditures. I ask Canadians to follow this lead in moderating their own demands. If we are all able to do this, our national prospects will be very much better.

In the budget of last November, we deliberately added stimulus to the economy. That stimulus is still having its effect and we shall allow it to achieve its full effect. But we have decided not to increase that stimulus because we do not wish to feed the domestic inflationary push that has emerged in Canada in recent months. Our tax revenues will be lower and social insurance payments will be higher than we forecast last November. But we shall not counteract these developments since they are cushioning the effects of the recession at home and abroad on Canadian employment and output.

[English]

While adopting this fiscal stance we nevertheless have proposed specific actions to deal with special problems in the economy. Taken together with some of the other measures I have announced, these actions will not add to our net cash requirements. We have provided for direct job creation in areas and among groups that will be hard hit by unemployment. We have proposed action to stimulate further the building of homes for Canadians and creation of jobs in the home-construction industry. We have announced measures to encourage investment in plant and equipment to create jobs and improve productivity. We have proposed a series of measures relating to oil and natural gas designed to conserve these vital fuels and bring forth new supplies for the future.

Given these policies, how will we fare in the period ahead? I have tried to make it clear tonight that prospects for a strong and sustained expansion of output and employment depend critically on moderation in the demands of all groups in the economy. Our production and employment should pick up during the balance of this year as demand revives in foreign countries and as our own underlying expansionary policy achieves its full effect. But as I have often said, whether Canadian producers hold their share of expanding foreign markets, or even hold their share of our own domestic market, depends upon whether they stay competitive.

The government has sought to demonstrate tonight its own resolve to moderate its demands. If this lead is followed—by other governments, by business, by labour and by the professions—then we can turn back inflation. Only in this way will we ensure that we Canadians continue to enjoy a rising standard of living.

**Some hon. Members:** Hear, hear!

● (2140)

**Mr. Sinclair Stevens (York-Simcoe):** Mr. Speaker, until tonight I thought my leader was the only member of this House connected in some way with long Johns. But tonight we have witnessed something much longer than a long John. Already known as the empty tank budget, this performance tonight will likely go down in history as the '75 standstill budget.

When the minister stalled for 77 days before bringing in this budget it was natural to wonder why there had been such a stall and why he should choose Monday, June 23, of all days, to be budget night. We know the minister has a sense of the dramatic, being the play actor he is. Like a student performer he likes to put his acting into historical

### *The Budget*

perspective. Now that we have heard and read the budget, the answers to both our questions are quite clear. The minister stalled for 77 days, only three days less than it took Phineas Fogg to go round the world, according to Jules Verne. He stalled because apparently he had nothing to say. Not only did he stall because he had nothing to say but, like Mr. Fogg, he has ended up where he began. But why did he choose Monday, June 23? Of course that happens to be the anniversary of the beginning of the reign of terror in France in 1793.

While the Minister of Finance (Mr. Turner) may have intended tonight to be the beginning of a Turner reign of terror against labour, against business, against unsuspecting taxpayers, against spending generally—but of course not against federal spending—it is our belief, now that we have had a chance to review the budget, that it is simply another budget by the same old minister saying many of the same old things he has been saying during his entire reign of error.

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** If I may paraphrase what the Prime Minister was saying over two years ago: Inflation remains the issue—leadership remains the problem. I am really puzzled why the minister went through two and a half months of charade only to give us this. Why did he bother?

Before we take the minister's words tonight too seriously, perhaps we should review some of the earlier statements he made during his reign of error. Hon. members will recall that on a similar budgetary evening in May last year he stated, and I quote, "We are on the right course now. We do not require additional stimulus. Neither do we need any severe contraction of demand." He emphasized, and again I use his words, "the outlook for the Canadian economy is bright", and he added, "We are thriving as seldom before in our history". He even forecast there would be a real growth in the economy of 5 per cent in 1974, and in answer to a question in the House that day he said the real growth in the first quarter of 1974 was rising at an annual rate of about 9 per cent.

Oh, what a difference 13 months has made. Oh, what a difference now the election is over. Oh, what a difference now that the facts are before us. Instead of a 5 per cent real growth in 1974, we are told now, it was 2.8 per cent, and that in the past 12 months our performance was an amazing negative 2 per cent. For the first time in his tenure of office as Minister of Finance, and indeed for the first time anyone can remember for any minister of finance, the hon. gentleman offers no prediction for 1975 in relation to any of the basic economic numbers. There is no growth forecast any longer, he mis-shot so badly in his previous four budgets. He has never given us a forecast of unemployment, and again tonight he has not given us one. He does not give us a forecast of inflation or even a forecast of housing starts. To paraphrase another old blue eyes, Frank Sinatra, the minister seems to be saying "Come, fly blind with me".

I ask him whether the near 200,000 extra Canadians who are now out of work compared to May last year would say, as he has said, "We are thriving as seldom before in our history", or whether they could take him seriously when he states once again, as he did tonight, that his first priori-