

*The Address—Mr. Chrétien*

the hon. member speaking for one minute and three quarters or so.

[*English*]

**Mr. Cecil Smith (Churchill):** Mr. Speaker, it was not my intention to speak before six o'clock but the events of today have brought drastic consequences to the nickel mining industry of Canada. International Nickel has announced that effective January, in Sudbury and that area, 2,800 people will be laid off, and at Thompson, Manitoba, in my constituency, 650 people will be laid off before the middle of 1978.

I think this is only the beginning of what is going to take place in the mining industry. In the budget the government made no reference to stimulating the mining industry and I should like to ask that the Minister of Industry, Trade and Commerce (Mr. Horner), the Minister of Finance (Mr. Chrétien), and the Minister of Energy, Mines and Resources (Mr. Gillespie) immediately convene a meeting with the mining industry of Canada to see if we cannot keep the mining industry in business until such time as they at least have an opportunity to look at the projected layoffs.

**Some hon. Members:** Hear, hear!

**The Acting Speaker (Mr. Ethier):** It being six o'clock I do now leave the chair until eight o'clock p.m.

At six o'clock the House took recess.

● (2001)

**AFTER RECESS**

The House resumed at 8 p.m.

[*Translation*]

**Hon. Jean Chrétien (Minister of Finance):** Mr. Speaker, let me first express my warmest congratulations to the mover and seconder of the Address in Reply to the Speech from the Throne, the hon. members for Louis-Hébert (Mr. Dawson) and Malpeque (Mr. Wood). They performed their task with the excellence that is traditional in the Canadian Parliament.

This is my first speech to the House of Commons as Minister of Finance. I would like to thank members from all sides of the chamber for their good wishes on my appointment. I know they join me in extending my best wishes to my predecessor, the hon. member for Rosedale (Mr. Macdonald). He has set an example to all of us in his sense of duty and his service to this country.

I have been fortunate in being able to attend two major international economic conferences and to discuss the problems of the world economy with finance ministers from many other countries. We all face difficult problems at this time. I was also glad to meet with my provincial colleagues recently. We had a good, frank discussion and I thank them for their advice.

[*Mr. Pinard.*]

I want to use this occasion to speak on the economy, on controls and on taxes. This is the first possible opportunity to inform the House of my decisions and to get rid of uncertainty. I also want to give the House the opportunity to pass the incentive measures of the last budget and any additional measures that I will be proposing tonight as quickly as possible.

[*English*]

Let me report on the economic situation as I find it.

We have made some progress in bringing down the rate of inflation. Wage increases have slowed down. Increases in non-food prices have been reduced steadily since the start of the controls program. But there have been some setbacks this year because of higher food prices and a weaker Canadian dollar. We have a long way yet to go.

Output has not risen in the last few months as we had hoped. Even if we do much better in the second half of this year, total output in 1977 is only going to be about 2 per cent higher than it was in 1976. Independent forecasters are calling for gains of only 4 to 5 per cent next year. That is not enough to bring down the rate of unemployment.

More people are at work in Canada. Indeed we have already just about achieved the goal set in the last budget of 250,000 more jobs. But the numbers of Canadians wanting to work has increased even faster. Unemployment has risen to 8.3 per cent for Canada as a whole.

We must find more jobs. I will not be satisfied until everyone who really wants to work can find a job. But I cannot promise any miracle solutions. It will take time and effort to overcome our unemployment problems. No one should think that there are any easy answers.

Our balance of payments situation is unsatisfactory. It is true that our exports have risen as a result of the recovery in the United States and elsewhere. This is giving rise to a trade surplus of over \$2 billion this year. But we need an even larger surplus. We have had a large increase in our tourist deficit. Furthermore, the deficits on interest and dividends and other services are large and growing. These facts have made the Canadian dollar vulnerable, and it has declined in value.

Finally, the revenues of the federal government are growing more slowly than expected. As a result, our cash deficits are now so large that room for manoeuvre is very limited.

These are the facts we have to face. They stand in sharp contrast to the potential for growth in this country. We have the resources, the land, the skills and the tradition of hard work. We have grown faster than most other countries in the past and there is no fundamental reason why we should not do so in the future.

