

Prairie Grain Payments Act

of the nation and we cannot get along without him. Why, then, does this government insist upon introducing piecemeal legislation which is only a stopgap, just to make the picture look rosy in the eyes of those who do not understand the difficulties of agriculture, particularly when this serious situation is not going to disappear on its own? Until ministers responsible for agriculture, transport and the Wheat Board work together toward a sound, long-range program not just for today, this week, next month but for the future, this situation will not disappear.

At a time when the price of grain is right and it should be moved, there is a bottleneck; yet farmers are urged to plant one more field, not having any guarantee that the price will last unless this government takes some effective action. We, as Canadians and as parliamentarians, should take the initiative in setting up a world food reserve to purchase surplus grain for emergencies. Neither Canada nor any single country should have to finance such a project; all countries should support it. There should be grain on hand during years of plenty to make up the lack in times of poor harvests. Last year there was a shortfall of 5 per cent, and here we are with grain which cannot be moved but which should be moved now when the price is right.

It has been estimated that 5 per cent of the United States wheat production has already been lost due to the drought in Texas. Although at the moment the over-all picture looks promising for increased supplies of grain, that grain is a long way from the bin. Our hopes are high, and we expect the government to get busy to see that the grain is sold through the Wheat Board for export, to ensure that delivery will not be delayed and to arrange to have a sufficient supply for domestic use.

Farmers are being urged by the minister responsible for the Wheat Board to plant additional acreage in grain, but they cannot deliver the grain they now have and they have no guarantee that good prices will last, unless this government takes some effective steps. The Minister of Agriculture has said that much of the cost of production of feed grain is up, as I said earlier, 200 per cent to 300 per cent. He goes around the country telling people that farmers must have more and more money for their products if they are to remain in operation. Let me assure you, Mr. Speaker, and the minister in charge of the Wheat Board that with these programs of the Minister of Agriculture there is no end to what farmers will have to pay for the production of food and to try to keep ahead of the increasing costs of production.

On motion of Mr. Towers the debate was adjourned.

At six o'clock the House took recess.

AFTER RECESS

The House resumed at 8 p.m.

[Mr. Towers.]

THE BUDGET**ANNUAL 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, we Canadians today have reached a threshold of great challenge and great opportunity.

We are thriving as seldom before in our history. Our growth of output, employment and real income surpasses that of virtually every other industrial country.

But we are confronted by the scourge of inflation, worldwide in its origins and impact. No other issue more deeply disturbs our country, this government or me, as Minister of Finance. While we have suffered less from inflation than most other nations, we can and must do better to overcome it and alleviate its burdens.

The challenge facing the country is to break the inflationary spiral. But we must do this in ways that will not erode our prosperity nor damage our growth. Let no one think that this can be done easily or quickly. It will take time and effort. And until we have brought inflation under control, it is imperative that the burdens it inflicts be equitably shared and that those people who are most vulnerable be decently protected.

An opportunity is at hand to strengthen the Canadian economy and to improve the standard of living of every Canadian. This will require the wise development of our unique storehouse of resources—both material and human. In doing this, we must not allow ourselves to be diverted by ill-considered and illusory policies that would prejudice our long-term interests as a nation.

This budget has three main purposes. The first is to reinforce our attack on inflation through encouraging increased supplies of goods and services. This we will do by maintaining the strong expansion of the economy and by increasing the productive capacity of our farms, fisheries and industries. The second is to act directly against high prices where that is practical. The third is further to alleviate the adverse impact of rising prices on all Canadians, particularly those with lower incomes.

[*Translation*]

International Developments

The problem of inflation is clearly world-wide in origin. The Economic Review that I tabled last week deals with this at some length, and documents the leading role which accelerating international prices have played in our domestic price experience. Indeed, world inflation can be traced to the enormous buildup in international liquidity associated with the massive deficits in the U.S. balance of payments which ultimately resulted in the breakdown of the Bretton Woods exchange rate system. More recently, the concurrence of economic expansion in most industrial countries, coupled with major crop failures, led to an explosion of commodity and food prices. Last December, the world was hit further by a cutback in the supply of oil and staggering increases in its price. With so many nations facing massive shocks to their international balances, the world community is threatened by fragmentation and protectionism.

