Messrs.

McKnight
McLean
McRae
Mitges
Munro (Esquimalt-Saanich)
Munro (Hamilton East)
Murta
Neil
Nicholson (Miss)
Nickerson
Nielsen
Oberle
Olivier
Ostiguy
Ouellet
Paproski
Parent
Patterson
Pelletier
Penner
Pepin
Peterson
Pinard
Portelance
Regan
Reid (St. Catharines)
Reid (Kenora-Rainy River)
Roberts
Robinson (Etobicoke-Lakeshore)
Rompkey
Rooney
Rossi
Roy
Schroder
Scott (Hamilton-Wentworth)
Scott (Victoria-Haliburton)
Shields
Smith
Speyer
Stevens
Stewart
Taylor
Tessier
Thacker
Thomson
Tobin
Tousignant
Towers
Trudeau
Turner
Vankoughnet
Veillette
Watson
Weatherhead
Whelan
Wise
Wright
Yanakis
Yurko—193.

NAYS

Messrs.

Benjamin
Blaikie
Broadbent
Deans
Fulton
Heap
Jewett (Miss)
Keeper
Lewycky
Miller
Mitchell (Mrs.)
Murphy
Nystrom
Orlikow
Parker
Riis
Robinson (Burnaby)
Sargeant
Skelly
Waddell
Young—21.

● (1830)

Madam Speaker: I declare the motion carried.

Motion agreed to, and bill read the third time and passed.

[*Translation*]

It being 6.30 p.m., I do now leave the chair until 8 p.m. when the business before the House will be a ways and means motion in the name of the hon. Minister of Finance (Mr. MacEachen).

At 6.32 p.m. the House took recess.

AFTER RECESS

The House resumed at 8 p.m.

[*English*]

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

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

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

INTRODUCTION

He said: Canadians want to know how we can get our economy growing again, how we can get industry to invest, expand and provide the jobs our people need. A million two hundred thousand among us are unemployed. Still more are struggling to make ends meet in the face of high inflation and high interest rates. We are all suffering, one way or another, from the recession that is battering our economy. We are all searching for a way out of it.

It is no comfort to know that the United States is a victim of the same recession. So are all the industrial countries of Europe and, even more cruelly, the developing world. The recession is international. Some of our problems are of our own making, but a large part comes from abroad. That is why the speed of our move towards recovery cannot be determined by Canada alone.

My purpose tonight is to offer Canadians a way to end the recession, and to speed our progress towards recovery through immediate action.

First, I will ask Canadians to participate in a strategy to make Canada a tougher, more resilient society. The way out of the recession is to bring down inflation and increase productivity. We must all share the burden and responsibility.

The government will take a leading role in this strategy. It will limit pay increases in the federal public sector. It will act to lower inflation-related increases in other spheres of government responsibility.

If all of us—governments, business, labour and individual Canadians—rally to greater discipline in our income demands and other inflationary behaviour, prices will at long last go down, and so will interest rates. The economy will start growing again. Industry will be able to make a decent profit and to increase production. Laid-off workers will be recalled. New jobs will become available

Second, a dynamic, confident business sector is essential to our economic recovery. Confidence depends on real economic opportunity. It also depends on effective interaction between governments and the private sector.

I will table tax proposals that would reduce significantly interest rates for home buyers and small business, and create new incentives for investment in Canadian corporations. I will propose the resolution of outstanding taxation issues from the November 1981 budget. I will address issues of concern to international investors.

Third, many Canadians and specific sectors of the economy need additional support and assistance in this time of recession. I will announce this evening initiatives totalling $2.3 billion for that purpose. Major actions will be targetted to employment creation, housing, small business, farming and fishing.

● (2010)

Fourth, these actions will be taken within the very limited room for manoeuvre imposed by the deficit. Recession has resulted in a serious worsening of the government's financial position. Tax revenues have fallen, while expenditures have risen. This has imposed severe limits on new spending. The government cannot responsibly add to the deficit. It has to reallocate resources. The action plan will therefore be carried out within the framework of current monetary and fiscal policy.

THE ECONOMIC AND FINANCIAL SITUATION

The recession has been abrupt and severe. Unemployment has reached record levels. Business profits have fallen dramatically. Bankruptcies have increased. Demand for goods has shrunk, both at home and in our markets abroad.

The economic woes of the United States and all the industrialized countries of Europe have caused additional hardship for Canadians. Unemployment in all those nations has reached record levels. Their industries and their consumers are suffering from high interest rates and lower output, just as ours are. They cannot afford to buy as much of our natural resources and manufactured products as before. Their governments are unable or have not chosen to design their economic policies to help us get out of the recession.

