

Budget Speech

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

February 27, 1995

Canada

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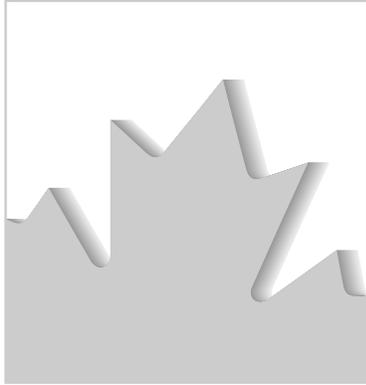
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Department of Finance
Canada

Ministère des Finances
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Seizing Opportunity Today

Mr. Speaker, there are times in the progress of a people when fundamental challenges must be faced, fundamental choices made – a new course charted.

For Canada, this is one of those times.

Our resolve, our values, our very way of life as Canadians are being tested.

The choice is clear.

We can take the path – too well-trodden – of minimal change, of least resistance, of leadership lost. Or we can set out on a new road of fundamental reform, of renewal – of hope restored.

Today, we have made our choice. Today, we take action.

The Canadian Economic Recovery

This is a window of extraordinary opportunity. Thanks to the hard work of millions upon millions of Canadians, our economy is now stronger than it has been for years.

Last year, economic growth in Canada was the highest of any G-7 country. We are projected to lead again this year.

In the past year, 433,000 jobs have been created. Although unemployment is still far too high, the rate has fallen by almost 2 full percentage points.

Canada's exports have never been higher.

As a result, our balance of payments has improved dramatically.

Productivity has surged. Our cost competitiveness is at its highest level in more than 40 years.

Business confidence is greater today than at any time since 1979.

Canada remains one of the lowest inflation countries in the world. Canadians want to keep it that way, and so does this government. The targets that we set with the Bank of Canada will make sure that happens.

Canada remains one of the lowest inflation countries in the world. Canadians want to keep it that way, and so does this government

These statistics tell a story of an economy in bloom – an economy of growth and new jobs.

Our Fundamental Challenge

However, there are two clouds that loom over our country's horizon.

One is the uncertainty that some would create over the future of Quebec. Let there be no doubt – that challenge will be met. Quebecers do not want Canada, **their country**, torn apart.

The second cloud is the debt and deficit. Dealing with that challenge is our purpose today.

This government came into office because it believes that the nation's priority must be jobs and growth. And it is *because* of that, not in *spite of* that, that we must act now to restore the nation's finances to health.

As the Prime Minister has said: "The time to reduce deficits is when the economy is growing. So now is the time."

Not to act now to put our fiscal house in order would be to abandon the purposes for which our Party exists and this government stands – competence, compassion, reform and hope.

The debt and deficit are not inventions of ideology. They are facts of arithmetic. The quicksand of compound interest is *real*.

The *last* thing Canadians *need* is another lecture on the dangers of the deficit.

The *only* thing Canadians *want* is clear action.

The underlying deficit for the current fiscal year will be about \$35.3 billion, or \$4.4 billion below our target

The Budget Achievements

And therefore, let me go directly to the bottom-line of this budget.

Last year, in our first budget, we laid out a firm course of action.

We said we would reduce the deficit in this fiscal year, 1994-95, to no more than \$39.7 billion. We now estimate that the underlying deficit for the current fiscal year will be about \$35.3 billion, or \$4.4 billion below our target.

We will still be well under the target, even after booking certain one-time charges related to some of the major reforms contained in this budget.

There are three principal reasons we will be able to do better than our target in 1994-95.

The first is Canada's strong economic growth – which offset the increase in interest rates.

The second is that when interest rates began to rise last Spring, we reacted immediately by slamming the door shut on new spending initiatives.

This, together with reductions in unemployment insurance, enabled us to keep program spending \$1.9 billion *below* our expectations last February.

Finally, the third reason we have done better than projected is that our overall economic assumptions were prudent. This means that, despite the unexpected rise in interest rates, we did not need to touch the contingency reserve we put in place.

Looking ahead, we pledged in our last budget that the deficit in 1995-96 would not exceed \$32.7 billion and would be reduced to 3 per cent of GDP – now estimated to be \$24.3 billion – by 1996-97.

It is now evident, and has been for some time, that unless we take further direct action, those deficit targets will not be met.

This is because today's interest rates are much higher than anyone thought they would be, and because of the sheer size of our debt, those interest rate increases translate into billions of dollars of new charges for us.

And so today, *based* on prudent economic assumptions and with *very* sizeable contingency reserves in place, we believe that unless direct action is taken now, we *could face* shortfalls of \$5.0 billion from our deficit target in 1995-96 – and \$10.6 billion the year after.

We have said from the beginning that we would meet our targets – come what may. Therefore, those gaps must be closed. With this budget, we are closing them.

■ We will hit our deficit target for 1995-96. We will hit our target for 1996-97. And of equal importance, the downward track established by the actions taken in this budget will continue in the years thereafter.

Unless we take further direct action, those deficit targets will not be met

We will hit our deficit target for 1995-96 – we will hit our target for 1996-97

- Taking the next two fiscal years together, this budget delivers cumulative savings of \$15.6 billion, with spending cuts accounting for \$13.4 billion, more than 85 per cent of the total.
- Going beyond, to 1997-98, the reforms we are introducing today will continue to pay-off, with further savings totalling \$13.3 billion, of which spending reductions amount to \$11.9 billion.
- That means that over the next three fiscal years, this budget will deliver cumulative savings of \$29 billion, of which \$25.3 billion are expenditure cuts. This is by far the largest set of actions in any Canadian budget since demobilisation after the Second World War .
- Over the next three years, the actions in this budget deliver almost seven dollars of spending cuts for every one dollar of new tax revenue.

These measures will have a very significant impact on the level of government spending in the future.

- By 1996-97, we will have reduced program spending – from \$120 billion in 1993-94 to under \$108 billion.
- Relative to the size of our economy, program spending will be lower in 1996-97 than *at any time* since 1951.
- The budgets of government departments are being reduced dramatically, in several cases halved over the next three years.

The impact of these measures on the fiscal health of this country will be significant and substantial.

