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withering of good will in society, the growing of despair and a recession of the spirit as it has been called. This recession of the spirit can come to Canada. There is no inherent reason why it should, but it could very well come here. I urge the government to not only think about crises but about opportunities that exist in the hearts and minds of people and their desire to serve society. Opportunities for the aged will go a long way toward achieving this goal.

• (1800)

[Translation]

The Acting Speaker (Mr. Boulanger): The hour set aside for private members' business having expired, I do now leave the chair until 8 o'clock, when the Minister of Finance will submit a ways and means motion to the House.

At six o'clock the House took recess.

[English]

AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

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, my first words to this House as Minister of Finance last February were that my most urgent priority was jobs. This remains my first priority. No economy is working as well as it should if there are men and women in this country seeking work who cannot find it. The search for jobs is a human problem. The main thrust of this budget is to deal with this problem; to buttress the Canadian economy—to provide incentives for Canadian industry to grow and compete and provide jobs.

The only realistic solution for matching the tremendous yearly increase in our work force, which will continue at the present rate for the next several years, is greater growth in the economy. It is growth that will create jobs. I mean growth in the private sector. I mean real jobs, not temporary jobs. I mean jobs that last and satisfy. I believe that we have to look to expansion of Canadian industry and the commitment of business to provide those jobs.

What makes it important to take stock of our position now is the fact that the world is caught up in the midst of far-reaching changes, the outcome of which is not easy to predict. The already rapid rate of advances in technology continues to accelerate, bringing about vast changes in our lives, in our way of producing goods, and in our way of doing business. Multinational corporate giants have to come to assume an increasingly dominant role on the

[Mr. Kaplan.]

world economic state and in the Canadian economy. I fear that the world is in the process of being transformed into massive trading blocs, which in itself is of immense significance to Canada as a major trading nation. Moreover, the relative competitive position of the various nations is also undergoing a pronounced change. This was the hard fact that lay behind the international monetary crisis which came to a head last summer when the United States adopted a series of measures to halt the deterioration in its own competitive position.

Because all of these developments have far-reaching implications for the future of our own country, it is only sensible and realistic for us to take a new look at our situation and to consider what policies will best serve our long-term interests.

What I shall strive to do tonight is to set the stage for Canadian industry to be competitive in world markets. Our ability to gain access to world markets is a prerequisite to the success of any industrial policy that focuses on growth and jobs.

I am hoping to achieve industrial growth at a pace that will not aggravate the inflationary impulses in the economy and escalate the cost of living. This government is committed to reasonable price stability. I am committed tonight to propose ways to render justice to those people in our community who have been hurt by the rise in the cost of living and who have no way of fighting back. I am speaking of those Canadians who have retired, whose working days are over, and of our veterans and their dependants.

• (2010)

I said once before to this House that a Minister of Finance is not an economic czar. It is true that through its fiscal policies the federal government can and must play a central role in guiding the course of the economy. It is important to understand, however, that there are some very real constraints on the ability of the federal government alone to ensure that the economy remains precisely on course at all times.

The policies and programs of the provinces and municipalities have a major impact on the economy, their combined revenues and expenditures now significantly exceeding those of the federal government. Then, too, in our free enterprise system the way in which our economy moves is determined in a fundamental way by the day-to-day decisions taken in the market-place by millions of Canadians. Of course, our economy is also strongly influenced by forces from abroad. The difficulty of anticipating and responding to the impact on the economy of all these forces is further compounded by the universal limitation of economic information. For all these reasons, it makes good sense for the government to stand ready to make periodic adjustments in its fiscal policies as the need for them becomes evident.

[Translation]

But there are also occasions when budgets must have a broader perspective and look further into the future. There are times when they must deal with more fundamental and longer-term problems related to the structure of the economy itself. In my budget tonight, Mr. Speaker, I shall propose an important revision in our fiscal system

to strengthen the capacity of our economy to serve the needs of the Canadian people in the years ahead.

Budgets, however, need to be concerned not only with the economy as a whole. They must also be directed to improve the well-being of individual Canadians, especially those who find themselves in less fortunate circumstances. Over the years, we have made great progress in Canada in developing a social system to provide equitable and just treatment for all our citizens. We must make still more progress in the years ahead.

[English]

I turn now to a review of the economy. I propose to be brief since a comprehensive economic review has already been tabled for the information of members. There is a great deal of information in this document and I trust the members of the House will find it a useful reference document. This evening I propose to touch only on some highlights of our recent experience.

The Economy

The Canadian economy provided a substantially bigger increase in the goods, services and jobs available to Canadians in 1971 than it did in 1970. This improved performance owed a great deal to the expansionary policies of the government.

Personal incomes grew more rapidly in 1971 because of higher employment, higher wage rates and higher farm incomes. The cuts in personal taxes during the past year meant that the net incomes at the disposal of Canadians after allowance for taxes rose even more rapidly than their gross incomes. An increase in payments by government under various social assistance, cultural and educational programs contributed to this growth. The improvement in the financial position of our people permitted them to borrow more and to spend more. This they did. But while consuming considerably more, at the same time they increased their savings and reduced their debt relative to their incomes. Thus, in spite of greatly increased consumption, their financial position was significantly stronger at the end of the year than at the beginning. This means that consumers are likely to spend even more this year.

Housing starts in 1971 broke all records. CMHC concentrated on housing for low-income groups. Private financing of housing increased dramatically and provided a vigorous forward thrust in this sector of the economy.

[Translation]

Mr. Speaker, exports grew again in 1971 in spite of declining rates of growth in our major European and Asian markets and in spite of menacing developments in the international commercial environment during the second half of the year. The extraordinary growth of 1970 was not duplicated. That could hardly be expected, but the growth in exports of many commodities such as iron and steel, automobiles, oil and gas, lumber and wheat was particularly noteworthy.

Imports responded to the rising pace of activity in the Canadian economy and grew at a very fast clip. This speeding up was shown by a wide range of goods, including fuels and lubricants, industrial materials, and materials for home consumption. Imports of machinery and

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equipment remained sluggish in the first half of the year, but spurred ahead in the latter half.

This fast rise in imports resulted in the decline in our surplus on merchandise trade in 1971. At the same time, our traditional deficit in services continued its steady increase. Taking goods and services together we had a current account surplus in 1971 for the second year running but distinctly smaller than in 1970. With the United States there was a moderate increase in our current account deficit, which in 1971 amounted to over a third of a billion dollars.

Last year we saw a rise in productivity, but we also saw a considerable acceleration in the growth of employment. We saw, too, as the year progressed some considerable pick-up of inventory investment. The ratio of inventories to sales still remains low by previous standards, even allowing for the fact that new technology permits some economizing in inventories. The rise of demand had not yet progressed to the point, however, of inducing a major expansion of business fixed investment.

Although the number of new jobs created in 1971 was twice the number created in 1970, it was only in the latter part of the year that job creation outpaced the very rapid growth in the labour force. Since September the unemployment rate has been on a downward trend. It is still unacceptably high, and the first priority of this government is to bring about a further substantial reduction in unemployment.

[English]

Prices and incomes showed mixed trends last year. Labour income per employed person, for the second year in a row, grew at a lower rate than in the previous year. This rate was, however, still greater than the rate of increase of productivity and the cost of living combined. Profits increased from their depressed levels of the previous year. The consumer price index was dominated by the strong increase in food prices, which were held down in the earlier part of the year by a price war among food chains, but rose at rapid rates after that. Even apart from food prices, however, there was unmistakable evidence as the year drew to a close of a quickening pace of price advances.

The over-all fiscal policy of the government has continued to be expansionary. In this it has been supported by the monetary policy. This policy last year created credit conditions conducive to economic expansion and relief of upward pressures on the value of the Canadian dollar. There was a large expansion of the money supply. Interest rates, which varied somewhat over the course of the year, were on the average distinctly lower than during the previous year and lower at the end of the year than at the beginning. This year the fast expansion of the monetary aggregates has continued. Recently there has been some increase in interest rates both in Canada and the United States. On balance, the value of the Canadian dollar continues to be strong.