The persistence of the U.S. recession and of high interest rates in that country are the foremost international obstacles to a resumption of growth in Canada and the rest of the world. There are signs that the recession in the United States may soon bottom out and that a modest recovery may begin shortly, but production for all of 1982 is still expected to be 1½ to 2 per cent below the 1981 level. Moreover, high real interest rates in the United States remain a barrier to strong recovery. They are also keeping interest rates higher than domestic circumstances require in other countries, including Canada. In recent months, money has flowed toward high U.S. interest rates in such magnitude that the U.S. dollar has risen strongly against every major currency. Its rise against the Canadian dollar has been less than against other major currencies.

Though our economy has been seriously affected by these international forces, its fundamental strengths remain. Canada's resource wealth is undiminished. Canadians are as trained and capable as ever. Our corporate sector has to cope with depressed markets, falling profits and serious cash problems, but it has the capacity to weather the storm. Our financial institutions are well managed and prudently regulated. Our small business and housing sectors are facing greater difficulties, but the actions I am announcing tonight will provide them with substantial assistance. The stabilizers built into our tax and public expenditure systems help sustain incomes in the face of the decline in economic activity.

However, there is a major risk that we will let our competitive position slip. We are now doing much worse on inflation than our key trading partners. Our productivity performance has also been very disappointing. That imposes costs on all of us right now. But the consequences for the future are even more menacing if our performance does not improve. We would be priced out of foreign markets. That would cost us dearly in jobs and growth.

We should all be concerned about our slow progress in bringing down inflation. The increase in the consumer price index was 11.8 per cent in May. If present trends continue, our rate of inflation will not fall much below 11 per cent for 1982 as a whole. This would be 4 to 5 percentage points higher than in the United States, and about 6 points higher than increases in Germany and Japan. Clearly this is not good enough. Wage settlements in Canada also increased by 12¾ per cent in the first quarter of this year. Our wage settlements are therefore running about 5 percentage points higher than the trend in the United States. How can we expect to compete if this persists?

The recession also has caused a serious worsening of the government's fiscal position. The sharp fall in federal revenues is the inevitable consequence of the decline in production, employment and income. I estimate the revenue loss attributable to the recession to be about $4.5 billion in 1982-83. Lower international oil prices, and the lowering of energy taxes recently announced by the Minister of Energy, Mines and Resources (Mr. Lalonde), have also reduced federal revenues by another $1.5 billion in the current fiscal year. I now expect total budgetary revenues of $58.6 billion in 1982-83, $6.4 billion less than my November forecast of $65 billion.

Federal spending has also been affected by the recession. Higher interest rates add to the costs of governments as well as firms and individuals. Public debt charges are expected to be $1.1 billion higher than originally forecast. The deferral of some energy expenditures to the current fiscal year have reduced our outlays by $1.1 billion in 1981-82 and raised them by a similar amount in 1982-83. Over and above that, the government has approved few additional expenditures, and most are also related to the recession. Earlier this year $400 million were allocated to direct employment support and the extension of variable entrance requirements under the unemployment insurance program. The higher payments to provinces to which I agreed during negotiations on the fiscal arrangements will add $200 million to our outlays this year. The net effect of these and other minor changes has been to raise total budgetary expenditures to $78.1 billion in 1982-83. This is $2.6 billion higher than my November forecast of $75.5 billion. In addition, the rise in unemployment insurance payments will add an estimated $2.0 billion to our financial requirements.

The result is that the projected budgetary deficit for the current fiscal year is very much higher than that forecast in the November budget: $19.6 billion, compared to the $10.5 billion initially projected and to the $12.9 billion estimate for 1981-82. Our financial requirements are now projected at $17.1 billion, instead of the November budget forecast of $6.6 billion.

These increases reflect mainly the automatic response of our tax and expenditure systems to the recession. These automatic stabilizers must be allowed to operate to avoid making the recession worse. This is not the time to do away with these stabilizers, not the time to cut unemployment insurance or slash expenditures that provide income to Canadians.

• (2020)

The last budget put in place a structure of revenues and expenditures that should, when recovery gets fully under way, gradually lower the deficit and avoid putting excessive pressures on capital markets as private borrowing picks up to finance investment. I am introducing new tax and expenditure initiatives to respond to pressing needs, but I am not adding further to the deficit already facing us in 1982-83. The cost of new measures will be more than offset by reductions in planned expenditures and a modest tax increase.