These developments constitute a menace to all countries, and not least to Canada, given our dependence on international trade and investment. No country can long prosper in a world of unsettled international financial and trade arrangements. This is clearly a time for renewed co-operation and strenuous efforts by all countries to rebuild a viable international trade and payments system. Let me stress that Canada has been playing a full role in the broad international effort to achieve this objective.

This government came early to the conclusion that under the conditions of great uncertainty emerging in the world, floating exchange rates were appropriate. Indeed, Canada adopted this policy four years ago. This approach has now been widely adopted and seems in these troubled times to be serving us all well.

In the pursuit of international monetary reform, Canada has persistently urged that the discussions should concentrate on matters of immediate importance where progress is possible. Last January, this approach of making progress where we could was endorsed by world finance ministers at their meetings in Rome.

Canada has also urged, and will continue to urge, that the International Monetary Fund, the key international financial institution, be strengthened in order to play an increasing role in maintaining world monetary order. We support the proposal for a new council of the IMF, composed of ministers, to meet frequently to tackle directly the major international financial issues, especially world inflation.

On the trade side, we have been concerned, as the energy crisis emerged, that countries might individually take restrictive action to relieve their balance of payments deficits. I have stressed this danger at many international meetings. I therefore welcome and support the efforts being made in the Organization for Economic Co-operation and Development, and in the work begun at the Washington Energy Conference, to ensure that countries avoid beggar-thy-neighbour policies. Recent actions in Europe make it all the more urgent that we proceed with this initiative without delay. God and this House willing, I will be in Paris in two weeks' time to offer Canada's full co-operation in an appropriate pledge to avoid such destructive policies.

Looking further ahead, it is important that the Tokyo Round of trade negotiations proceed on schedule. We will need to address ourselves to removing unjustifiable trade barriers, improving the GATT rules governing international trade, and dealing effectively with problems of security of supply for key international commodities. If timely progress is to be made, it is critical that the United States take the required legislative action that will enable it to play its essential role in these negotiations.

All of these international efforts are especially vital to the poorer countries of the world. Many developing countries are in desperate straits because of the sudden escalation of oil prices. They need help, and they need it quickly. Canada supports the efforts of the IMF to establish a new lending facility to help countries, particularly the developing ones, to meet this major crisis. We have informed the Fund that Canada is prepared to lend to the Fund for this purpose under the authority of the Currency and Exchange Fund Act.

The Budget—Hon. John N. Turner

We are also revising and improving our own aid program to meet these new circumstances and new requirements. You will recall that in addition to our \$549 million already allocated to foreign aid for this year, the government has recently announced that an additional \$100 million will be made available this year in fast-disbursing forms of aid, mainly food and fertilizers.

In addition, the government, through the Estimates, is seeking parliamentary authority for the advance commitment of Canada's contribution to the Fourth Replenishment of the International Development Association. This Association is a subsidiary of the World Bank, specializing in the provision of low-interest and interest-free loans to the most needy countries.

● (2010)

[English]

THE CANADIAN ECONOMY

The shadows of international events have fallen less darkly on us than on others. The outlook for the Canadian economy is bright. Output, employment and income are all continuing to increase. I don't underestimate for one moment the plague of rising prices but even here we have been less afflicted than have other countries.

Ours is a diversified economy, capable of producing a wide range of primary products as well as manufactured goods. In particular, unlike other industrial countries, we are not on balance dependent on foreign supplies of energy, especially oil. In fact, we are a microcosm of the world as a whole in comprising both oil-producing and oil-consuming regions. But the strength of our federation has enabled us to avoid massive increases in oil prices. Such increases would have had disruptive effects on the level of output and employment as well as accelerating the rate of inflation. The agreement negotiated by the Prime Minister (Mr. Trudeau) with the provincial premiers on March 29 with regard to the price of oil, the export tax and the subsidy to eastern consumers struck a reasonable compromise and strengthened our national unity and purpose. We kept within bounds the increase in the price of oil to Canadian consumers. At the same time, substantial benefits are flowing to the oil-producing companies and the provinces in which they operate to encourage the development of new sources of supply.

