

AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

[English]

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Donald S. Macdonald (Minister of Finance) moved:

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

He said: Mr. Speaker, over the past 18 months the government has directed much of its effort in economic policy to countering inflation. Canada has come a long way on the road to recovery from that inflation which first engulfed us in 1973. The rise of costs and prices disrupted many aspects of our economic life, and continues to do so. We must persist with our efforts to control it. The next section of the road back is beset with a number of hazards. The essential policy of this budget is to set forth a fiscal program to help guide the economy through these hazards.

One of the worst effects of inflation from which we continue to suffer is high unemployment. There never was any doubt that inflation would bring this result in its train. Our concern that inflation would produce worsening unemployment was a principal reason why the government embarked upon its strong anti-inflation policy.

Nor was there any doubt that the after-effects of inflation would be prolonged. We must not forget that fact now. Apart from all its adverse social results, inflation weakens the ability of our producers to compete at home and abroad. It also erodes the confidence so essential to the conduct of business and to investment in business capital. Without the restoration of confidence we will not generate the jobs we need. The task is the more difficult because our unemployment has been worsened by the failure of other economies to recover as rapidly as we had hoped.

One hazard of all this is that we will over-react and administer a shock of stimulus that is too strong to be absorbed without regenerating inflationary forces. What is required is stimulus of a degree that can be safely absorbed.

Another hazard is that we will succumb to the temptation to become more protectionist in the face of our impaired competitive position. That would surely be the wrong policy for a people so heavily dependent upon foreign trade. We are prepared to act, and have done so, in particular cases where domestic producers face serious injury. Such emergency action is consistent with our international commitments. But the government is convinced that the right policy over the longer term is to regain our competitive position by ensuring that our inflation is brought under control and to seek removal of barriers against our exports.

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● (2010)

The decline in the value of the Canadian dollar that has occurred can be of benefit to our exporters and to those who compete with imports in our domestic markets. It is of crucial importance, however, that we do not erode this advantage by a resurgence of income increases that add to our costs. If we avoid that and press on to improve our relative cost position, then we shall benefit in our general standard of living from the freer world trading environment it is our policy to seek.

A third hazard is that the renewed price pressures coming from particular quarters will weaken our collective resolve to maintain the anti-inflation fight. Rates of increase of food prices declined sharply from mid-1975 to the end of 1976. But a combination of developments in the world has induced a new rise in food prices which is likely to continue for some time. World energy prices also continue to rise. We cannot shield ourselves from this hard fact. Canadians, like everyone else in the world, will have to accept still higher energy prices. In addition, the decline in the external value of the Canadian dollar is increasing the cost of our imports and pushing up domestic prices.

What is required is that we accept the inevitable impacts of these price increases upon our living standards, turn to substitutes where we can and reduce our demands for the higher-priced goods to the extent possible. Above all, we must avoid a renewed, self-defeating scramble for higher money incomes.

The prices and incomes program has served us well. We must continue to support it as long as necessary. We must press on with our consultations as to how responsibility can best be exercised in the determination of prices and incomes in the post-control period.

In developing a budget under these circumstances, two important constraints have had to be observed. The restraint of growth in the government's spending has been an integral part of our anti-inflation policies. The government believes such restraint is as important today as it was at the beginning of the program. By the control of existing expenditures, we are providing room for increases in spending that are most appropriate in the present circumstances. High priority has been attached to spending of the kind that will provide jobs for people.

The second constraint is the limit upon our ability to reduce taxes that is imposed by the need to restrict our demands upon the capital markets. The excess of our outlays over our receipts has to be financed. If it is financed by monetary expansion beyond that which is prudent, it defeats our purpose in containing inflation. If such an excess of outlays results in higher interest costs, the stimulus that we can impart to the economy is offset. Within this constraint we have found it possible to provide for further tax reductions in this budget.

[Translation]

THE ECONOMIC SETTING

Mr. Speaker, over the past four years, all the major economies of the industrial world have been confronted with infla-

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tion, recession and massive changes in international payments. Collectively they have made some progress in dealing with these difficult and stubborn problems. But persistent efforts will be needed over a long period of time.

