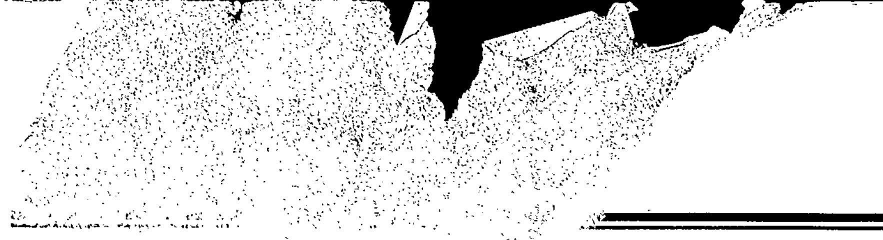

ECONOMIC AND FISCAL STATEMENT

DELIVERED IN THE
HOUSE OF COMMONS BY
THE HONOURABLE DON MAZANKOWSKI
MINISTER OF FINANCE

December 2, 1992

Canada

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Department of Finance Canada   Ministère des Finances Canada

Cette publication est également disponible en français.

INTRODUCTION

This afternoon our country and this Parliament open an important debate on the future course of economic policy. In these times of challenge and opportunity, it is most appropriate that a full discussion be undertaken by Members of this House.

Parliament is where the diversity and complexity of Canada are brought together in one place by the representatives of people from every region. This is where differing political and philosophical approaches can be put forward for public consideration.

Over the next two days I expect all participants to state clearly and directly what their proposals for economic policy would be. Canadians expect this of us, and they deserve no less.

I will make it abundantly clear where the government stands. I will provide to the House and to the country an update on Canada's economic and fiscal situation. And I will announce a number of measures to contain the deficit and to enhance economic recovery.

This debate occurs at a time when our economy is undergoing profound change. A new economy is emerging around the world – offering new opportunities but requiring adjustment and restructuring.

In this environment, Canadians are seeking greater economic security and opportunity – for themselves and their children. And that is the overriding goal of our economic policies.

Our economic priority is to build confidence, enhance growth, create jobs, and to help Canadians adjust through this period of transition and take advantage of new opportunities.

All of our efforts have been directed at investing in growth through:

- sound monetary and fiscal policies;
- opening markets;
- streamlining government;
- building the skills of Canadians; and
- encouraging private sector enterprise and initiative as the basis for economic progress.

In response, Canada's economy performed particularly well from 1984 to the onset of the recession in 1990. We led the G-7 in job creation and were second only to Japan in economic growth.

But our most recent economic progress has been slowed by a stubborn worldwide recession. And world recovery has been weakened by economic restructuring, excessive debt and trade uncertainties.

All this has contributed to a painful adjustment which has slowed world economic growth from 4.3 per cent in 1988 to only one per cent this year, the lowest rate of world growth since 1982.

Canada is not immune to these realities. Next to Germany we are the major industrial country most dependent on exports. When world growth slows, when commodity prices fall, when world unemployment increases, Canadians cannot escape the consequences.

As a result, far too many Canadians are without work. Far too many others fear for their future as economic restructuring takes place around the world. We need to act to restore confidence, to rekindle hope.

MAINTAINING RESPONSIBLE, BALANCED POLICIES

There are still those who would have us believe that an economy weakened by too much government debt can be strengthened by creating even more government debt. But that approach was wrong in the 1970s. It was wrong in the 1981-1982 recession. It would have been wrong last February. And it would be wrong today.

The simple fact is that large government deficits, federal and provincial, and high foreign debt limit our room to act.

We must act responsibly. But that does not mean we cannot respond. The essence of governing is choosing. There are choices to be made and we are prepared to make them in the best interest of all Canadians.

FACING UP TO COMPETITIVE REALITIES

To make intelligent choices, we must face facts. We must deal with the world as it is, and not as we might wish it to be. We must recognize that globalism is a fact.

This increases our choices in the goods and services we buy. It increases our opportunities in new markets we can sell to. But it also increases our interdependence and our competition.

In this increasingly interdependent world, countries that turn inward, that cling to old ways of doing business, will find that they have no future.

The new world brings intense pressure to compete. Those that can, will prosper. Those that cannot, will stagnate.

That is not an ideological statement. It is a fact. Some may think competition is a dirty word – but if we fail to recognize reality, we will miss new opportunities. We will sit on the sidelines while the world marches forward.