- By 1996-97, our financial requirements – which is the amount of new money we will have to borrow on financial markets – will be down to \$13.7 billion or 1.7 per cent of GDP. Using financial requirements as a gauge – which is the key indicator of fiscal position in other countries – the Government of Canada is projected to do better than what is projected for the national governments of the U.S., of Germany, of Japan – indeed we are likely to do better than every other G-7 country.
- Perhaps most importantly, in that same year, the debt will no longer be growing faster than our economy. The debt-to-GDP ratio will have begun to decline. That is the key to fiscal sustainability. And that is why we seek not only to attack the deficit. We are also committed to putting Canada's debt ratio on a *permanent* downward track.

We face an historic challenge. This is an historic response.

Relative to the size of our economy, program spending will be lower in 1996-97 than *at any time* since 1951

The Pay Off From Prudence

Let me be absolutely clear about the course we are on.

We have always said that meeting our target was the least we *could* do – not the best we *would* do.

The proof is in the pudding. That is why it is so important that this year we will have beaten our deficit target by a substantial amount.

Looking ahead, building on the advice of the Finance Committee of this House, we have deliberately chosen economic assumptions that are once again more cautious than those of most private sector forecasters.

And once again, we are backing up our economic assumptions with substantial contingency reserves – \$2.5 billion in 1995-96 and \$3.0 billion the year after.

What that means is that even if interest rates go up next year by almost one and a half percentage points more than our already cautious assumption, our fiscal position will be *fully protected*.

But this means something else as well – and this is very important. If we don't need our contingency reserve, it will *not be spent*. It will go to reducing our deficit further. That is what happened in 1994-95. And because of our prudent economic assumptions, one should not be surprised if it happens in 1995-96 and 1996-97 as well.

These prudent economic assumptions may well bring additional benefits. If interest rates and income growth conform to the average private sector forecast, the deficit in 1996-97 could be brought down below \$19 billion – in fact, some \$5.5 billion less than this budget projects. If that happens, financial requirements would fall to about \$8 billion in 1996-97 – or about 1 per cent of GDP. And the debt-to-GDP ratio would fall from its current level of 73.2 per cent to less than 72 per cent – proving our firm intent to keep that ratio on a continued downward trajectory.

But our commitment and our course do not stop there.

We have always said that our 3-per-cent interim target was a station on the way, *not* our ultimate destination. Interim *means* interim.

It is absolutely essential that once we meet our interim target we do not stall

Canadians want more than temporary fiscal remission. They want full fiscal health. It is absolutely essential that once we meet our interim target we do not stall.

We will continue to set firm, short-term deficit goals – rolling two-year targets, *until the deficit is erased*.

Short-term targets are the surest way to get to zero.

They are the most effective spending control anyone could impose on governments. They keep our feet to the fire. They make it impossible to postpone needed action. And they prevent fanciful, foolish forecasts – the escapism of wishful targets.

This government wants Canadians to be able to judge it not on its rhetoric, but on its results; not on more promises made, but on real progress secured.

The Pay Off From Structural Change

The targets we *set* are crucial. But how we *get* to our targets is every bit as important.

Because the fact is that if we are to ensure durable fiscal progress, building towards budget balance – that can only happen if we redesign the very role and structure of government itself.

If we secure that reform, it will continue to pay off – to live on – in 1997-98 and every year thereafter.

This budget secures that reform – *irrevocably*. Indeed, as far as we are concerned, it is this reform in the structure of government spending – in the very redefinition of government itself – that is the main achievement of this budget.

After extensive review, this budget overhauls not only *how* government *works* but what government *does*.

We are acting on a new vision of the role of government... smaller government... smarter government

We are acting on a new vision of the role of government in the economy. In many cases that means smaller government. In all cases it means smarter government.

We are dramatically reducing subsidies to business.

We are changing our support systems for agriculture.

We will be putting government activities on a commercial basis wherever that is practical and productive.

We will be overhauling the unemployment insurance system as part of our social security reform – putting the emphasis on active help to get Canadians back to work.

And we are also reforming the system of transfers to the provinces – putting it on a basis that is more in line with the actual responsibilities of the two levels of government.

In creating this budget, no activity of government has gone unexamined. Nothing less than a complete rethink has been required – top to bottom. And that is what we have done.

Our Principles

Canadians want their governments to spend money and secure savings in ways that make sense, that reflect their values. To do that, it is essential that our effort be guided by clear principles.

First, we believe it is crucial that government get its own house in order. Our budget must focus on cutting spending – not raising taxes.

Second, we have priorities as a country that mirror our needs as a people. These priorities should be reflected in the way government defines its role. Blind cuts are bad cuts. Canadians need a budget designed to promote growth and jobs.

The third principle is frugality. Governments don't *have* money. They are *given* money – money from the pockets of Canadians from coast to coast to coast. And so, governments must behave as if every dollar counts. *Because every dollar does.*

And finally, we must never – ever – lose sight of the need to be fair. Fair among our regions and fair among individual Canadians.

This budget respects and reflects those principles.

Our budget
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The Role of Government in the Economy

If our purpose is to get the economy right – and it is – then the best thing we can do is to get government right – and this budget does.

We need to redesign the role of the government in the economy to fit the size of our pocketbook and the priorities of our people.

What is that role?

It is to provide a framework for the private sector to create jobs – through responsible policies on inflation, on taxation, regulation, trade, and the labour market.

It is to see an aggressive trade strategy as *central* to Canada's industrial strategy. And it is initiatives, such as the Prime Minister's, in Asia and Latin America, that will create opportunity for thousands of Canadians here at home.

It's to ensure that the nation's finances are healthy. It is to do what only government can do best – and leave the rest for those who can do better – whether business, labour, or the voluntary sector.

Last fall, reflecting those priorities, we put forward *A New Framework for Economic Policy* to guide what the government would do and what we would not do in the future.

This budget puts our framework into action.

It does so after the top-to-bottom review of all departmental programs and activities launched in our last budget. That effort was led by the Minister Responsible for Public Service Renewal.

As a result of that review, and a focus on key national priorities, we will be able to reduce departmental spending dramatically over the next three years while maintaining the services that are truly needed by Canadians.