• (2020)

Summing up, the Canadian economy is expanding firmly and steadily. This in spite of the fact that as last year began, there was widespread uncertainty as to the future. This uncertainty was reinforced by the interna-

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tional economic crisis which beset us last August. The Smithsonian agreement of last December did much to dispel that uncertainty. Other factors contributed, particularly the expansionist measures introduced by my predecessor, now the Minister of National Defence. The mood of the country is one of growing confidence. I believe this confidence is well founded. I do not express this belief in any idle way, unmindful of some very real problems. We must continue to press for lower levels of unemployment. Price increases must be kept in check. But there is no question that the economy is advancing and gaining strength. Confidence is contagious and I believe it is spreading.

[Translation]

Mr. Speaker, the government this year will expand its program of summer employment for young people. We are dealing here with a challenging problem. In recent years, there has been a great upsurge in the number of students who pour out of school in the late spring to seek interesting and well-paying jobs. This year there are about 1,400,000 students of 16 years and over who will become potential job-seekers or look to the community for interesting and meaningful summer activity. This is almost three times the number only ten years ago. Most of these young people will be absorbed in productive jobs in the expanding private sector of the economy. For a second year, however, a diverse range of programs in the federal opportunities for youth plan, aided by a number of similar provincial programs, will help to fill gaps in the supply of jobs this summer.

I should draw attention, also, to the significant improvements which the government has now proposed to the manpower training program. These amendments will extend its flexibility and efficiency. In that connection, the experimental program of on-the-job training introduced last fall was enthusiastically received, and the government has provided a total of \$50 million for this purpose. I fully anticipate that on-the-job training will become a permanent and increasingly effective part of our overall manpower training policy.

[English]

Let me turn now to a brief review of some important, current developments in federal-provincial fiscal relations. The most significant of these, of course, has been the recent enactment by parliament of the new Federal-Provincial Fiscal Arrangements Act. The passage of Bill C-8 brought to fruition a long and intensive period of consultations with the provinces.

We have now extended in time and content the framework within which the federal and provincial governments jointly share the personal income tax field on a co-operative basis. Taken together with previous announcements by Quebec and other provinces, the recent budget announcement by the Ontario government that it will bring into conformity its corporation income tax on essential fundamentals with the reformed federal act, also assures continued tax co-ordination across Canada.

Most important of all, however, we have renewed the equalization arrangements which are so vital to national unity in Canada. In recent weeks, I have been speaking on

[Mr. Turner (Ottawa-Carleton).]

this critical issue on several occasions, stressing that national unity is not just a question of language, important as that undoubtedly is.

National unity has a great deal to do with equality of opportunity—equality of opportunity for Canadians, no matter where they happen to be born or where they happen to live in our country. Equality of opportunity, in turn, means equalizing the ability of all the provinces to provide a national standard of services to Canadians. Our style of unity contemplates diversity and not uniformity. We are together as a united community of people in a unified, but not unitary, state. This is not to say that we want to pursue an inward-looking or narrow nationalism. Rather, as Canadians, we want to maintain and strengthen our sense of unity, our identity and our independence. With that goes the need to achieve a desirable regional balance across this beautiful land, to deepen the sense of belonging to a community and a nation, and to enhance the opportunities for meaningful participation in the collective decisions which affect our daily lives.

Equality of opportunity means a common standard of services to Canadians everywhere. National unity means sharing money and resources and this is the burden of our fiscal arrangements legislation. This is why the fiscal relations between Ottawa and the provinces are the cornerstone of confederation. It doesn't do anything for our country to try to do fine calculations of gains and losses, of who pays more and who receives more, because national unity cannot be calculated on a balance sheet.

Although equalization transfers are paid to provincial governments, it is obvious that their benefit is directed primarily toward the lower-income people in the receiving provinces. Without this sharing of national wealth, millions of Canadians would be deprived of the health, education, welfare and development services which are as much a part of income in a civilized society as the cash to buy three square meals a day. Equalization, taken together with shared-cost programs, provides much of the underpinning for social equity across the country.

Look at what parliament has done in the past few years to improve the lives of Canadians: medicare; increased supplementary pensions for the aged; the elimination of one million lower-income Canadians from the income tax rolls; the proposed fundamental reform and major increases in family allowances; the huge increase in federal contributions for education and student loans; a doubling of financial assistance for our native people; the broadening of unemployment insurance.

I should like now to speak briefly of certain features of our economic situation from a wider perspective.

Canada has a very fast-growing labour force, both because of the age structure of our population and because more and more women want to work outside the home. The population and the work force are concentrating in urban areas. That is where most people want to be, that is where they want to work and that is where jobs must be provided for them.

In an urban society people provide fewer and fewer services for themselves and they therefore demand more services in the market. Over the past quarter-century and more our service industries have grown substantially. By

their very nature, most of our service industries are sheltered from foreign competition and are continuing to do very well.

Canada's resource industries are very strong and the outlook for them is bright. We have been blessed with a rich abundance of most natural resources to meet not only our own needs, but the growing demands from the rest of the world. They continue to be accorded favourable treatment under our reformed income tax system.

In agriculture, a very rapid rise in productivity with a corresponding decline in the need for farm workers, has necessitated a continuing process of adjustment. Here a wide range of federal programs have been put in place, including price supports, organized marketing, long and short-term credit, favourable tax treatment, and production development aid. New measures only recently introduced have improved all of these programs. Last year, farm net income rose by almost 25 per cent over 1970. The dairy industry is currently benefiting from a substantial firming in world price levels, and this year exports of grain and cereals from Western Canada will surpass all previous records. Much the same can be said of the fishing industry, where a number of important new programs have been implemented to improve productivity and stability and to raise the incomes of fishermen.

Our manufacturing industries are the largest single source of employment in Canada, providing jobs for more than one-fifth of all working Canadians. But by contrast with other sectors of the economy, this important sector is the one that is most exposed and most vulnerable to the challenge of change and international competition.

During the postwar period, the output of our manufacturing industries has not kept pace with the growth of the economy as a whole. Employment in the manufacturing industries has declined moderately as a proportion of total employment in Canada during this period.

In our trade in manufactured goods, we run a very large deficit, importing substantially more than we export. Excluding cars and parts, which are a rather special case, our trade deficit in manufactured goods increased by approximately \$1 billion between 1965 and 1970.

• (2030)

Canada's manufacturing industries have been particularly hard pressed during the past few years. Unit costs of production have risen more rapidly than those in the United States. The problem has been further compounded by the appreciation of the Canadian dollar, which has reduced the cost in Canada of imported manufactured goods and at the same time increased the cost of Canadian manufactured goods abroad. Our manufacturing sector has also been exposed to growing competition from the new industrial giants—Japan and the expanding European Economic Community. It has been further jeopardized by export subsidies and protectionist measures adopted or contemplated in the United States.

The manufacturing sector is of crucial importance to our economy. We depend on it to provide a growing number of productive, interesting and well-paying jobs for Canadians in the urban centres where they want to live and work. We rely on it to keep us in the forefront of technological changes. It is important to the development

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of a balanced and stable economy, one that is not excessively exposed to the sharp swings that take place from time to time in demand abroad for raw materials. It is important, too, because of the support it provides to the other major sectors of the economy.

It is, therefore, essential for us to take whatever steps are necessary to promote the development in Canada of manufacturing industries that are dynamic, vigorous and resourceful, that are unceasing in their efforts to innovate, that develop new and better products and that are aggressive in their efforts to expand their markets in Canada and abroad. In short, we must do everything we can to promote the development of Canadian manufacturing industries that are fully capable of meeting and surpassing competition from other countries.