In my last budget, I predicted that in 1973 the real growth of the economy would amount to 7 per cent. This was derided by the opposition as wildly optimistic. In fact, we achieved 7.1 per cent, the largest increase in 17 years and, Japan aside, the highest in the industrial world. My first priority has been the creation of permanent satisfying jobs for our rapidly growing labour force, to ensure that those who want work and need work can find it. In 1973, there were 430,000 more Canadians at work than a year earlier. The expansion in employment was 5.2 per cent, a record achievement for Canada by a substantial margin, and the fastest rate of increase among the industrial nations.

Mr. Speaker, I take particular satisfaction from the fact that over one-third of this increase occurred in manufacturing and construction. Manufacturing employment alone rose by 111,000 or 6 per cent, after many years during which it had been almost static. Some of this achievement

The Budget—Hon. John N. Turner

comes from good fortune. Much of it comes from the enterprise of Canadian business and the efforts of working men and women in this country. But a good deal is due to the sound economic management and budgetary policies of this government.

It is also a source of satisfaction to me that employment in the Atlantic provinces and in Quebec increased more rapidly in 1973 than in the country as a whole. The reduction of regional disparities—or better put, the growing equality of economic opportunity—has been a high priority of this government. The policies pursued by my colleague, the Minister of Regional Economic Expansion (Mr. Jamieson) are bearing fruit. But we have always recognized that an essential condition for satisfactory growth in the less prosperous parts of this federation is sustained growth in the economy as a whole.

● (2020)

The growth of Canadian output and employment in the early months of 1974 has contrasted sharply with the experience of the United States. In that country, unfortunately, real output dropped at an annual rate of almost 6 per cent in the first quarter. On the other hand, in Canada the production of goods and services rose strongly in the first quarter by at least 8 per cent in annual terms over the fourth quarter of last year. This was accompanied by new job creation in the same period at 7 per cent. We are now at the limits of our physical capacity in many industries. Many products, including such critical industrial items as steel, construction materials, agricultural implements, machinery and chemicals, are in short supply.

Despite the record growth of our labour force, the rate of unemployment has been brought down to 5½ per cent. I know that this is higher than at times in the past when the economy was operating at peak levels. It is certainly at a higher level than I would like to see. The fact remains, however, that the labour market is generally tight across the country, with many jobs remaining unfilled for lack of qualified workers.

Looking to the future, Mr. Speaker, I forecast that real output in 1974 will be 5 per cent higher than in 1973, assuming always that we are not plagued by serious strikes and adverse weather at home, or crises abroad. Given the fact that there is no significant amount of slack to take up, this is about as much as we are physically able to do this year. The most dynamic element of demand is now business investment. The recent survey of investment intentions indicated that business is planning to raise capital investment this year by 19 per cent, manufacturing investment by 28 per cent. These increases are on top of the substantial gains of last year. New capacity is already coming on stream to relieve shortages and to create new jobs, and this will gain momentum as the year goes on.

Consumers will be stepping up the volume of their buying as fast as the economy expands. Net farm income, which rose by 89 per cent last year, is headed for another buoyant year. Exports will grow less rapidly this year because of the international oil crisis and the slowdown in world growth. Housing starts reached a record level of 269,000 last year, well in excess of the rate of family formation. So far this year, starts are running at still higher levels but this rate may prove unsustainable in the

[Mr. Turner (Ottawa-Carleton).]

face of the shortage of supply of labour, materials and especially of serviced land.

I expect that on top of the massive increase of 430,000 jobs in 1973, we will have a further increase in 1974 in excess of 300,000.

[*Translation*]

The Issue of Inflation

I turn now to the issue of inflation. We all know the harsh facts. The consumer price index rose by 7.6 per cent in 1973 and by 10.4 per cent in the 12 months ending March, 1974.