For example, between this fiscal year and 1997-98, annual spending will go down by:

- \$1.6 billion at Defence;
- almost \$550 million for international assistance;
- \$1.4 billion at Transport;
- more than \$600 million at Natural Resources;
- almost \$900 million at Human Resources Development;
- over \$200 million at Fisheries;
- almost \$900 million in the Industry portfolio;
- more than \$550 million at the Regional Agencies; and
- nearly \$450 million at Agriculture.

Government must do only what it does best – and leave the rest for those who can do better

In short, overall departmental spending will be cut by almost 19 per cent in just three years.

And let me emphasize, these are not the phoney cuts we saw so often in the past – measures that pretended to define a slower rate of *increase* in spending as actual cuts. These are *real* cuts in *real* dollars.

In the last recession, every household, every business, every volunteer group in the country was forced to face up to hard choices and real change. But the Government of Canada did not. *In this budget, we are bringing government's size and structure into line with what we can afford.*

Today, Canadians want government to get its own act together first. These spending reductions prove that we are.

As a result of the cut-back and reform of programs, the public service will be reduced by some 45,000 positions, of which 20,000 will be eliminated by the summer of next year.

Because so many of those affected have given *so many years* of valuable service to Canadians, we are committed to downsizing the public service as fairly as possible through accelerated attrition.

The government will provide early departure and early retirement incentives.

Those who decide not to take advantage of these options will be provided a reasonable period during which to be placed elsewhere in the public service. However, in the departments most affected by these reductions, that period will not be indefinite. The President of the Treasury Board has already indicated that people will no longer be paid for not working and the Workforce Adjustment Directive will be amended accordingly.

In some departments the scope for savings has been less than others. That reflects the government's commitment to protect the most vulnerable and ensure public safety.

For example, we are responding to Canadians' concern about public safety in their communities by strengthening gun control and largely maintaining existing levels of support for law enforcement, the justice system and correctional services.

As a second example, the Minister of Immigration and Citizenship has made clear our commitment to a fair, affordable – and well-enforced – immigration policy.

In this budget, we are bringing government's size and structure into line with what we can afford

As part of that, he will take steps to reduce the cost of immigration to Canadian taxpayers and provinces. A form of financial guarantee will be developed to ensure that sponsors of immigrants meet their sponsorship obligations.

In addition, beginning immediately, a \$975 fee will be charged to all adults applying to immigrate to Canada. The fee will be returned if the application is not accepted. To ensure equitable access, loans will be made available to immigrants and refugees who require assistance in paying the fee.

Further detail on this and on what follows will be found in the budget documents, and that will be supplemented in the days and weeks ahead by each of my colleagues.

Business Subsidies and Support

We have talked about specific reductions in specific departments – and strategic efforts in those departments to focus on priority national needs.

But many of those specific measures share a common foundation and philosophy.

For example, across government, we are taking major action in this budget to substantially reduce subsidies to business.

These subsidies do not create long-lasting jobs. Nobody has made that case more strongly than business itself. And the world over, the conclusion is the same.

In this budget, total spending on business subsidies will decline from \$3.8 billion in this fiscal year to \$1.5 billion by 1997-98. That is a reduction of 60 per cent in three years.

Remaining industrial assistance will be targeted on the key engines of economic growth – trade development, science and technology and small- and medium-sized business.

Transportation and direct agricultural production subsidies are being eliminated or substantially reduced.

This is historic change. Decades ago, even into the last century, those subsidies were put in place to respond to Canada's transportation and agricultural needs then existing.

As time has passed, those needs have changed, but the subsidy structure has not.

Subsidies to business will be reduced by 60 per cent over three years

For years, governments have known the need for change – but have hesitated to act. We cannot postpone action any longer.

To that end, subsidies under the *Western Grain Transportation Act* are being eliminated effective in 1995-96, resulting in savings of \$2.6 billion over the next five years.

This subsidy evolved from the Crow Rate established in 1897. It has played a pivotal role in the development of the prairie economy, but in more recent years it has come to restrict the ability of prairie farmers and industry to adapt and compete.

The elimination of this subsidy will encourage crop diversification, the development of value-added production and a more efficient and effective transportation system, while also being consistent with our international trade obligations.

To facilitate this change:

- we will make a one-time payment of \$1.6 billion to prairie farm land owners, to be provided for in this fiscal year, 1994-95;
- we will invest a further \$300 million over several years to facilitate a more efficient grain handling and transportation system; and
- we will provide new credit guarantees to help Canadian farmers sell to non-sovereign buyers abroad.

Next, the Atlantic freight subsidies (ARFAA/MFRA) are also being eliminated, effective in the upcoming fiscal year. This will result in savings of \$500 million over the next five years alone.

Elimination of this subsidy will contribute to a better transportation system. To help ensure this, the government will set up a five-year, \$326 million transportation adjustment program that, among other things, will help modernize the highway system in Atlantic Canada and Eastern Quebec.

We are committed to ensuring that our farmers are able to compete on a level playing field with their competitors abroad. We are committed to the fair stabilization of farm income, as we are to meeting the interests of Canadian consumers. All of this, however, must be done within the context of Canada's financial circumstances.

Therefore, this budget takes the following measures:

- Consistent with the recent decision of federal and provincial ministers of agriculture, a core national “whole farm” stabilization program will be developed, together with crop insurance and province-specific programs. The costs of these initiatives will be shared between the federal government, the provinces and farmers themselves. This will replace current programs based on *individual* agricultural commodities. It will therefore encourage innovation and diversification, as well as resulting in a 30-per-cent reduction in federal contributions to agricultural safety nets.
- Next, the subsidy paid to industrial milk producers will be reduced by 15 per cent in 1995-96 and by a further 15 per cent the following year. The future of this program will be reviewed, in consultation with industry and the provinces.
- Finally, the Feed-Freight Assistance subsidies are being discontinued and the Livestock Feed Bureau will be wound up. A portion of the resulting savings will be redirected on a transitional basis to help adjustment in the livestock industry.

Financial support to business should only be provided if there is no alternative and a valid national need clearly exists.

That is why we have made a clear public commitment that new funding for mega projects will not take place.

In the last year, I have had numerous requests for the funding of such projects cross my desk – and every one of those has been turned down.

In addition, with this budget, we are eliminating the Public Utilities Income Tax Transfer Act (PUITTA). It can no longer be justified in today’s fiscal circumstances.

We will support, as appropriate, however, Canadian companies that are up against foreign competitors who are aggressively backed by their governments.

