The Budget—Hon. John N. Turner

GOVERNMENT ORDERS

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. John N. Turner (Minister of Finance) moved:

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

He said: Mr. Speaker, the purpose of this budget is—first and foremost—to bring about a substantial reduction in unemployment. Unemployment is much more than an economic problem. It is a grave social problem, a serious human problem, and I am deeply conscious of the fact that for those who really want and need work, who are looking for work and cannot find it, unemployment can be bitter and frustrating.

This budget is aimed at the faster growth of our economy and the strengthening of its basic structure in order to achieve the greatest possible increase in the number of permanent, satisfying jobs for our rapidly growing labour force.

This budget is aimed at reducing inflationary pressures in Canada and at offsetting the effects of past inflation. This is essential to protect our country's international competitive position so as to ensure continued strong growth of production and employment. It is equally essential to reduce the squeeze of rising prices on family budgets and the erosion of the hard-earned savings of Canadians.

This budget is aimed at increasing the real income and improving the standard of living of Canadians.

It is aimed at ensuring that older Canadians share more fairly and more fully in the growing national prosperity—which their efforts during their working years helped to make possible—so they may better enjoy living in well-earned retirement.

It is aimed at balanced economic expansion so that all regions share equitably in our growing wealth, because national unity demands fair shares in national prosperity.

[*Translation*]

This budget reinforces and builds upon the budget which I put before the House last May. Taken together, the measures proposed last May and those I will propose tonight are strongly expansionary, while at the same time acting to curb the forces of inflation. They will stimulate the growth of production and employment, while helping business to moderate price increases. They will put more income, more purchasing power into the hands of Canadian consumers without increasing costs.

Hon. members may recall that the budget of last May, in addition to providing immediate stimulus to the economy, was designed to serve two basic purposes.

It was designed to achieve a greater measure of social justice by easing the financial burden borne by pensioners, by the blind and the disabled, by veterans and their dependents, by students and their families and by those who face heavy costs for medical care and treatment.

And it was designed to reinforce the structure of our economy over the medium and longer term by strengthening the competitive position at home and abroad of our vitally important manufacturing and processing industries.

[The Acting Speaker, (Mr. Laniel).]

Parliament last session approved the proposals to raise the guaranteed income supplement for pensioners and escalate that supplement, old age security benefits, and veterans' pensions and allowances to offset fully increases in the cost of living.

It is urgent that Parliament give early approval to the other proposals put foward in the May budget involving the income tax, sales tax and the customs tariff, most of which are effective in 1972.

The measures to reduce the tax burden of manufacturers and processors represent a first major step in the development of a coherent set of new industrial policies. They are needed to strengthen the foundation of our economy and its capacity to create jobs for our working men and women—who belong to the fastest growing labour force in the industrial world.

The manufacturing and processing sector is the largest single source of employment in this country. It provides jobs directly for nearly two million Canadians—nearly a quarter of the whole labour force. It provides jobs indirectly for as many again in the service sector, which depends for its growth on the underpinning of viable primary, processing and manufacturing industries.

The manufacturing sector, however, is highly vulnerable to the new forces of competition that are now developing around the world.

The reductions in the tax burden borne by these industries will help them to overcome the competitive handicap caused by the appreciation of the Canadian dollar since May, 1970.

These reductions will enable them to offset the serious competitive threat posed by the substantial tax subsidies for exports made available in the past year to U.S. corporations. The real danger of such subsidy programs is not the immediate impact they may have on our exports or our imports. That, too, can be serious and takes time to show up. The real danger lies in their possible effect on new investment in this country. This is more difficult to measure. Often there is no visible decline of business. Unless it is as profitable to invest in Canada as in the U.S. or other countries offering special incentives, new plants don't get built, expansions don't take place, jobs don't get created.

The easing of the tax burden of manufacturers will also help them to meet the increasingly intense competition from the new industrial giants that are emerging on the world stage—Japan and the expanded European Economic Community.

• (2010)

[*English*]

The very recent international monetary crisis underscores the significance of what I have been saying about our position in the world. No one can predict the outcome of the changes now underway in the world's trading and financial system or what their impact may be on Canada's trading position. It should be clear to all of us, however, that we will be better able to face whatever challenges may confront us if we keep our industries strong, resilient and competitive.

What is at stake is not the welfare of corporations and their shareholders. At stake is the welfare of every Canadian. At stake are hundreds of thousands of jobs that today depend on our manufacturers staying in business and retaining their workers. At stake also are hundreds of thousands of good steady jobs in the manufacturing sector and supporting industries that will be required in future across Canada for our new workers. It is critical that we should all have a clear understanding of what is at issue. That is why I am committed and the government is committed to these measures.

