energy and mining.... The expansion of goods production has brought in its train an accelerating growth in output and employment in such service industries as transportation, trade and finance.

We have quite explicitly recognized that the full recovery of the economy requires a structural shift from the public sector to the private sector. Firm restraint on government spending has been an essential feature since the Anti-Inflation Program was launched in 1975. Both the federal and provincial governments have agreed to hold down the growth of their spending to no more than the growth of GNP. This has required rigorous planning and hard decisions, but the results can be illustrated by two striking facts. First, employment in public administration is now actually lower than it was a year ago. Second, the Federal Government share of total GNP in 1975-76 was 21.7 per cent. In 1979-80, it will be 19.9 per cent.

Record trade surplus

On the other side of the coin, there have been a number of powerful forces working in favour of the expansion of private sector activity. The most important has been the improvement in our international competitive position. This has come about because we have succeeded in bringing down the rate of increase of our own domestic costs.... But it has also been the result of the decline in the exchange rate on the Canadian dollar, which has been substantial in relation to the U.S. dollar and dramatic in relation to strong overseas currencies like the mark and the yen. The full impact of this will not be felt for a long time to come, but already in 1978 we had a record trade surplus of $3.5 billion.

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Energy

Canada, in common with all industrial nations, experienced a serious shock as a result of the massive increase in world energy prices in the early 1970s. Unlike most, however, we have a large domestic energy sector and a rich resource base which, in the face of higher real energy prices, have the potential for considerable expansion. As a result, the Government was able to respond to the OPEC price hikes with what we have called a policy of energy self-reliance. In simple terms, it means reducing our dependence on imported supplies. The principal elements of the policy are:

- gradually, to increase oil prices towards world levels, recognizing that U.S. energy prices will, for competitive reasons, serve as a constraint;
- to encourage, jointly with the provinces, investment in energy exploration and research and development through higher well-head prices; a federal corporate income tax system which encourages reinvestment; and, for new non-conventional oil, assurances that output will receive the world price and that facilities will be allowed to operate at full capacity; and
- to promote energy conservation through tax measures, direct subsidies and other legislative means.

In my November budget speech, I was able to report that the news from the energy sector was good; that our policies were working. In contrast to the perspective only two years ago, the outlook for energy self-reliance and the sector's contribution to economic performance is most encouraging. Also, of course, our substantial energy base would enable Canada to better cope with the shocks of temporary supply disruptions than would be the case in most industrial countries.

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Prospects for electricity are also favourable. Consumer conservation has resulted in lower forecasts for demand growth and, as evidence of the competitive nature of our industry, net exports increased from $167 million in 1976 to $406 million in 1977.

...Several large-scale capital projects are on the horizon, including two non-conventional oil projects (at $4 to $5 billion each); eastward extension of the natural gas pipeline system; several electric power projects and, of course, the natural gas pipeline from Alaska. On the pipeline, we have made considerable progress clearing the regulatory hurdles and, once that process is complete, I anticipate that the project will provide significant stimulus to the domestic economy during the construction stages. When the line is operating, the tariff revenue will have a substantial positive effect on our balance of payments.

It is particularly important to me that the levels of corporate taxation in Canada are consistent with those in the United States, our most important trading partner. Our system is basically sound. The study found corporate taxes as a per cent of pre-tax income were consistently lower in Canada for the corporate sector as a whole in the 1972-77 period. In 1977, the effective tax rate was some 6 percentage points lower in Canada than in the U.S. This is due to more generous depreciation allowances and lower statutory tax rates. In manufacturing, corporate taxes were 11.3 percentage points lower in Canada. This large relative advantage for Canadian manufacturing firms results from the low tax rate applicable to manufacturing and processing profits and from the two-year write-off available for machinery and equipment.

Particular Canadian tax incentives encourage activity in key sectors such as manufacturing and resource exploration as well as special activities such as investment, regional economic expansion and research and development. These incentives reflect current government priorities and form an integral part of our over-all economic strategy. More specifically, my budget of November 16 raised the basic rate of investment tax credit to 7.5 per cent as well as making the credit permanent. Higher rates of credit, ranging up to 20 per cent, apply in slower-growth regions to encourage new investment in the developing areas of Canada.

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Foreign investment

.. The question of foreign investment is of major concern to you. Canada has continued to benefit substantially from the inflow of long-term capital. Foreign investors have purchased billions of dollars worth of securities from Canadian corporations, municipalities, provinces and the Government of Canada. The willingness with which these investors have bought Canadian securities reflects more than a hard-nosed recognition of interest-rate

(Continued on P. 8)

Exports of natural gas could grow

Canada could increase its exports of natural gas by 25 per cent annually and have enough left over for extra supplies to eastern Canada, states a recent report released by the National Energy Board (see next issue).

The 168-page report says that Canada has sufficient gas to meet domestic demand until 1992 – nine years longer than the Board estimated two years ago. It concludes that the natural gas surplus in Canada is as much as 3.4 trillion cubic feet.