Small Business and the Regional Agencies

Furthermore, because small businesses are the primary creators of new jobs in this country, removing barriers to their success is a core priority for the government, as is providing practical assistance for them to survive and grow.

We have made a clear public commitment that new funding for mega projects will not take place

Last year, we announced that we would review the \$500,000 lifetime capital gains exemption for farmers and small businesses.

As a result of the review, we have concluded that the exemption remains a valuable measure. Today, we are announcing that *no* changes to it are being made.

We see our Regional Agencies as playing an important role in the creation of opportunity and long-lasting jobs.

However, we do not believe that handouts are the way to do it. Therefore, consistent with our new policy to sharply reduce business subsidies, assistance to firms will be provided primarily through repayable loans on terms tailored to foster genuine opportunity.

This government is determined that small businesses will have access to the financing they need to continue being our number one creator of jobs.

While some progress has been made, there continue to be large gaps in the system.

We believe that Canada's banks have a special obligation to help close those gaps.

That is why, between now and the fall, we will be working with the banks to hammer out meaningful performance benchmarks for small business financing. Progress during the following year will be monitored against those benchmarks.

Science and Technology

It is ideas today that will generate the products and the jobs of tomorrow.

That is why science and technology will become a predominant focus for our business support.

In the future, our science and technology efforts will be concentrated more strategically on activities that foster innovation, rapid commercialization and value-added production.

We are therefore particularly encouraged by the efforts of federally supported bodies to form new partnerships to create new products than can succeed in new markets, creating jobs. As only one example, the Medical Research Council has mounted a promising

initiative to bring outstanding academic science together with private sector capital. The goal is to create high growth Canadian companies at the leading edge of medical and other technologies.

That's the kind of imagination we will encourage in order to stretch government's science dollars farther and more effectively.

Commercialization and Privatization

The government is committed to privatizing and commercializing government operations wherever that is feasible and appropriate.

This is a matter of common sense.

Our view is straightforward. If government doesn't *need* to run something, it *shouldn't*. And in the future, it *won't*.

If government doesn't need to run something, it shouldn't. And in the future, it won't.

We have already sold our shares in Cameco – a uranium company owned jointly by the Governments of Canada and Saskatchewan.

Today, we are announcing that the Minister of Transport will initiate steps this year to sell CN.

When market conditions are favourable, the government will sell its remaining 70-per-cent interest in Petro-Canada.

We will commercialize the Air Navigation System, a step that will save taxpayers money, allow that system to be fully modernized and eventually reduce costs to carriers.

We will examine divesting all or parts of the Canada Communication Group.

Let me be clear. Our effort to identify viable candidates for privatization or commercialization does not end with these announcements. That effort will continue.

Let me just say one thing before leaving Program Review, and that is, we have accomplished much, but getting government right does not end with this budget. For the essence of good government is, in fact, *permanent* ongoing program review. And that is our intention.

Better Management, Constant Control

Bringing better focus to government and better quality services for Canadians should not be something that has to wait for budgets.

We would not have to reduce spending as much as we do if that spending was under better control in the first place.

Canadians make ends meet by watching their dollars every day. It's time government did the same.

The government has just introduced a new and much tighter system to manage its spending. This will mean better government.

With the Expenditure Management System in place, new programs will no longer be funded out of general policy reserves. Departments will have to find the money for their new initiatives from existing budgets.

Furthermore, for the first time, departments will have to prepare business plans for three years forward. Those plans will be subject to Parliamentary – and therefore public – scrutiny. That transparency and that accountability will mark a major departure from the past.

Our action to increase management effectiveness does not stop there.

Our approach to interest group funding will change. Some groups will continue to be funded as is. For others in a position to secure financial support from outside government, we will move towards a system based on the provision of matching funds. For still other groups, while they undoubtedly serve a worthy purpose, continued funding will not be possible due to our financial situation.

Individual ministers are being asked to alter their funding approach accordingly. They will be held accountable for their decisions and those decisions will be reviewed annually.

Employability

There is no more important task than to do everything we can to help Canadians get jobs, keep jobs or find better jobs.

But the fact is that the existing structure of programs does not do that nearly well enough.

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That is why the Minister of Human Resources Development will be announcing the details of a new Human Resources Investment Fund. Many of the Department's existing programs that foster employability will be combined under the umbrella of that new Fund.

A sharper focus on priorities will yield substantial permanent savings

A sharper focus on priorities, together with more efficient, streamlined services will yield substantial permanent savings.

We must also continue to improve the unemployment insurance program, building on the substantial reforms introduced in last year's budget.

As the Minister of Human Resources Development has emphasized so often, we need to move away from passive support – away from dependence – towards active assistance – towards independence.

A key job for unemployment insurance in the future must be to help Canadians stay off unemployment insurance

In essence, a key job for unemployment insurance in the future must be to *help Canadians stay off unemployment insurance*.

Later this year, the Minister of Human Resources Development intends to table legislation that will build on the best elements of unemployment insurance to create a fundamentally reformed program that addresses the needs of today's workers.

It is Canada's workers and Canada's businesses that pay for unemployment insurance. The unemployment insurance program of the future must be one that they can afford.

Canada's strong economic performance and the unemployment insurance reform – which the government intends to have in place no later than July 1, 1996 – will reduce the overall size of the unemployment insurance program by a *minimum* of 10 per cent.

And this overall reform, combined with improvements in the administration of the unemployment insurance program, will secure savings for taxpayers of \$700 million in 1996-97.

Improved employment conditions are rapidly eliminating the deficit in the Unemployment Insurance Account which had reached almost \$6 billion in 1993. With no increase in premium rates, the surplus in the Account will be allowed to rise above \$5 billion through to the end of 1996.

This surplus will be maintained and used as a buffer to mitigate unemployment insurance premium rate increases during periods of slowing economic growth.

The result of these measures will be an unemployment insurance program that does much better at investing in people, and will lead to lower, more stable unemployment insurance premium rates that will encourage the creation of jobs.

Towards a New System of Transfers to the Provinces

We will never secure the sort of structural change that we need without *reforming* the system of major transfers to the provinces.

This budget sets out some key parameters, but let me be clear, as we go forward, we are committed to a co-operative approach.