I do not want a temporary surge which cannot last and which will start the process of inflation all over again. But I do want sustained growth of between 5 and 6 per cent in order to bring unemployment steadily down. The expansion should be led by exports and business investment. We need to improve our trade balance even further and to reduce our tourist deficit in order to put our balance of payments into better shape. The

business community should be planning now the new factories which will be needed to produce more in the future.

Government spending should grow less rapidly, but consumer spending can and should grow in line with the economy as a whole. It is this growth, together with higher exports, which will reduce the excess capacity in the economy and create the demand for more capital investment.

What is holding us back? I think there are three things.

First, our markets abroad have not grown as fast as had been expected. World prices of wheat, wood pulp and base metals have been disappointing. All countries need to do what they can to get the world economy going again.

Second, we are paying the penalty for letting our costs get out of line.

This is part of the reason why imports have taken an increasing share of the domestic market away from Canadian producers, why there has been such a sharp fall in manufacturing jobs, why we have lost ground in tourism, why new plants are being built in the United States rather than in Canada. Wages are not the only source of these higher costs, but they are the larger part. With controls we have seen new wage increases come down from 20 per cent in 1975 to 8 per cent recently. So we are no longer losing ground compared to the United States. But we have not made up for the ground lost in the past.

We have had to give more protection to some of our weaker industries like textiles by restricting imports. But this is only a short-term solution. We need lower—not higher—trade barriers here and around the world if we are to build efficient manufacturing industries and increase our productivity. The drop in the value of the Canadian dollar has helped in restoring our competitive position. But this is not a fundamental solution to our problems. A falling exchange rate pushes up many costs and prices in Canada. The answer must be found in getting the rate of inflation down, in bringing our costs into line with those of our main competitors.

● (2010)

[Translation]

The third thing holding us back is a loss of confidence. In part this is a result of inflation, slow growth and high unemployment. But the present wave of pessimism seems to have gone too far. It gives too little weight to the progress we have made in wringing out the excesses of the past and building a better basis for future growth.

In part this is a result of political instability. People are concerned about whether Canada will remain a united country and that concern has added to our economic difficulties. I have no doubt whatever that the people of Quebec overwhelmingly believe that Canada is their country. Quebec will not separate from Canada. But until separatism is defeated, it will impede the economic progress not only of Quebec, but of the rest of the country as well.

I want to do all I can to dispel uncertainty—by speaking for a united Canada, by standing firm against inflation, by keep-

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ing down our spending and our taxes and by announcing clear-cut decisions on controls and the economy.

But I need the help of all Canadians. Government cannot do everything itself. A healthy economy is dependent upon a healthy private sector. Consumers must be able to spend more and the private sector must be able to plan its investments with more certainty.

As I have said, there are no miracle solutions to our economic problems. Progress will be slow and it will require hard work, more productivity, lower expectations and greater responsibility on the part of all Canadians.

To stimulate demand without increasing the danger of inflation, I am announcing tonight:

1. A phase-out of controls beginning on April 14, 1978.
2. A personal income tax cut of up to \$100 for low and middle income taxpayers.
3. Further job-creation programs.
4. An employment credit for job creation.
5. The maintenance of strict restraint on government spending.

I turn now to a discussion of these proposals.

● (2012)

[English]

The key elements of the anti-inflation program launched two years ago were price and income controls, a gradual slowing down in the growth of the money supply, restraint of government expenditure and wide-ranging improvements to the structure of the economy.

We continue to give full support to the Bank of Canada in reducing the rate of growth of the money supply and we remain committed to expenditure control. It is our firm intent to keep the increase in our spending within the growth of the economy. We have achieved considerable success, as have the provincial governments.

Our expenditure ceilings are coming under very heavy pressure. Slower growth of the economy is costing us more in unemployment insurance, in payments to the provinces and in interest on the public debt. We are faced with higher outlays as a result of lower wheat prices and the very bad weather during this harvest. Despite these pressures, we will do whatever is necessary to stay within the ceilings set by my predecessor last March.

The controls on prices, wages and other incomes have contributed greatly to checking the inflationary spiral in our economy. But they should not be a permanent program because the government does not believe in excessive intervention in the marketplace. While controls cannot be removed immediately, phased decontrol will begin on April 14, 1978, two and one-half years after the program began.

The further period of control will enable us to make more progress in bringing down the rate of inflation and in reducing inflationary expectations. In the next few months we will

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amend the Anti-Inflation Act to ensure effective administration of controls during the period of transition and to minimize the risk of a bulge when controls come off. We will also proceed with establishment of an agency to monitor and report upon price and cost developments.