I have stressed that the inflation is world-wide in origin with the major source of upward pressure being the explosive upsurge of prices of agricultural and industrial commodities in international markets, as a result of rising demands and limited supplies. Since mid-1972, international commodity prices have doubled. The increase in the price of oil, which quadrupled, is only the most spectacular example of the general problem. Other commodities which have more than doubled in price during the past two years include wheat, barley, corn, soybeans, coffee, cocoa, sugar, hogs, rubber, tin, copper, zinc and lead. Only recently have they shown any tendency to peak or turn down. All countries have been affected, most to a greater extent than Canada because they have been less able to protect themselves against the rise in oil prices. According to the latest figures available to me, in the 12-month period ending February, the cost of living rose by 12 per cent in the OECD countries as a whole. It was up by 26 per cent in Japan, 13 per cent in Australia, Italy and the United Kingdom, 11½ per cent in France and 10 per cent in the United States. For Canada the comparable figure was 9.6 per cent.

In our fight against inflation. I have rejected two possible approaches. One is the deflation of demand by severe measures of fiscal and monetary restraint. The effect of this would be stagnation and rising unemployment. In my judgment, such a cure would be worse than the disease.

[*English*]

The second approach, urged upon us by the official Opposition, is to impose a general system of price and wage controls. This would be totally ineffective in overcoming the kind of inflationary problem we have been and are still facing. What we need, still, is not controls but an increase in supply. The United States, Britain and other countries have found to their frustration that controls disrupt supply. In these countries the enthusiasm of even the strongest supporters of controls has been cooled by the hard realities of their recent experience. I am not saying that general controls over prices and incomes would be a cure worse than the disease. I am saying that in the present circumstances where the prime causes of inflation are shortages of supply, controls are no cure at all.

A variant of the general controls advocated by opposition members is selective controls reinforced by a two-price system for those internationally-traded commodities of which Canada is an important producer. This approach would have us control the prices for these commodities in Canada while leaving their export prices free to rise to world levels. Quite clearly, such a system would lead quickly to the drying up of supplies in Canada unless

backed up by a battery of export controls. This would not only jeopardize markets we have built up at great effort over many years but it would invite retaliation through imposition of controls on imported goods we require. For Canada, so dependent on trade, to lead the world into this kind of protectionism would be the height of folly.

Mr. Speaker, this government has not reached for the bludgeon of deflation or for the illusory magic of controls. We have not played either draconian or cosmetic politics with the Canadian people.

In my view, what we have to do is this. First, we have to keep this economy rolling ahead and pouring out the goods and services our people need. Second, we have to reduce the strains reflected in particular market prices where this can be done in a practical way without harmful side effects. Third, we must help those Canadians least able to protect themselves from the hardships of inflation. My purpose tonight is to propose policies and measures which will round out and reinforce all three facets of this strategy.

Fiscal and Monetary Policy

The development of this strategy must be carried out within the framework of an over-all monetary and fiscal policy. Let me therefore explain here my views of the kind of framework we need.

The forecast I have given earlier tonight anticipates that demand in the economy will expand in line with our capacity to produce. In terms of the total demand required to keep the supply of goods flowing at capacity rates, we are on the right course now. We do not require additional stimulus. Neither do we need any severe contraction of demand. I agree with the Governor of the Bank of Canada that the rate of monetary expansion should now be moderated to the pace just sufficient to sustain continuing growth at the levels of our physical capacity. Rates of interest are painfully high, but the way to bring them down is to slow the rate of inflation. This will take time. Meanwhile, I expect the banks to continue to give preference in their lending to small businesses, mortgage finance for housing, and borrowers in the less favoured regions of the country.

On the fiscal side, what is required is that we hold our cash requirements, excluding foreign exchange, to much the same effective level as last year. Given our programs of government lending, this implies a reduction in the budgetary deficit and in the deficit computed on the national accounts basis. In the absence of new policy initiatives, my fiscal forecast indicates broadly this result. In choosing tonight's measures to extend our specific policy thrusts against inflation, I have therefore had to find additional revenues to pay for the costs of new initiatives.

REVENUE-RAISING MEASURES

I propose to find those revenues in ways that hurt least, and I propose to apply them to help people most in need. This must be done without damaging the over-all thrust of the government's budgetary policy. Clearly, additional revenues cannot be obtained without imposing a burden somewhere. I have selected measures which will give us the revenue required, but which will not in my judgment

The Budget—Hon. John N. Turner

contribute to price increases on essential goods or impede the expansion of supply.

Petroleum and Mining Corporations

The major revenue-raising measures are in the field of corporation taxes. The most important of these relates to the taxation of the petroleum and mining industries.

