

The Budget

Mr. Andrew Telegdi (Waterloo): Mr. Speaker, I have a question for the member for Wild Rose. I wonder if he studied sociology or the systems of the Soviet Union, Texas and South Africa in terms of law enforcement.

The Speaker: Does the hon. member for Wild Rose wish to respond?

Mr. Thompson: Mr. Speaker, I am not sure I got all that. It is a little noisy. I am sorry.

SUSPENSION OF SITTING

The Speaker: I wonder, my colleagues, if we could simply suspend for the last three or four minutes. May I have unanimous consent?

Some hon. members: Agreed.

(The sitting of the House was suspended at 4.57 p.m.)

SITTING RESUMED

The House resumed at 5 p.m.

The Speaker: Order. It being 5 p.m., pursuant to Standing Order 83(2), it is my duty to interrupt and adjourn the proceedings now before the House.

[*Translation*]

The House will now proceed to consideration of ways and means Motion No. 6 concerning the budget presentation.

* * *

[*English*]

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FINANCIAL STATEMENT OF MINISTER OF FINANCE

Hon. Paul Martin (Minister of Finance and Minister responsible for the Federal Office of Regional Development—Quebec) moved:

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

He said: Mr. Speaker, Mr. Prime Minister, members of this House, I certainly hope you stand up at the end of this speech.

I must say this is the fifth time that I have risen in this House to speak on a budget. It is the first time there has been anybody in the House when I spoke.

I am rising to table the budget documents, including notices of ways and means motions. Details of the measures are included in the documents.

Pursuant to an order of this House I will introduce a bill seeking borrowing authority for the 1994–95 fiscal year. I am asking that an order of the day be designated for consideration of these motions.

• (1705)

This budget follows an unprecedented degree of consultation with Canadians. We have gained a great deal from this process, but one thing stands out above all others. Canadians seek fundamental change. They want their government to have a game plan and pursue it, a strategy for jobs and for growth.

[*Translation*]

Canadians know the kind of Canada they want.

Our goal is a Canada where every Canadian able to work can find a meaningful job.

A Canada where government facilitates change rather than blocking it.

A Canada where our public finances are in order, not ruin.

[*English*]

The days of government simply nibbling at the edges are over. The practice of endless process without product is gone. Our task is to put an end to drift. We need a new architecture for government and for the economy. That will not happen by leaning on nostalgia.

This budget sets in motion the most comprehensive reform of government policy in decades. We are putting in place an agenda for innovation in the new economy. We are responding to the needs of small business. We are launching a strategy through which government knows both when it can lend a helping hand and, as important, when it should stand aside.

We are undertaking a major effort to build a responsible social security system that is fair, compassionate and affordable, and that means making fundamental changes to our unemployment insurance system. It means overhauling the structure of federal–provincial transfers for social programs. It means doing so in a co-operative way with predictability built in, setting aside the old tactics of stealth and surprise.

The cold war is over. This budget sets out immediate actions attuned to the 1990s, actions that will be followed by a comprehensive review of Canada's defence policy.

[*Translation*]

To succeed we must get monetary and fiscal policy right. We have done the first. We are a low inflation country. We will stay that way.

[*English*]

We are and we will remain a low inflation country.

It is now time for government to get its fiscal house in order. For years governments have been promising more than they can deliver and delivering more than they can afford. That has to end and we are ending it.

The actions taken in this budget will reduce the deficit from \$45.7 billion this year to \$39.7 billion in 1994–95 and \$32.7 billion the year after.

This is a two-stage budget. Therefore, detailed fiscal projections are presented to 1995–96 only. However, in terms of deficit reduction we are not waiting for the second stage. The

decisions taken today by themselves set us on a clear path to achieving the government's deficit target of 3 per cent of GDP in three years.

We will achieve this by using reasonable economic assumptions, not rosy forecasts. We believe that it is more important to meet a target than to declare an illusion and then fall short.

Canadians have told us that they want the deficit brought down by reducing government spending, not by raising taxes, and we agree. The era of tax and spend government is gone.

• (1710)

Over the course of the next three years, for every \$1 raised in new revenues, we are cutting \$5 in government expenditures.