In the phased process of decontrol beginning next April 14, employees will be free of controls for their guideline years which start after that date. Business will be free of price and profits controls for their fiscal years which begin after that date.

Changes are being made in the guidelines for the third year of the program. They are fully explained in the Supplementary Information 1 will be tabling. Briefly, the basic guideline for wages and salaries will be 6 per cent. The experience adjustment factor will continue to apply. Dividends will remain under control. The permissible increase will be reduced from 8 per cent to 6 per cent, the same amount as for wages and salaries.

We have no choice but to keep slowing down the increase in costs if we are to get the economy going again and reduce unemployment. Barring unforeseen events, the rate of inflation will come down below 6 per cent next year, so the lower guideline will not lead to a fall in real incomes. Furthermore, I am taking steps to ensure that the take-home pay of lower and middle income workers will increase.

In fact, in the last two years, we have been right on target. We were two points lower in the first year. This year, because of the circumstances I have explained, we are two points higher. That totals exactly the same.

If we had left the regulations unchanged, the guideline would have been about 8 per cent because the consumer price index has gone up by more than the price target this year. But I would like to emphasize that the first two years of the program taken together were just about on target. We did better than the target by almost 2 per cent in the first year and seem likely to fall short by about the same amount in the second year. This was due to two main factors. First, food prices fell in 1976 and then rose sharply in 1977. Second, the Canadian dollar remained quite strong through much of 1976 but has since fallen quite sharply. This has pushed up the prices of the things we buy abroad.

There is no way in which we can protect Canadians from the loss of real income caused by higher import prices. If money incomes were allowed to rise correspondingly, the inevitable result would be still higher prices and we would be worse off.

I turn now to fiscal measures.

While my room for manoeuvre is very limited because of large deficits in our accounts, I believe we can do more to stimulate the economy. The measures I have chosen will serve several purposes. They will offset the cut in the wage guideline for low and middle income wage earners. They will stimulate consumer spending and housing. And they will create jobs.

First, I am cutting taxes for low and middle income taxpayers by \$100. I propose to do this by increasing the minimum amount of the 9 per cent federal tax credit from \$200 to \$300.

This will apply only to the 1978 taxation year. The value of this additional \$100 cut will be more than \$700 million.

To provide quick stimulus, the reduction will be concentrated as much as possible through the January and February deductions at source. The take-home pay of millions of employees will increase by \$50 in January and \$50 in February. Many will enjoy a holiday from federal income tax in those two months and some for the whole year.

[*Translation*]

Here are some examples. A typical married taxpayer with two children and an annual income of \$15,000 will see his federal tax reduced in January and February by the full \$100. If his income is \$10,000 or less, he will pay no federal tax at all in these two months. If he earns about \$8,500 or less, he will have a holiday from federal taxes for the year as a whole.

Over 7,500,000 taxpayers will benefit from this tax cut. About 6 million will receive the full \$100 cut.

I also wish to announce that the indexing factor for the personal income tax for 1978 will be 7.2 per cent. This means that the basic personal exemption will increase from \$2,270 to \$2,430. For a family of four, total personal exemptions will rise by \$360 from \$5,120 to \$5,480. In total, Canadians will pay \$850 million less in taxes next year as a result. I only regret that the importance of indexation is so often forgotten or ignored in public discussion. That is why I am pleased to repeat it this evening—taxpayers will benefit from an additional \$850 million exemption in the early part of the year.

I now turn to our measures of direct job creation. We have already allocated a total of \$450 million this year for Canada Works, Young Canada Works and the other job creation programs. These programs will be maintained at this very high level for 1978-79. In addition, we are providing \$150 million for work projects with a high employment content. These will be focussed on high unemployment areas beginning immediately. In total, for the current and the next fiscal year, the government will be spending over one billion dollars for direct job creation. All of these funds are being provided within the expenditure ceilings to which we are committed.

The new funds, the additional \$150 million, come from the budgetary cuts made by my distinguished colleague the President of the Treasury Board (Mr. Andras).