In the tax reform of 1971 a new regime was established for the taxation of these industries. Since then there have been dramatic changes in the world and in Canada affecting the fortunes of these industries. For one, with respect to oil, I do not have to recall the phenomenal price increases and their potential for profit during the past year. The response of governments around the world has been to review their taxation policies and to strike a new balance appropriate to these changed circumstances. In mining, less dramatic but major price increases have occurred due to shortages and inflationary expectations. Here too, a re-examination of tax regimes is called for.

● (2030)

In Canada our provinces have adjusted royalties, mining taxes and other arrangements to derive what they perceive to be a fair share for the benefit of their people. However, a provincial resource is also a national resource, and the federal government has a responsibility to see that a reasonable portion of this gain is shared by all Canadians. In these circumstances, the federal government has had to reassess its over-all taxation policy with respect to this key sector of the economy. In doing so, we have had the following objectives in mind.

First, it is essential that this sector bears a burden of tax on profits that is reasonable relative to the share borne by other sectors of the economy. Second, it is essential to ensure that all the people of Canada derive a fair share of the substantially increased revenues that flow from the higher value placed by the world on these resources. Third, the federal government should recognize the special position of the provinces with respect to the taxation and charges on resources within their boundaries. Fourth, the federal government must ensure that provincial royalties, provincial mining taxes and other arrangements having similar effects do not unreasonably erode the corporate income tax base. Finally, over-all Canadian tax policy must have regard for the position of these industries in terms of international competition and in terms of the financial resources they require to bring forward the supplies needed in the years ahead.

Taking all these considerations into account, I have the following proposals to make for a revised regime of taxation for these industries.

First, I am proposing that the basic rate of corporation tax applicable to production profits from minerals, oil, and gas be increased to 50 per cent. Because of the gradual reduction in the corporate rate under the tax reform schedule this will mean an increase of 2 percentage points of tax for the balance of 1974, 3 points in 1975 and 4 points in 1976 and thereafter. I believe that a 50 per cent rate of corporation tax for this type of income is appropriate to the new circumstances, rather than the 46 per cent rate which otherwise would have applied by 1976.

The Budget—Hon. John N. Turner

Second, I am proposing that revenues derived by provincial governments in respect of production from a petroleum or mineral resource should no longer be deductible in computing the income of the operator of the resource. At the same time, in recognition of the special position of the provinces in relation to natural resources, I am proposing that, effective immediately, there be an extra abatement from federal income tax in respect of taxable production income derived in Canada. The extra abatement will be 15 points in the case of mineral profits and 10 points in the case of petroleum profits. For mineral profits, the combination of the new abatement, together with the standard provincial abatement of 10 points, will reduce the effective statutory federal rate from 50 to 25 per cent. In the case of petroleum, the result will be to reduce the federal rate to 30 per cent.

The question of the provincial abatement with respect to mining income requires some elaboration. In August, 1970, at a time when the basic corporate tax rate was 50 per cent, the then minister of finance announced that commencing in 1977 the federal government would abate 15 points of corporate tax in respect of mineral production income. At the same time he indicated that commencing in 1977, provincial mineral taxes and similar payments would not be deductible for corporate tax purposes. Provincial mining royalties were not mentioned because provinces traditionally relied at that time on mining taxes to derive revenues from the industry.

Subsequently, many important changes have occurred in provincial tax policies. In particular, provinces have begun to make use of royalties of many different kinds to increase their revenues. I am not opposing this. But I am saying these developments are making it almost impossible to arrive at a meaningful distinction between mining taxes and the varying types of royalties or arrangements which have similar effects in terms of what is or is not allowed as deductions for corporate income tax purposes.

Hence, I propose that with regard to the taxation of mineral resource profits, none of these payments to provinces be recognized as deductible in determining corporate tax. I point out, moreover, that this bears not only on the federal corporation tax but also on the provincial corporation tax for those provinces for whom we collect this tax.

In respect of petroleum, the additional provincial abatement is an entirely new feature.