[Translation]

But success does not lie in government shutting down and sitting on the sidelines. Success lies in careful and creative engagement in the economy. It is not the principle of industrial strategy that is wrong. It has been the practice.

[English]

This is a budget about jobs, jobs for today and jobs for tomorrow. It is about implementing a strategy and taking immediate action. This is a two-stage process, not a 20-stage process. There are due dates, there are deadlines and there are firm fiscal targets to guide our reform.

We believe that there are three central challenges to be met. The first is to build a framework for economic renewal. The second is to construct responsible social programs. The third is to restore fiscal sanity to government so that it can devote its full energy to helping Canadian workers and Canadian families adjust to a world of change.

Let me begin with the first challenge, jobs, training, innovation. We are keeping our word. The infrastructure program is in place. It accomplishes what has been proposed before but rarely done, getting Canada's three levels of government working together for jobs.

We have restored full funding for literacy programs. To support apprenticeship training, the department of human resources is creating a youth internship program with the provinces and the private sector. Finally, the Youth Service Corps is being launched at up to 20 sites to give young Canadians meaningful work experience.

The question, then, is once trained, where are these young people going to find employment? The answer for most is in small and medium size business. They are today's vital vehicle for jobs. What does small business need? I will tell you one thing, Mr. Speaker, it is not another massive government program. Small business needs lower taxes, it needs access to capital, it needs fewer regulations and less red tape.

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Payroll taxes are a barrier to jobs. They are a disincentive to go out and hire. In 1995, without action legislation it would require that unemployment insurance premiums shoot up to \$3.30 from their current rate of \$3.07. We will not let that happen.

More important, after discussion with the Prime Minister and the Minister of Human Resources Development, the government has decided to roll back the 1995 UI premium from \$3.07 to \$3.00. This will save industry almost \$300 million a year, money to be reinvested in new jobs.

Furthermore, as reform of the social security system kicks in and further significant savings are realized, more reductions in the UI premium rate will be possible and we as a government will see to their implementation.

Small business must have access to adequate capital. New practices, new attitudes on the part of the lending community are essential. To that end, a joint industry-finance task force has been set up to work with the banks and with small business to address these issues. Their first task is to develop a code of conduct for small business lending. That code will ensure that the criteria for loan approvals are transparent and provide small business for the first time with an instrument to exercise complaints when loans are turned down.

• (1715)

In addition, the Minister for International Trade and I will soon be convening a meeting of the heads of the Canadian banks and the Export Development Corporation to seek an enhanced means of furthering the capacity of small business to export.

[Translation]

This government is taking other steps to help small business grow.

We will intensify and accelerate the effort to reform and remove regulations that create confusion and cost. We are putting in place a task force to provide, on a fast-track basis, a better regulatory regime that will improve the competitiveness of business.

We have accelerated the process for GST reform.

One-stop shopping for government services will be expanded, so that there will be a Canada Business Services Centre in every province of Canada by next year.

[English]

This summer we will issue a declaration of quality service delivery standards for all government departments.

Funding will be provided for a business networks strategy to help small firms achieve together what they cannot achieve in isolation.

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The Minister of Transport will implement needed improvements to the service freight transportation system with his provincial colleagues and stakeholders.

Finally, the residential rehabilitation assistance program, a major contributor to the home renovation industry, is being reinstated. Furthermore, in consultation with the Minister of Public Works and Government Services, we are replacing the existing temporary home buyers' plan with a permanent program that will allow first time buyers to use RRSP funds to purchase a home.

These things are now underway. There remains much more to do. Therefore today with this budget the Minister of Industry and I, the government, are issuing a document that will serve as the basis of an intensive dialogue with small business to determine how we build from here. The 1995 budget will incorporate the results of these discussions.

Innovation and ideas are essential for jobs today and in the future. They are our country's new natural resources. The federal government spends some \$6 billion a year on science and technology. Yet there is a major research and development shortfall in Canada. Public and private sector performance must be improved. We need to do better at getting ideas to market.