The onslaught of recession has triggered demands for a fundamental reappraisal of our economic policies. The government has examined very carefully alternative policy options. The actions we have decided to take reflect the broad consensus emerging from suggestions made by various groups, individuals and Members of Parliament. In this regard, I am particularly grateful to the Member of Parliament for Trinity (Miss Nicholson) and her committee who have contributed so much to the elaboration of current policy. Any departure from our broad policy approach has been rejected.

[*Translation*]

We have rejected massive fiscal stimulus and the abandonment of monetary restraint because this would only worsen inflation and aggravate unemployment. We have rejected broad mandatory controls of prices and incomes. Broad controls are opposed almost unanimously by business and labour. On no other issue have I received stronger representations from the private sector. Controls would merely postpone the basic shift in economic behaviour that is needed—a shift to discipline and restraint, self-willed and self-imposed. It is to that basic change, rather than to massive government intervention, that the government has decided to devote its energies.

[*English*]

A STRATEGY TO BRING DOWN INFLATION

Moving toward recovery requires that we take immediate action to bring down inflation. The central difficulty in reducing inflation is to break expectations that inflation will remain high indefinitely. Such expectations tend to be self-fulfilling: incomes chase prices, which in turn chase incomes in a vicious spiral. No one wants to be the first to accept a lower increase in pay than the next person. Unions are busy catching up with the ones that just settled for 12 or 14 per cent a year. Businesses and firms are busy raising their prices to catch up with or anticipate cost increases. Governments are also busy raising their taxes to catch up with the inflation of their expenditures. So the spiral goes on.

It is critical that we break that vicious circle. And when I say "we", I mean all Canadians, not just wage-earners and not just unions. I stress that our efforts to bring down inflation are not directed against labour or any other group in society. We are all caught in the spiral and, more often than not, against our will or our better judgment.

It is within our power, through deliberate and concerted action, to bring down price inflation much more quickly. We can do this by accepting, for the time being, income increases that are lower than the current rate of inflation. A reduction of income demands will lower cost and price increases. In this way we can stop feeding the spiral of inflation.

This strategy will lead in the short run to a lowering of our real income. But it will soon slow the process that is eroding our pay cheques. It will stop the rise of unemployment. And it will establish a firm basis for resumption of real income growth throughout the economy.

That is the first immediate action that I am proposing.

I am urging Canadians to lower their demands for income increases to 6 per cent during the 12 months ending in July 1983, and to 5 per cent in the following 12-month period. I am also urging businesses to lower price increases as costs go down and profit margins are restored over this two-year period. I am calling on everyone to help Canada make the difficult change-over from the 12 per cent world that has mired us in recession to the 6 per cent world that will bring recovery.

Solidarity and sharing built Canada. That sharing is what the unemployed, the many firms in trouble, and the thousands threatened by lay-offs now need. I count on the willingness of all Canadians to bear their share of the collective effort to bring down inflation. Commitment to restraint and discipline in our income demands is the price we must pay to get the economy growing again and to make it possible for all eventually to benefit from rising employment and real income.

The government will seek consultations with business and labour to determine the best ways of implementing this strategy. We will also examine with the provinces how the efforts of all might best be co-ordinated.

PAY RESTRAINT IN THE FEDERAL PUBLIC SECTOR

The private sector and the provinces could not be expected to accept income restraint unless the Government of Canada showed leadership in the conduct of its own affairs. The government has therefore decided to lead the way by implementing the proposed strategy in the federal public sector for a period of two years.

First, legislation will be introduced this week in Parliament to cut pay increases for ministers of the Crown, Members of the House of Commons and Members of the Senate from 11 to 6 per cent for the rest of this year. The limit will be 6 per cent next year and 5 per cent the year after.

Second, increases in the rates of pay of all deputy ministers, heads of Crown corporations and senior executives of the public service will be limited to the same targets of 6 per cent and 5 per cent for the next two years. The advisory group on executive compensation in the Public Service recently recommended that the rates of pay of deputy ministers and senior executives be raised by 9½ per cent as of April 1 of this year. Instead, they will be limited to 6 per cent effective July 1.

Third, increases in the rates of pay of other employees in the federal public sector will be constrained to no more than 6 per cent in the first year of the application of the program to them and 5 per cent in the second year.

• (2030)

The coverage of the program will be broad. In addition to the ministry, Members of Parliament, the judiciary and the public service, the program will apply to the Canadian Forces, the Royal Canadian Mounted Police and Crown corporations.

It will cover more than 500,000 federal employees. However, only ministers, MPs and Senators will be subject to actual cuts in pay.

The details of the public sector compensation restraint program will be announced shortly by the President of the Treasury Board (Mr. Johnston), who will be responsible for its administration.