That is why, to provide predictability, we said in last year's budget that we would not change the system of *major* transfers before 1996-97. That is a commitment this budget maintains.

It is also why in March of last year, as one of the first acts of this government, we renewed the equalization program for five years. Equalization is a central pillar of Canadian federalism. It ensures that Canadians in our less well-off provinces receive public services comparable to those available elsewhere.

Therefore, we are not changing the existing Equalization program.

However, some changes in other transfers are needed – changes that will address two fundamental requirements. The *first* is a system of transfers that is more effective in meeting contemporary needs. The *second* is a system that is financially sustainable.

Concerning the first requirement, we believe that the restrictions attached by the federal government to transfer payments in areas of clear provincial responsibility should be minimized.

At present, transfers under the Canada Assistance Plan come with a lot of unnecessary strings attached. They limit the flexibility of the provinces to innovate. They increase administrative costs. In short, the cost-sharing approach of the past no longer helps the provinces, who have clear responsibility to design and deliver social assistance programs, to do so in a way that is as effective as possible and in tune with local needs.

So we are prepared to address those issues by funding CAP in a similar way as we fund the existing EPF transfers for health and post-secondary education.

At present, the CAP limits innovation and increases administration costs

As a result, the core rationale for the present segregation of the three transfers into separate categories disappears. Therefore, we are combining all three into a single consolidated block transfer, beginning in 1996-97 – which will now be referred to as the Canada Social Transfer.

Provinces will now be able to design more innovative social programs – programs that respond to the needs of people today rather than to inflexible rules.

However, *flexibility does not mean a free-for-all*.

There are national goals and principles we believe must still apply, and which the vast majority of Canadians support. Our goal must be to combine greater flexibility with continued fidelity to those principles.

The conditions of the *Canada Health Act* will be maintained. Universality, comprehensiveness, accessibility, portability, and public administration.

For this government, those are fundamental.

In addition, we will maintain the existing principle that provinces must provide social assistance to applicants without minimum residency requirements.

Furthermore, the Minister of Human Resources Development will be inviting all provincial governments to work together on developing, through mutual consent, a set of shared principles and objectives that could underlie the new Canada Social Transfer.

This reform deals with the requirement for a better functioning system of transfers. But equally, we need a system that can be financially sustained.

Our major transfers to the provinces currently amount to \$37 billion in cash and tax points. The cash portion alone represents about 21 per cent of our total program spending.

Addressing our fiscal challenge simply does not allow us to leave that spending untouched. We must establish the fiscal parameters of a new system.

However, as a matter of fairness and balance, we believe that the provinces should not be expected to bear more of the fiscal burden than we are prepared to impose on ourselves.

This budget meets that test.

As we have said, no changes in major transfers are being made for next year – 1995-96 – even though we are taking substantial action that year to reduce our own spending.

For the following year, the new Canada Social Transfer will be \$26.9 billion – cash and tax points combined. This will be about \$2.5 billion less than the projected transfer would be under the present system.

This means that the total of all major federal transfers to the provinces in 1996-97 will be 4.4 per cent lower than they are today. That compares favourably with the reduction in spending in our own backyard – that is, everything except transfers to the provinces – which will be down 7.3 per cent by that same year.

In 1997-98, the Canada Social Transfer will be \$25.1 billion – or about \$4.5 billion less than what would have been transferred under the existing system. To keep that in perspective – such a reduction in transfers would equal about 3 per cent of aggregate provincial revenues.

Pending development of a permanent formula in consultation with the provinces, the Canada Social Transfer in 1996-97 will be allocated among provinces in the same proportion as each province will be receiving in 1995-96 under the current system.

To ensure that everyone shares in fiscal restraint, it will also be necessary to subject territorial financing to new limits. Entitlements for each territory in 1995-96 will be frozen at 1994-95 levels and the following year, the expenditure base in the formula will be reduced by 5 per cent for each territory.

We believe these measures respond to the need for a more affordable and effective system of transfers.

But our challenge and our commitment do not end here.

With this budget, we are saying yes to the provinces' desire to sit down for a bottom-up review of the financing of both levels of government.

If there are ideas to make the fiscal side of federalism more efficient, let's hear them. And if there are ways to make this federation function better, then by all means let's do it.

In 1996-97 federal transfers to the provinces will be 4.4 per cent lower compared to federal spending reductions of 7.3 per cent

Protecting Canada's Elderly

One of the greatest reforms ever introduced by a Canadian government has been the provision of decent support for elderly Canadians – who have given – and continue to give – so much to their families and to their country.

In recent weeks and months, there is probably no Member of this House who has not received letters or had conversations with elderly Canadians who are worried that the protection their country has provided them will be eaten away.

Because of that, this government is absolutely committed to providing a fair and *sustainable* system of protection for Canada's seniors.

There are two pillars of the public pension system. One is the Canada and the Quebec Pension Plans. The other is Old Age Security and the Guaranteed Income Supplement.

Canadian seniors deserve to know that those public pensions will be there for them. That in turn requires reform to ensure that the pension system is sustainable in the long term.

Concerning the CPP, the most recent actuarial report was released last week and it leaves no doubt that we will have to take steps to ensure that that plan continues to be sustainable. This we shall do when we sit down this Fall with the provinces to review the CPP.

Let me turn now to the second pillar – OAS and the GIS. Together these represent an annual expenditure of more than \$20 billion and that expenditure is growing. Clearly, it is necessary to make these pensions sustainable as well.

To ensure that our approach to the public pension system is comprehensive, the Minister of Human Resources Development and I will be releasing, later this year, a paper on the changes required in both pillars of the public pension system to ensure its affordability.

The focus will be on fairness and sustainability.

Consultations will take place once the paper is released.

It is our intention that the reforms be legislated to take effect in 1997.

Canadian seniors deserve to know that those public pensions will be there for them

In the meantime, we are announcing today a change in the method of payment of OAS to high-income seniors who are subject to the so-called “clawback” rules.

Currently, full payments are made throughout the year and the clawback occurs when tax returns are filed.

Beginning July 1996, monthly OAS payments will be calculated and paid with the clawback amount subtracted, based on the prior year’s tax return. This will yield one-time savings of about \$300 million.

Finally, to ensure fairness, we will be requiring Canadians who are non-residents of this country to file a statement of their worldwide income in order to be able to continue to receive OAS benefits.