Therefore, after years of rhetoric and promises, the federal government will put in place a true strategy for R and D, one with real priorities, real direction and a real review of results.

We will develop a new long term space plan over the course of the next 10 years, \$800 million, that is both affordable and which offers the best possibility of commercialization and the creation of jobs. We will concentrate on areas of Canadian advantage, such as satellite technology.

As part of the exercise, however, of putting in place new priorities and because of very tight fiscal circumstances, unfortunately we have had to make two decisions relating to current R and D programs.

First, we are withdrawing federal support for the KAON particle accelerator project.

Second, we have decided to negotiate an orderly reduction in current commitments to the international space station program.

• (1720)

In today's circumstances we must focus our R and D spending on areas where Canada has an advantage, areas where jobs can be created and where a clear market exists.

[*Translation*]

To create jobs and to help small business get access to cutting edge technology, we will create a technology partnership pro-

gram with universities and government labs, a Canada investment fund to provide needed capital and an engineers and scientists program.

The councils and agencies that fund university research are being excluded from spending reductions contained in this budget.

Funding for the National Research Council will be increased in 1994-95 after years of cuts.

[*English*]

In the weeks ahead, the Minister of Industry will be putting forward two papers; the first on the information highway, the second on the government's priorities in terms of science and technology. These papers will set the stage for an intense national dialogue on the challenge that is required to take existing resources and redirect them toward the creation of a national system of innovation.

[*Translation*]

We believe that respect for the environment and economic renewal go hand in hand.

In order to assist the establishment of mine reclamation funds, we are proposing changes to permit mining companies to deduct their contributions to these funds.

We are also improving the tax treatment of certain types of energy conservation equipment and we are providing enhanced incentives for newer, clean technologies.

[*English*]

This government is committed to sustainable development. Later this year the Ministers of Environment and Industry will put forward a strategy to encourage the growth of the environmental technology and services industry.

Furthermore, we are establishing a task force involving government, industry and the environmental NGOs to identify barriers and disincentives to sound environmental practices and to find effective ways in which to use economic instruments to protect the environment. And this is but the beginning.

As a country, we must never put aside our compassion and our obligation to help those who are in need. Our social programs must be made more responsible so that they build bridges to work, to independence, not dependence.

[*Translation*]

In the red book we proposed a prenatal nutrition program; an Aboriginal Head Start program; a centre of excellence for women's health; the restoration of the court challenges program and the Law Reform Commission and proclamation of the

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Canadian Race Relations Foundation. This budget, Mr. Speaker, keeps our word.

Charities play an essential role in Canadian society. To encourage charitable donations, we are lowering the threshold for the 29 per cent credit rate from \$250 to \$200. We acknowledge this is a modest step, but we believe it goes in the right direction.

[English]

As part of the strategic initiatives on social reform, the Minister of Human Resources Development will undertake a demonstration project in partnership with the Government of Prince Edward Island and the Canadian Association for Community Living. This pilot project will seek to achieve enhanced opportunities for persons who have an intellectual disability.

It is often women who bear the brunt of social stress and economic dislocation. This budget begins to address existing disparities by ensuring that low income earners with dependants, most of whom are single mothers, are more fairly treated by the changes to the unemployment insurance program.

• (1725)

Furthermore, the issue was raised of disparities that are perceived to exist in the tax treatment of child support payments as well as the issue of their levels and enforcement. A federal-provincial family law committee is examining that issue and will report this summer. We will respond immediately to its recommendations.

In the months ahead, we will be releasing a paper that looks at what an aging society will need in terms of services and what changes are required to the public pension system to ensure that it is affordable. That paper will also look at the question of changes to the tax treatment currently in place for private saving for retirement.

This will include the issue of pension plans and RRSPs and the use to which the funds invested are directed.

[Translation]

The Prime Minister will chair a National Forum on Health to foster a dialogue on the renewal of Canada's health system.

The Minister of Health will work closely with her provincial colleagues. No further changes in respect of EPF health transfers are contained in this budget, in order to set the stage for that discussion. Our commitment to maintain the principles of the Canada Health Act remains firm and unaltered.