It is sometimes argued that, far from creating new employment, these measures will only serve to reduce the number of available jobs by encouraging the displacement of workers by machines. That sort of concern has been raised periodically ever since the beginning of the industrial revolution. But the experience of many decades has shown that advancing technology brings with it continued expansion in productivity and output, continued expansion in the real income that workers are able to earn, and continued expansion in the number of productive jobs available. It is no coincidence that for some time now the most labour-intensive manufacturing industries in Canada have generally provided few—if any—new job opportunities, that they usually pay the lowest wages, and that they face the greatest difficulty from foreign competition.

It has also been contended that these measures should not be adopted because a significant portion of the benefit would go to foreign-controlled companies. Let me remind honourable members of a hard reality: these corporations, which are today a major source of employment in this country—providing jobs directly and indirectly for a million or more Canadian workers, face much the same handicaps as those that are Canadian-controlled. We have to move toward greater control of our economy in a way and at a pace that does not jeopardize jobs. I am sure these workers would not thank this parliament if it failed to take steps to counter the threat to their own jobs because of some misguided sense of extreme nationalism.

In its most recent Annual Review, the Economic Council of Canada warned that a failure to maintain the rate of productivity growth throughout the manufacturing sector would lead to higher costs, lower sales and fewer jobs for Canadian workers. The Council emphasized that new policies were required to deal with this threat. The Council concluded that, in its words, "the fiscal measures announced on May 8, 1972, concerning the manufacturing sector may be considered an important step in this direction".

Members of the House will recall that last May I said I was confident that Canadian businessmen would use the increased cash flow to improve and expand their operations and to engage in vigorous price competition at home and abroad. I said I expected business to hustle, to grow, to compete and to build jobs for Canadians. The recent pickup in production, investment and employment in the manufacturing sector leads me to believe that they are, in fact, already stepping up their performance.

I would like to advise the House tonight that the government has decided to make a modification to the rapid write-off and to introduce a new procedure to monitor the results of the incentives to manufacturing and processing industries. We propose that the two-year capital cost allowance provision be put in place for an initial period ending December 31, 1974. Moreover, the government will establish a reporting and review procedure in order to assess the effect of these corporate measures on prices and jobs.

It is our intention that a report be submitted to the House before the end of 1974. This report will be based on detailed information provided by a large number of individual companies and in-depth study of some 200 of the largest corporations. I believe that such an assessment will prove how constructive these measures will have turned out to be in creating new jobs and moderating prices. It will also be helpful to the government in reviewing the capital cost allowance provision to decide whether and in what form to extend it.

In order to better evaluate not just the new fast write-off, but all aspects of present capital cost allowances, I propose to initiate a thorough examination of the entire system. We intend to complete this review by the end of 1974 so that parliament will be in a position to modernize our whole approach to capital cost allowances. I am vitally concerned that our system for business depreciation be fair and reasonable and not a hidden method for avoiding taxation.

[*Translation*]

I would like now to review briefly the economic and financial situation.

Hon. members may recall that last year we published an annual Economic Review in April and we intend to follow that practice again this year. Because the budget is so early this year, it is not possible to issue the usual budget White Paper on government accounts at this time. This will be made available to the House as soon as possible after the end of the fiscal year.

In 1972 the industrial world enjoyed a strong economic expansion. When confidence returned after the international economic crisis of August, 1971, faster rates of growth set in everywhere—in Europe, in Japan and in North America. Output in the industrial countries went up at almost double the rate of the previous year. I would like now to give a brief account of how Canada fared during this period.

In 1972, Canada's gross national product rose 10½ to 11 per cent. Personal income per head was up close to 10½ per cent, and the standard of living of Canadians as shown by consumer expenditures per capita—after deducting the effects of price increases—was up by nearly 5½ per cent. We started 7 per cent more houses than we did in the previous record year. A total of 250,000 new jobs were created, as compared with 200,000 in 1971, an increase of 25 per cent. Farm income rose strongly and the return on business investment was restored to more normal levels.

Although the current account of our balance of payments moved back into deficit, we were relatively free of disturbance from the international economy. It is obvious from recent events that foreign exchange markets have been prone to crisis. But our own experience with a floating rate has been favourable. The Canadian dollar, having been above parity in terms of the U.S. dollar through the middle part of the year, has fluctuated around parity in recent months. This held true even last week. The operations of the Exchange Fund Account have been limited to maintaining orderly conditions in the exchange market and have not complicated the task of managing the government's financial position.