Revenues

Let me turn now to the question of revenues, and let me begin with something that is manifestly clear to all of us.

There is not one, solitary Canadian who likes taxes. And certainly, they are far higher than any of us would like them to be.

But the issue of taxes is more than a matter of *rates*. It is a question of *equity*.

As we speak, millions of Canadians pay their fair share of tax – and do so on time. But there are those who don’t.

Collecting What’s Owed

On a priority basis, the Minister of National Revenue will be taking the following measures to step up his department’s efforts with regard to taxes that are *owed*.

- Teams of specialists with beefed-up resources will be put in place to audit large corporations.
- The government’s ability to go to court to obtain information to ensure compliance with the tax law will be strengthened.
- After consultation, new rules will be established to ensure compliance with the tax law in the construction industry, where the underground economy thrives; and
- The interest rate charged on over-due taxes will be increased by 2 percentage points.

The issue of taxes is more than a matter of rates. It is a question of equity.

Improving Tax Fairness

Next, we are announcing steps today to make the tax system more fair.

- The tax deferral advantages for investment income earned by private holding companies will be taken away. That advantage is unjust.
- The current film incentive will be changed. Rather than being a tax shelter for high-income investors, a new refundable credit will be provided directly to producers of Canadian films.
- Those who earn business or professional income have a tax advantage over many other Canadians. Because of special rules that allow them to select their own year-end for tax purposes, those individuals are given an ongoing tax deferral. That advantage is being eliminated.

As other Canadians now do, they will have to report their income as of the end of the calendar year. This measure could result in a very large, one-time tax increase for many of these taxpayers. Therefore, in order to be fair, we are allowing this amount to be spread out over a 10-year period in order to ease the adjustment.

We are concerned that the rules regarding the *resource allowance* for the mining and petroleum industries are not working as originally intended. We will be meeting with the provinces and the industry on possible improvements to, or replacement of, this allowance.

The system of *R&D tax incentives*, like all tax expenditures, need to be monitored continually and modified as necessary to ensure effectiveness and integrity.

We will be evaluating the entire program to ensure its effectiveness in encouraging R&D in Canada. In particular, we will accelerate our review of the rules relating to information technology to ensure they are up-to-date.

While this review is underway, no bank or other financial institution will be eligible for the scientific research and experimental development tax incentives related to information technology.

Concern has been expressed about tax advantages that may exist as a result of the establishment of trusts, trusts which largely benefit high-income Canadians.

R&D tax incentives, like all tax expenditures, need to be monitored continually and modified to ensure effectiveness and integrity

Therefore, for *foreign trusts* – and indeed for taxpayers who invest in foreign holdings generally – we are introducing more stringent reporting requirements.

These new requirements will provide Revenue Canada with additional information regarding offshore investments to ensure that Canadian individuals and corporations pay the appropriate tax on income earned in these foreign holdings.

Second, this budget eliminates *all tax advantages* that flow from the establishment of *family trusts*. That involves eliminating the potentially unfair income-splitting advantages that exist. And we are repealing the previous government's amendment that allowed deferral of the 21-year rule.

Providing tax assistance to encourage Canadians to save is an essential part of our retirement income security system. We are not prepared to compromise the integrity or the purpose of that system.

But equally, we must ensure that the benefits of tax assistance are shared fairly in these times of restraint, while also adhering to the key principles and purpose of pension reform.

One of those principles is that tax assistance should be provided for contributions to registered savings plans based on earnings up to two-and-a-half times the average wage, and no more.

Therefore, we will be reducing the upper limit on deductible RRSP contributions to \$13,500 for 1996 and 1997. That limit will then be allowed to progressively increase to \$15,500 by 1999.

Corresponding changes will be made to registered "*money-purchase*" pension plans.

And the maximum pension limit for registered "*defined benefit*" plans will be frozen at its current level through 1998.

We are also introducing measures to improve the overall fairness of this system by tightening some existing provisions.

For example, beginning in 1996, the "overcontribution allowance" for RRSPs will be reduced from its current \$8,000 to \$2,000.

Our effort to ensure an effective and fair system of taxation does not begin – or end – with this budget.

We closed loopholes in our last budget. We did not wait until this budget to close others.

This budget eliminates all tax advantages that flow from the establishment of family trusts

Our effort to ensure an effective and fair system of taxation does not begin – or end – with this budget

In December, we closed down abusive tax shelters as soon as they were identified, and we changed the way the Alternative Minimum Tax is calculated to ensure that high-income individuals cannot avoid a minimum level of tax.

Consistent with the recommendations of the Commons Committee on Social Security Review, we strongly support the notion that a Committee of this House regularly evaluate the whole question of tax expenditures.

Finally, we want to make absolutely clear our ongoing commitment to tax reform.

If we must constantly scrutinize government spending – as we must – then let it be clear we must also constantly scrutinize the fairness and effectiveness of the tax system.

Corporate and Excise Taxes

Despite the size of the savings we must secure, this budget focuses almost entirely on reducing the spending of government, not increasing taxes for Canadians.

That being said, spending cuts themselves get us very near to our targets. But there is a small gap we must close.

Therefore, we have found it necessary to do four things.

First, the existing Large Corporations Tax will be increased by 12.5 per cent – effective immediately – in order that big companies contribute more to help bring the deficit down.

Second, we are raising the existing corporate surtax from 3 to 4 per cent.

Third, effective midnight tonight, the federal excise tax on gasoline will be increased 1.5 cents per litre raising \$500 million annually. This will restore total revenues from all federal excise taxes to about their 1993-94 level.

And finally, we are announcing today a temporary tax on the capital of large deposit-taking institutions, including the banks. That tax will be in effect until October 31, 1996, and will raise about \$100 million.

Large Corporations Tax will be increased by 12.5 per cent – effective immediately – in order that big companies contribute more to help bring the deficit down

Taken together, the revenue measures in this budget are far overshadowed by the size of the spending cuts we have made. As we have said, those cuts constitute more than 85 per cent of the substantial savings secured in this budget over the next two years. For every one dollar raised in new tax revenue over the next three years, there are almost seven dollars in spending cuts.

Furthermore, in this budget, like last year's, we are not increasing personal income tax rates one iota.