Budget Measures

Let me now get down to specifics. The thrust of the measures that I will propose to the House tonight has a two-fold purpose. The first set of measures is designed to strengthen the competitive position of our economy in order to promote the faster growth of production and employment. These measures are medium and long-term in their nature and structural in their impact. They are also intended as a permanent incentive. But they will also help to add new momentum immediately and in the months ahead to the already strong expansion now under way in the Canadian economy. The second set of measures is designed to promote greater social justice by relieving the financial burden that is being borne by particular groups or individuals in our nation. The new expenditures they entail will also add prompt stimulus to the economy.

As a major step in the development of a new industrial policy for this country I am bringing forward measures of a fundamental nature to revitalize the manufacturing and processing industries. These measures will help this sector improve its competitive position in the world and will thus protect existing jobs and provide well-paying new jobs for Canadians in and near the urban centres where they want to work. Moreover, these proposals will further reinforce growth throughout the economy by stimulating an early expansion in capital investment.

First, I propose that the cost of all machinery and equipment purchased after tonight by a taxpayer to be used for the purpose of manufacturing or processing goods for sale or lease in Canada may be written off in two years. A new capital cost allowance class will be established and a taxpayer will be entitled to claim as depreciation up to 50 per cent of the cost of the asset in the year in which it is acquired and the unclaimed balance in any subsequent year.

Second, commencing January 1, 1973, the top rate of corporate tax applicable to manufacturing and processing profits earned in Canada will be reduced to 40 per cent. Similarly, the effective rate of corporate tax applicable to manufacturing and processing profits earned in Canada eligible for the small business deduction will be reduced from 25 per cent to 20 per cent. In order to give effect to these rate reductions, it will be necessary to provide rules to enable a corporation to distinguish its manufacturing and processing income from other kinds of income, such as investment income, wholesaling and retailing income

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and natural resource income. Special rules for this purpose will be included in the bill and in the regulations.

The natural resource industries will not qualify for the two-year fast write-off or the special reductions in the rate of corporate tax because there are already in existence other incentives better suited to the needs of these industries. However, I am introducing tonight a further incentive to encourage more processing of our mineral resources through smelting and refining in Canada. I propose that the class of expenditures which earn depletion be extended to include all equipment acquired after tonight for the purpose of processing in Canada mineral ores after extraction and up to the prime metal stage. This will include all processing, whether or not related to a new mine or a major expansion, as well as custom processing. Furthermore, I propose that all of the income from such processing operations be considered as income against which depletion may be claimed and in respect of which the 15 per cent provincial abatement will apply.

Of course, as mineral resources are processed beyond the prime metal stage and oil and gas are refined beyond the crude stage, these further activities will be considered manufacturing and processing and will, therefore, be eligible for both the fast write-off and the rate reduction.

Most machinery and equipment is now written off for tax purposes at a 20-per-cent rate on a declining balance method. Tonight's proposal will permit machinery and equipment required for manufacturing operations to be written off within two years. It will replace the measure introduced in December, 1970, whereby manufacturing and processing enterprises were permitted to value new investment in depreciable assets at 115 per cent of their actual cost.

These measures will serve to increase substantially the cash flow of manufacturers and processors. Until the present, manufacturing and processing companies in Canada have borne a considerable weight of the corporate income tax. The ratio of tax paid to the value of their output has been much higher for corporations in this field than for other goods-producing companies. The changes proposed tonight will, I believe, put them in a more equitable position.

• (2040)

The tax treatment of companies engaged in manufacturing and processing will now compare very favourably with that in other nations, particularly the United States and the enlarged Common Market countries. Accordingly, it is to be expected that these measures will provide a substantial incentive for the establishment in Canada of new manufacturing enterprises and the expansion of existing enterprises by increasing the return that can ultimately be realized on capital investment.

The increase in the flow of funds available to these industries will strengthen their ability to compete with foreign manufacturers in a variety of ways. They make use of these expanded resources to finance new research and development, to finance an expansion of productive capacity, to introduce new product lines and to finance the development of new cost-reducing methods.

The improved financial position of these enterprises should also significantly enhance their ability to meet

[Mr. Turner (Ottawa-Carleton).]

foreign competition in terms of price. With respect to those industries where there is at present a marked difference between Canadian and foreign price levels, I expect the savings permitted by these measures to be used to bring about a substantial reduction, and ultimately the elimination, of these price differentials.

Mr. Lewis: What is the expectation based upon?

Mr. Turner (Ottawa-Carleton): Members of the House may ask what guarantee there is that this added cash flow will be used by our manufacturing industries for business expansion or to reduce prices, and not merely for higher profits. My answer is that I am confident that businessmen will see and recognize the underlying purpose of the government. Certainly we want to encourage a reasonable return on investment. But we also expect competitive prices, both at home and abroad. We expect the money to be used for new equipment and to replace equipment that is obsolescent. I expect business to get out and hustle, to grow, to compete, and to build jobs for Canadians. I am sure that the business community will justify this confidence and prove me right.

The measures which I am proposing to reinforce the expansion of manufacturing industries will be of benefit to all regions of the country. They will, of course, help to stimulate the growth of manufacturing in those areas of the country where it is already well developed. But they will also facilitate the establishment of new plants in those regions now relying heavily on resources. These regions are actively seeking to broaden their industrial base by promoting the development of manufacturing and processing.

This radical revision of the corporate tax system as it affects manufacturers and processors will require us to forego revenue amounting to about \$500 million in a full year. But these measures should not be regarded so much as a cost to the federal treasury as a major investment by the nation that over time will more than repay itself in terms of increasing jobs for our workers and increasing prosperity for all Canadians.

I also wish to announce tonight an extension for one year of the existing provisions permitting a fast write-off of capital expenditures made by manufacturers or producers to provide air and water pollution control. Thus, such machinery and equipment purchased at any time before the end of 1974, and buildings to house pollution control equipment which are started before the end of 1973, will be eligible for the fast write-off. These fast write-off provisions will also be broadened to cover the costs of buildings, machinery and equipment acquired by independent companies providing pollution control services.

I turn now, Mr. Speaker, to other proposals again directly affecting the welfare of individual Canadians.

Over a period of some months, growing concern has been expressed both by members of this House and the public generally about the threat posed to the financial security of some Canadian citizens who have little or no ability to protect themselves from the burden of rising living costs. I have in mind particularly the elderly, a large proportion of whom are women, those veterans receiving pensions to compensate them for disabilities suffered in

the military service of our country and families of veterans receiving the war veterans allowance.

Hon. members will recall that when the old age security program was amended and the guaranteed income supplement introduced six years ago, provision was made for the automatic escalation of both allowances up to a maximum of 2 per cent a year to offset increases in the cost of living.

[Translation]

Last year, further changes were made in the Old Age Security program and the supplemental allowance was raised substantially to provide greater assistance to those most in need. This rise in the supplemental payment made possible a real increase in the income of those eligible for the allowance because it more than compensated for increases in living costs prior to that time. At the same time, the provision for automatic escalation up to two per cent annually was retained for those qualifying for the combined Old Age Security and Guaranteed Income Supplement allowances. The universal Old Age Security pension was, however, fixed at \$80 a month in keeping with the move by the government to channel public funds in a more selective way in order to provide income support for those most in need.

During the past few months we have been re-examining two features of the present program that have become a matter of public concern, the limitation on the annual increase in the combined Old Age Security and Guaranteed Income Supplement of two per cent annually and the pegging of the universal Old Age Security pension alone at \$80. There are many elderly people who do not require the supplemental allowance to maintain a reasonable standard of living because they were able to make some provision for their own retirement during the period they were working. Even with the Old Age Security pension, however, the income of such elderly Canadians is in many cases already quite moderate and its purchasing power continues to be reduced by the rising cost of living.

Those receiving the Guaranteed Income Supplement are also in a difficult position. If prices rise by more than two per cent a year—which has been the case recently—their real incomes will deteriorate unless there are periodic amendments to the legislation to provide for regular increases in these benefits.