In the first half of the year, competition among the banks drove up interest rates and led to an excessive rate of monetary expansion. But the agreement reached among the banks with my approval in June to lower interest rates on large deposits eliminated these distortions and the financial markets have been reasonably stable since that time. A generally expansionary monetary policy fostered economic expansion and encouraged Canadians to borrow in domestic rather than in foreign markets.

• (2020)

[*English*]

The final record of the government's financial position for the current financial year will not, of course, be known with certainty until well after March 31. In fact, a somewhat more than normal amount of uncertainty should be attached to this year's forecasts. In particular, because this is the first year of experience under the tax reform, the timing and size of tax refunds and final tax payments may depart significantly from historical patterns. On the basis of information available at this date, we expect something close to a balance on budgetary accounts and non-budgetary cash requirements of approximately $2 billion, giving total cash requirements (excluding foreign exchange) of about $2 billion. This total is the same as that anticipated in the May 8 budget. As compared with that budget, the non-budgetary cash requirements are higher largely because of the higher than forecast unemployment insurance benefits; the budgetary position is stronger because revenues have been buoyant. The fiscal stance of the government is best expressed by the government's total cash requirement, budgetary and non-budgetary. For several years now, we have followed the practice of determining our fiscal policy on the basis of total cash requirements and, indeed, this is the practice of most modern states in presenting their over-all financial position.

The economic expansion in Canada was interrupted in the third quarter of 1972 by events beyond the ability of anyone to predict or control. The weather was most unfavourable last summer in much of Quebec and Ontario. This adversely affected farm output and all the many industries and services which depend upon agriculture. In addition, a series of strikes shut down important parts of the mining industry, tied up the forest industry in British Columbia, closed down Canadian and other ports, and disrupted the movement of wheat, lumber, iron ore and other export commodities.

Since September we have seen a sharp rebound of economic activity. The fourth quarter, I am confident, will turn out to have been quite extraordinary. In the early weeks of 1973, all the signs—including our own revenues—are pointing sharply upward.

This year we are expecting the expansion to be driven mainly by business capital investment, inventory build-up and exports. Consumer spending and house building, which contributed so much to the earlier stages of the expansion, will continue at high levels but could rise less rapidly. It is evident that business investment is now accelerating in response to the growth in the economy and in anticipation of the enactment of the May budget measures. When these measures become law, the growth in business investment will become even stronger. So far we have seen little growth of inventories in this expansion. I expect that businesses will be adding to their stocks in 1973 in order to maintain higher levels of sales and shipments. Thus, we have the basis for a very good economic performance in 1973.

[*Translation*]

Two major problems confront us. The first is unemployment. The second is the rise in prices and costs. These are the key problems to which my budget measures are directed.

The most unsatisfactory feature of our economic performance has been the continuing high level of unemployment, even after two full years of economic expansion. We would have done better, it is true, had it not been for the weather and the effect of strikes last year in slowing down employment, production and exports. But other factors have been at work as well. The labour force is growing rapidly both because of the age structure of our population and because a growing proportion of young people and of women have joined the labour force.

It is a fact that while unemployment has remained high, employers are reporting difficulty in filling the growing number of vacancies. Certainly more generous provisions for the unemployed and the availability of support for many unemployed persons from spouses or parents permit people to take more time in finding the jobs that suit them best. We need more information in appraising the unemployment situation and I trust the study being undertaken by the Economic Council of Canada will be helpful.

The hard truth remains, however, that unemployment is too high. I attach the highest priority to the creation of jobs. My May budget was directed toward creating jobs. In September, a major program to create winter employment was announced. One of the very first steps which this government took after the recent election was also directed to this same goal. I refer to the Winter Job Expansion Plan, which for some time now has been putting people to work. This program was directed at alleviating seasonal unemployment, particularly in the slower-growth regions. Further action is needed to deal with the more general problem. We need to stimulate a higher rate of economic growth. We must achieve a growth of real output of goods and services in Canada appreciably in excess of our long-term average if new job creation is to keep up with our rapidly growing labour force and cut into unemployment.

[*English*]

The second major problem is that of rising prices and costs. We are by no means the only country with this problem. Inflation has now reached epidemic proportions in many parts of the world. Our own experience was less favourable in 1972 than it was in 1971. The acceleration in consumer prices was concentrated in foods, which rose sharply last year. In part this was due to local conditions, but in large measure it reflected the world-wide market forces pushing up the prices of grains, meat, sugar and other basic foods. A committee of this House is now investigating these matters. Non-food prices have not shown nearly as much acceleration at the retail level, but there have been sharp increases in the prices of a number of primary commodities in world markets.

