

*The Budget*

The principle of an eight-year moving average is the same as that now incorporated in the Act to adjust the maximum level of insurable earnings. This will mean some increase in premiums.

I might note that had this formula been operative in 1975, the new benchmark would have been 5.3 per cent. This level derives from actual experience over the immediately preceding eight-year period. It reflects broad social and demographic changes in the structure of the labour market, such as greater participation by married women, young people, students and other secondary wage earners. The regular up-dating of the benchmark will relate only to the sharing of the costs of initial benefits payable under the Act. Extended benefits payable to those who are unemployed for longer periods will continue to be based on the existing 4-per-cent benchmark, and the cost of these benefits will continue to be financed entirely by the federal government.

Mr. Speaker, our five-fold strategy of expenditure restraint will enable us to meet our priorities without placing undue strain on the economy. While many of the particular economy measures will prove to be very painful, I am convinced that the package as a whole will be welcomed by the country at large. By giving a lead to others in the exercise of restraint, this strategy will help to break inflationary expectations and get inflation under control.

[English]

Measures to Create Jobs

Certain special problems in the economy require policy responses if we are to sustain the level and growth of job opportunities and of production. I am now going to propose measures, Mr. Speaker, to deal with these special problems.

Measures to Sustain Business Investment

If our economy is to remain productive and competitive and capable of providing jobs, we must ensure that we have modern capital facilities with which to work. We must guard against any slowdown in investment. I have been pleased that capital investment has continued to expand in present circumstances and I want to do what government can do to ensure that this expansion continues.

It is well known that our policies have sought to encourage a strong manufacturing sector. We have provided long-term tax incentives to assist our manufacturers and processors to compete in domestic and foreign markets. The evidence presented in the final report on these tax measures demonstrates their effectiveness. But new and broader initiatives are needed under current economic circumstances.

I am therefore proposing to introduce an investment tax credit as a temporary extra incentive for investment in a wide range of new productive facilities. The credit will be 5 per cent of a taxpayer's investment in new buildings, machinery and equipment which are for use in Canada primarily in a manufacturing or processing business, production of petroleum or minerals, logging, farming or fishing. The cost of new, unused machinery and equipment acquired after tonight and before July, 1977, will be eligible. In the case of buildings, the entire cost will

[Mr. Turner (Ottawa-Carleton).]

qualify for the credit if the building is commenced during this same period. For buildings now under construction, additional costs incurred during the period will qualify.

A simple illustration demonstrates how this credit will work. If a taxpayer acquires a machine for \$10,000, he will be entitled to a credit of 5 per cent, or \$500, which he can apply against his federal tax liability. In other words, the cost of the asset to the taxpayer is reduced by 5 per cent, and his rate of return on the investment is thereby improved.

● (2100)

The credit will be claimable to the extent of the first \$15,000 of federal tax liability for the year and one-half of any excess over that amount. Any balance of credit not so claimed in the year may be carried forward against federal tax for the five succeeding years, subject to the same limits. It will be available to individual small businessmen, farmers and fishermen as well as corporations. The cost of the credit, which will be borne entirely by the federal treasury, will be about \$200 million in this fiscal year.

A further measure will make it easier for all Canadian companies to borrow abroad to meet their investment requirements over the next several years. Earlier this year, the Income Tax Act was amended to provide an exemption from the non-resident withholding tax on interest payable on government securities issued before 1979. I now propose to extend a similar exemption for interest on long-term corporate bonds, debentures and other debt securities, including mortgages. The exemption will apply to all interest on securities issued after tonight and before 1979 paid to lenders at arm's length with borrowers.

Full details of these measures and a number of technical amendments to the Income Tax Act will be found in the Ways and Means Motions.

Measures to Stimulate Housing

In the November budget, I stressed the importance the government attached to residential construction for both social and economic reasons. Faced with the prospect of a rapid decline in housing starts, we announced a series of measures to improve the situation. These included a further expansion and adaptation of programs of the Central Mortgage and Housing Corporation, the right to deduct capital cost allowance on new rental units from other income, and reduction of the sales tax on building materials. As a long-term measure to assist people in acquiring homes we also introduced the Registered Home Ownership Savings Plan. There is every reason to believe that this plan will be an important additional source of funds for housing finance.

We have seen a large increase in the price of housing in recent years; construction costs have risen, land costs in particular have soared and mortgage interest rates remain high although they have fallen from the peak levels of last year. This is therefore an area where the effects of inflation have been felt with particular severity. Provincial governments as well as the federal government have taken steps to mitigate the problem. But more needs to be done.

The number of housing starts fell from an annual rate of 284,000 in the first quarter of 1974 to 161,000 in the first