[English]

The government has announced its intention to renew and revitalize Canada's social security system within two years. A number of pilot projects will help pave the way.

[Translation]

This budget provides \$800 million so that innovative approaches can be tried in co-operation with the provinces and territories.

[English]

Good public policy requires predictability and planning. Beyond May of this year the previous government did not provide for any funding to assist those whose livelihood depended on the Atlantic groundfish industry.

This budget provides a five-year program costing \$1.7 billion in new funding and \$200 million in reallocated funding for a total of \$1.9 billion for long-term adjustment. As part of that effort, the Minister of Fisheries and Oceans will with others develop innovative approaches for creating long-lasting jobs. The result of this effort will make an important contribution to the reform of the overall social security system in this country.

Today as a government, as has already been indicated by the Minister of Human Resources Development, we are advancing social security reform by taking specific actions relating to unemployment insurance and the federal transfers to the provinces that support social security.

Earlier we announced a major rollback in unemployment insurance premium rates. This will require immediate steps to begin UI reform. These changes will reduce expenditures on UI by \$725 million in 1994-95 and \$2.4 billion per year thereafter. The maximum duration of UI claims will be reduced for new claimants with weak attachment to the labour force.

The minimum entrance requirement will be increased from 10 weeks to 12. The benefit rate will be reduced to 55 per cent except for individuals with modest incomes who support children, an aged parent or other dependants. For them the benefit rate will be increased to 60 per cent.

Furthermore, to improve fairness there will be amendments to the provisions governing workers who quit their jobs voluntarily or who were fired for misconduct.

Let it be clear. The focus of our changes to UI is unequivocal. Our goal is greater fairness, a system that reaches out to the most vulnerable in our society, one that is progressive and one that helps get Canadians back to work.

• (1730)

[Translation]

It is essential that social security reform leads to programs that are more affordable and work better for Canadians. To let

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us get on with the job of reform, all of us need to know what the limits on financial resources are.

[English]

For the federal government, transfers from the Canada assistance plan and the post-secondary education component of EPF must be no higher after reform than they are now. This will save the federal government at least \$1.5 billion in 1996-97 over and above the savings from UI reform.

Our targets are firm. If reform fails to achieve at least these savings, then other measures will be taken to achieve them.

We also intend to restore greater fairness in federal support for the whole transfer assistance system throughout Canada.

[Translation]

We want this reform process to be a co-operative one. We are providing a two-year period of predictability and modest growth in social security transfers to provinces while reform goes on. As promised by the Prime Minister, we will build towards a five-year period of stability in transfers.

It is time to restor fiscal responsibility to the public finances of Canada. The debt and the deficit burden pose much more than an economic challenge. This is a moral issue too. What right do we have to steal opportunity away from our children, to demand that they solve problems that we are too timid to face?

[English]

Stronger growth will reduce the deficit. But growth alone will not bring it down enough. Direct budgetary action is required.

[Translation]

Following through on our platform, the government will be reducing the operating budgets of government departments by \$400 million on 1994-95, increasing to \$620 million per year in 1995-96 and beyond. In addition we are looking at every government-appointed board, commission and agency. That review will focus on size, scope, composition and cost, including salaries paid to members. This review by the Minister responsible for Public Service Renewal will be completed in 1994 and action will be taken immediately.

[English]

The solution to the fiscal challenge that is facing Canada must be shared by all of us. As part of our deficit reduction exercise we need to save an additional \$1.5 billion from the operations of government over the next three years.

We very much want to work with representatives of the public service in achieving these savings. Therefore, the President of the Treasury Board will immediately initiate discussions with the appropriate bargaining agents of the public service. It is our

sincere hope that these very difficult decisions can be taken collaboratively.

It must be understood, however, that these savings are not a negotiating position; they are a bottom line fiscal requirement. To ensure that they are obtained the government is therefore announcing a two year legislative extension of the existing salary freeze and a two year suspension of pay increments within grade.

• (1735)

[Translation]

To the degree that those savings are secured through a review of government operations, leading to greater efficiency, the government will shorten or lift those freezes.

Total savings in government operations during the next three years will exceed \$3 billion, over and above savings previously planned.