All Canadians are concerned about the rise in the cost of living and the decline in the value of money which that entails. If nothing is done, there is a prospect that inflationary expectations will rise. This could disrupt financial markets, drive up interest rates, disturb the exchange market and impose a brake on the economy—in short, frustrate our efforts to increase employment.

Many have argued that the best way to deal with this problem is to set up direct controls over prices, wages and other incomes. As members are aware, Mr. Speaker, the government has given extensive study to the matter of controls and has prepared a contingency plan to be used if necessary. But the government does not believe that the present circumstances—hurtful as they are to many Canadian families—warrant the imposition of controls. Controls would demand a far wider public consensus and more evidence of an emergency situation than is now the case. Our approach is to increase the supply of goods and services, to increase personal disposable income, to relieve the pressure on those hurt, to restrict the government's own demands upon the economy and, above all, to trust Canadians, in their own self-interest—businessmen, working men and women, professionals, farmers—to exercise restraint in their demands for higher income. If that self-interest is not reflected in good judgment, then there will be a self-defeating escalation of costs and prices.

• (2030)

We are, then, faced with the twin problems of unemployment and inflation. An expansion of output will contribute to the solution of both. The government, therefore, believes that in its own fiscal policy it should continue to impart stimulus to the expansion of employment and to the supply of goods and services. It is essential to provide this stimulus in ways which will offer maximum resistance to the forces of inflation.

In seeking to stimulate the economy, while at the same time resisting inflation, I have taken into account the actions which were included in my last budget. Their effects have not yet fully been felt because of time lags. They will continue to have a substantial impact for some years to come. The measures I shall recommend tonight involve action on several fronts. I shall lean heavily, however, on the side of cutting taxes, as opposed to increasing expenditures. This reflects the government's determination to impose restraint on its own spending in order to avoid aggravating inflation. It also reflects the government's determination to do everything reasonably possible to encourage business, labour and the professions to exercise price and income restraint in the national interest and in their own interest.

[*Translation*]

I turn now to the budget measures themselves. Let me begin with a proposal to help our older people. This is a follow-up to the important measures we put in place last year to raise the guaranteed income supplement for old age pensioners and to increase both the basic pension and the supplemental allowance automatically in step with any annual rise in the cost of living.

We are very much aware of the position of elderly people in our country and over the years successive governments have attempted to improve their situation as rapidly as our resources would permit. We can be proud of what we have been able to achieve for the most needy among our elder citizens by provision of the guaranteed income supplement. That unique system of allowances was introduced in 1966 by the government of the late Rt. Hon. Lester Pearson. It provides old age pensioners in Canada with the highest guaranteed income in the world.

At the same time we recognize fully that there are many individuals and couples, 65 years and over, who—through hard work and careful saving—have made provision for retirement income out of their lifetime earnings. As a result, they do not qualify for any part of the guaranteed income supplement. In the great majority of cases, the incomes of these elderly citizens are still small, particularly in comparison to the rising incomes of other Canadians. Despite their hard work and careful planning for retirement, inflation has eroded the real value of their incomes and savings. Those on fixed pensions have been unable to share in the benefits of the rapidly rising productivity of our country.

[*English*]

The government has, therefore, decided that a further portion of the nation's strongly growing total production should now be allocated to increasing the basic rate of the old age security pension.

Some hon. Members: Hear, hear!

Mr. Turner (Ottawa-Carleton): Effective on April 1, 1973, this pension will be raised to $100 per month. This represents an increase of more than 15 per cent over the pension level which would otherwise have come into effect on April 1 of this year. The cost of this additional increase is estimated to be $290 million for a full twelve-month period. The basic pension will continue at this rate until April 1, 1974. On that date, it will be escalated in accordance with the cost of living increase as provided for in my May budget and now prescribed in the Old Age Security Act.

Those entitled to the guaranteed income supplement will be able to add this benefit to the enlarged basic old age pension. The GIS, adjusted by the cost of living, will bring the combined OAS/GIS monthly payment for a single person to $170. For a married couple, the guaranteed income level will be close to $325 monthly. Over the past two years, therefore, the guaranteed income for all elderly Canadians 65 years and over will have been increased by 26 per cent. Canada will thus maintain its worldwide lead in the care and support for ederly citizens.

Further, in line with the increase in the OAS pension, war veterans' allowances and civilian war allowances will be increased by similar amounts to a minimum of $151 per month for single people and to $257 a month for married couples. For recipients of the allowances over 65 years of age, the guaranteed income will rise to $206 and $357 per month for single and married people respectively. This increase preserves the relationship between veterans' allowances and old age pensions and is estimated to cost $9 million in 1973-74.