It is also apparent that the petroleum and mineral resource industries in Canada have reached sufficient maturity that the existing tax incentives are more generous than is needed to encourage continuing development. Accordingly, I am also proposing to cut back immediately on some of the existing incentives. Henceforth, depletion can be claimed only if it is earned and only up to an annual maximum rate of 25 per cent of production income rather than 33½ per cent. Canadian exploration and development expenditures have in the past been deductible immediately. If incurred in the future, they will be amortized at a rate of 30 per cent calculated on the diminishing balance basis.

Earned depletion which can presently be accumulated at the rate of \$1 for every \$3 of eligible exploration and development expenditure will continue. With rising resource profits, and the discontinuance of automatic

[Mr. Turner (Ottawa-Carleton)]

depletion, this earning of depletion will be very effective incentive for encouraging exploration. Similarly, I propose to retain the immediate deductibility of the cost of capital assets invested in a new mine or a major expansion of a mine because of the incentive it provides to new development.

I believe these proposals accomplish the objectives we have set for ourselves. Given the circumstances of the day, they establish an improved and not unreasonable position for the federal government on behalf of all the people with respect to the taxation of this sector of the economy.

I estimate that these measures will increase the federal tax liability in 1974 of the mining industry by \$40 million, and that of the oil and gas sector by \$410 million. For the eight provinces with whom we have collection agreements, the comparable amounts are \$5 million in respect of mining and \$115 million in respect of oil and gas. Ontario and Quebec, of course, collect their own corporation tax, and therefore I have not attempted to estimate any revenue increase with regard to these two provinces.

[*Translation*]

Financial Institutions

Mr. Speaker, another major sector of the business community which has been very profitable in recent years is the financial area. This has been particularly true of the larger institutions. I have had the occasion to examine their position and I have reached several conclusions. First, the volume of business of financial institutions, and consequently their profit-ability, has increased substantially. Second, during the last decade the loss experience of these institutions generally has been less than 1 per cent and with regard to the larger institutions, the loss experience has been less than 4/10ths of 1 per cent.

In October of 1968, the then Minister of Finance changed the tax treatment of these institutions by reducing their tax-free reserves from 3 per cent to 1½ per cent of eligible assets. Tonight, I am proposing to reduce the level of tax-free reserves from 1½ per cent to 1 per cent of eligible assets for all financial institutions such as banks, trust companies, insurance companies and any others who are required to compute their reserves on this formula basis. This measure will be applicable for taxation years ending after tonight.

At the same time, I recognize that the loss experience of the smaller institutions is greater than that of the larger ones. Therefore, I am proposing that the present reserve of 1½ per cent be retained in respect of the first \$2 billion of eligible assets and that the 1-per-cent rate apply to the excess. This new regime will yield the federal government \$40 million in fiscal 1974-75. It will ensure that the large financial institutions bear their fair share of the tax burden, and yet avoid an adverse effect on the smaller institutions and any new institutions.

[*English*]

Other Corporate Measures

Mr. Speaker, I would now like to turn to corporate tax measures of a more general nature.

Corporate profits have risen sharply in the last year or two. In part, this has been a recovery from earlier depressed levels, but companies have benefitted from the strong economy and from inventory gains enjoyed during

a period of sharply rising prices. I have said before, and I reiterate tonight, that I welcome the improvement in the position of Canadian corporations so essential to their continued expansion and the creation of new job opportunities. At the same time, I have pointed out on several occasions, both inside and outside the House, that there is a proper balance to be struck.

Given the level of profits Canadian corporations are enjoying, it is appropriate that as a temporary measure some additional tax revenue should be obtained from such corporations. Subject to certain important exceptions which I will outline in a moment, I am therefore proposing a temporary 10 per cent surtax on federal corporate income tax for the period from May 1, 1974, to April 30, 1975. The obligation of corporations to pay monthly instalments in respect of their tax liability will be adjusted to reflect the imposition of this surtax and the other measures introduced tonight.

This surtax will not apply to small business corporations. I am attempting to do all I can to encourage the growth of small business corporations which are largely owned and controlled by Canadians.

Because of the major changes I am proposing for the taxation of mining and petroleum corporations they also would be exempt from this temporary, one-year measure in respect of their production profits.