[English]

In the long-term interests of the economy as a whole, it is essential for us to continue our efforts to maintain reasonable price stability in Canada. But these elderly Canadians are by no means responsible for the cost pressures that develop in our economy. On the contrary, they are the chief victims of inflation because they are the least able of any group in our society to protect themselves against it. We have come to the conclusion, therefore, that we have a duty as a nation to ensure that the elderly and veterans will be relieved of the hardship of a declining standard of living by helping them to meet the burden of the rising costs. I think everyone would agree that these are very special groups.

• (2050)

Some hon. Members: Hear, hear!

25316—4!

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Mr. Muir: When did you discover that?

Mr. Turner (Ottawa-Carleton): In order to provide the needed relief and assistance to elderly Canadians, the government is proposing a number of measures. First, we shall seek authority to provide that the old age security pension should increase in accord with the full increase in the cost of living. This change would be made effective as of January 1, 1972, with the monthly payment being escalated by the percentage increase in the consumer price index in the fiscal year 1971-72 over the fiscal year 1970-71.

Some hon. Members: Hear, hear!

Mr. Knowles (Winnipeg North Centre): How much is that?

Mr. Turner (Ottawa-Carleton): Beginning next year, the monthly pension would be adjusted on April 1 of each fiscal year to reflect the full rise in the cost of living during the previous calendar year.

Mr. Muir: Pierre said inflation was over.

Mr. Turner (Ottawa-Carleton): Second, the advance in the economy and the national income now makes possible a further across the board increase in the guaranteed income supplement for needy, elderly Canadians. As of January 1, 1972, the maximum monthly benefit payable under a combined old age security/guaranteed income supplement would be raised from \$135 for a single person to \$150, and for a married couple from \$255 to \$285.

Mr. Lewis: That's the only good thing in the budget.

Mr. Turner (Ottawa-Carleton): Further, the present ceiling of 2 per cent on the annual escalation index would be removed, so that on April 1 next year, this maximum benefit would also be increased in step with the full increase in the cost of living.

My colleague, the Minister of National Health and Welfare, will introduce amendments to the Old Age Security Act to bring these changes into effect.

Some hon. Members: Hear, hear!

Mr. Knowles (Winnipeg North Centre): It's about time!

Mr. Turner (Ottawa-Carleton): Third, the special exemption allowed persons 65 years of age and over for income tax purposes, which was recently increased by this government from \$500 to \$650, will be raised still further to \$1,000.

Some hon. Members: Hear, hear!

Mr. Chrétien: What about that, George?

Mr. Lambert (Edmonton West): They are delirious.

Mr. Horner: It's a good thing an election comes every four years.

An hon. Member: We should have an election every year.

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Mr. Turner (Ottawa-Carleton): This increased exemption will also be extended to taxpayers who are confined to bed or a wheelchair, and to the blind. I also wish to announce a further measure related to the blind and persons who are confined to bed or a wheelchair.

Mr. Jamieson: The Tories!

Mr. Turner (Ottawa-Carleton): To the extent that a blind or disabled person cannot make use of the \$1,000 exemption, his or her spouse will be entitled to claim the otherwise unused portion of that exemption. Both of these measures will be effective from January 1, 1972.

In a full year the added expenditures resulting from the full escalation of the pensions for the aged, together with the increase in the maximum OAS/GIS benefit and the increase in the exemptions for the elderly, the blind and the disabled will cost about \$350 million.

The government's concern for elderly persons has also led us to consider whether some fresh, new approach should not be undertaken on their behalf. It is obviously important that the growing number of men and women reaching retirement years should have opportunities to continue to participate in the life of the community in a meaningful way. Towards this end, my colleague, the Minister of National Health and Welfare, will shortly announce details of an experimental program to be known as *New Horizons for the Aged*.

Like the elderly, many of those Canadian veterans who made sacrifices in defence of our country—and their families—also find it difficult, if not impossible, to defend themselves against rising costs of living.

There have been periodic increases in the war veterans pension and war veterans allowances, the most recent being only last year. But the real income provided by these payments is in danger of being eroded by mounting prices. It is only fair and reasonable that we should stand ready to protect veterans and their families against such hardship as a matter of right.

Some hon. Members: Hear, hear!

An hon. Member: It took you four years to realize that.

Mr. Turner (Ottawa-Carleton): I propose, therefore, that effective January 1, 1972, pensions and allowances paid to war veterans also be increased from year-to-year in accordance with the full increase in the cost of living. We estimate the cost of this step will be about \$25 million in a full year.

My colleague, the Minister of Veterans Affairs, will shortly be introducing amendments to the Pensions' Act and the War Veterans' Allowance Act to give effect to these changes.

I am convinced the vast majority of Canadians will welcome these improvements, particularly those who will benefit directly—the elderly and veterans and their dependants—and those sons and daughters and other relatives who help to support them. I am sure that all members of the House will give wholehearted support to these important changes. With respect to escalation of pensions for the elderly and veterans, I want to stress again that these are very special groups and the same case

[Mr. Horner.]

cannot, in my judgment, necessarily be made for other groups.

[*Translation*]

I come now to a further area of public concern. This has to do with the growing financial burdens that must be carried by students—or by their husbands or their wives or their parents, as the case may be—in meeting the rising costs incurred in pursuing higher education or training for a vocational career.

It has been customary to think of education and training in terms of that undertaken largely by young Canadians as a necessary preparation for subsequent employment. Increasingly, however, education and training is becoming a continuing process. More and more adult men and women are resuming their studies to advance their education or training or to engage in re-training for new occupations in order to meet the requirements of our rapidly changing industrial society. This is particularly true of married women, who in growing numbers want to become qualified to obtain interesting, well-paying jobs after the early years of raising their families.

• (2100)

At the present time, of course, students may, for tax purposes, deduct from their annual earnings the full amount of their tuition fees. However, there are other costs of increasing importance which are not taken into account in any way. First there is the loss of income that might otherwise have been earned by a student. This forgone income is a major consideration in the decision whether to undertake or continue education or training. Second, there is the problem of the immediate cash costs that must be carried—of ordinary living, transportation, books and so forth. These costs have been climbing and there is evidence to suggest that they are weighing heavily against decisions to proceed with education or training.

To be sure, there have been valid concerns expressed about the very sharp rise in the amount of money which governments have had to pour into the educational system to cope with expanding enrolments and increasing costs. But a large part of this can be traced to the age structure of our population, which has resulted in a large inflow of students. This demographic phenomenon is now reversing, and we need to ensure that over the longer run Canada places an adequate emphasis on the development of our human resources. Taking this longer view, the federal government has concluded that some steps should be taken through the tax system to encourage the effort of individual students and their families to invest in further education and vocational training.

I therefore propose a new deduction related to the cost of obtaining education, which will be in addition to the existing deduction for tuition fees. This new measure will be a deduction of \$50 per month per student for each month in the year during which the student was in full-time attendance at certain educational or training institutions. It will be applied to full-time attendance in a qualifying educational program at educational institutions providing courses at the post-secondary level and also at educational institutions certified by the Minister of Manpower and Immigration in connection with the present tax provision affecting tuition fees. For these purposes, a

qualifying educational program will mean a program of not less than three consecutive weeks' duration that requires the student to work not less than 10 hours per week at work related to the program. Those eligible for training allowances or whose courses are paid for by their employer will not be eligible for this deduction.

The deduction will be available to the student, but to the extent that she or he cannot make full use of the deduction, it will be available to the student's parent, husband or wife. This deduction will be effective as from January 1, 1972. It will involve a revenue cost of about \$50 million in a full year.

[English]

Mr. Speaker, a further proposal affecting individuals relates to medical expenses. For most taxpayers, the introduction of publicly-financed programs for hospital and medical care has greatly reduced the number of cases whereby medical expenses place an unusual burden upon a taxpayer. None the less, this is an area which requires continuing surveillance to make sure that the hardship cases are dealt with quickly and adequately.

In keeping with this policy, I wish to announce two new measures. First, I propose to include as a medical expense for tax purposes an amount paid as remuneration for a full-time attendant to care for a taxpayer, his spouse, or other dependant, in a domestic establishment in which the cared-for person resides. This will be available upon certification by a doctor that the person is incapable of self-care for what is likely to be an indefinite period.