My colleagues, the Minister of National Health and Welfare (Mr. Lalonde) and the Minister of Veterans Affairs (Mr. MacDonald), will bring in legislation to have these increased pensions and allowances enacted and paid as rapidly as possible. With respect to disability pensions for veterans, a report containing proposals for increases in basic rates of pension is being referred to the Standing Committee on Veterans Affairs and the government will await the recommendations of that committee.

I would like to deal next with several measures in the fields of tariffs, sales taxes and excise taxes designed to stimulate the economy and to strike directly against the upward thrust in the cost of living.

First, proposals concerning the customs tariff.

The government is now recommending to parliament temporary cuts in the tariffs on a wide range of consumer products. I am tabling a notice of ways and means motion setting out the details.

In choosing the products that would be subject to these tariff reductions, and in deciding how large the reductions should be, every effort has been made to avoid any adverse impact on production and employment in our factories and farms across Canada. At the same time, we wished to ensure that the tariff reductions would be sufficiently broad in scope, and of sufficient magnitude to have a significant effect in dampening the upward pressure on consumer prices.

Particular attention was given to foods and other consumer goods for which tariff rates are higher than average, especially to those that are dutiable at a rate of more than 15 per cent. This rate is now pretty generally the basic protective rate in the Canadian tariff. The measure also covers a number of products in short supply, such as meats and out of season fruits and vegetables, for which there is not now a good case for a protective tariff.

Among the non-food consumer products covered by the measure are drugs and pharmaceuticals, kitchen and dinnerware, furniture, electrical appliances, house trailers, photographic equipment, sporting goods and toys.

Substantial cuts are also proposed for a number of most-favoured-nation tariff rates on goods that are not produced in Canada. These rates had been maintained to provide a sheltered market for Commonwealth suppliers, whose goods enter free of duty or at relatively low preferential rates. For such food products as bananas—

Some hon. Members: Oh, oh!

[Mr. Turner (Ottawa-Carleton).]

Mr. Turner (Ottawa-Carleton): If that does not get support for this budget, Mr. Speaker, nothing will. For such food products as bananas and citrus fruit juices, these preferences no longer serve the purpose for which they were intended.

The reduced rates proposed for raw and refined sugar and related products are broadly consistent with the recommendations of the Tariff Board, adjusted to take account of our obligations to Australia and the Commonwealth Caribbean.

• (2040)

To the extent possible, we are not cutting tariffs where to do so would have an adverse impact on job opportunities in Canada, where it would have little effect on prices, or where a tariff cut would run counter to other government policies. It is not proposed, for example, to cut tariffs on footwear, garments and textiles, on dairy products or eggs, or on fruits and vegetables in the season when Canadian-grown products are being marketed.

The total value of the imports that will be affected by these tariff cuts is about $1.3 billion. The economic impact must be judged not just by the reduction of charges on imports, but by the effect of such reductions in moderating prices charged by Canadian producers and distributors.

Hon. members will note that I am proposing that these tariff cuts remain in force for an initial period of one year. The reduction will be reviewed thoroughly before the measure expires. Furthermore, we are seeking parliamentary authority to delete items from this special list at any time during the course of the year should circumstances warrant such action.

There are several other tariff reductions which do not form part of this broad proposal the details will be found in the ways and means motion.

[*Translation*]

Next I would like to refer to several measures affecting excise and sales taxes.

First, I propose to remove the sales tax on confectioneries, chocolate bars, soft drinks, fruit drinks and other similar near-food products. The effect of this measure will be to exempt from sales tax all food and drink except alcoholic beverages.

Second, I propose to abolish the sales tax on all kinds of children's clothing, including shoes and other footwear. This tax reduction will provide welcome relief to young families with growing children, who face a constant need to replace outworn and outgrown clothes and shoes.

I have chosen to remove the sales tax on these particular items, namely the near-foods and children's clothing, because these products are consumed by virtually every Canadian family. Moreover, food and clothing account for a proportionately larger percentage of the budget of lower-income families, so that the tax on these products bears most heavily on those who are least able to afford it. This action should help to moderate prices for these basic necessities.

Next, I propose that the special 10 per cent excise tax on toilet articles and cosmetics be eliminated. I propose also that the excise tax on clocks and watches be removed, except to the extent that a manufacturer's price exceeds $50. It seems to me that these are now articles of mass consumption and should not be treated as luxuries.

The purpose of these commodity tax reductions is to benefit Canadian consumers. I appeal to Canadian producers and distributors to so price their products that their customers will benefit in the form of lower prices and more value for their money. Parliament will be watching for results and I expect that Canadian consumers will, as well. These measures come into force immediately and, taken together, reduce federal revenues in the next fiscal year by about $190 million.