The Minister responsible for Public Service Renewal and the President of the Treasury Board will review all departmental spending to identify where greater savings are possible through the elimination or reduction of low priority programs.

[English]

During the election campaign we made clear the need to reduce defence spending. The Minister of National Defence has taken this mandate and has acted upon it decisively.

In addition to cancelling the EH-101 helicopter program which was announced by the Prime Minister the day that we took office, defence spending will be cut by an additional \$1.9 billion over the next three years. These savings, which include professional services, will be secured through major improvements in efficiency, productivity and cuts in defence infrastructure, including bases that have exceeded any probable defence need. A document attached to this budget provides greater detail.

The results of these savings will be a more modern and effective armed forces. With the end of the cold war and the pressing demands being placed on the men and women of our armed forces in the new world order, the Minister of National Defence has ordered a review of our defence policy. The government will report on the results of that review this fall.

[Translation]

This government is committed to continuing our tradition of strong support for international development assistance. However, the fiscal challenge requires additional restraint in spending. Therefore, we will reduce spending on international development assistance by 2 per cent for 1994-95. Spending will be frozen at that level until 1996-97. International assistance spending will still amount to \$2.6 billion annually.

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This situation will be reviewed following the re-examination by the Minister of Foreign Affairs.

[Translation]

Together with reductions in tax breaks for business, this budget reduces subsidies to business in excess of the \$225 million target contained in the red book.

[English]

Fiscal reality requires that the government review its policy on funding interest groups. Our goal is to encourage greater reliance on funding from other sources. To provide a period of transition for these interest groups, notification will be provided in advance. The full effects of this review will be seen in the 1995 budget.

I now turn to the question of revenues and taxation. I must say to the Prime Minister that I have received a lot of advice in this area.

The fundamental basis of a sound tax system is the reality and the perception that everybody pays their fair share. When an increasing minority avoid doing so, then the legitimacy of the tax system itself begins to suffer. We will be strengthening enforcement through special joint initiatives with the provinces and the business community to improve taxpayer compliance. As has been done in the past, specific measures will be announced by the Minister of National Revenue.

One of the reasons for the growth of the underground economy is that Canadians believe that taxes are too high and we agree. We want Canadians to rejoin the legitimate economy, not leave it. Our objective is to get the deficit down so that in the years ahead taxes can be reduced. But we are not there yet.

• (1740)

[Translation]

That is one reason why it is so essential to break the back of the deficit. The bulk of the effort involves significant cuts in government spending.

But part of it must also involve looking at the tax system to ensure that all Canadians are paying their fair share. For that reason, we are acting today to eliminate a number of tax breaks that don't meet the standard of fairness that Canadians expect.

[English]

Accordingly, we are introducing today the following business tax measures:

Large private corporations with capital of \$15 million or more will no longer be entitled to the low small business tax rate.

[Translation]

Deductions and credits for meal and entertainment expenses will be reduced from 80 to 50 per cent. This will bring federal treatment into line with that already in place in Ontario and Quebec, as well as in the United States.

In addition, several regionally-based tax incentives have not proven cost effective. Therefore, they are being reduced or eliminated.

[English]

Certain Canadian corporations are not paying an appropriate level of tax. Accordingly, we are taking measures to prevent companies from using foreign affiliates to avoid paying Canadian taxes which are otherwise due. We are taking steps to ensure that the income of financial institutions is measured appropriately for tax purposes. We are taking other decisive measures to close loopholes in the current corporate tax system.

To reduce the deficit in the fairest possible way we are announcing the following personal income tax measures:

The \$100,000 capital gains tax exemption is being abolished while allowing individuals to use their unused exemption for gains accrued up until today. The \$500,000 exemption for small business shares and farm property will remain. The Minister of Agriculture wins again.

We believe, however, that as circumstances permit, a general lowering of the capital gains tax rate for small business and farmers could provide a greater incentive to entrepreneurship. For that reason a special study of the taxation of capital gains as it applies to small business and farmers will be undertaken with their full participation.

[Translation]

The age credit for persons 65 years and older will be income tested, as is the case for certain other benefits. This will not affect 75 per cent of seniors.