Secondly, I propose to include as a deductible medical expense amounts paid to commercial transport services for transportation of a taxpayer or his spouse, or dependant, and an attendant if necessary, to and from a hospital, clinic or doctor's office to which the individual has travelled a distance in excess of 25 miles to obtain medical services not otherwise available nearer home.

Both of these measures that I have just announced will help to relieve financial hardship associated with illness.

[Translation]

A number of the income tax measures I have just outlined and others related to tax reform that I will outline shortly will have an effect on the revenues of all provinces which have harmonized their tax systems with ours for purposes of tax collection agreements. These effects may be quite substantial. However, we have already provided a guarantee to these provinces that their revenues will be maintained for five years at a level at least equal to that which they would have received under the former tax system. This guarantee was offered as a part of tax reform and is contained in the fiscal arrangements legislation recently enacted by Parliament. The guarantee means that the federal government will absorb any revenue cost that the provinces otherwise would have borne, if the combined effect of tax reform and the new measures proposed tonight reduces provincial revenues below the yield of the former tax system. I am confident, moreover, that the provincial governments will welcome these measures as contributing both to the longer-term growth of their respective provinces and to fairness in taxation.

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I am bringing forward certain proposals tonight regarding the sales tax, most of which involve items that are of concern to those Canadians who are physically handicapped. I also wish to announce that in order to provide a further measure of support to industrial research and development in Canada, scientific research equipment purchased by manufacturers after tonight for use in the testing or development of new products will be exempt from sales tax. Details of these proposals will be found in the Ways and Means Motion that I will table later.

I would like to turn now to the Customs Tariff. The terms of the Canadian offer of tariff preferences for developing countries were announced in the House on November 14, 1969. The proposed Canadian system is also set out in the Ways and Means Motion which I am tabling tonight. It proposes the establishment of a "General Preferential Tariff" which, subject to appropriate safeguards, will provide for lower tariffs on most of the semi-manufactured and manufactured goods which we import from developing countries.

There is also provision for lower rates on selected agricultural products and industrial raw materials. This will be enabling legislation; it will come into force only after enactment and on a date to be fixed by proclamation. This is a contribution by Canada to a global effort to help the developing countries improve their exports to world markets.

There are a number of other tariff changes which I am proposing. Most of these are relatively minor in their economic impact; the details are set out in the Ways and Means Motion. I should mention one which is of importance to the textile industry. The duty on knit goods from Britain is to be increased from a net rate of 18 per cent to 25 per cent; the rate on knit goods from other countries entitled to the benefits of the British Preferential Tariff will remain the same. This proposal derives from negotiations following upon the implementation by Britain on January 1 this year of increased rates of duty on cotton textiles from Commonwealth sources, including those from Canada. The purpose is to restore the balance of our concessions in our trade agreement with Britain. It should benefit our textile industry, which was damaged by the increased British tariff on cotton textiles.

It should be noted that as Britain begins to alter preferential access to its market by its entry into the European Economic Community, Canada will no longer have an obligation to extend preferential rates on British goods.

As in previous budgets, all the changes—except those relating to the proposed General Preferential Tariff—are to come into force tomorrow.

[English]

Mr. Speaker, I should now like to refer to tax reform. Last December, Bill C-259 received royal assent and on January 1, 1972, the amended Income Tax Act came into effect. Only a few months have passed, but as a general observation, I am pleased to note that, except in a few specific areas, debate about broad policy issues seems to have run its course.

This is not to say that everyone is satisfied with tax reform and I myself am concerned about some of the provisions which have produced anomalies or which are

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working in unintended ways. I believe that part of my responsibility in this portfolio is to take a hard look at the rough edges of tax reform and I intend to see to it that the rough edges are smoothed out.

I want to say that I welcome the representations and suggestions I have received. It is inevitable in the course of a major tax reform that problems will arise. It has always been, and it will continue to be, the policy of this government to respond as quickly as possible to these problems as they become known. The discussions I have had with persons from all walks of life have been most helpful to me in identifying and finding solutions to many of these problems.

In a moment, I propose to announce a number of important amendments to the Income Tax Act arising out of tax reform, but first I wish to make a few general comments. The particular amendments have been selected either because they affect large numbers of taxpayers or because the government is already committed to make them. There are a few other amendments which I have been contemplating, but I have not included these in this budget because I am still considering the best solution to the particular problems. I mention this because many people have made sensible suggestions to me, but it is not possible to deal with all of them tonight.

I also want to say that I have given careful consideration to the debate in this chamber and in the other place and to the undertakings my predecessor made to both Houses of Parliament. He undertook to make certain amendments and to review other troublesome areas. I believe you will find that I have met the specific commitments and, as I have previously indicated, I am re-examining all areas which are having unintended effects.

I want to assure this House and all Canadians that it is my intention to continue to scrutinize the tax reform and to make such changes as may be necessary from time to time.

Finally, by way of general comment, I should say that I have not attempted in these remarks to describe all of the amendments which I wish to introduce tonight. I will refer only to those measures of general interest or of particular importance, and then only in a general way. However, the ways and means motion I am tabling will contain reference to all of the proposed amendments and members may review that document to obtain full details.

• (2110)

I want to discuss now the specific amendments, all of which will be effective January 1, 1972, unless otherwise indicated. First, some important amendments in the area of personal income.

One problem of particular concern is the impact of the new tax measures on charitable donations. Notwithstanding the increase in the annual limit on the deductibility of charitable donations from 10 per cent to 20 per cent of income, there seems to be a general fear that gifts and bequests of appreciated property will be discouraged if there is a deemed realization of the capital gain. This issue was carefully considered by the government during the course of the tax reform debate and my predecessor has explained on several occasions the problems and concerns which led to this decision.

[Mr. Turner (Ottawa-Carleton).]

I believe that the basic decision was correct, but I am persuaded that in one particular situation, the rules should be relaxed. In those cases where the property to be gifted is not a substitute for money—that is, where the property gifted to the charitable organization is suitable for actual use in its charitable activities—I propose that the deemed realization rules be qualified. I have in mind here such examples as the bequest of an art collection to a public art gallery or the gift of a piece of real property intended to be used as a camp or a hospital. Some taxpayers who donate property that has increased in value may prefer to value the gift for purposes of both the deemed realization rules and the charitable deduction rules at its market value rather than its cost. I propose, therefore, that a taxpayer who gives or bequeaths appreciated property of this nature to a charity shall have the choice of valuing the donation for purposes of both these rules at an amount anywhere between its cost and its fair market value.

I also wish to announce a second amendment in this area. The act will be amended to provide that any bequest to a charity will be regarded as having been made in the taxation year in which the taxpayer died. This measure will permit the value of the gift to be deducted from the taxpayer's income in the year of death, subject to the normal limit.

Individuals who earn income that is not subjected to deductions at source are required to pay instalments during the year as a payment against their tax liability for the year. In order to ease the financial and paperwork burden facing many of our low income taxpayers, especially pensioners, I propose that henceforth instalments will not be required if the individual's federal tax liability for the preceding year did not exceed \$400.

Under the present law, the tax treatment of income derived from certain damage awards payable to children is not entirely clear. For example, children who have suffered damage as a result of thalidomide have received awards which are being held in trust for their benefit until they attain their maturity. Under the law as it now reads, the income from these trust funds, which is being accumulated and held for the benefit of these children pending maturity, may be subject to tax. This, to my mind, is not a desirable result. Therefore, I propose an amendment which will exempt from tax the income derived from funds and annuities resulting from personal injury damage awards up to the time that the injured person attains age 21.

