

The Budget—Hon. John C. Crosbie

Canada in 1980 than in this year, and that our unemployment rate is likely to increase to about 8¼ per cent.

The rise in energy prices will put upward pressure on the Consumer Price Index. This will tend to be reflected in continuing upward pressure on wages. There is already cause for concern in the rising trend now showing up in wage settlements.

● (2030)

We must look beyond 1980 even though forecasting is hazardous. Our policies are geared to improving the longer-run outlook for the Canadian economy and they are based on a realistic assessment of potential economic performance.

With recovery in the United States we believe that a growth rate of 3½ to 4 per cent in Canada for 1981-85 is attainable. This will mean some reduction in unemployment. But changes in the composition of the labour force, together with the influence of unemployment insurance and other social programs, have made unemployment rates in the 4 or 5 per cent range a thing of the past.

Our major challenge is to bring down the rate of inflation. This government fully endorses the Bank of Canada's policy of gradually reducing money supply growth. The government's over-all fiscal plan, and the tax measures I am presenting tonight, indicate our determination to reduce our deficit. Fiscal policy will now share in the task of reducing inflation and so provide a better balanced restraint than is the case when monetary policy is left to attempt the job alone. More funds for investment will be available for the private sector, hopefully at lower interest rates.

If confidence in our determination to reduce inflation can be fully established then the public's expectations may adjust downward. Future price and wage increases may then be lower than could normally be expected given the recent history of price inflation, the rather high levels of capacity utilization which prevail in many sectors and the impact of increases in energy prices.

The other main challenge is to improve our balance of payments position. Most projections suggest that the current account deficit will continue to widen, mainly because of the growing burden of interest payments, although it does not increase as a percentage of GNP. To do better than this we must export more and import less. We need more investment and we need more skills in order to increase our share in both foreign and domestic markets.

A major contribution to improving our balance of payments can come from energy through our new oil pricing and conservation policy which will lessen our imports of oil. As hon. members know, my colleague, the Minister of Energy, Mines and Resources (Mr. Hnatyshyn) has announced approval of the additional exports of natural gas recommended by the National Energy Board. The Board's findings are good news indeed. The intensive exploration and development effort in the Western Basin has paid off. We now have greater security of supply for our expanding domestic gas market and can increase exports. The effect on the balance of payments will be

[Mr. Crosbie.]

substantial. At today's export price, the 3.8 trillion cubic foot surplus would be worth about \$15.5 billion, and this figure will be a good deal higher as export prices rise.

Let me return now to a more detailed discussion of our plans for deficit reduction.

REDUCING THE GOVERNMENT'S DEFICIT

We plan to cut the government's financial requirements from about \$10 billion this year to \$4.8 billion in 1983-84. There will be a reduction of \$1¼ billion next year to bring the 1980-81 level to \$8.2 billion, and further reductions each year thereafter. Relative to the size of the growing economy the reduction in financial requirements will be even more dramatic, falling from 3.9 per cent of GNP this year to 1.1 per cent by 1983-84. By that year we will have accomplished a substantial, if not complete, repair of the damage of the fiscal position incurred over the last five years when financial requirements were allowed to rise from \$2 billion, or 1.4 per cent of GNP in 1974-75, to this year's \$10 billion.

The most fundamental element in our plan to lower the deficit is severe restraint over government expenditures. We are planning to hold total expenditure growth to 10 per cent in each of the next four years. In real terms there will be no growth at all. To achieve a lower deficit next year we have had to reinforce this expenditure strategy with the tax increases introduced tonight. Continuation of this degree of expenditure restraint under conditions of more normal economic growth will bring substantial further reductions in the deficit without further tax increases.

The decrease in financial requirements of about \$5 billion over the next four years results both from an increase in the government's non-budgetary sources of funds and from a reduction in the budgetary deficit. The budgetary deficit will decline each year, from \$11.2 billion, or 4.4 per cent of GNP this year, to \$9.1 billion, or 2.1 per cent of GNP in 1983-84.

That is an amazing decrease, Mr. Speaker, when one takes into account inflation and other expenditures. With the current level of the budgetary deficit the government's net debt is increasing at an annual rate of 20 per cent. Imagine, Mr. Speaker, 20 per cent. This, of course, implies a rising ratio of debt to government revenue and to GNP, and is a major contributor to rapid growth in interest costs which would sooner or later have to be met by higher taxes. It is not a sustainable position. This progressive reduction in deficits will bring the growth rate of net debt below 10 per cent by 1983-84. Government debt will then no longer be increasing relative to the size of the economy and public debt charges will no longer be pre-empting a larger and larger share of government expenditures.

The deficit on the national accounts basis declines very much in line with financial requirements. It is projected to fall from \$10.2 billion in 1978-79 to \$4.4 billion in 1983-84. On this accounting basis the consolidated position of all governments in Canada, federal, provincial and local, taken together, is expected to be in balance by 1983.