It is because Canadians can compete and win, that we have a duty to encourage that competition. If we face facts, realistically, pull together and address our challenges head-on, we will continue to grow and prosper.

THE ECONOMIC POLICY SETTING

As I have made clear, this government is not prepared to sacrifice steady, responsible progress for quick fixes that promise relief today at the price of misery tomorrow.

Canada's experience has clearly demonstrated that higher spending and greater deficits will not create lasting jobs. They lead only to higher interest rates in the short term and higher taxes down the road.

Our government will continue to work to put in place a sound fiscal structure and to address issues of productivity and competitiveness. This is the approach recommended by the private-sector led Task Force on Prosperity.

We will achieve this by continuing to invest in growth, on behalf of all Canadians:

- we will continue to invest in policies to make our economy work better;
- we will further strengthen our investment in people;
- we will make additional investments in public infrastructure;
- we will continue to invest in open trading markets;
- we will continue to invest in sound monetary and fiscal policies; and
- we will invest in partnerships for growth – with provincial governments and with labour and business.

THE CANADIAN ECONOMY: STRENGTHS AND OPPORTUNITIES

These investments take time to bear fruit. They are not easy. Change never is. But they are paying off.

- At 1.4 per cent, we have the lowest inflation rate among the G-7 countries this year.
- With productivity up by 2.6 per cent so far this year, we have made major gains in controlling costs. This increases our competitiveness.
- Our trade performance is showing the results. Canada's merchandise trade surplus – one of the keys to reducing our current account deficit – is up almost $2 billion from last year.

Recovery from the 1990-1991 recession is painfully slow, around the world and in Canada. I expect average growth this year to be about one per cent.

We cannot have a powerful recovery when world growth is stagnating. But our investments in growth are positioning Canada to benefit from renewed world growth.

Some recent signs have been encouraging.

- Real output increased 1.4 per cent in the third quarter. Domestic demand – including consumer spending, housing, and investment in machinery and equipment – increased by more than 5 per cent.
- Employment has increased in five of the last six months.
- Consumer confidence is rising. It has now reached its highest level since the fourth quarter of 1989.
- Real exports are up by more than 6 per cent over the first three quarters of this year. Exports to the United States – at record levels – are up 10.5 per cent over last year.

We must interpret these signs cautiously. The world economy is still going through a difficult period. The recent instability in financial markets will hurt Canada's fourth-quarter growth numbers. But as the fundamental strengths of Canada's economy become more apparent, the exchange rate should become less at risk and interest rates should come down considerably during the course of 1993, with short-term rates averaging about 6 per cent over the year.

Our improved competitive position, the easing in interest rates that our excellent inflation performance permits, a pickup in the U.S. economy, and the measures I will announce today, will all contribute to stronger growth next year. I expect average growth of about 2.5 per cent.

Inflation should remain below 2.5 per cent in 1993. I expect improved employment prospects, with an increase of about 300,000 jobs over the course of the year.

INVESTING IN GROWTH

Let me now turn to a number of measures I am proposing to assist economic recovery and invest in economic growth.

We will continue to invest in policies that make our economy work better.

Making government leaner and more efficient

We have made government smaller and more supportive of the private sector in a number of important ways.

- Government operating costs, after inflation, are more than 20 per cent lower than when we came to office.
- In the last budget, 46 agencies, commissions and boards were eliminated or restructured. The Prime Minister has instructed all Ministers to identify further candidates for action by February 1993.
- Since 1985 we have dissolved 14 Crown corporations and undertaken 23 privatization initiatives. We intend to proceed with further privatizations.
- We have deregulated critical economic sectors to increase competition and we are modernizing all federal regulations. We are eliminating those that no longer serve a public purpose and we will streamline others so that they will not stifle creativity and efficiency. Agriculture Canada, Transport Canada and Consumer and Corporate Affairs Canada were directed to review and publicly justify their regulatory regimes in the last budget. All three found ample room for improvement. As an example, Agriculture Canada reviewed 58 sets of regulations. Fifteen were eliminated, in whole or in part, four are being sunsetted and 38 will be modernized.
- Building on this result, Treasury Board has announced that 19 other departments along with six agencies will complete their own reviews by April 1993.

What we are seeking in all of these areas is a lower-cost, more efficient government that can work in partnership with the private sector, to benefit and to serve all Canadians.