I have received a number of representations asking that some form of special treatment be extended to persons who receive lump sum payments from a deferred profit-sharing plan. Some plans have asked that the special form of averaging previously available under the old act be reinstated and other plans have sought some form of special treatment for capital gains realized or distributed by these plans. I find this problem particularly difficult. First, let me say that I am in no way opposed to profit-sharing plans; in fact, I can see many advantages in this approach—for example, increased incentive and a sense of collective effort. However, I am not persuaded at this time that a lump sum payment out of a deferred profit-sharing plan should enjoy any special treatment. It seems

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to me that payments out of such a plan should be treated in much the same manner as payments out of pension plans and registered retirement savings plans. All three of these types of plans have in common the deferral of income tax on the contributions to and the income of the plan. The government has previously indicated that it is conducting a general review of the taxation of retirement income plans. I have, therefore, concluded that this specific problem concerning the deferred profit-sharing plans should be considered as part of this general review.

A major feature of tax reform was the introduction of a tax on capital gains and I am pleased to note that these new provisions are, by and large, working well. None the less, some refinements are required. At this time, I wish to announce one important amendment and to mention that there are several other technical amendments to be found in the ways and means motion.

The important amendment concerns the provisions dealing with deemed realization of capital gains at death. It is intended to assist taxpayers who might face a heavy tax liability at a time when their assets might be illiquid. The amendment will provide that the payment of taxes occasioned by this circumstance may be paid in six equal annual instalments, together with interest. This provision is similar to the provision contained in the former Estate Tax Act and should relieve hardship which a taxpayer might otherwise face.

Next I want to announce several amendments relating to the taxation of corporations.

All corporations and certain individuals are obliged to pay instalments during the year in respect of their tax liability for the year. Under the present rules, taxpayers could base their instalment payments either on their estimate of the current year's liability or, alternatively, on a computation involving the prior year's income and the current year's tax rates. It has become increasingly difficult in recent years for taxpayers to use the "prior year" formula and this problem was exacerbated by the shift from the old system to the new system. In order to simplify the basis of instalment payments, I propose an amendment whereby taxpayers will be able to base their instalments on their estimate of the current year's liability or on taxes payable for the preceding year.

Where it is necessary to adjust the prior year's taxes payable in order to reflect certain specific changes in tax rates, simple adjustments will be prescribed by regulation. In this way, corporate taxpayers will be relieved of tedious calculations and yet the fiscal objectives can still be achieved.

Under the provisions relating to taxation of private corporations, one-half of the taxes paid on account of certain types of investment income are refunded at the time of payment of dividends. The purpose of this refund is to eliminate the artificial distinction between an individual "investing" directly or through his corporation.

It now appears that this provision may be open to some abuse and I believe that the government should correct this situation quickly, before taxpayers come to rely on an unintended loophole. The particular situation which troubles me arises in those cases where, within a corporate group, business income is converted into investment

income in order to take advantage of the refund provision. To eliminate this loophole, an amendment will be made which will apply to certain kinds of investment income received by a corporation in taxation years commencing after 1972 from an associated corporation. The effect of the amendment will be to preserve the "business income" character of these particular receipts in the hands of the recipient.

In connection with the taxation of business and property income, I want to mention two problems which I will not attempt to solve tonight, but which are being given intensive examination. First, I am concerned about the taxation of certain property rights which were purchased before 1972 and which are subsequently sold. These rights are often called "nothings". In the event of a sale of these rights under the new system, a taxpayer could find himself facing a tax liability even though he has suffered a net cash loss on the purchase and sale. One example of this type of property is the agricultural products quota, such as the milk quota. In this regard, I have already established in co-operation with the Minister of State attached to the Department of Finance an interdepartmental committee of officials to examine this problem as well as other aspects of the taxation of agricultural producers.

Secondly, I am concerned about the new provisions designed to permit Canadian corporations to deduct exploration and development costs incurred in searching for natural resources in foreign countries. It appears that the reality of the international situation is that Canadian companies must often incorporate subsidiaries in the local foreign jurisdiction in order to carry out this type of work and it may then be difficult to utilize the new provisions.

The answers to these two problems will be difficult, but work is under way to see if appropriate and realistic solutions can be found.

I come now to the treatment of income earned abroad by Canadians. As I mentioned previously, this is an area which the government has undertaken to review. I personally am particularly concerned that the new measures do nothing to interfere with the success of our exporters, our Canadian based multi-national corporations and our international entrepreneurs. It is only a few months since the new act was passed and we have not completed our review. Although most of the measures affecting taxpayers in this area do not take effect immediately, I am well aware that corporations often must make decisions today which will commit them to a course of action for several years to come. Therefore, I want to announce a few measures which I believe will improve significantly the taxation of international income, but I also want to assure you, Mr. Speaker, and the House that I attach a high priority to the completion of our review.

• (2120)

I have had a number of meetings with taxpayers concerned with the rules for the taxation of foreign accrual property income, and I am persuaded that these rules, as now drafted, may produce unintended results in particular cases. However, this is a difficult area and I am not satisfied that we have yet found appropriate solutions

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which will eliminate the difficulties, while preserving the basic thrust of the reform. The foreign accrual property income rules are scheduled to become effective for taxation years commencing in 1973, but in order that no taxpayer be unfairly or unintentionally prejudiced, I propose that the starting date for these rules be postponed for two years—that is, they not become effective until taxation years commencing in 1975.

When a taxpayer relinquishes his status as a Canadian resident, he must include in his income any accrued capital gains as if he had sold all his capital property. Under the act, a taxpayer has the right to postpone this deemed realization but if he chooses this right, in any year in which he actually disposes of the particular capital property, he must report his income as if he had continued to be a Canadian resident. I have concluded that these rules may be too harsh in some circumstances and that some relief should be provided.

Therefore, amendments will be introduced to change the rules applicable in these circumstances. A first option will permit a taxpayer to pay the tax attributable to any deemed realization of his capital property in six equal annual instalments with interest, subject to the provision of satisfactory security. Alternatively, a taxpayer may elect to have any particular capital property treated as taxable Canadian property, in which event he will be taxed only when the property is disposed of and only on the actual gain realized.

Also in this regard, I believe that some special measure is required to deal with foreigners who come to Canada for a period. It is essential that we maintain a hospitable climate so that people with valuable skills are not discouraged from working in Canada for a period. Therefore, an amendment will be introduced to the effect that where a person has not been resident in Canada for more than 36 months over the preceding ten years, any accrued gains on property which he owned when he entered Canada will not be subject to tax when he leaves.

Let me discuss now the financial position of the government and our borrowing requirements. In respect of the fiscal year just ended and for which the books are not yet closed, we anticipate that budgetary revenues will amount to \$14,145 million and expenditures to \$14,745 million. These figures imply a budgetary deficit of \$600 million. Net non-budgetary requirements amount to \$1,003 million, apart from \$485 million required to finance foreign exchange transactions. Total cash requirements thus amount to \$1,603 million, excluding the financing of exchange acquisitions, or \$2,088 million overall.

The strength of the economy has been such as to produce larger revenues, budgetary and non-budgetary, than were anticipated when estimates for 1971-72 were given to the House in October of last year. Budgetary expenditures were also somewhat higher than forecast, mainly on account of higher fiscal transfers to provinces. Non-budgetary outlays were lower than anticipated six months ago because of lower advances to certain crown corporations. Outlays on exchange were substantial owing in the main to the large purchases made during the course of the world monetary crisis in the closing months of 1971.

On balance, however, the surge in revenues resulting from the pick-up in incomes and sales in the economy was

responsible for the fact that our need to borrow funds was less than had been anticipated when the position was last reported to the House.

I wish now to indicate the order of magnitude of the government's cash requirements for the current fiscal year. Mr. Speaker, this is not an easy task and I am anxious to avoid leaving a false impression of precision. As I emphasized in my first address to this House upon assuming my present portfolio, there are severe limitations upon the present capacity of economic and fiscal science to provide accurate projections of cash requirements. Even in the realm of population projections, where perhaps the technique of forecasting is today best developed, we find that deviations of forecasts from census counts by province can be sufficiently great to produce errors in excess of \$100 million in estimates of equalization payments, which depend on provincial population.

