

their very nature, most of our service industries are sheltered from foreign competition and are continuing to do very well.

Canada's resource industries are very strong and the outlook for them is bright. We have been blessed with a rich abundance of most natural resources to meet not only our own needs, but the growing demands from the rest of the world. They continue to be accorded favourable treatment under our reformed income tax system.

In agriculture, a very rapid rise in productivity with a corresponding decline in the need for farm workers, has necessitated a continuing process of adjustment. Here a wide range of federal programs have been put in place, including price supports, organized marketing, long and short-term credit, favourable tax treatment, and production development aid. New measures only recently introduced have improved all of these programs. Last year, farm net income rose by almost 25 per cent over 1970. The dairy industry is currently benefiting from a substantial firming in world price levels, and this year exports of grain and cereals from Western Canada will surpass all previous records. Much the same can be said of the fishing industry, where a number of important new programs have been implemented to improve productivity and stability and to raise the incomes of fishermen.

Our manufacturing industries are the largest single source of employment in Canada, providing jobs for more than one-fifth of all working Canadians. But by contrast with other sectors of the economy, this important sector is the one that is most exposed and most vulnerable to the challenge of change and international competition.

During the postwar period, the output of our manufacturing industries has not kept pace with the growth of the economy as a whole. Employment in the manufacturing industries has declined moderately as a proportion of total employment in Canada during this period.

In our trade in manufactured goods, we run a very large deficit, importing substantially more than we export. Excluding cars and parts, which are a rather special case, our trade deficit in manufactured goods increased by approximately \$1 billion between 1965 and 1970.

• (2030)

Canada's manufacturing industries have been particularly hard pressed during the past few years. Unit costs of production have risen more rapidly than those in the United States. The problem has been further compounded by the appreciation of the Canadian dollar, which has reduced the cost in Canada of imported manufactured goods and at the same time increased the cost of Canadian manufactured goods abroad. Our manufacturing sector has also been exposed to growing competition from the new industrial giants—Japan and the expanding European Economic Community. It has been further jeopardized by export subsidies and protectionist measures adopted or contemplated in the United States.

The manufacturing sector is of crucial importance to our economy. We depend on it to provide a growing number of productive, interesting and well-paying jobs for Canadians in the urban centres where they want to live and work. We rely on it to keep us in the forefront of technological changes. It is important to the development

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of a balanced and stable economy, one that is not excessively exposed to the sharp swings that take place from time to time in demand abroad for raw materials. It is important, too, because of the support it provides to the other major sectors of the economy.

It is, therefore, essential for us to take whatever steps are necessary to promote the development in Canada of manufacturing industries that are dynamic, vigorous and resourceful, that are unceasing in their efforts to innovate, that develop new and better products and that are aggressive in their efforts to expand their markets in Canada and abroad. In short, we must do everything we can to promote the development of Canadian manufacturing industries that are fully capable of meeting and surpassing competition from other countries.

#### *Budget Measures*

Let me now get down to specifics. The thrust of the measures that I will propose to the House tonight has a two-fold purpose. The first set of measures is designed to strengthen the competitive position of our economy in order to promote the faster growth of production and employment. These measures are medium and long-term in their nature and structural in their impact. They are also intended as a permanent incentive. But they will also help to add new momentum immediately and in the months ahead to the already strong expansion now under way in the Canadian economy. The second set of measures is designed to promote greater social justice by relieving the financial burden that is being borne by particular groups or individuals in our nation. The new expenditures they entail will also add prompt stimulus to the economy.

As a major step in the development of a new industrial policy for this country I am bringing forward measures of a fundamental nature to revitalize the manufacturing and processing industries. These measures will help this sector improve its competitive position in the world and will thus protect existing jobs and provide well-paying new jobs for Canadians in and near the urban centres where they want to work. Moreover, these proposals will further reinforce growth throughout the economy by stimulating an early expansion in capital investment.

First, I propose that the cost of all machinery and equipment purchased after tonight by a taxpayer to be used for the purpose of manufacturing or processing goods for sale or lease in Canada may be written off in two years. A new capital cost allowance class will be established and a taxpayer will be entitled to claim as depreciation up to 50 per cent of the cost of the asset in the year in which it is acquired and the unclaimed balance in any subsequent year.

Second, commencing January 1, 1973, the top rate of corporate tax applicable to manufacturing and processing profits earned in Canada will be reduced to 40 per cent. Similarly, the effective rate of corporate tax applicable to manufacturing and processing profits earned in Canada eligible for the small business deduction will be reduced from 25 per cent to 20 per cent. In order to give effect to these rate reductions, it will be necessary to provide rules to enable a corporation to distinguish its manufacturing and processing income from other kinds of income, such as investment income, wholesaling and retailing income