For every one dollar raised in new tax revenue over the next three years, there are almost seven dollars in spending cuts

Looking to the Future

This budget sets this country on a sure course of fiscal responsibility and government renewal.

Our reductions in government expenditure are unprecedented in modern Canadian history.

We have ensured that our targets will be met. Even more importantly, we have taken the steps required to go beyond those targets in the years ahead.

Our reform of the role of government offers the prospect of much more effective government at substantially lower cost.

And we believe that has all been accomplished in a way that is fair and balanced.

We have accomplished a great deal this year.

But our task is not over and our efforts will not cease.

There will be new targets to set.

Those who believe that the government will inevitably let up in its efforts to cut costs as the next election approaches simply do not understand the conviction of the Canadian people that a deteriorating national balance sheet is no longer acceptable.

Constant renewal is what this country is all about. Indeed, it is the essential ingredient of a dynamic federalism.

The inter-play between the federal government and the provinces has led to remarkable innovation and experimentation.

But as we act to reform government and restore responsibility to our finances, there are those who would argue that this country, this federation, cannot change – that Canada is about the status quo.

Our reductions in government expenditure are unprecedented in modern Canadian history

That is nonsense. Canadian federalism has never been about the status quo. So much of what we value as a country is the result of Canadians working together – so that our country can evolve to meet new needs.

None of us is here to defend the status quo. We are here to change it. And with this budget we are.

Providing new fiscal leadership. Reducing overlap and duplication. Giving the provinces greater freedom to design and deliver services.

These changes respond to positive pressures for change from across the country. They mark a recognition on the part of us all that in this tough, competitive world, despite the differences we have, we all have so much to gain by working together – productively, rather than standing apart – destructively.

We do believe in Federalism because it appeals both to our hearts and our common sense. We do believe in Federalism because it emphasizes what unites us, not what divides us.

This budget faces difficult choices for all Canadians. But this year, in Quebec, some of us are also being asked to choose a country.

To choose to remain proud partners in a large, reforming country. Or to become something else – smaller and alone.

To embrace real change and improvement, or to join those who pretend that the road to a better future lies through fracture.

The separatist view has always been the same – its own status quo. Ignoring reform that has happened. Denying reform when it is occurring. Refusing reform when it is offered.

That is not our position. By definition, Canadian federalism *is* change – always improving, always progressing and today, with this budget, reaching ahead to a new phase of renewal.

It is customary at this time, when closing the presentation of a government's budget to claim that the measures being taken have solved every problem, responded to every expectation, addressed every need.

That is something we will not say today.

This budget is about providing new fiscal leadership, reducing overlap and duplication and freeing provinces to design and deliver services

Because the fact is that there is so much more that we would like to be able to do for the millions of Canadians who care little about the world of dividends and derivatives – and simply worry about making ends meet.

That being said, if we believed that dealing with the deficit would do nothing to protect what we value – or offer hope to ordinary Canadians – we would not be acting now, because it is they who suffer when government must focus its precious resources on satisfying lenders abroad rather than real needs at home.

For all of us who care for the social fabric of this country, who seek a better future for our children, who are committed to the protection of our seniors and the independence of Canada, the state of the nation's finances simply has to be addressed.

The choice is ours. We can either dwell on our imperfections – or work together towards real improvement.

We can leave the field to those who have given up on Canada – or we can demonstrate trust in ourselves.

We believe this is the year we can turn the corner and turn the page.

It may seem like a long struggle, but the light at the end of this tunnel is much nearer than any of us might think.

Canadians can have confidence *now* in a country that has put the era of band-aid budgets behind it.

Canadians can have confidence *now* that their social programs will be there for those who need them.

Canadians can have confidence *now* in their country being one of the most attractive places in the world to invest, creating jobs.

For too long, governments have known the need for reform and renewal – known the need, but not the will.

We have made our choice – against the status quo and in favour of a stronger country.

We believe this is the year we can turn the corner and turn the page

“Government must begin to plan ahead – not timidly, not tentatively – but boldly, imaginatively and courageously.”

Let me close by quoting from another Canadian in an earlier time, a member of a previous government who did not particularly like Finance Ministers:

“(G)overnment must not live in the past... Every day there are new needs to be met. If inflation is to be fought, unemployment countered and something done, and soon, to get Canadian prosperity back into its stride, the government must begin to plan ahead – not timidly, not tentatively – but boldly, imaginatively and courageously.”

Those words were spoken by my father in 1957 – for his time. That is what I believe we have done today, for ours.

Total direct impact of budget measures

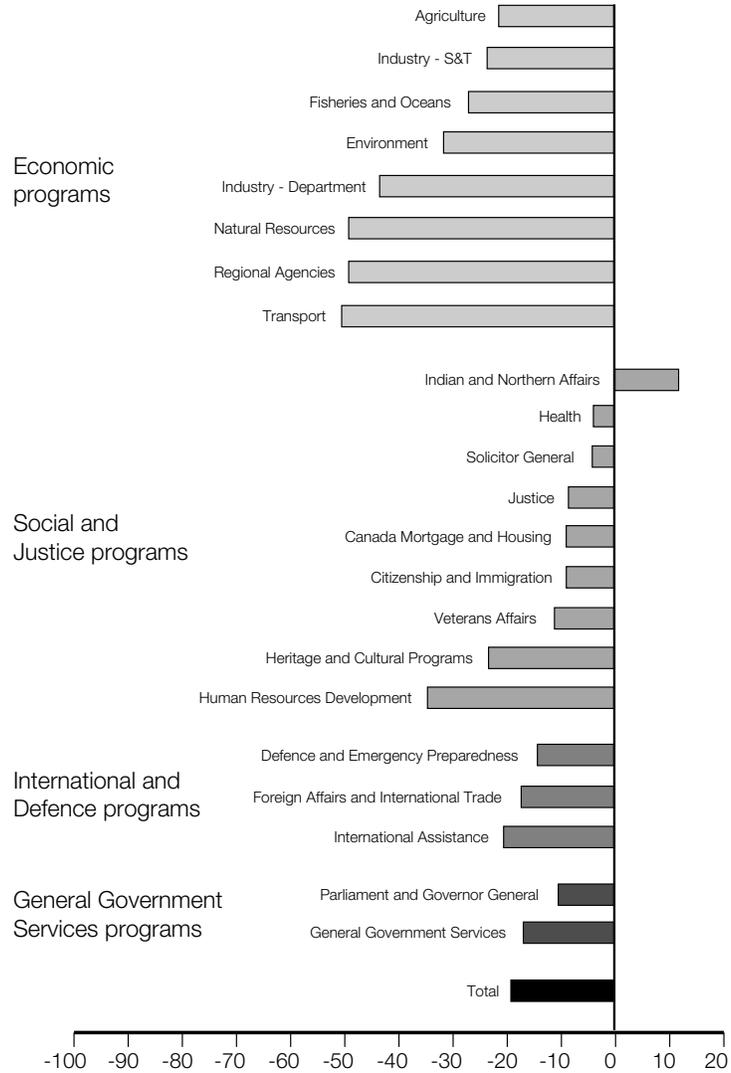
	1995-96	1996-97	1997-98	3-year ¹ impact
	(billions of dollars)			
Expenditure reductions				
Program review	3.9	5.9	7.2	16.9
Other	0.2	3.5	4.7	8.4
Total	4.1	9.3	11.9	25.3
Revenue measures				
Increase fairness and tighten tax system	0.1	0.4	0.6	1.1
Tax increases	0.9	0.9	0.8	2.6
Total	0.9	1.3	1.4	3.7
Total direct impact of fiscal actions	5.0	10.6	13.3	29.0
Ratio of expenditure reductions/ tax revenue increases	4.4:1	7.3:1	8.3:1	6.9:1