Tax reform

An important part of modernizing and streamlining government has been to modernize our tax system. For the long-run competitive health of our economy, our single most important tax reform initiative has been the replacement of the outdated and economically destructive manufacturers' sales tax by the GST.

The old tax favoured imports, hurt Canadian exporters and penalized new business investment. The GST has helped our manufacturers and our exporters.

- The Canadian Manufacturers' Association reports that the GST has saved its members $3.5 billion, important assistance to activity and jobs in difficult times.

- The Canadian Exporters' Association reports that the tax has improved our competitive position. This has contributed to our strong export position.
- Major retailers have confirmed that the prices of the majority of their goods dropped after the introduction of the GST.

The GST is not raising more revenues than the old tax. And, by law, every penny of net GST revenue goes to the Debt Servicing and Reduction Account, where it can be used only to pay interest on the debt and ultimately to reduce our debt.

We are continuing to work to simplify the GST. Last week, my colleague, the Minister of National Revenue, announced changes to streamline the administration of the GST. I will soon be announcing further measures to make the tax fairer and easier to comply with. The government will also act to ensure that those who owe tax – both sales tax and income tax – make their payments, and do so in a timely way. We will give careful consideration to the Auditor General's recent comments in this regard.

Sales tax harmonization represents a major opportunity to reduce the burden of government on the private sector, and particularly on small business. I urge my provincial colleagues to join me in a renewed effort to align our sales taxes not only with each other but with the reality of the tough, competitive world in which our business people must operate.

Small Business Employment and Investment Package

Small businesses are the primary engine of employment growth. Between 1979 and 1990, small business created more than 2 million new, full-time jobs. This is more than 80 per cent of the total created during that period.

Overall, Canada's federal tax system for small business is one of the most favourable in the world. Compared to the United States, our tax rates are lower, our R&D incentives more generous and our taxes on dividends and capital gains on investments in small businesses are lower. Yet today, the small business community is under serious financial and competitive pressure. And much of this pressure, as I indicated before, comes from the need for the provincial and federal governments to get their act together – whether on the GST, other taxes, government spending or regulation. Some small businesses are finding that the overall regulatory and tax environment is friendlier south of the border.

The fact is that much of what needs to be done to address this problem is in the domain of provincial and municipal governments. But the federal government will act to assist small business where it can.

I am proposing today a Small Business Employment and Investment Package to help small businesses across this country modernize, attract financing, grow and create jobs.

- For the next year, I am proposing that most small businesses increasing employment will be able to do so with no increase in unemployment insurance payments. New businesses, starting up in 1993, will pay no UI premiums in that year. This assistance will reduce the cost of additional employees by up to $1,600 each. It will be delivered in a simple way, with a minimum of paperwork. More than 900,000 firms, indeed 95 per cent of all firms in Canada, will be able to benefit from this measure. The government, not the UI fund, will finance this measure.

- I am also proposing a new 10-per-cent investment tax credit for small business. It will apply to investments in machinery and equipment for small businesses engaged in manufacturing, construction, farming, fishing, mining, oil and gas, and long-haul transportation. It will apply to investments made after today and before 1994.

I am also announcing measures to help small businesses secure financing.

- In the February budget, I proposed that the ceiling for loans to individual small businesses under the *Small Business Loans Act* be doubled from $100,000 to $200,000. I am announcing today that the ceiling will be further increased to $250,000. The government will work to broaden the application of the Act to include some forms of working capital.
- I am also announcing changes to simplify and expand investment in small business by RRSPs and Labour-Sponsored Venture Capital Funds.
- The Small Business Financing Program announced in my budget last February will be extended for two more years until the end of 1994. This provides low-interest commercial financing for viable small businesses in difficulty. I am serving notice to Canada's banks that I expect them to make a special effort to play a constructive role in ensuring the success of this program.

Small and medium-size businesses play an important role in Canada's home building industry. In my last budget I introduced a Home Buyers' Plan to allow Canadians to use RRSP savings to help buy homes. This program has been an unqualified success, generating economic activity in all regions of Canada.

More than 130,000 withdrawals have been made under the plan and I am announcing today that in view of the positive response, I am extending the plan for another year.

I am also announcing measures to assist activity in the resource sector. The first $2 million of Canadian Development Expense by junior oil and gas companies will be treated as Canadian Exploration Expense for the purpose of flow-through share financing, raising its write-off rate from 30 to 100 per cent.