In addition to the leadership it will provide in our collective effort to bring down inflation, the pay restraint program will lower federal expenditures by some $250 million this year, and $550 million next year, relative to the provision in our fiscal plan. This will provide financial resources for reallocation to the high priority needs for direct assistance to other Canadians.

I would like to emphasize that in the government's view federal public sector employees are no more responsible for inflation than any other group in the society. They too have been trying to catch up with rising prices, but their incomes have risen no more, and often rather less, than those of employees in other sectors. This is not a punitive program. If other sectors follow our leadership, federal employees will fare as well as others. The government believes that it is reasonable to impose a limited measure of pay restraint in the federal public sector at a time when others are bearing a severe burden arising from unemployment, pay cuts and business losses.

Pay restraint is also needed in the provincial and local public sectors. Several provinces have already announced measures to limit the pay increases of some categories of public sector employees under their jurisdiction. The Prime Minister (Mr. Trudeau) will meet with the Premiers on Wednesday to urge that all provinces take similar actions.

[*Translation*]

LIMITING GOVERNMENT INDEXATION

The actions I am now about to announce are being taken only after the most careful consideration. The government is deeply committed to lifting the burden of inflation from those least able to protect themselves. But it is calling upon all Canadians to share in a determined effort to bring inflation down. It is calling upon all to reduce their income demands well below the present rate of inflation. It would be inconsistent with the government's determination to see income demands reduced to 6 per cent and 5 per cent not to ask taxpayers and recipients of some transfer payments also to carry part of the burden.

With regard to the income tax system, the indexing factor applicable to personal exemptions and tax brackets will therefore be limited to 6 per cent for the 1983 taxation year and to 5 per cent for the 1984 taxation year.

[*English*]

Effective January 1, 1983, indexation of the pensions paid to former Members of Parliament and public servants will be limited to 6 per cent. The indexing factor will be lowered to 5 per cent as of January 1, 1984.

Effective the same dates, the indexing factor applicable to family allowances and old age security will also be limited to 6 per cent and 5 per cent. To ensure that the limitation of the indexing factor does not hurt families with modest incomes, the child tax credit will be increased by $50 for the 1982 taxation year and will continue to be fully indexed. The increase will raise the credit from $293 to $343 for each child.

Pensioners most in need must also be fully protected from the limitation on the indexing factor. The guaranteed income supplement for senior citizens with lower incomes will continue to be fully indexed. In addition, everyone receiving the GIS will get a supplement to the GIS payment offsetting fully the limitation on indexation of old age security payments.

Veterans' pensions will continue to be fully indexed.

ADMINISTERED PRICES

The government, while asking that a measure of protection against inflation be temporarily sacrificed by public servants, taxpayers and many recipients of transfer payments, is obligated to do all it can to ensure that prices established under federal jurisdiction are similarly restrained.

Accordingly, I am asking that federal agencies which regulate the prices for such vital goods and services as public transportation, public communications and foodstuffs, adhere to the objectives established tonight and depart from them only in exceptional circumstances.

The government will monitor the price decisions of the regulatory agencies within its jurisdiction and take appropriate actions where exceptional increases cannot be justified.

As well, the government will ask the provinces to take similar action in those areas of regulation within their jurisdiction.

Through these actions on earnings, on indexing, on administered prices, the government is providing leadership in a two-year national effort to break inflation. These are exceptional actions required by exceptional circumstances.

ACTIONS TO SHORE UP INVESTMENT AND CONFIDENCE

I now move to the second thrust of the government's action plan, which is the shoring-up of investment and confidence. Idle capacity, falling profits, heavy interest costs and expanding debt have combined to make businesses reluctant to expand. Consumers also hesitate to commit themselves to major purchases, particularly for housing. The government is therefore taking action to reduce uncertainty and boost confidence.

The Budget—Mr. MacEachen

PROPOSALS TO REDUCE THE TAXATION OF INVESTMENT INCOME AND INTEREST RATES TO BORROWERS

Tonight, I am tabling a consultative document containing proposals which, if implemented, would have the following major effects:

—Canadians investing funds in a new form of term deposit would not be taxed on that part of interest that only reflects the rate of inflation.

—Canadians investing funds in new plans for purchase of common shares of Canadian corporations would not be taxed on that part of the capital gain on such shares that only reflects inflation.

● (2040)

—Buyers of new homes would be able to secure mortgages at significantly reduced interest rates—3 to 6 percentage points lower than prevailing rates.

—Small businesses, farmers and fishermen would be able to secure loans for new capital investment at similarly reduced interest rates.

—Canadian corporations would have improved access to risk capital.

These proposals would introduce major innovations in our tax system as well as in financial markets. The government intends to implement them quickly once their feasibility has been confirmed.

