budget, a context of continuing adjustment and underlying improvement in the economic health of our country.

Since 1975 the challenge facing us all in Canada has been to pull our economy back into line as a trading nation, to restore our competitive position in the world. We have come a long way in this direction. We have some distance still to go. The ground we have lost is most evident in our current rate of unemployment. In this area, more than any other, we have had to live with damage for some time after we have made corrections elsewhere.

What are those corrections? We have brought our costs down to much more reasonable levels. Increases in our wage costs and unit labour costs are at or close to those in the United States. Demands for future increases are by and large responsible. Government expenditures are being held down. Federal spending has been kept within the growth rate of g.n.p. for two years, and we will continue to make whatever cuts are necessary to stay within that goal.

A series of target ranges has been established for increases in the money supply to ensure that monetary policy supports economic growth at declining rates of inflation.

Fiscal policy has followed the same goal. The tax burden on individuals and corporations has been eased, both indexing and through deep cuts in federal taxes.

Indexing of exemptions and brackets since 1974 means that personal income taxes this year are more than $5 billion below what they would have been in the absence of the indexing adjustments. Specific personal tax cuts totalling $2.9 billion have been introduced since 1974. Over the same period, the government has introduced tax cuts for business large and small totalling $1.6 billion.

The fast write-off for manufacturing and processing assets was made permanent. An investment tax credit of 5 per cent was introduced, and later increased in amount, extended in term and applied to research and development expenditures. Further incentives were introduced for frontier oil and gas exploration. The corporation tax was significantly simplified in important areas. A measure was introduced to reduce the impact of inflation on inventories. An employment tax credit was introduced.

Other measures were designed in particular to help smaller business operations in this country. I speak of increases in the profits taxed at reduced rates, the annual limit tripled to $150,000 and the cumulative limit increased to $750,000 from $400,000. I refer to the increased dividend tax credit, higher deductions for capital losses, preferred treatment of stock options and gains on venture investments, and the deferral of tax on replacement of business property.

The government will soon introduce new measures to help small business.

Because of these tax cuts and the weakness in the economy, the federal deficit has risen. As the recovery picks up and inflation recedes further, our cash requirements will come down. In the meantime, our borrowing program is manageable and fully within the capacity of the capital markets and the economy.

One of our basic adjustments in the past 18 months has been the depreciation of the Canadian dollar. In the last two weeks the dollar has regained ground and stabilized demonstrating that fundamental forces have reasserted themselves in the exchange market. Largely because of the dollar's adjustment, our trade and balance of payments picture is improving sharply. The improvement began last year when we almost tripled our trade surplus. It strengthened even further in the first quarter this year when the merchandise balance jumped to an annual rate of $5.6 billion, twice that of last year.

There are many recent signs of more growth with less inflation. Retail sales were up 4.3 per cent between January and February. In real terms, the sales in those two months were 6.1 per cent higher at an annual rate than in the fourth quarter of 1977. This suggests that the $100 tax cut early this year has helped boost consumer demand.

Employment continues to rise in Canada. The most promising part of this picture is a strong rebound in manufacturing jobs. They increased 4.2 per cent in the past six months.

We have corporate data now for the fourth quarter of 1977, showing an upswing in profitability and continued improvements in liquidity.

The working capital ratio in the last quarter almost reached its all time peak of 1973.

Because of the sales tax cut in last month's budget, the consumer price index is now 0.7 per cent lower than it would otherwise have been. The increase in the CPI for April was only 0.2 per cent, the lowest month-to-month increase since the fall of 1975.

An indicator of costs and prices used more and more in industrial countries is the CPI less the impact of food and energy. In Canada, the increase in that index has declined from 9.7 per cent in 1975, to 8.8 per cent in 1976 and to 7.3 per cent in 1977. The year-over-year rate to April was 5.7 per cent.

Data Resources Incorporated, a private research group, has calculated that output this year will grow by 0.4 per cent more than it would have in the absence of the sales tax reductions.

These are all clear indications of improving trends in the Canadian economy. The measures of this budget are already part of that story, and they will continue to support those improvements. Let me move now to a brief examination of those measures.

I have referred to the budget's contribution to structural change in the economy. I should mention that the incentives with respect to tertiary recovery and non-conventional oil are being put into effect by regulation, and do not appear in this bill. The same applies to the changes in capital cost allowance applying to major investments in railway transportation.

On the other hand, a third set of structural measures, those applying to research and development in Canada, do require legislative amendment and are set out in Bill C-56. They