Changes will also be introduced to benefit the mining sector. New mines or major expansions of existing mines are now allowed to fully recover their capital investment before paying any federal income tax. The *Income Tax Act* will be amended to provide more flexibility for mining and oil and gas companies to utilize their non-capital losses.

These measures will help put Canada's small businesses in a better position to meet their competitive challenges, to grow and to create jobs.

Improved support for research and development

The Canadian Manufacturers' Association predicts that "the next ten years will bring about more changes in the way business is done than we have seen in the past fifty". Effective R&D will be key to successfully meeting the challenges of the next decade and the next century.

Canada now has more generous tax incentives for R&D than any other G-7 country. In my last budget I proposed to improve them even further, after consulting with R&D performers.

I am today announcing changes to allow the tax rules to better reflect how R&D is actually performed in the business community. As indicated in the February budget, they will provide additional support of $230 million, over the next five years, to Canadian companies undertaking R&D.

There are several other areas where the tax system can be modified to help Canadian businesses adapt and grow. Problem areas that have been identified include:

- the tax treatment of equipment, such as computers, that becomes obsolete quickly due to rapid technological change;
- the ability of some firms to fully use their R&D investment tax credits;
- the ability of Canadian firms to gain access to new technologies; and
- tax-based impediments to growth of small, innovative companies.

These concerns have been raised in our discussions with the business community and as part of the prosperity consultations. In consultation with industry, we will examine modifications to address these areas in the coming months and actions will be announced in the budget. I have set aside $400 million over the next five years to finance changes to address these issues.

Funding will be increased for the highly successful Industrial Research Assistance Program which provides technology support and financial assistance to businesses. My colleague, the Minister of Industry, Science and Technology, will also be taking steps to streamline delivery and ease of access to federal technology programs and services.

Funding will also be extended for long-term research, building on the best of the results achieved under the Networks of the Centres of Excellence Program.

We will strengthen our investment in people.

In a world where capital, information, goods and even services flow easily across national borders, a nation's competitive advantage is increasingly being found in the skills of its people.

As has been recently noted, nations once competed for control over natural resources. Today, they compete to produce the best-educated labour force.

Keeping up with this competition is a major challenge. In one generation, Canada's young people have been exposed to more scientific and technological advancement than their parents or grandparents in their entire lifetime.

We have invested in skill development and training by setting up the Canadian Labour Force Development Board and by refocusing the UI system from passive income support to active skill-building.

The $3.5 billion we spend on training and adjustment does make a real difference to the lives of hundreds of thousands of individuals across this country.

Our programs have helped individuals cope with change, while assisting the adjustment to new opportunities. A good example is the Northern Cod Adjustment and Recovery Program. The collapse of the northern cod stock in Newfoundland required a moratorium on fishing to rebuild the stock for future years. Over 20,000 Newfoundlanders were affected. The government is responding by supporting incomes in the short run, by helping individuals build new skills so they can become self-reliant, and by helping restructure the fishing industry to put it on a sustainable basis.

As the Prime Minister recently announced, support for the Unemployment Insurance Developmental Uses Fund will increase to more than $2.2 billion next year from $1.9 billion last year and $500 million in 1990. This fund invests in people by helping them to upgrade their skills. This program is a real success story. This year, 450,000 people will benefit from the program. This will increase to more than 500,000 next year. The additional funds will be used to provide special services to workers who lose their jobs after a long-term attachment to the labour force.

I am announcing further measures today that will strengthen our investment in people and the future of this country.

To lay the foundation for a stronger training culture in this country, we need the joint commitment of employers and workers to develop training strategies. To facilitate this, the government will make funding available to help create permanent skill councils in particular sectors of the economy. Priority will be placed on the important task of developing occupational standards so that training will be relevant to industry needs. Government funding of $250 million over five years will be used strategically to lever a national private sector-driven training effort. The government will develop tax incentives to help defray the costs of training workers to meet these occupational standards.

My colleague, the Minister of Employment and Immigration, will be elaborating on the government's labour market initiatives later in this debate.

We will make additional investments in public infrastructure.

The quality of a nation's infrastructure can provide an important competitive advantage in the new global economy. Highways, rail lines, air services, communications and information systems can become critical factors in location decisions.

Further strategic investments will be undertaken in all regions to strengthen our national transportation systems and communications networks. In order to ensure work begins in 1993, the government will commit $500 million over the next two years to a strategic investment program.