To take another example, revenues of the government amount to a figure of the order of \$16 billion. Given the dependence of revenues upon the state of the economy, and the imprecision in official estimates of the GNP, even after the event, it would be totally unrealistic to expect a revenue forecaster to forecast within 2 per cent of the total. But 2 per cent of total revenue is some \$320 million. This year we shall have particular difficulty in revenue forecasting owing to the fact that we have no experience of tax collections under the reformed tax system. I could cite many more examples.

I will offer to the House now the best estimates we are able to make of the cash requirements in 1972-73. I regard these estimates as the mid-points of rather wide ranges. I would urge hon. members to regard them in the same way.

For the current fiscal year, taking into account the effects of the measures I have announced tonight, we estimate that budgetary revenues will be \$15,670 million, expenditures \$16,120 million and the budgetary deficit \$450 million. Net non-budgetary requirements are expected to be \$1,550 million apart from any net source or use of funds in exchange transactions. Thus we calculate that we shall have to borrow, or finance through changes in cash balances, a total of \$2,000 million.

While this figure is somewhat lower than the cash requirements which resulted from last year's operations, including the purchases of official reserves, it does not imply a significant reduction in the stimulus to the economy through fiscal injections from that provided last year. In my judgment, stimulus of this order is appropriate in our present economic circumstances.

Mr. Speaker, with the permission of the House, I should like now for the information of members to include as an appendix to today's *Hansard*, a budget paper entitled *Review of Government Accounts 1971-72*. I should also like to include in today's *Hansard* supplementary tables showing government of Canada cash requirements, federal government revenues and expenditures on a national accounts basis, reconciliations of these figures with those compiled on a public accounts basis, and details of the budgetary revenues. The information in these tables applies to the fiscal years 1971-72 and 1972-73.

Mr. Speaker: Order. The minister has suggested that certain documents be appended to *Hansard*: Is this agreed?

Some hon. Members: Agreed.

[*Editor's Note: For budget paper entitled "Review of Government Accounts 1971-72", see appendix.*

The tables above referred to are as follows:]

GOVERNMENT OF CANADA FINANCIAL
REQUIREMENTS
(Millions of Dollars)

	1971-72 Prelim- inary	1972-73 Forecast*
<i>Budgetary Transactions</i>		
Revenues.....	14,145	15,670
Expenditures.....	-14,745	-16,120
Surplus (+) or Deficit (-).....	-600	-450
<i>Net Non-Budgetary Transactions</i>		
Excluding Foreign Exchange Transactions	-1,003	-1,550
<i>Total Government of Canada Financial Require- ments</i>		
Excluding Foreign Exchange Transactions	-1,603	-2,000
<i>Amount Required to Date to Finance Foreign Exchange Transactions.....</i>		
	-485	+24 ⁽²⁾
<i>Total Government of Canada Financial Re- quirements</i>		
Including Foreign Exchange Transactions.	-2,088 ⁽¹⁾	-1,976

*Numbers in this column should be interpreted as mid-points of ranges of estimates.

⁽¹⁾The "Total Financial Requirement" differs from "Overall Cash Requirement" as per Public Accounts because of the inclusion under Non-Budgetary Transactions of the change in the special non-marketable bonds held by the Unemployment Insurance Commission. In the Public Accounts the change in these holdings is reflected in the net change in Unmatured Debt Outstanding.

⁽²⁾As of April 30, 1972.

FEDERAL GOVERNMENT REVENUE AND
EXPENDITURE ON A NATIONAL ACCOUNTS BASIS
(Millions of Dollars)

	1971-72 Preliminary	1972-73 Forecast*
<i>A—Revenue</i>		
Direct Taxes, Persons.....	8,475	9,600
Direct Taxes, Corporations.....	2,410	2,350
Direct Taxes, Non-Residents.....	280	305
Indirect Taxes.....	4,640	5,100
Other Current Transfers from Persons	5	5
Investment Income.....	1,520	1,590
Capital Consumption Allowances.....	270	300
Total Revenue.....	17,600	19,250
<i>B—Expenditure</i>		
Current Goods and Services.....	4,830	5,510
(Non-Defence).....	(2,930)	(3,570)
(Defence).....	(1,900)	(1,940)
Transfer Payments to Persons	5,050	5,720
Subsidies.....	570	620

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Capital Assistance.....	180	250
Current Transfers to Non-Residents.....	240	260
Interest on the Public Debt.....	2,080	2,260
Transfers to Provinces.....	4,280	4,580
Transfers to Local Governments.....	140	150
Gross Capital Formation.....	630	700
TOTAL EXPENDITURE.....	18,000	20,050
C—Surplus (+) or Deficit (-).....	-400	-800

*Numbers in this column should be interpreted as mid-points of ranges of estimates.

FEDERAL GOVERNMENT REVENUE
PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION
(Millions of Dollars)

	1971-72 Prelim- inary	1972-73 Forecast*
1. Budgetary Revenue.....	14,145	15,670
<i>Deduct</i>		
2. Budgetary Return on Investment.....	-1,095	-1,160
3. Post office Revenue.....	-400	-460
4. Other Non-Tax Budgetary Revenues.....	-116	-140
	(-1,611)	(-1,760)
5. Corporate Income Tax, Excess of Ac- cruals (+) over Collections (-).....	-8	-200
<i>Add</i>		
6. Government Pensions and Social Secu- rity Receipts.....	3,175	3,530
Government Investment Income		
7. Interest on Loans, Advances and Invest- ments.....	620	650
8. Interest Receipts on Social Insurance and Government Pension Funds.....	475	510
9. Profits Before Taxes (Net of Losses) of Government Business Enterprises.....	425	440
	(1,520)	(1,600)
10. Capital Consumption Allowances.....	270	300
11. Miscellaneous ⁽¹⁾	104	110
12. Total Revenue, National Accounts Basis.....	17,600	19,250

*Numbers in this column should be interpreted as mid-points of ranges of estimates.

⁽¹⁾These miscellaneous adjustments represent special tax revenues from insurance companies, miscellaneous indirect taxes, miscellaneous transfers from persons and adjustment for the supplementary period. In the national accounts, revenue in the supplementary period is shifted into the following fiscal year.

FEDERAL GOVERNMENT EXPENDITURE
PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS
RECONCILIATION
(Millions of Dollars)

	1971-72 Preliminary	1972-73 Forecast*
1. Budgetary Expenditure.....	14,745	16,120
<i>Deduct</i>		
2. Budgetary Transfers to Funds and Agencies ⁽¹⁾	-632	-570

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3. Post Office Expenditure	-412	-460
4. Deficit of Government Business Enterprises	-98	-100
5. Reserves and Write-Offs	-52	-50
6. Purchase of Existing Capital Assets	-30	-10
7. Budgetary Revenue Items Offset Against Budgetary Expenditure ⁽²⁾	-69	-60
	(-1,293)	(-1,250)
<i>Add</i>		
8. Government Pensions and Social Security Benefits	3,565	4,170
9. Expenditure of Government Funds and Agencies ⁽¹⁾	610	660
10. Capital Consumption Allowances	270	300
11. Miscellaneous ⁽³⁾	103	50
12. Total Expenditure, National Accounts Basis	18,000	20,050
13. Surplus (+) or Deficit (-), National Accounts Basis	-460	-800
14. Surplus (+) or Deficit (-), Budgetary Basis	-600	-450

*Numbers in this column should be interpreted as mid-points of ranges of estimates.

⁽¹⁾In the National Accounts, budgetary appropriations to various funds and agencies are replaced by the expenditure actually made by these funds and agencies.

⁽²⁾This item mainly consists of revenue from sales of goods and services by the government. These sales appear as final expenditure of the private sector and are deducted to avoid double counting.

⁽³⁾This item includes the supplementary period adjustment. In the National Accounts, expenditures on goods and services in the supplementary period are divided between adjacent fiscal years; most other expenditures are shifted entirely to the next fiscal year.

