

THE ECONOMIC OUTLOOK

This year will mark the fifth consecutive year of expansion. This economic upturn is the second longest of the postwar period. Prospects are excellent that it will continue.

Consumer confidence is strong. Interest rates are expected to remain relatively stable this year. Housing starts will continue at high levels and business investment will recover and grow modestly this year. Inflation will average less than 4 per cent in 1987 and decline through the year, leaving Canadians with more spending power. I am projecting real output growth of 2.8 per cent in 1987.

Our rate of job creation this year is expected once again to exceed that of any other major industrial country. Strong employment growth will be accompanied by large numbers of new entrants to the labour force, a sign that many once again are seeking work as a result of greater confidence about our economic prospects. I expect unemployment to decline through the year and the unemployment rate to fall to 9 per cent by year-end.

[Translation]

Our stronger competitive position leaves Canada well placed to benefit from expected improvements in international economic activity. Recent interest rate declines, exchange rate realignments and some firming of commodity prices will help increase Canadian sales in foreign markets.

[English]

CONTINUING FISCAL PROGRESS

Continued progress in improving our economic outlook, next year and beyond, depends on keeping to a fiscally responsible course.

We want our children and grandchildren to enjoy the opportunities they deserve by right. We must not burden them with a legacy of intolerable debt that robs their future of opportunity.

We want to improve our social programs and provide more help for those in need. We must restrain government debt that diverts tax dollars from human needs to interest payments.

We want Canada to retain the fullest flexibility to set its own course in a world of international change and competition. We must not allow ourselves to be constrained by a strait-jacket of debt.

Dealing positively with deficits and the debt is, ultimately, about improving the well-being of Canadians. That is why we have made it clear from the beginning of our mandate that we are committed to fiscal responsibility.

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THE FISCAL PRINCIPLES

Last September, I set out clearly the four fundamental principles that have guided our fiscal policy. We committed ourselves to these principles in 1984 and reaffirmed our

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commitment last September. We are acting to fulfill these commitments.

Our first principle is to reduce the growth of the national debt to less than that of the economy by the end of this decade.

When we took office, the public debt had been growing in the previous four years at an average annual rate of more than 23 per cent. The growth rate will be cut to 11 per cent in 1987-88 still too high, but a substantial improvement in a short time.

Our second principle is to achieve continuing, sizeable year-over-year reductions in the deficit.

When we took office, the deficit was more than \$38 billion. We will meet the 1986-87 deficit target of \$32 billion that I set out on September 18. By the end of 1987-88, in just three years, we will have reduced the deficit by almost 24 per cent.

Our third principle is to ensure substantial year-over-year reductions in the government's financial requirements.

When we took office, financial requirements, excluding foreign exchange requirements, were \$29.8 billion. In the current fiscal year, financial requirements will fall by \$5.8 billion to \$24 billion. This will be cut further to \$21.3 billion in 1987-88 a drop of 28.5 per cent in three years.

Our fourth principle is to ensure that the greater part of the progress is through expenditure restraint and disciplined management.

When we took office, government spending on all programs was growing by almost 14 per cent a year and had done so since the start of the decade. Since then, program spending has grown on average by only 2.8 per cent a year, well below the rate of inflation. Spending on government programs is being reduced in real terms and relative to the economy. About 63 per cent of the decline in the deficit relative to the size of the economy will have been achieved by reductions in spending.

The progress we have made in applying these principles is substantial. We are determined to continue until the job is done.

MAINTAINING FISCAL FLEXIBILITY

Last September, in recognition of the difficulties facing hard-hit regions and sectors of the economy, I set out a revised deficit target of \$32 billion for 1986-87.

This decision to accept a slower decline in the deficit was taken consciously and positively to cushion the blow that lower world oil and grain prices have dealt to some parts of Canada. Even with this decision, the revised deficit target still represents a sizeable decline from the previous year, and is consistent with our fiscal principles.

But I also said in September that we would hold our program spending to the target of \$89.4 billion that I set out last February. We will do so. We have responded to unforeseen developments in a fiscally responsible way. Where necessary, we have reallocated resources, reassessed priorities, made mid-course adjustments and acted to achieve our targets.