[*English*]

Mr. Speaker, I would now like to discuss income taxes. To begin with, I want to speak about tax reform. When I presented my budget last May, I told this House that one of my priorities would be to smooth out the rough edges of tax reform. Last May I introduced a number of important amendments to the Income Tax Act arising out of tax reform, and those matters will be debated by this House shortly. Tonight I want to propose a number of further improvements.

First I want to mention a matter of concern to the small corporation and small business. As indicated in the throne speech, this government is deeply concerned about the problems facing small business today. Later in this session of parliament, the government will announce its specific proposals for assistance to this category of enterprise. However, there is one aspect of the Income Tax Act which is of vital importance to these businessmen, namely, the small business deduction. This is the measure which permits the active business income of small corporations to enjoy a lower rate of corporate tax.

Under Part V of the Income Tax Act, the benefit of the small business deduction was withdrawn to the extent that a corporation used its retained earnings for the purpose of making long-term investments unrelated to its business activities. I believe that the policy which gave rise to the ineligible investment test was correct, but I have come to the conclusion that it is too complicated. I believe that these small corporations which enjoy the benefit of the lower rate of tax will, in fact, use these tax savings to expand their businesses, to improve their technology and to create more jobs for Canadians. For this reason, the ineligible investment test is not necessary. Accordingly, I propose that, effective January 1, 1972, the ineligible investment test be withdrawn.

Mr. Speaker, I would now like to draw your attention to another matter which is of great importance, namely the preservation of the family farm. Under the present rules, when a farmer dies and leaves his farm to his children he is treated as if he has sold his farm at its fair market value. In the result, there may be a capital gains tax liability. For many of our farmers this poses a serious problem. First, the value of a farmer's land is often subject to fluctuations which have little bearing on the real value of that land as a farm. Second, most small farmers have little available cash and have already exhausted their credit. Therefore, a tax liability at a time when there has been no real sale may leave the family of the deceased farmer with no alternative but to sell out.

To remedy this problem, I propose that, effective January 1, 1972, when a farmer dies and leaves his farm to his children there will be no deemed sale of his farm land. In the result, capital gains tax will apply only if the farm is sold, if the land is not being used as a farm at the time of death, or if it is not left to the family.

In my last budget speech, I mentioned that I was examining a number of matters relating to the taxation of retirement income. Tonight I am proposing a number of improvements which I am sure will be welcomed by taxpayers. In addition, I would also mention that I am continuing to examine a number of other problems in the area of pension and other retirement income plans, with a view to proposing further improvements as soon as possible.

In my remarks tonight, I have mentioned only two measures of particular importance arising out of tax reform—and then only in summary. There are many other important improvements dealing with such matters as registered retirement savings plans, deferred profit sharing plans, sale of milk quotas and other governmental licences and a number of other amendments affecting individuals, small corporations and farmers.

The ways and means motion I am tabling will describe all of the proposed amendments and I urge every member to review that document carefully. Every one of these amendments is an improvement to our tax system.

• (2050)

I now wish to propose major reductions in the personal income tax. I do this for three reasons:

First, to stimulate the economy by leaving more income in the hands of those who have earned it, who will be stepping up their purchases and in this way providing more jobs.

Second, to encourage restraint in wage demands which, in combination with the restraint I am asking of business and of my colleagues in government, is required to meet the inflation threat. These income tax reductions will contribute to growth in a way that does not threaten excessive cost increases.

Third, to offset the damaging effects of inflation on our taxpaying citizens. Inflation is, after all, a kind of tax which satisfies none of the canons of equitable taxation. It is simple justice to offer some tax relief to those who have been hurt.

Before referring to the new measures, may I remind this House that there is already a tax decrease built into the system as a result of tax reform. The rate of tax on the first $500 of taxable income decreased from 17 per cent to 15 per cent effective this year as a result of measures enacted in December, 1971. This process will continue year by year to 1976, when the rate on the first $500 will be reduced to 6 per cent.

In recent years we have experienced an unwelcome and unacceptable rate of inflation. I want to relieve the Canadian taxpayer of as much of this burden of rising prices as I can. And, in particular, I want to provide relief to that group of our citizens who are least equipped to fight rising prices—our lowest income earners. The tax reform introduced some 18 months ago removed from the tax rolls a million Canadians. Some of these people now

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find themselves back on the tax rolls. I want to exempt from income taxes all these people who in 1973 would otherwise reappear on the tax rolls not because their real incomes have grown, but simply because of inflation. Moreover, I want these people taken off not only the federal tax rolls, but also provincial income tax rolls in provinces with which we have tax collection agreements.