I am creating immediately a committee of prominent Canadians from the financial, legal, accounting and economic communities to examine the proposals and advise me on their feasibility not later than September 30. I also invite interested Canadians to forward their comments to me directly. I want to make it clear that this consultative process reflects the more open process on major tax initiatives which I advocated in my green paper on the budget process. I regard this kind of major tax initiative with far-reaching consequences explored by a prominent group of Canadians from the financial, legal, accounting and economic communities.

NOVEMBER 1981 BUDGET MEASURES

I am tabling today a comprehensive notice of Ways and Means motions relating to the November 1981 budget. The notice contains the income tax legislation in draft form to allow for a review of the draft amendments by those affected before the final tax bill is introduced.

The proposed legislation will go a long way to improve our tax system. The November measures have been far-reaching and controversial. Since November, I have attempted, after extensive consultations, to accommodate legitimate concerns that have been raised. I have already announced a number of changes to my original proposals. The notice I am tabling reflects these changes. I am also making further modifications, including the following:

—The 12½-per-cent corporate distributions tax applicable to small business will be postponed for one year to January 1, 1983.

—The proposals related to the deduction of interest expense will be reviewed, and their effective date will not be before 1983.

—The proposed automobile standby charge has been reduced from 2½ per cent to 2 per cent.

—The rules on the restriction of interest expense will not apply to commitments relating to employee share-purchase loans undertaken prior to November 12, 1981.

—Modifications have been made to the proposals relating to forward-averaging for artists and athletes.

—Other changes have been made relating to corporate reorganizations and loans to non-resident corporations.

The draft legislation does not contain provisions affecting life insurance or charitable foundations. The precise drafting of these income tax amendments has been delayed because of extensive and successful discussions with representatives of these groups. I have already announced a mutually satisfactory solution on the taxation of charitable foundations. I am also making public today a revised approach which preserves the objectives of the November measure relating to life insurance which is acceptable to the life insurance companies.

This disposes of tax issues arising from the November budget. With these uncertainties removed, it will be more evident that the taxation of business and investment income in Canada compares favourably with that of any other country in the world.

FOREIGN INVESTMENT

Last November, I made public a budget paper in which the government outlined its approach to economic development. The directions set out in that paper continue to guide government policy. As was stated in the budget paper, the objective the government is pursuing through the Foreign Investment Review Act is to ensure that foreign-controlled corporations serve the Canadian interest by contributing fully to the development of an innovative and internationally competitive industrial structure. This is a reasonable goal to which the government remains fully committed.

At the same time, the Foreign Investment Review Act must be administered to adhere to the objectives established by Parliament. Its procedures must be timely and efficient. In particular, efforts must be made to avoid red tape and extended delays.

With this in mind, the government has decided the following:

First, the threshold for review under the small business procedures will be raised from $2 million and 100 employees to $5 million and 200 employees for new investment or direct acquisitions in Canada.

Second, where a foreign-controlled Canadian company is acquired in the course of the acquisition of its parent or another foreign-controlled company, the small business procedures threshold will be $15 million and 600 employees.

Third, small business investments will not be subject to the full review procedure except in exceptional circumstances, where the investment appears to raise important policy issues.

For applications which are subject to a full review, other administrative measures will be introduced to provide greater clarity about the interpretation of the Act and to simplify the internal decision-making procedures. The agency will confine its examination of undertakings to the key elements of an investment proposal.

On a related subject, the government is aware that international investors are concerned about the capacity of the Canadian balance of payments to absorb the pace of Canadianization in the energy sector under the National Energy Program. I would like to note, as the Minister of Energy, Mines and Resources did in his recent NEP update, that we are ahead of our Canadianization goals. The 50 per cent target for 1990 remains, but we do not need, and do not intend, to press the pace of Canadianization of foreign energy holdings in the years immediately ahead.

I also wish to announce our intention to extend for three years the exemption from the non-resident withholding tax on interest paid abroad. This removes an element of uncertainty that might have impeded capital inflows.

ACTIONS TO CREATE JOBS AND SUSTAIN ACTIVITY

The third thrust of this budget is action to reduce unemployment and to provide support to sectors hard hit by the recession and by high interest rates. Unemployment is imposing high costs in human, social, and economic terms. Sectors such as small business, housing, farming and fishing are deeply affected by weak demand and by the high cost of borrowing. The government is responding to these needs.

EMPLOYMENT AND ECONOMIC PROGRAMS

The government will use direct employment and economic programs to provide jobs this year and next.

—I am announcing a $200 million allocation to direct employment programs.