Mr. Speaker, I also expect to introduce shortly a new program of employment credits for private business firms. This will be a new approach to job creation in Canada, and I have to give careful study to alternative ways for carrying it out efficiently and effectively. I fully expect, however, that legislation will be introduced to initiate this new job credit plan early in 1978, at an approximate cost of up to \$100 million. Last, I am taking this opportunity to announce some other tax changes. I will be extending by regulation the fast write-off for anti-pollution equipment until 1980. I will also be extending by regulation for another year the special provision permitting taxpayers to offset against other income their losses on rental housing generated by capital cost allowances. This will maintain the incentive for the construction of multiple unit residen-

tial housing. I am bringing the capital cost allowance on wood-frame buildings into line with other kinds of buildings. Furthermore, tonight's Notice of Ways and Means Motion includes changes relating to life insurance, corporate surplus and loans by companies to their employees. As a result of representations from members on all sides of the House, I will not be proceeding at this time with the measure for taxing the investment income realized by a policyholder on the death of the person insured. Details are provided in the supplementary information.

● (2022)

[English]

Members will recall that the March budget proposed \$1.5 billion in tax reductions to stimulate the economy. It included a tax reduction for middle and lower income families of up to \$50 for each child. It also increased by \$100 the employment expense deduction. There were significant measures to improve profitability and encourage business expansion. The investment tax credit was extended and increased. A 3 per cent inventory allowance was introduced. The dividend tax credit was enriched. All these measures are being reintroduced in the Notice of Ways and Means Motion tonight.

Long delays in passing tax bills add to uncertainty. We should move swiftly to enact the measures proposed in the last budget and the new measures I have proposed tonight.

Finally, I want to say a word about the exchange rate. The policies we are following of getting our costs down and our employment up are directed at our fundamental problems. With such policies, our balance of payments will improve. We have operated in the market to maintain orderly conditions. This has involved some loss of reserves during the recent period of decline in the exchange value of the Canadian dollar. However, our reserves remain substantial, and we have the capacity to supplement them substantially should the need arise. We will continue to follow our floating exchange rate policy. I am convinced that confidence in the basic value of the Canadian dollar can best be promoted by sound domestic policies, and not by artificialities.

I should like to repeat, now, something I have said before. There is absolutely no idea in the mind of the government of imposing exchange controls. I know there was a story which was printed and widely circulated and which created some problem, and I know that unfortunately many Canadians have perhaps moved money out of Canada because of that story. I think it is extremely regrettable because it could cause some problem for the Canadian dollar. That is why I want to state tonight we have no intention at all of imposing exchange controls in Canada.

**Some hon. Members:** Hear, hear!

**Mr. Chrétien:** Mr. Speaker, I would now like to table the Notice of Ways and Means Motion, projections of the government's revenues and expenditures, supplementary information on the controls program, the text of the government's statement of July 29 to business and labour on decontrol and

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post-control arrangements, and details of the tax changes. I shall ask that the Notice of Ways and Means Motion be appended to today's *Votes and Proceedings*.

Even though we are holding firm to our expenditure ceilings, our total financial requirements are now forecast to increase from \$5.5 billion in 1976-77 to \$8.5 billion in 1977-78. They will be even larger next year, mainly because we will be paying off \$2 billion in accrued interest on Canada Savings Bonds. In these circumstances, to attempt to do even more at this time through fiscal pump-priming would clearly be counterproductive.

With all these measures at work, we can expect the economy to grow in real terms by 5 per cent next year. To do better than that will require a concerted strategy of change and improvement in the structure of our economy extending over the medium-term period ahead.

We have made a start on important elements of that strategy. In the critical energy area, for example, wide-ranging policies on pricing, taxes, and joint private and public investment are helping to develop new sources of supply, improve distribution and economize on use. In the housing area, we are well on the target of a million more houses for Canadians over four years. Federal funds and support are being increasingly channelled into assisted home ownership and rental for people of modest income. We have successfully proclaimed the 200-mile limit for fisheries jurisdiction, to assure effective management and conservation of that valuable resource. For business generally, we are making progress in diminishing unnecessary regulation and filing of statistical forms. The need for efficiency and higher productivity is increasing as we move closer to the hard bargaining of the multilateral trade negotiations.

In all these, and many other areas, much more has to be done by investment policy and basic structural changes. We intend to promote such changes, to seek the active co-operation of the provinces, and to engage as widely as possible in consultation with business, labour and other economic interest groups.

● (2032)

[Translation]

Mr. Speaker, we must realize that these are difficult times for Canada both economically and politically. But these are also challenging times because Canadians must rededicate themselves to the building of a stronger, more prosperous and more united country.