Therefore, commencing in 1973, I propose to increase the basic exemption for all taxpayers from $1,500 to $1,600 and to increase the marital exemption from $2,850 to $3,000. This means that there will be no income tax whatever for a single taxpayer earning less than $1,700 and no tax on a married couple earning less than $3,100. The benefit of these increased exemptions will, of course, be enjoyed by taxpayers in all income brackets.

The combination of these proposed increases in exemptions, together with the other measures I will announce in a moment, will more than relieve every low and middle income earner of any increase in his taxes due to the inflation which has occurred during the period since the introduction of tax reform.

But this is not all that I have to say on this matter of personal taxation. Starting January 1, 1973 I propose a 5 per cent reduction in the basic federal income tax up to a maximum of $500 for every individual taxpayer.

However, there is one fundamental problem with a straight percentage reduction in taxes, particularly when it is to be a continuing part of the system. For that large body of our taxpayers below the middle income levels, their tax liability is not large in absolute terms. For these taxpayers, a percentage reduction in their tax does not provide enough relief. For example, in 1973 the basic federal income tax for a married man with an $8,000 income would be $954, after taking into account the increase in exemptions. For him, a 5 per cent reduction is worth only $47.70

To deal with this problem, I propose that the tax reduction be not just 5 per cent, but that there should also be a minimum reduction of $100.

Mr. Speaker, may I illustrate how some typical Canadian families will be affected this year by the combination of all these new income tax measures which I have just announced. For a married couple with two children and the breadwinner earning $5,000, the total tax will be reduced by $137. This represents a 47 per cent reduction from what the tax otherwise would have been this year. For that wage earner, this reduction in tax is the same as if he had received a wage increase of 3.6 per cent. If the same family had an income of $8,000, the total tax reduction will be $141, or 13 per cent—the equivalent of a 2.4 per cent annual wage increase. Another way of looking at the impact of these taxation cuts is to note that a married wage earner with two young children living in any one of the provinces will pay no federal income tax until his income goes above $4,473. These computations have been made for residents of provinces having the lowest provincial rate of tax. For taxpayers in other provinces, there would be minor differences in the calculations.

For the 1973-74 fiscal year, these measures will leave in the hands of Canadians an additional one billion, three hundred million dollars by way of reduction of personal income tax. And of this amount, 70 per cent, or about $900 billion, will be concentrated in the hands of people with incomes of less than $10,000.

[Mr. Turner (Ottawa-Carleton).]

The value of these tax reductions is four times greater than the value of last year's 3 per cent reduction. And, furthermore, the principal benefits go to the most needy and the most deserving.

The full value of these 1973 reductions will be reflected in payroll deductions at source commencing early in April. This will mean that there will be a very early improvement in the take-home pay of workers and, as a result, a quicker stimulus to the growth of the economy.

Mr. Speaker, let me sum up these income tax proposals for 1973:

(1)—an increase of basic exemption from $1500 to $1,600,

(2)—an increase of exemption for a married couple from $2,850 to $3,000,

(3)—a reduction of basic federal tax by 5 per cent, with a maximum of $500,

(4)—a reduction of basic federal tax of at least $100,

(5)—these measures have no termination date,

(6)—these measures give maximum relief to those whose need is greatest,

(7)—three-quarters of a million people are dropped from federal tax rolls.

• (2100)

[*Translation*]

Mr. Speaker, I come now to an income tax measure of fundamental importance. I am deeply concerned about inflation and the effect that inflation has on a tax system which is based on a progressive rate schedule. I therefore propose to take steps now to provide a lasting solution to this problem should inflation continue.

First let me explain more clearly how the problem arises.

Our tax system is based on a progressive rate schedule. This means that as a person's income increases, he pays a greater percentage of his income in taxes. For example, under our present system, in 1973 a person pays 15 per cent on his first $500 of taxable income, but 18 per cent on the next $500. In other words, as his income increases from one bracket to the next, the rate of tax on this additional income increases. Basically, this is a sound and fair approach and most advanced countries have adopted this progressive tax system.

But an increase in a person's income may be real or simply the result of inflation. Put another way, if a man gets a 5 per cent raise in salary, but the cost of living has also increased 5 per cent, he has the same real purchasing power he had before, and nothing more. Yet, the progressive tax system can leave him worse off than he was before because he has entered a higher tax bracket. What I want to do is eliminate that unfair and unintended result from our tax system.