- Federal assistance will be provided for an immediate start on priority highway projects in New Brunswick and Nova Scotia. With the co-operation of these two provinces we anticipate a significant beginning can be made toward the development of an Atlantic Expressway.
- Advanced engineering and environmental work on the Prince Edward Island fixed crossing project will be undertaken, to allow construction of this $800 million project to begin in the spring. This will directly create an average of almost 1,000 jobs each year over the construction period and will provide spinoff benefits for the economy of Atlantic Canada.
- Federal bridges in Montreal will be upgraded. In addition, funding will be made available for co-operation with the government of Quebec on strategic improvements to the highway system in that province.

- Federal roads and roadworks in Western Canada's national parks will be upgraded.
- Grade separations and other investments will be undertaken to improve the efficiency and safety of our national rail system.
- Air navigation systems across the country will be improved. The federal government will provide resources for early procurement and the first phase of installation of microwave landing systems in Canadian airports.
- Airports in the North will be improved.
- The Prime Minister recently announced the government's commitment to developing one of the most exciting and important infrastructure projects now being considered: a high speed national electronic highway. The government will set aside funding for the CANARIE (Canadian Network for the Advancement of Research, Industry and Education) project, which will use fibre optics to allow the rapid exchange of vast amounts of information among Canada's scientists, engineers and educators. It will expand Canada's technological capabilities and benefit many sectors in the Canadian economy.

Over the next five years, this initiative will result in investments in national infrastructure of more than $2 billion. It will directly generate 4,000 to 5,000 jobs each year.

- We are also ready to proceed with a successful proposal to upgrade Terminals 1 and 2 in Toronto using private financing. This project will be undertaken at a pace which will not undermine the airlines' effort to return to profitability. This is expected to create between 2,000 and 3,000 direct jobs each year throughout construction. My colleague, the Minister of Transport, will be providing further details.

We will continue to invest in broadening trade opportunities.

Trade is our life blood. Exports generate 30 per cent of Canada's economic activity and account for one in four jobs. Our ability to trade successfully makes us a wealthier country, with greater choices available to Canadians.

Broadening our trading opportunities requires improved access to markets, under clear and fair rules.

The Canada-U.S. Free Trade Agreement has proved a success. Canadian exports to the U.S. have increased by $16 billion since the FTA was introduced and are now at record levels. This strong export performance was achieved in spite of slow growth in the U.S. economy and the strong Canadian dollar.

The FTA is providing opportunities for the industries of the future.

A recent study by the C.D. Howe Institute showed that Canada's export performance was strongest in those sectors which the FTA has already liberalized – with big gains in high-tech machinery and equipment and other value-added products. Exports of manufactured products outpaced exports of resource-based products, leading the C.D. Howe study to conclude that "many of Canada's manufacturing sectors seem to have performed remarkably well in the U.S. market under the FTA".

I am reiterating and strengthening our commitment to open trading markets.

- The North American Free Trade Agreement improves and strengthens the FTA. It also gives Canadian exporters better access to the important Mexican market of 85 million consumers. We will take early action to introduce implementation legislation for NAFTA.
- The GATT Uruguay Round is of the utmost importance to Canada and to the world. The OECD has estimated that reforms envisaged in the Uruguay Round would lead to annual income gains for the world economy of about $250 billion. We will share in that.
- To protect our competitive position, we must seek to lower costs wherever possible. One way we can do this is by lowering tariffs on goods we import. In response to the recommendations of the Canadian International Trade Tribunal, I am announcing that the government will reduce textile tariffs effective January 1, 1993, bringing them more in line with those of other industrialized countries.

We will continue to invest in sound monetary and fiscal policies, as the only basis for sustainable economic growth.

Not so long ago Canada had one of the highest inflation rates among the G-7 nations. This year we have the lowest rate. This means that the prices of the goods and services we buy are rising more slowly than in any other leading industrial nation. And that is excellent news for Canada's economy.

- Low inflation protects people's purchasing power. Here's an example: Between 1980 and 1984, food prices rose about 8 per cent per year. This meant that a basket of groceries cost 40 per cent more in 1984 than in 1979. From January to October, the price of food has risen only 0.8 per cent. At this rate it would take 40 years – not four – for a basket of groceries to increase by 40 per cent.
- Low inflation protects those on fixed incomes. A pension of $10,000 would be worth only $4,420 after 20 years of inflation at 4 per cent. With 1-per-cent inflation, it would be worth almost $8,200.

