on the tourist season and on Canadians planning holiday travel this summer.

The rates of federal sales tax will be increased by one percentage point, effective January 1, 1986.

I am also proposing a number of income tax changes.

—The modified indexation factor applied to personal transfer payments will also apply to the tax system. Beginning next year, the indexation of personal exemptions and tax brackets will reflect only the annual increase in the consumer price index greater than 3 per cent.

[*Translation*]

—The $50 federal personal tax reduction will be eliminated next year.

—A temporary deficit-reduction surtax will be imposed on higher-income individuals and large corporations.

[*English*]

For individuals, the surtax will extend from July 1, 1985 to December 31, 1986. It will be levied at an annual rate of 5 per cent of basic federal tax in excess of $6,000 and a further 5 per cent of basic federal tax in excess of $15,000. This surtax should not increase tax liabilities for individuals with gross incomes less than about $40,000. For large corporations, the surtax will extend from July 1, 1985 to June 30, 1986 and will be levied at a rate of 5 per cent of federal tax payable.

—A two-year tax will be imposed on the capital of large banks and trust companies, effective in 1986. The purpose of this measure is to ensure that they bear an appropriate part of the tax load at a time when deficit reduction is a high priority.

—Effective today contributions to a registered home ownership savings plan will no longer qualify for preferential tax treatment. Plans will cease to be tax-exempt at the end of 1985, but individuals will be able to withdraw the accumulated funds for any purpose with no tax liability. There is currently more than $2 billion in such plans. I am confident that, with the measures I have announced to provide incentives to growth and job creation, a substantial portion of these funds will find their way into entrepreneurial and job-creating investments, as well as providing a boost to housing and consumption.

BALANCE AND IMPACTS

The over-all impact of the tax increases must be assessed in the context of the budget as a whole. Net tax increases will amount to $200 million this year and $1.8 billion next year. Coupled with the expenditure reductions I reported earlier, the total direct impact of our actions since November will be to reduce the estimated deficit by $4.4 billion this year, to a level of $33.8 billion. For next year, the total direct impact of our actions in November and today will be to reduce the estimated deficit by $8.3 billion, to a level of $32.7 billion. The rate of increase in the accumulated debt of the Government of Canada will drop from 23.2 per cent last year to 14.6 per cent next year.

It is more misleading than helpful to present a precise view of the deficit five years from now. Small changes in economic growth or interest rates can have large impacts on the deficit, even in the short run. For example, a 1 per cent change in interest rates would have an impact of $1.1 billion on next year's deficit. Such effects compound over time. It would be foolhardy to fine-tune policy to precise estimates that we know are uncertain and will inevitably be proven wrong. What is important is the credibility of our medium-term strategy. Canadians need to have confidence that we will reduce deficits and control the ultimate level of the debt. The measures I announced in November and today will ensure that the annual deficit is more than $20 billion lower than it would otherwise have been by the end of the decade. About 80 per cent of that reduction will be on the expenditure side. Most importantly, these measures will cut $75 billion from the projected debt over that same period.

• (1750)

Given reasonable international economic conditions, these measures should ensure that the growth of the debt is brought back into line with the growth of the economy. This is a major improvement over the situation that confronted this government eight months ago. At that time we were faced with a debt that would continue to grow at a rate far greater than that of the economy long into the future. In a resolute fashion, we have taken the steps to reverse that dangerous trend and put our financial affairs on a responsible course.

On balance, I am confident that the measures I have proposed today will enhance economic growth and employment in the short run. Over the medium term they establish a sound foundation for sustained economic growth and job creation.

Pursuant to Standing Order 64(1), I table in both official languages copies of certain Notices of Ways and Means Motions relating to the Budget. I would ask that Orders of the Day be designated for the consideration of these Ways and Means Motions pursuant to the provisions of Standing Order 64(2).

CONCLUSION

If I have a preoccupation with any one economic target, it is with the good, satisfying and durable jobs that Canadians, and particularly young Canadians, want and need.

This budget is about jobs.

If I believed that higher deficits and a more rapidly rising debt would help create those jobs, I would gladly increase the deficit to achieve that goal. But it hasn't worked in the past and it is not going to work in the future.

[*Translation*]

The economic problems facing this country are not easy to solve. But solve them we must if we are to succeed in this competitive world.