—I am announcing $150 million, which was allocated earlier, for increased spending on localized, employment-intensive projects under existing government construction and other programs.

Together with more than $100 million available from existing Employment and Immigration allocations, this will provide more than $450 million for direct job creation.

• (2050)

—I am also announcing the allocation of a further $300 million to economic development programs that create permanent private sector jobs through levered investment incentives.

This expenditure of more than $750 million will ensure that additional jobs are created quickly, and targetted especially to areas which have been particularly hard hit by the recession or by longer-run adjustment problems.

HOUSING

I am announcing a five-point package of new and expanded housing programs. These programs will stimulate residential construction and job creation.

First, the government will provide grants of $3,000 to all purchasers of new houses on which construction starts before December 31, 1982, and to first-time buyers who purchase an existing house before that date. It is estimated that 100,000 purchasers will be eligible for this grant. The total cost of this new program is $300 million.

Second, the initial $30 million allocation to the home renovation plan will be doubled to $60 million.

Third, I announce that the annual allocation for non-profit and co-operative housing will be increased from 25,000 units to 27,500 units in 1982. This is in recognition of the fact that the housing needs of low-income Canadians deserve special attention.

These initiatives are expected to generate some 65,000 jobs over the next two years.

Fourth, 54,000 additional jobs are expected to result from the Canada Rental Support Plan for the construction of new rental units in tight markets. This program was introduced last November and doubled in size to 30,000 units in March. It has been suggested that the $7,500 interest-free loans offered under this program may not be high enough in some markets. The government is prepared to show some flexibility on this matter. Project commitments under this program will soon be announced.

Finally, I announce that the Canada Mortgage Renewal Plan introduced last November will be extended to December 31, 1983. All home owners having to spend more than 30 per cent of their gross income as a result of renewals taking place after tonight will be eligible for a grant of up to $3,000. It will no longer be necessary to defer interest before becoming eligible for a grant.

The Minister responsible for the Canada Mortgage and Housing Corporation will shortly provide the details of these housing initiatives.

INTEREST ASSISTANCE FOR SMALL BUSINESSES, FARMERS AND FISHERMEN

I am announcing an important new program to reduce interest costs for small businesses undertaking new investment. $400 million are being allocated to this program.

The expansion of many small businesses has been halted by high interest rates. Grants will therefore be made to cover 4 percentage points of interest charges, over a period of two years, on loans extended by financial institutions to both incorporated and unincorporated small businesses. The eligibility rules will be similar to those for the Small Business Development Bond.

The Small Business Development Bond program that expired at the end of last year exempted financial institutions from tax on interest on loans for new investment or financial difficulty. In order to target available tax benefits to those small businesses most in need of assistance, the November 1981 budget confined the tax exemption to loans made to small businesses in financial difficulty. Eligibility was also extended to farmers, fishermen and other unincorporated businesses.

This small business bond tax provision continues. The program now being introduced is a new direct expenditure program. It will supplement the financing available under the small business bond program to firms in financial difficulty. It will not be constrained by the tax position of financial institutions. Farmers and fishermen, whether incorporated or not, will be eligible for the new small business investment grants.

In addition, the government is providing $100 million more for assistance to farmers in financial difficulty. This allocation from the government will permit the Farm Credit Corporation to make loans totalling $200 million over and above those provided for in the November budget. The loans will carry the regular rate of interest of the FCC, but a rebate amounting to 4 percentage points will be extended for a period of two years.

The details of these programs will be announced shortly by the Minister of Industry, Trade and Commerce (Mr. Gray), the Minister of State for Small Business (Mr. Lapointe), and the Minister of Agriculture, (Mr. Whelan).

CONTAINING THE DEFICIT

As I indicated at the outset, I was determined to find ways of creating jobs and sustaining economic activity without adding to the deficit. This goal has been achieved. The actions I just announced will be costly, but they will be more than fully covered by reallocations of expenditures and tax changes.

[*Translation*]

Let me sum up by listing the items on both sides of the balance, We are providing:

—an additional $200 million for direct job creation programs,

—an additional $300 million for job creation through economic development programs,

—$400 million for housing stimulus and mortgage assistance,

—$500 million for interest assistance to small businesses, farmers, and fishermen.

In addition:

—the increase in the Child Tax Credit will reduce revenues by $250 million,

—the adjustments to the November budget will reduce revenues by some $325 million,

—$350 million should be allowed for the first-year revenue reduction from the proposals on taxation of investment income.

These additional expenditure initiatives and revenue reductions total $2.3 billion over this year and next.