Our own history, and experience in other countries, demonstrates clearly that there is no lasting trade-off between higher inflation and lower unemployment. While it takes time to adjust fully to a low-inflation economy, the continuing benefits make it one of the best possible investments in our economic future.

Our investment in price stability is paying off. Canadian interest rates moved down from a peak of 14 per cent in May 1990 to under 5 per cent in September as inflation and inflation pressures were reduced. These rates were among the lowest in the industrialized countries. Among the G-7 countries, only the U.S. and Japan had lower rates.

Since September, uncertainty in markets and downward pressure on our currency have pushed up interest rates, but they remain well below historical peaks. Continued good inflation performance is the clear basis for lower interest rates, and as pressure in the currency market subsides, we should be able to achieve these lower rates.

Excessive government deficits – both federal and provincial – have contributed to a level of net foreign debt far higher for Canada than for any other G-7 country. This large net foreign debt – public sector and private sector – means that Canadians paid more than

$22 billion in interest last year to foreign lenders. That is money that Canadians can't use to develop our economy. This adds to the economic damage done by the higher interest rates and higher taxes that result from higher government deficits.

Lowering government deficits means that more of Canadians' savings are available for private investment. It means we can invest in our future without mortgaging it to foreign lenders. The way to reduce deficits is by controlling spending, not raising taxes. Now is not the time for any government to raise taxes. Canadians can make better, more productive use of their money than governments can. The more we can leave in people's pockets, the better it will be for our economy.

This is why I cut spending in the February budget to reduce the personal income surtax by 2 per cent – 1 per cent last July and a further 1 per cent on January 1, 1993. This measure will add $1.8 billion to Canadians' disposable income this year and next. The January decrease will proceed on schedule, as will the reduction in the manufacturing and processing tax rate, from 23 to 22 per cent. In total, the measures announced in February's budget will provide a timely stimulus of about $2 billion in tax reductions to support economic activity over the coming year.

We also took steps to provide additional assistance to lower- and middle-income families with children through the new Child Tax Benefit. Beginning in January, this initiative will provide $2.1 billion in additional assistance to families over a five year period. This means, for example, that a working single parent with two children and an income of less than $20,000 will receive about $600 in additional assistance.

I am also announcing today that 1993 unemployment insurance premium rates, for employers and for employees, will be held to 1992 levels.

We will manage spending to stay within the *Spending Control Act* limits. This will allow us to reduce the slippage in the deficit resulting from weaker revenues, and to finance the additional investments in growth I have announced today.

We have to keep our spending in line with our incomes. When our credit card bills get too high, we have to cut back on our current spending.

For Canada, the objective of this restraint is to preserve for the long term the benefits that we have all gained, and continue to gain, from this great land.

We are not cutting for the sake of cutting, or because we think Canadians haven't made real sacrifices. We know they have. And we know that these cuts will require further sacrifices. We are asking everyone to do more so that a stronger recovery and sustained growth can be shared by all Canadians.

For the current fiscal year, operating budgets of all departments are being cut by a further 2 per cent. This has resulted in many departments imposing a hiring and discretionary spending freeze. I am also asking my colleagues to reduce the spending on their grant and contribution programs for the balance of the year where possible.

Over the balance of this fiscal year and the next two fiscal years, almost $8 billion will be cut in a broadly based expenditure restraint program.

Expenditures for a wide range of programs will be either frozen or reduced from planned levels. Let me elaborate:

- Salaries will be frozen for the Governor General, the Lieutenant Governors, the Prime Minister, Ministers, Members of Parliament, Senators, the federal judiciary, public servants and the employees of non-commercial Crown corporations for the next two years. Commercial Crown corporations will be asked to keep their wage settlements in line with this policy. In addition, appropriation-dependent corporations will be funded as if their wages were frozen.
- Government operating budgets will be reduced by 3 per cent in 1993-94. Including the savings from the salary freeze, operating costs will be 5 per cent lower than planned levels in 1993-94 and 1994-95. These reductions are on top of the many operating cost reductions implemented over the last eight years.
- Average unemployment insurance benefits will also be frozen. To do this, the UI benefit rate will be reduced, for new beneficiaries, from 60 per cent to 57 per cent in April 1993. The effect of this reduction will be to freeze the average benefit per recipient. As well, persons who voluntarily quit their jobs without just cause, or who lose their jobs because of their own misconduct, will no longer receive UI benefits.
- Grants and subsidies to most organizations and interest groups will be cut by 10 per cent in each of the next two years.
- In addition to Old Age Security, exempt programs include the Guaranteed Income Supplement, Spouse's Allowances, programs for the disabled, War Veterans' Allowances and Veterans' Disability Pensions. Canada will not reduce its famine relief around the world.
- No further restraint will be imposed on the major federal transfers to the provinces. These programs are already covered by the Expenditure Control Plan, introduced in the 1990 budget and extended in the 1991 budget.