GOVERNMENT OF CANADA BUDGETARY REVENUE
(Millions of Dollars)

	1971-72 Preliminary	1972-73 Forecast*
Personal Income Tax	5,949	6,850
Corporation Income Tax	2,200	2,320
Non-Resident Tax	280	300
Estate Tax	135	100
Customs Duties	970	1,080
Sales Tax	2,000	2,240
Other Duties and Taxes	1,000	1,020
Total Taxes	12,534	13,910
Non-Tax Revenues	1,611	1,760
Total Budgetary Revenues	14,145	15,670

*Numbers in this column should be interpreted as mid-points of ranges of estimates.

[Translation]

Mr. Turner (Ottawa-Carleton): Looking ahead, now, first in the broad perspective of the world economy, there are encouraging prospects. First and foremost are the prospects for our trading partners. In the close-knit world in which we live, Canada cannot prosper if other countries are in decline. Our expectation is that the economy of the United States will grow much more strongly this year than it did last. In the procession of cyclical phases, that country seems to be a phase ahead of Europe and Japan, speaking generally. Even so the rate of growth in

[Mr. Speaker.]

those countries is also expected to be rather faster this year than it was last. These factors will contribute to the advance in our own economy.

There is, of course, unfinished business arising from the financial and commercial crisis of last fall. While more stability has returned to exchange markets generally, the fundamental reform of the international monetary system has yet to be worked out. The Canadian government attaches high importance and priority to this work. We are looking for reform in the evolutionary sense rather than for an entirely new system, though we anticipate some major changes nonetheless. It is our view that the complicated discussions and negotiations that are required on several planes, can best be carried out within the aegis of the International Monetary Fund. Canada expects to play its full part in this work and I will be speaking on this subject at the International Monetary Conference in Montreal tomorrow evening.

• (2130)

There is also unfinished business in respect of trade arrangements. There is now an undertaking by the major industrial countries to commence comprehensive trade talks next year. Canada will participate in these talks as constructively as possible, ever cognizant of the advantages to us of freer, multilateral trade. There are also specific bilateral trade issues between the United States and ourselves which need to be settled at the earliest opportunity.

[English]

Turning more particularly to the Canadian economy, we anticipate that our growth will be stronger than it was last year. In 1971 we grew at a rate in excess of the long-term trend. We will better that this year. I have spoken of the basic financial strength of consumers. This will yield a strong growth in consumer expenditures. I expect that investment in inventories, which are now at below-normal levels, will be substantial. I expect that capital investment by business will be greater than was indicated in the recently published figures of intentions, and having in mind the stimulus provided in this budget tonight it will be greater than it was last year, especially in machinery and equipment. All signs point to another strong year in housing.

Exports, too, will be higher than last year as a consequence of the growing economic strength of the countries to which we sell our products. However, the advance of our economy will boost our imports and our trade balance will, in all likelihood, be lower than it was this year, and our current account will be in deficit.

We are expecting a large increase in employment and all signs to date this year give credence to this anticipation. In March this year there were 330,000 more Canadians working than one year ago.

I expect that unemployment will fall on the average in the course of this year, though the extraordinary month to month fluctuations in the size of the labour force will likely continue and be reflected in an uneven movement in the unemployment rate.

There are mixed tendencies in the price picture. The growth of demand and rather lower productivity will

make for price increases. The cost of imports may well rise less than last year. We do not expect that food prices will rise as fast this year as last and their current tendency encourages us in this expectation.

In summary, I expect that progress will be made this year in reducing unemployment. The growth in jobs should be considerably larger than last year. More goods and services will be produced and consumed by Canadians. Indeed, I am expecting that our real rate of growth in 1972 will be of the order of 6 to 6½ per cent. In short, I am expecting a year of considerable progress.

During the past few years, Mr. Speaker, virtually every industrial nation in the world has been going through a difficult and painful adjustment process. Canada was no exception. On the whole, however, the record shows that we weathered the storm better than most. Among the ten leading industrial nations, the growth of Canada's real output during 1971 exceeded that in every other country except Japan and was twice the increase in the United States. The rise in prices was significantly lower than that of any other industrial nation. The growth in employment last year of 2½ per cent was far greater than that of virtually any other industrial nation and was four times the percentage increase in employment in the United States. But given the rapid growth in our labour force, this was still not good enough.

Over a period of two years now, the growth of the economy has been steadily accelerating in response to the strong fiscal and monetary stimulus injected by the federal government. A further boost has been provided by a variety of provincial policies and programs. The evidence available on every hand indicates that there is a new-found sense of confidence among Canadians generally and among businessmen in particular about our prospects for continued strong economic growth in the year ahead.

I believe this sense of confidence in the future will be further strengthened by the measures which I have announced in the budget tonight. This applies with particular force to the substantial reductions which I have proposed in the tax load carried by the critically important manufacturing and processing sectors of our economy. This new thrust will provide a major boost to these hardpressed industries. These measures will provide our manufacturers and processors with incentive to expand employment, production and capital investment. I and other Canadians will now be counting heavily on them to fulfil the promise of this budget.

Millions of Canadians will also benefit individually from the changes I have proposed tonight to raise the supplementary pension allowance, to enable the pensions of the elderly and of veterans to keep pace with the cost of living, to increase further the tax exemption for the aged, the blind and disabled, and to provide significant tax relief from the heavy financial burden of education and training.

Mr. Speaker, I wish I could do everything at once and I am sure that each member of this House, were he standing in my place, would have a long list of priorities of things he would want to change, of inequities he would want to cure. The bare fact of the matter is that we cannot do everything at once. We simply don't have the resources. There are limits to the scope of fiscal policy. There are

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limits to stimulus and readjustment. I have been conscious of the bounds within which I have been constrained: to do everything I can to stimulate the economy, to encourage growth for more jobs, to right injustices—but in a way and at a pace that does not inject too much fuel into the economy. I have had to resist a good many well-intentioned temptations lest I run the risk of firing inflation. That is what I meant when I said that I would be striving for a responsible budget, a budget that would reconcile growth and jobs with reasonable price stability. I am confident that the measures I have proposed to this House of Commons tonight are within the realm of responsible fiscal action. I believe the measures that I have announced tonight will help to meet those demands which deserve the highest priority—the easing of some of the financial hardship of many individual Canadians and the creation of permanent, well-paying jobs. I now wish to table the ways and means resolutions and I commend the budget to this House of Commons.

[Editor's Note: For notice of ways and means resolutions, see Votes and Proceedings of today's date.]

Hon. Marcel Lambert (Edmonton West): Mr. Speaker, I would certainly commend the Minister of Finance (Mr. Turner), whom I have known for many years—I first knew him as a student many years ago at the same institution of learning—on a very voluminous budget, though I am afraid he had an embarrassment of choice. One of my colleagues said that this was not necessarily the responsible budget the minister spoke about but, rather, a “repair the damage” budget and that is where its scope lay.

On a much more serious note, I think that when we get out of this chamber all of us will realize that while the minister was speaking on a very important subject, one that affects Canada, others were speaking on other events that may make much of this quite irrelevant and the potential of those other events belittle much of what the minister has said tonight. May I say I am referring to events taking place outside this country. I do not want to get into any speeches which have been made elsewhere or to advert to the very delicate international situation that is now arising as a result of action being taken by the United States government. That is something we will learn much of later.

• (2140)

This budget message contains a lot of suggestions to repair the damages and make good the deficiencies which have existed for a long time. I am very sorry the minister's predecessor is no longer in the House because I should have liked him to hear these remarks. If one were not very charitable, one would be very cynical about the budget. I might suggest there would not be anything in this budget if this were not an election year. Members opposite, from the Prime Minister (Mr. Trudeau) down, have repeatedly in the last two years voted down resolutions emanating from the opposition in respect of old age pensions and the 2 per cent escalation clause, limitations on the guaranteed income supplement, veterans pensions and the 2 per cent supplement in that regard. They have constantly voted down these measures and belittled them in speeches both in and out of the House.

Some hon. Members: Hear, hear!