¹ Three-year cumulative impact of deficit reductions shows the reduction in net debt, by the end of the 1997-98 fiscal year, arising from fiscal actions.

Numbers may not add due to rounding.

**Changes in federal department spending
1997-98 relative to 1994-95**

per cent change



**Summary statement of transactions:
Fiscal outlook with budget measures**

	1993-94	1994-95	1995-96	1996-97
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	116.0	125.0	133.2	137.4
Program spending	-120.0	-118.3	-114.0	-107.9
Operating balance	-4.0	6.7	19.2	29.4
Public debt charges	-38.0	-42.0	-49.5	-50.7
Underlying deficit	-42.0	-35.3	-30.2	-21.3
Restructuring charges		-2.6		
Contingency reserve			-2.5	-3.0
Deficit	-42.0	-37.9	-32.7	-24.3
Non-budgetary transactions	12.2	11.9	7.8	10.6
Financial requirements (excl. foreign exchange transactions)	-29.8	-26.0	-24.9	-13.7
Net public debt	508.2	546.1	578.8	603.1
Gross domestic product	711.7	746.4	787.1	821.3
Percentage of GDP				
Budgetary revenues	16.3	16.7	16.9	16.7
Program spending ¹	16.9	16.2	14.5	13.1
Public debt charges	5.3	5.6	6.3	6.2
Deficit	-5.9	-5.1	-4.2	-3.0
Financial requirements	-4.2	-3.5	-3.2	-1.7
Net public debt	71.4	73.2	73.5	73.4

¹ Includes restructuring charges.

Notes: (-) indicates a net requirement for funds.

(+) indicates a source of funds.

Numbers may not add due to rounding.

The revenue outlook

	1993-94	1994-95	1995-96	1996-97
	(billions of dollars)			
Personal income tax	51.1	56.8	60.4	64.5
Corporate income tax	9.8	13.0	15.5	16.3
Unemployment insurance premiums	18.2	18.9	19.7	18.5
Excise taxes and duties				
Goods and Services Tax	15.7	16.6	17.4	18.3
Customs import duties	3.7	3.8	3.3	3.0
Other excise taxes	7.4	6.7	7.4	7.5
Other tax revenues	1.6	1.8	1.8	1.8
Total tax revenues	107.3	117.6	125.5	129.9
Non-tax revenues	8.7	7.4	7.7	7.5
Total budgetary revenues	116.0	125.0	133.2	137.4
	(per cent)			
Per cent of GDP				
Tax revenues	15.1	15.8	15.9	15.8
Total revenues	16.3	16.7	16.9	16.7

The expenditure outlook

	1993-94	1994-95	1995-96	1996-97
	(billions of dollars)			
A. Major transfers to persons				
Elderly benefits	19.9	20.6	21.2	21.7
Unemployment insurance benefits ¹	17.6	15.3	14.3	13.7
Veterans allowances and pensions	1.7	1.9	1.8	1.7
Total	39.3	37.7	37.2	37.2
B. Major transfers to other levels of government				
EPF/CAP/Canada social transfer ²				
Total entitlements	(29.0)	(29.4)	(29.7)	(26.9)
Cash transfer	16.8	17.3	16.4	12.9
Equalization	7.8	8.5	8.9	9.3
Transfers to territories	1.1	1.1	1.0	1.0
Other	1.5	0.1	–	–
Total ³	27.1	26.9	26.3	23.2
C. Subsidies and other transfers				
Business	3.7	3.8	2.5	1.9
Indians and Inuit	3.3	3.7	4.0	4.2
International assistance	2.7	2.6	2.2	2.2
Science and technology	0.9	0.9	0.9	0.9
PUITTA	0.2	0.3	0.1	–
Canada Infrastructure Works Program		0.4	0.8	0.3
Other	6.2	5.6	4.9	4.3
Total	17.0	17.3	15.4	13.8
D. Crown corporation expenditures	5.3	4.8	4.5	4.2
E. Defence ⁴	10.9	10.8	10.3	9.7
F. All other departmental spending ⁴	19.8	20.6	19.2	17.9
G. Other net operating requirements			0.9	1.9
H. Program spending	119.3	118.3	114.0	107.9
I. Restructuring costs	0.7	2.6		
K. Total program spending	120.0	120.9	114.0	107.9
L. Public debt charges	38.0	42.0	49.5	50.7
M. Budgetary expenditures	158.0	162.9	163.5	158.6

¹ Includes benefit payments only; administrative costs are included in all other departmental spending.

² Through to 1995-96 includes Established Programs Financing (EPF) and Canada Assistance Plan (CAP). For 1996-97, refers to proposed Canada Social Transfer.

³ Includes cash transfer component.

⁴ Excludes restructuring costs in 1993-94 and 1994-95 which are shown separately.