The solutions to our problems are not easy and they will not all come from government. We must realize not only that the resources of government are limited, but also that we do not want in Canada the type of society where everything comes from the state. Therefore, there will not be any large new social programs nor greatly increased government spending. To maintain our standard of living, all Canadians must learn to work harder, to be more efficient and to be more productive.

While we have serious problems, we should not exaggerate them. Franklin Roosevelt once said that the only thing to fear

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is fear itself. I am not afraid. I will not trade the problems of Canada for those of any other country in the world and neither will any member of this House.

In building a country, we have had to cope with all the problems inherent in developing a new land, in fighting a vast geography and a harsh climate, in experiencing severe economic depression, in accepting international responsibilities, in living in an age of great complexity and tremendous change, and we have succeeded.

We must adopt once again the spirit of those who built this country, a spirit of adventure and initiative, a taste for risk, and the determination of the explorer. This is the challenge we must meet.

● (2035)

This country has been too good for too many of us to let it be destroyed! I know that the vast majority of Canadians want to roll up their sleeves, use their imagination, create, and produce in the manner of those who came before us. Each of us has his own contribution to make. Let us do so with enthusiasm. This is the only way we can leave to our children the heritage which we have received—a country rich in the diversity of its people and its natural resources, vast, generous and tolerant, a country which has been, which is, and which will be the envy of the entire world.

[English]

**Mr. Speaker:** As I am sure all members are aware, the Minister of Finance (Mr. Chrétien) was granted some leniency in terms of time when he was making his rather major statement. Certainly, if the occasion arises, the same courtesy will be extended to those who respond to him on the other side of the House.

In order for the minister to append a notice of ways and means to the *Votes and Proceedings*, an order of the House is required. Is it agreed?

**Some hon. Members:** Agreed.

**Mr. Speaker:** Agreed and so ordered.

**Mr. Sinclair Stevens (York-Simcoe):** Mr. Speaker, in joining in this debate this evening may I also add my congratulations to the mover (Mr. Dawson) and the seconder (Mr. Wood) of the motion, who spoke to us earlier. Our time is limited tonight, and first I should like to say that I feel the budget which was delivered tonight, because it is really a mini-budget, has some good in it and some bad.

**Some hon. Members:** Right on!

**Mr. Stevens:** Let me tell you what was not in the minister's statement tonight.

**An hon. Member:** The truth.

**Mr. Stevens:** The government offers little hope for those one million Canadians who will be looking for work in the cold wintry months ahead.

[Mr. Chrétien.]

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** There is little hope for the youth in our country who will be seeking their first job opportunities in the midst of the worst economic conditions in at least the last 30 years.

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** For those out of work in our five eastern provinces and for those out of work in all of those high unemployment areas of Canada, let them not look to Ottawa for help, judging from this statement tonight.

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** Sure, hon. members will recall that the right hon. Prime Minister (Mr. Trudeau) only yesterday, and the Minister of Finance (Mr. Chrétien) tonight, spoke about \$150 million for the unemployed. What is that in relation to the million unemployed?

**Mr. Baker (Grenville-Carleton):** Nothing!

**Mr. Stevens:** It is \$150 per unemployed person in this country.

**Mr. Paproski:** Shame!

**Mr. Stevens:** Expressed another way, that \$150 million may mean 16,000 fresh jobs—with one million out of work in the country. That is this government in action!

Before this evening we had one million unemployed in Canada and we were heading toward our worst winter since the dirty thirties. Having heard the minister's statement tonight, I would suggest we are still heading for that type of winter.

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** As I have said, there is some good in the budget tonight, and some bad. Frankly, I am pleased that the government has responded to our constant demand to reduce taxes, as far as the personal income taxpayer of this country is concerned.

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** Mr. Speaker, two budgets back we first raised the significant point that Canadian taxpayers were being overtaxed, and we asked that there be a substantial reduction in their favour. At the time the budget was tabled in March, 1977, we renewed our request, and only yesterday the Leader of the Official Opposition (Mr. Clark) asked once again that there be a considerable tax reduction for those earners, especially below the \$16,000 a year level.

**Some hon. Members:** Hear, hear!

**Mr. Stevens:** I am pleased that at long last the government has responded to that request. I only wish in future it would