● (2040)

In addition, the surtax will not apply to the profits from manufacturing and processing in Canada. I believe it is essential to maintain the reduction in the tax burden on that vitally important sector to enable it to strengthen its international competitive position. Canadian manufacturers and processors continue to be vulnerable to foreign competition as a result of the extensive use being made of the U.S. DISC tax provisions, the favourable tax treatment provided to manufacturers in other countries, and the intensified pressures they have faced from abroad more recently following the increase in our exchange rate.

The manufacturing and processing industries are not only a major source of employment directly, but they also provide a strong underpinning to the burgeoning service sector of our economy. The importance of bolstering manufacturing and processing is by no means confined to the central provinces where the greater proportion of those industries is now located. It is of equal or even greater importance to the Western and Atlantic Provinces, all of which are giving top priority to broadening the base of their economies through the large-scale development of secondary manufacturing and processing operations.

The measures which we introduced are doing exactly what they were intended to do. After years of slow growth, Canada's manufacturing and processing industries are rapidly expanding. Profits of manufacturers and processors have improved substantially, but they are being plowed back into heavy new capital investment to increase productive capacity, the supply of goods required by our expanding economy, and employment for our rapidly growing labour force. As I recalled earlier, manufacturing employment last year rose by 111,000, which was 8,000 more than the total increase in the previous six years combined. Manufacturing output rose by 8 per cent in

The Budget—Hon. John N. Turner

1973, the largest increase since 1965. Manufacturing investment in new productive facilities rose by 19 per cent last year and this year is expected to grow by an extraordinary 28 per cent, the greatest increase in more than a decade.

Under these circumstances, and in view of the vulnerability of this sector to competition from abroad, I am convinced that it is in the national interest to maintain the reduced tax rate on manufacturing and processing profits which parliament adopted last year. Members will recall that in my last budget I indicated the companion measure implemented by order-in-council providing for a rapid two-year write-off of machinery and equipment acquired by this sector would be put in place for an initial period ending December 31, 1974. It is my intention to reassess this provision toward the end of this year when I have the benefit of the review now under way of the capital cost allowance structure and the further report on the impact of the tax measures on the manufacturing and processing companies.

Let me add a word, Mr. Speaker, about why I rejected proposals for an excess profits tax put forward by some members of the opposition. Hard, practical experience with such a system in the past has made it clear that it has major defects. In the first place, it is extremely difficult to define excess profits—as distinct from blatant profiteering—in a way that is equitable and workable. Any excess profits scheme is full of loopholes, with the result that some companies escape taxes otherwise payable. Secondly, imposition of a heavy tax on profits above some level that is defined as normal or reasonable, removes substantially the incentive of business to hold down costs and maintain or improve efficiency. The result is that instead of reducing inflationary pressures, as it is intended to do, an excess profits tax tends to increase those pressures. It is for these reasons that I rejected the idea of erecting a complex excess profits tax system and chose instead to propose a temporary, one-year surtax that is reasonable and administratively simple, but which still maintains the incentive for business to operate as efficiently as possible.

[Translation]

A further measure that I am proposing tonight will ensure that corporations not only pay their fair share of taxes, but also pay it promptly. I am advancing the timing of the final payment of a corporation's tax to the end of the second month rather than the third month after the end of the corporation's fiscal period. This change in tax payment date will not apply to a small business corporation.

The effect of all these measures in the corporate income tax field is to provide a significant increase in federal tax collections in 1974-75. In the absence of the changes affecting the petroleum and mining industries, the advancing of the final payment date would have yielded \$200 million. The measures affecting the resource industries would have yielded very little in 1974-75 unless the final payment date had been advanced, because in their case the payments would not have been received until the next fiscal year. But in combination with the advancing of the final payment date, I estimate that these measures will yield \$400 million. The proposals regarding financial institutions are estimated to yield \$40 million. The temporary

The Budget—Hon. John N. Turner

10-per-cent surtax is estimated to yield \$150 million. The combined effect of all these measures on federal corporate income tax collections this fiscal year amounts to an increase of \$790 million.

Excise Taxes

Mr. Speaker, I now turn to other sources of revenue. I have already made considerable reference to the energy crisis with which we struggled this past year. All of us have become more conscious that we need to economize in our use of energy, particularly petroleum. I propose a measure which will make some contribution to this end.