Beginning in 1974, I propose to introduce the following system. First, in each year an inflation factor would be determined based upon the increase in the Consumer Price Index in an immediately preceding period. Second, in each year the principal exemptions would be increased by this inflation factor. This would include the basic exemption, the marital exemption, the two exemptions for dependents, and the exemptions for the aged and the blind and the disabled. Third, every year each of the brackets of taxable income would be adjusted upwards by the inflation factor.

For example, if in a particular year, the inflation factor was determined to be 4 per cent, then the principal exemptions would each be increased by 4 per cent. Similarly, each bracket of taxable income would be adjusted upwards by the same percentage. Thus, the first bracket of taxable income, which is taxed this year at 15 per cent, would be raised from $500 to $520. The next bracket, which would be subject to an 18 per cent rate, would commence at $520 and would extend to $1,040, and so on right through the tax schedule.

The indexing of rates and exemptions will produce a tax liability which will no longer erode a person's purchasing power as a result of inflation interacting with the progressive tax system. A person will no longer pay tax at a higher marginal rate simply because inflation swept him up into a higher tax bracket. For a person on a fixed income—

[*English*]

Some hon. Members: Author!

Mr. Speaker: May we have order, please. It is extremely difficult for the Chair to hear the minister.

[*Translation*]

Mr. Turner (Ottawa-Carleton): For a person on a fixed income, the result of indexing would be to reduce his taxes each year if prices rise.

Members may ask why delay implementation of this indexing proposal until next year? There are two reasons. First, the income tax reductions and increased exemptions I have already announced for this year are far larger in magnitude than would be the effect of this indexing system if applied in 1973. Second, and more important, this proposal is a major innovation in tax philosophy and practice. It is not complex, but it will take some time for people and governments to adjust to it. For these reasons, I have concluded that it should come into effect only next year.

Mr. Speaker, a final comment on income taxes. I believe that this proposal for indexing the personal income tax puts Canada in the vanguard of countries with advanced tax systems. I suggest that this new system will be recognized everywhere as a bold and sensitive response to a rather fundamental tax problem. With the introduction of this change, Canada will join a very select group of countries which have eliminated the hidden revenues accruing to governments through the effect of inflation on a progressive tax system.

[*English*]

As I emphasized earlier, the budget of last May and the budget I am proposing to the House tonight are complementary and mutually reinforcing.

In proposing the reduction in the tax burden borne by Canadian manufacturing and processing companies in my first budget, I said I expected that, among other things, they would make use of this benefit to hold down the prices of their products.

The wide-ranging measures that I have just outlined in this budget will be of very direct and substantial financial benefit to every Canadian. The reduction in income tax rates and the increase in personal exemptions will increase the take-home pay of the average Canadian worker. The proposal to offset automatically the impact of inflation by the personal income tax indexing system will further moderate the weight of taxes next year and in the future. The reduction in sales taxes and excise taxes and customs duties I have proposed will help to moderate prices of many foods and household goods.

I want to see workers in this country receive a fair return for their labour. I want to see them receive a fair share of the real growth of our national income. But I expect them to be reasonable in their demands. I expect union members and their leaders to take full account of the increase in disposable income that will flow from these tax reductions when they enter wage negotiations. Indeed, I appeal to all income earners—and I include members of the professions—to be reasonable and moderate in their income expectations and demands. If we are to moderate the rise in the cost of living, then we must also moderate the rise in the cost of producing the goods and services that consumers buy.

[*Translation*]

I should like to turn now to the question of federal-provincial fiscal arrangements. Under the tax collection agreements, all provinces except Quebec relate their personal income taxes to the basic federal tax. The increase in the basic exemption for federal tax will cause some reduction in revenues for these provinces. However, they are protected by the floor we have already provided under the revenue guarantee provisions of the Fiscal Arrangements Act. I have previously assured the provinces of our readiness to make advance payments under that guarantee, in connection with our tax cuts of last May. I re-affirm that assurance as regards the personal income tax reductions which become effective in 1973. I also propose to consult fully with all provinces about the implications for them of the indexing system for personal income taxes.

There is, moreover, a very important point which must be emphasized. This is the obvious need for co-ordination in fiscal policy between the federal and provincial levels of government. Honourable members will be aware that over the past two decades a very substantial shift in responsibility for taxing and spending has been taking place—a shift away from the federal government to the provincial-municipal level. This shift reflects both the constitutional division of responsibility and the emerging social priorities of our country. It reflects, as well, the evident wish among Canadians for as much decentralization of power and authority as is consistent with a vigorous national unity.

But such a division of power also means that provincial governments—and those of the largest provinces in particular—must be prepared to carry an appropriate share of responsibility in policies for stability and growth in the national economy. This naturally means that substantial