The tax exemption for premiums related to the first \$25,000 of coverage under employer provided life insurance plans is being eliminated.

Finally, many Canadians including members of this House, have expressed the view that the taxation of family trusts should be examined. This issue will be referred to the House of Commons finance committee for review, as requested by the Bloc Quebecois critic.

[English]

This budget is the result of the most open process of debate and consultation that has ever been attempted in Canada. People told us they want jobs. We have set the conditions for those jobs to be created.

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• (1745)

[Translation]

People told us we should freeze spending. With the spending cuts in this budget, program spending in 1996-97 should be lower than in any year since 1991.

[English]

People have said: Reduce the deficit but do not do it with taxes. I repeat, in this budget for every dollar raised in revenues, \$5 have been cut in spending. We have consulted and we have listened.

Furthermore we are publishing a report today providing a response to the public consultations that have taken place and we will open the budget process up even more in the future. We believe that a free people will only support fundamental change if they feel part of the decision-making process that led to it.

Next fall in a major departure from the past, the government will release a comprehensive statement that will clearly lay out changes in the economic and the fiscal outlook since this budget. The government's economic and fiscal goals and broad proposals and how they might be achieved in the next budget will be made public.

Discussion papers on specific options for action will be released.

[Translation]

This new step in the budget process represents major progress. It will provide the basis for a serious, open, national dialogue between the government and Canadians.

Following the publication of these new documents, I will meet with my provincial colleagues. That meeting will assist all governments in working towards common goals together, rather than at cross purposes and apart.

The finance committee of this House will be asked to conduct public hearings involving Canadians to obtain their views on the direction for economic policy. The committee will report before the end of the year, in time for inclusion in next year's budget. As well, I will personally continue to openly consult with Canadians across the country.

[English]

I would now like to conclude this presentation by setting out the motivation that underlies this budget. The decisions outlined here are about much more than the bottom line. They are about facing fault lines and fixing them. The fault line that is caused when the poor become poorer while the rich become richer. The fault line that exists between this generation and the next. The fault line that exists in moving from the old economy toward the new. The fault line that is caused by the growing gap between

one class of Canadians with modern skills and another group without. And finally, the fault line that exists when governments spend more than the country can afford.

Fixing those fault lines is our challenge and fixing them is this government's commitment to Canadians. The path to renewal and to growth will not be easy. We cannot snap our fingers to erase the deficit, nor can we put in place a new framework for the Canadian economy, but neither can we delay with getting on with the job any longer.

We are pursuing a balanced approach to fundamental reform, to create jobs, to continue to care for those who are in need and to get the deficit down. This requires a game plan, it requires fairness and it requires being forthright with Canadians.

There will be those who will say we have not done enough and there will be those who will say that we have done too much. For those who would have us spend more, then Canadians deserve to know where the money would come from. For those who demand that we cut more, then Canadians deserve to be told the extent to which that would hurt growth, hurt jobs and hurt the less fortunate in our society.

• (1750)

Tough times test our patience and our pocketbooks. They also test our values and our worth. Some believe that the success of Canada lies in leaving behind the values that have made us a great people. They would have us put aside sharing. They would have us put aside partnership. They would have us put aside the common sense and the compassion that define this country. Now is not the time to move away from our values. Now is the time to return to them.

Despair has stalked this land too long. The time has come to bring back hope. We have not become what we are by sitting still. What has guided us as a country are the values we share and the vision we have chosen to pursue together. So it falls to us, this generation, in this House, in our time, to do what those who came before us did in theirs, and that is to assume our responsibilities to create opportunity today. And that in the end is the standard by which we will be judged by those who come after us.

[Translation]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot): Mr. Speaker, I do not understand why the Liberal government is so pleased. I do not understand why the colleagues of the Minister of Finance are so pleased, because bringing down a budget that is practically meaningless is certainly nothing to be proud of. And there is certainly no reason to be proud of this year's deficit forecast of \$39.7 billion, nearly \$40 billion.

Considering past experience, it would not be unusual, in the light of the quality of the forecasts produced by the Minister of