Effective tonight, a special excise tax is to be introduced on high-energy consuming passenger cars and other types of energy-consuming vehicles. This will include large, heavy cars, high-powered motorcycles, privately-owned aircraft and large power boats. The tax will yield the federal government an additional \$10 million of revenue in 1974-75.

I have stressed that one of my requirements in this budget is to raise in revenues an amount at least equivalent to the tax reductions I will propose shortly. It seems to me that an increase in the tax levied on liquor and tobacco is an appropriate source to look to for some increase in revenues. Specifically, the proposed changes, which come into effect tonight, will raise federal levies on cigarettes, cigars, tobacco, spirits other than beer, and wine other than cider, by approximately 15 per cent. This measure will yield the federal government an additional \$100 million of revenues in fiscal 1974-75.

These increases would be implemented by a number of measures, details of which will be found in the Ways and Means Motion.

THE PROGRAM AGAINST INFLATION

Mr. Speaker, I have explained that the fiscal framework needed for this period is one that maintains about the same level of cash requirements as last year. I have described how I propose to raise additional revenues. I now wish to outline how these revenues might be applied within such a framework to finance measures which best round out and reinforce our policies to deal with inflation.

Measures to Increase Supply

The first element in our strategy against inflation has been and continues to be the expansion of supply. The central features of that policy have been in place for some time. Our fiscal and monetary policies have been designed to bring the economy up to full capacity growth. We have taken measures to increase the capability of the economy to produce efficiently the goods and services which are needed. This not only increases our production capacity, but it also creates remunerative and satisfying jobs, relieves shortages and reduces costs. The reduction of taxes on manufacturing and processing is clearly bringing about just such a massive increase in capacity.

Further, as part of the agreements reached with respect to oil, the governments of the producing provinces will channel substantial funds into the encouragement of exploration and development. The National Petroleum Corporation will serve the same objectives. In facing the growing need for electrical energy, we have announced a

major program of federal aid for inter-regional transmission lines. We are also well-launched on a nation-wide policy of support for nuclear power plants, utilizing the highly successful Candu reactor, developed by Canadian science and technology under the aegis of the federal government.

Wide-ranging measures have already been taken to assist and encourage farmers and fishermen, with assurances that they will be able to market their increased production at fair prices. In this regard the government will undertake further major financial commitments under new farm stabilization measures to be introduced shortly and, of course, the House has just recently approved important measures to increase the effectiveness of the Farm and Fisheries Improvement Acts.

My colleague, the Minister of Agriculture (Mr. Whelan), will also be introducing extensions to the Farm Credit Act to enlarge the flow of capital investment in food production. One amendment will increase the total amount of federal loans available for expansion and improvement of agricultural output to well over \$2 billion. Moreover, special provisions will be proposed to make it easier for young farmers to purchase farms and get into the business on their own. Last year total lending activity by the Farm Credit Corporation more than doubled to some \$400 million in loan approvals. For this fiscal year, the corporation's capital budget will jump again to well over \$500 million.

Later, when I deal with tax reform, I shall be proposing an important measure of relief for small businesses to encourage them to contribute further to the increase in supply.

The over-all fiscal and monetary policy proposed in this budget, by providing for adequate over-all demand, will ensure that new output of goods and services will flow on to the market in as abundant a volume as the economy is capable of producing.

● (2050)

[English]

Measures to Hold Down Particular Prices

The second element in the strategy against inflation is to dampen down the prices of particular products where this is feasible. Here, the government has already adopted a number of measures. The most important of these has been the holding down of domestic oil prices to about 55 per cent of the international monopoly price. Subsidies have also been provided on bread and milk to help all Canadian consumers. The Food Prices Review Board has been focusing public attention on pricing and marketing practices in problem areas. Powers are being sought to enable the government to deal with particular cases of profiteering. In my last budget, I eliminated the sales tax on children's clothing, all remaining food items and non-alcoholic beverages, and certain other products. Tariffs were also reduced on a wide range of consumer goods.

Tonight I propose to remove the sales tax on all clothing and footwear. Clothing and footwear account for a significant proportion of the budgets of most families and this action should significantly reduce the prices of these products. This measure will affect about \$5 billion in family