Offsetting these costs are:

—the $800 million savings from the public sector compensation restraint program,

—the $360 million savings from limiting indexing on expenditure programs,

—the $580 million in savings from other expenditure reductions and deferrals, and

—the $1.3 billion from limiting indexation of the personal income tax system.

[*English*]

Together, these savings and revenue measures provide $3 billion. In 1982-83, the costs of new initiatives and the funds made available are both about $800 million. In 1983-84, funds made available exceed the costs of new initiatives by almost $800 million. These savings will be taken into account when we reassess the economic and fiscal situation next fall.

• (2100)

This method of financing the government's actions is a concrete application of the principles of solidarity and sharing. Some Canadians are being asked to give up certain benefits to help the unemployed and troubled sectors of the economy.

I would like now to table the comprehensive notice of Ways and Means motion related to the November, 1981 budget as well as a notice of ways and means motion related to the measures announced this evening. I would ask for the consent of the House to table the budget papers and paper for consultation entitled "Inflation and the Taxation of Personal Investment Income". I also ask for the consent of the House to include in *Hansard* the standard table which provides the projections of the government's fiscal position.

Madam Speaker: Does the House give its unanimous consent to the tabling of the documents mentioned by the Minister of Finance (Mr. MacEachen)?

Some hon. Members: Agreed.

GOVERNMENT OF CANADA

Summary Statement of Transactions[1]

		November 1981 Budget		June 1982 Budget	
	1980-81	1981-82	1982-83	1981-82[2]	1982-83
	(millions of dollars)				
Budgetary transactions					
Revenues	45,398	54,310	64,960	53,765	58,550
Expenditures	-58,066	-67,650	-75,450	-66,700	-78,100
Surplus or deficit (-)	-12,668	-13,340	-10,490	-12,935	-19,550
Non-budgetary transactions					
Loans, investments and advances	-523	-650	-850	-1,335	-700
Specified purpose accounts	2,781	3,720	3,550	3,285	1,065
Other transactions	293	495	1,205	2,645	2,085
Net source or requirements (-)	2,551	3,565	3,905	4,595	2,450
Financial requirements (excluding foreign exchange transactions)	-10,117	-9,775	-6,585	-8,340	-17,100
Total outlays[3]	58,589	68,300	76,300	68,035	78,800
Percentage growth	13.0	16.6	11.7	16.1	15.8
Percentage of GNP	20.1	20.6	20.2	20.5	22.0
Program outlays[4]	47,902	53,605	59,535	52,965	60,900
Percentage growth	10.6	11.9	11.1	10.6	15.0
Percentage of GNP	16.4	16.2	15.7	16.0	17.0
Budgetary revenue					
Percentage growth	16.6	19.6	19.6	18.4	8.9
Percentage of GNP	15.6	16.4	17.2	16.2	16.3
Budgetary deficit					
Percentage of GNP	-4.3	-4.0	-2.8	-3.9	-5.4
Financial requirements (excluding foreign exchange transactions) as percentage of GNP	-3.5	-3.0	-1.7	-2.5	-4.8
GNP (billions of dollars)	291.9	330.8	378.5	331.3	358.9

(1) For comparability, budgetary revenues and expenditures for 1980-81 and 1981-82 are adjusted to treat Canada Post revenues and expenditures as if the corporation were under Crown corporation status throughout the period. The budgetary deficit and financial requirements are unaffected as a result of these adjustments.
(2) Estimates.
(3) Budgetary expenditures plus loans, investments and advances.
(4) Total outlays excluding public debt charges.

THE ROAD TO RECOVERY

Mr. MacEachen: To break inflation, to boost confidence, to create jobs, to hold the line on the deficit: these are the goals of the action plan the government is proposing to Canadians.

The recession compels us to face reality. Too many of us, one way or another, have been taking too much out of the economic system for too long. This is hurting all of us. Now we must take less so that the economy may grow again.

Even in the best of circumstances, recovery will take time. And the government alone cannot do the job.

Some say the government should print more money. Others say it should let the deficit rip.

But that would fail miserably. Inflation and unemployment would get worse. Interest rates would rise even more. Canada would price itself out of world markets. Recovery would be postponed.

Still others say the government should order every detail of everyone's economic life, fix every price and set every wage bargain.

But is that what Canadians want?

The choice is ours. On the one hand, the road to recovery; on the other, a further slide into recession or a controlled economy.

The government has pointed the way to recovery, but it alone cannot get Canada on the move. We must tackle this task together.

That is why the Prime Minister has proposed to meet with the Premiers later this week to seek their support and participation in the action plan I have announced tonight.

That is why the government will seek consultations with business and labour on implementation of the strategy to break inflation and get the economy growing again.