The actions I have announced today will bring the estimated deficit down to $34.4 billion this year and $32.6 billion next year.

The slippage relative to the February 1992 budget projections of the deficit at $27.5 billion in 1992-93 and $22.5 billion in 1993-94 is from the effect of the weaker-than-anticipated economy on revenues. With the actions announced in this statement, program spending over the two fiscal years will be similar to that projected in the budget. The savings from the expenditure reductions, net of initiatives for investing in growth, rise substantially each year through 1994-95. This will mean that spending will continue the pattern since 1991-92 of being well below the limits set out in the *Spending Control Act*, despite economic pressures.

The expenditure reductions announced in this statement provide a considerable reduction in the structural component of the deficit. As such, the deficit should decline rapidly through the medium term on the basis of the tight control over spending in place, stronger economic performance and lower interest rates. It remains the government's objective to attain zero financial requirements over the medium term.

We must also recognize, however, that Canada's deficit problem is a total government problem, not just a federal one. By far the larger share of government operating costs in Canada is provincial, not federal. It is vital that all governments review their operations to cut costs, reduce deficits and lighten the burden on taxpayers.

We will invest in partnerships for growth – with provincial governments and with the private sector.

The recent constitutional discussions diverted attention from much that the federal and provincial governments can do together to better co-ordinate economic policy in the interests of growth and jobs.

We will take a leadership role, under the existing Constitution, in urging better co-ordination of fiscal policies. We are prepared to act with the provinces to develop acceptable frameworks for public sector compensation; to eliminate wasteful overlap and duplication; and to harmonize our taxation systems to reduce compliance costs on businesses and individuals.

The federal government made specific proposals to achieve a more open and co-ordinated budget-making process in September of 1991. These proposals do not require constitutional amendment and we are prepared to act on them together with the provinces as soon as possible.

It's time – in fact, long past time – for concrete, comprehensive action to reduce interprovincial trade barriers, with a fixed agenda and timetable. The federal government has pressed provinces to remove all barriers and impediments to internal trade by 1995. I am encouraged by the progress made in this direction by Canadian ministers of agriculture. Further progress across a range of areas can only strengthen Canada's position, at home and abroad.

We will also continue our excellent dialogue with Canadians in the budget process, building on the experience gained last year.

Our emphasis on a partnership approach with other governments and the private sector reflects the reality of the economic challenges facing Canada. But it also reflects the reality of the federal government's impact on the national economy. The federal government accounts for less than half of total government spending in Canada.

This fact should be kept in mind by those who continue to pretend that the federal government alone can turn around Canada's economy. Not even a fiscally strong federal government could accomplish that by itself. That is why we must all work more effectively together to get our economy moving strongly forward again.

I am tabling documents including Notices of Ways and Means Motions. Details of the measures are included in the documents. I have introduced today a bill seeking supplementary borrowing authority for the 1992-93 fiscal year.

I am asking that an order of the day be designated for these motions.

CONCLUSION

The question we must ask ourselves is this: How best can we deal with economic change to ensure that Canada can meet the needs and fulfil the hopes of its citizens in the years ahead?

I believe the answer is clear: We must prepare ourselves to take advantage of the opportunities that the new world economy is bringing. And that has been the consistent objective of the policies the government has followed in the past eight years. And I firmly believe that Canada is now in a strong position to seize those opportunities.

We have all made a considerable investment in making Canada a country that can survive and prosper in the new world economy of the 21st century. A country where we can generate the wealth to sustain the social programs and safety nets that are fundamental to our sense of identity and community.

There are those who would follow policies based on the world as they would like it to be, not as it exists. But I challenge them to show how an inward-looking, backward-looking Canada could help Canadians to gain new jobs and opportunities in the new world economy.

There are those who still believe that more government spending and higher government debt can solve any problem, any time, any place. And I challenge them to show how deliberately driving up the debt that has weakened us can make us stronger.