In Canada, as I have said, the underlying momentum of inflation is slowing. With wage settlements coming down in line with the anti-inflation program, our unit labour costs—key to our competitive position as a trading nation—are being brought under better control. At the same time, the real income of working Canadians has risen strongly.

Output in Canada grew rapidly early in 1976, but then the pace slackened here as elsewhere in the industrial world. As a result the number of new jobs created—209,000—was less than anticipated.

The most disturbing element in our performance has been the recent increase in unemployment. I am particularly troubled by the unemployment among the young people of this country. While the rate among adult men has remained well below 5 per cent, and is 7 per cent among adult women, it is above 14 per cent for young people. Moreover, the burden of unemployment has fallen much more heavily in the Atlantic Provinces and Quebec than elsewhere. The unemployment situation clearly requires not only some general measures of economic stimulus, but also specific initiatives directed at these structural problems.

[English]

Slack demand in 1976 led to a significant fall in profit margins. Many firms faced inadequate liquidity and rising debt-equity ratios. The low level of share prices made it difficult to raise additional funds in this form. All these factors contributed to the problem of financing the rapidly increasing costs of new investment projects.

Economic growth in 1976 was led by consumer demand and housing construction while government expenditure on goods and services grew more slowly. Real business investment actually declined despite strength in the energy field. We need renewed growth of business investment and a continuing improvement in exports to create jobs and lay the basis for sustained growth in the future.

The deficit in our balance of payments has increased in recent years, partly as a result of the deeper recession in other countries, partly from our rising bill for interest, dividends and foreign travel, and from our shrinking energy surplus. But it is also the result of the difficulties our own inflation has created for Canadian producers in competing at home and abroad.

The recent decline in the Canadian dollar reflects lower interest rates in Canada, but it also reflects a sense of uncertainty about Canada's future among foreign investors. The decline will help to offset the higher costs incurred by Canadian firms. It will provide them with new opportunities to compete. These benefits are ours to seize, but only if we keep our domestic costs and prices firmly in check. The immediate impact of a lower dollar is to increase the prices of goods and services to Canadian consumers. If this leads Canadians to demand higher money incomes, the opportunity for a lasting

[Mr. Macdonald (Rosedale)]

improvement will be lost. Further depreciation would then be needed to offset still higher costs. We must avoid this downward spiral.

OUR ECONOMIC OBJECTIVES

Our goals are clear.

Our first objective must be to maintain the underlying trend to lower inflation.

Our second objective must be to encourage a steady and non-inflationary growth in the economy, in order to provide jobs and reduce unemployment.

I want to emphasize that the federal government recognizes and accepts its responsibility for action to help achieve these goals. But responsibility for the economy rests on others as well. Both political and economic power are widely dispersed in this country, reflecting Canada's diversities and protecting our fundamental liberties. All those who share power also share the responsibility that goes with it for the attainment of our economic goals.

This is well illustrated in the recent record of economic and fiscal cooperation between the federal and provincial governments. That record provides reassuring evidence of the continuity and flexibility of our Confederation while contributing directly to the solution of our economic problems.

Responsibility also rests with our business leaders. It is private firms which employ most of our workers, make most of the investment decisions in our economy, and develop the markets and the new technologies that enhance our standard of living.

An important responsibility also rests with the leadership of the labour movement at every level in this country, for jobs are at stake. Indeed, all Canadians share the responsibility for setting prices, wages and other incomes so as not to impair our opportunities for employment.

We set out in the discussion paper entitled *The Way Ahead* our views on how responsibility will have to be shared in the post-control society. We will realize the full economic potential of this country only if we develop a greater understanding of what we can realistically hope to achieve.

Mr. Speaker, I want to refer to five areas of public policy at this time, before I outline the specific measures proposed in this budget.

● (2020)

[Translation]

ENERGY POLICY

First, Mr. Speaker, energy. We no longer have ready and assured access to cheap energy supplies at home or abroad. In these new circumstances our objectives must be to increase our domestic supplies and to cut our energy demands. Restraint on the price of domestic oil and subsidies on imported oil can provide only temporary assistance to consumers, to provide time to adjust to the new realities. This spring, we will have to set the amount of the next price increase. Our challenge will