The Budget—Mr. Wilson

That is why ministers and Members of Parliament will be enlisting the support and participation of all Canadians in moving from the 12 per cent world of recession to the 6 per cent world of recovery.

Some hon. Members: Hear, hear!

Hon. Michael Wilson (Etobicoke Centre): Madam Speaker, this is not a budget. It is another update of a budget which failed last November, and this one is going to fail again. We have a patchwork quilt of certain changes in the November budget plus a few other things the minister has brought in to try to address the very serious problems of the economy, but the solution is just not there. There is a crisis of confidence in this country, and this is not an action plan, as the minister has said. It does not address the crisis of confidence which is so serious in this country today.

Let me address some of the changes in the budget. The minister has brought in this budget eight or ten more changes in the November budget. I believe that totals somewhere between 35 and 40 changes the minister has brought in since the November budget. He has acknowledged the fact that that budget was a mistake and a failure, but he has not withdrawn the balance of the budget. That balance should have been withdrawn in total.

Some hon. Members: Hear, hear!

Mr. Wilson: This budget does not address the most important problem facing the country today. The minister has shown no understanding of the very serious nature of our economic problems. The budget deficit is $20 billion, and the minister says this budget is brought in to address the problem of the size of the budget deficit. That means no more to Canadians than the fact that the minister has said that the November budget was a budget of restraint, and then went on to increase public spending by 22 per cent.

There were major mistakes in the 1980 budget and in the 1981 budget, and there are still mistakes in the 1982 budget. The problems have not been solved, but the damage which has been done to the economy by the changes brought in in the National Energy Program in 1980 and in 1981 by tax reform has been absolutely immense, but still the minister does not have the courage to say to Canadians: "I made a mistake—the last time around, and there are things in that budget I have had to change". Canadians were looking for that. They were looking for an opportunity to feel some sense of kinship with the minister. People do make mistakes, but the minister has not acknowledged that he has understood where he went wrong in that last budget, so he has robbed Canadians today of the hope they were looking for that there will be some turn around and some recongition by the government that there are policies which will bring us to the recovery the minister says is possible. Unfortunately, that recovery is a long way away.

The size of the budget deficit in itself will have a great impact on the confidence of people in the Canadian economy. The $17 billion of cash requirements means that there will be $17 billion worth of competition by the federal government for the very limited sources of capital available for small businessmen, home owners, fishermen, farmers and so forth. That is an immense problem. It will lead to higher interest rates. There is no doubt about that. There is also no doubt, as even the Prime Minister (Mr. Trudeau) will acknowledge, that high levels of government spending and large government deficits lead to inflation.

Let us look at the saddest element of this budget, and that is the heartless impact it has on the average Canadian. Canadians are being asked to pay for the mistakes of this government in a very major way. There will be a personal tax increase next year of $1.3 billion. There will be a 6 per cent personal tax increase through the loss of half of the indexation Canadians would have expected next year. In addition to that, through the change in the indexation factor in government spending, those who are on spouses' allowances and those who have disability pensions are being asked to pay for the mistakes of this government. That is a shocking answer the minister has given to Canadians. Less than two years ago the minister said to me, in answer to a question in this House: "I will not fight my battles against inflation on the backs of those who cannot afford it and on the backs of those who cannot fend for themselves". That is the type of minister that we have today. The minister has put forward a few job-creation programs, a number of which are a rehash of programs already announced. The fundamental message is that these are short-term programs, although there are not too many details so it is difficult to tell whether they will be effective. They have no relationship to training or to research and development in the ways that we know from work that has been done which show that they will provide lasting answers to job creation in this country. We need long-term job-creation programs directed at the long-term problems of the economy, but they were not in the budget.

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Much damage has been done by the delays that this minister has allowed to take place since his 1981 budget. For instance, 224,000 people have lost their jobs. In the six months since the last budget about 6,000 businesses have gone bankrupt and about 11,500 people have gone into personal bankruptcy. Behind those statistics are people who, in effect, have been excommunicated from our system because there is no new employment in the country. That is the cost of the delay and lack of understanding by the Minister of Finance (Mr. MacEachen) of the basic problems of the country today.

Let me comment now on some of the positive elements of the minister's speech, Madam Speaker. Since last November we have been asking the minister to bring in these positive measures. The Small Business Development Bond comes back in a new form. The mortgage tax credit program, which would have cost Canadians $125 less per month on their mortgage payments, was defeated in the last election but now it is proposed to bring it back in an amended form. It will have basically the same impact. A proposal that was defeated in the 1979 budget would have helped Canadian companies broaden their ownership base in this country without having to go to