Today I have announced actions that will help position Canada for renewed economic success; actions that will assist economic recovery and strengthen the basis for sustained growth and job creation.

Through these actions we are expanding our investment in the growth and vitality of Canada's small businesses, in research and development, in training and adjustment for Canadian workers, in improved infrastructure and in a sound fiscal and monetary framework.

These actions will help us to deal with global interdependence, but we must also recognize our own interdependence as Canadians – in business, labour, government – in the continuing effort to modernize our economy.

I ask all Canadians for their co-operation as together we pursue the task of securing a positive and vibrant economic future for ourselves and our children. That is, and remains, and must be, our priority as Canadians and as Canadians' representatives in this House.

Table 1
Expenditure reduction

	1992-93	1993-94	1994-95
		(millions of dollars)	
A. Key exempt programs			
Old age security benefits			
Veterans' allowances and disability benefits			
Established Programs Financing			
Equalization			
Transfers to Territories			
Canada Assistance Plan			
Selective federal-provincial cost-sharing programs			
The Canadian Jobs Strategy			
Selective native programs (e.g. welfare programs, elementary/secondary education, health, housing, policing)			
B. Programs where benefits are frozen			
Unemployment insurance benefits			
Benefit freeze		550	1,000
Voluntary quitters		300	600
Science and technology		30	65
Selective native programs		28	28
Grants in lieu of taxes		40	40
Total		948	1,733
C. Grants and contributions reduced by 10 per cent			
International Assistance	50	292	300
Regional and industrial subsidies	100	121	125
Green Plan	60	48	64
Transportation subsidies		73	104
Agricultural subsidies		37	37
Cultural subsidies		40	40
Selective native programs		40	40
PUITTA		24	25
Other	40	104	126
Total	250	779	860
D. Operating budget cuts			
Defence (including wage freeze)			
Operating budget	225	260	510
Wage freeze		115	230
Departments (including non-enterprise Crown corporations)			
Operating budgets	300	450	450
Wage freeze		235	470
Total	525	1,060	1,660
E. Total expenditure reductions	775	2,787	4,253

Note: Figures may not add due to rounding.

Table 2
Investing in growth

	1992-93	1993-94	1994-95
		(millions of dollars)	
A. Tax measures			
1. Use of RRSPs			
One-year extension of Home Buyers' Plan	small revenue cost		
2. Small Business Employment and Investment Program			
UI premium relief for new jobs	60	310	125
Temporary Small Business Investment Tax Credit		175	140
Small Business Financing Program		5	10
Changes to *Small Business Loans Act*	small revenue cost		
Incentives for Investments	small revenue cost		
3. Investing in Prosperity: Future Initiatives		65	90
4. Assistance to small oil and gas companies	5	10	10
5. Tariff reductions		17	32
6. Total	65	582	407
B. Program measures			
1. Infrastructure		225	260
2. Sectoral Training Initiatives		30	50
3. Developmental Uses Plan		300	300
4. Total		555	610
C. Total fiscal impact of measures	65	1,137	1,017

Table 3
Changes to the deficit since the February 1992 budget

	1992-93	1993-94
	(billions of dollars)	
February 1992 budget deficit	27.5	22.5
Changes due to economic factors		
Revenue	8.0	10.1
Program spending	0.2	3.3
Net impact on operating balance	8.3	13.4
Public debt charges	-0.7	-1.7
Net impact on deficit	7.6	11.7
Changes due to policy actions		
Program spending reductions	-0.8	-2.8
Measures to increase growth	0.1	1.1
Net impact of policy measures	-0.7	-1.6
Total changes	6.9	10.1
Economic and Fiscal Statement deficit level	34.4	32.6

Note: Figures may not add due to rounding.

Table 4
Summary statement of transactions

	1992-93	1993-94
	(billions of dollars)	
Budgetary transactions		
Budgetary revenues	124.0	128.1
Program spending	118.9	120.9
Operating balance	5.2	7.2
Public debt charges	39.5	39.8
Deficit	-34.4	-32.6
Non-budgetary transactions	3.9	6.1
Financial requirements (excluding foreign exchange)	-30.5	-26.5
Net public debt	457.2	489.7
	(per cent change)	
Budgetary revenues	1.5	3.3
Program spending	2.9	1.7
Public debt charges	-4.2	0.8
Budgetary expenditures	1.0	1.5
Net public debt	8.1	7.1