

The Budget—Mr. Lalonde

If we are to address the issue of deficits over the medium term in a realistic way, we must put rhetoric aside and look at the facts. We cannot eliminate the deficit quickly. To do so would require us to slash Government programs or to accept massive tax increases. Either course of action would jeopardize our prospects for economic recovery. But we must manage the deficit now to ensure that it will come down as quickly as possible. Simply put, as private demand for savings grows, Government borrowing requirements must shrink.

● (2140)

The first area we must look to is Government expenditures. In 1975, this Government made the commitment that, over the medium term, expenditures would grow no more quickly than the trend growth in GNP, so that the share of the federal Government in the economy would not increase.

This commitment was met until the recession last year. I am reaffirming this commitment tonight. "The Fiscal Plan" I will be tabling with this budget shows that total outlays as a share of GNP will fall steadily from this year to 1986-87. By that year, federal spending will be virtually the same size relative to the economy as it was in 1981-82, before the worst of the recession. To achieve this outcome will demand continuing diligence in restraining expenditure growth.

The second area is revenues. As I pointed out earlier, a succession of tax cuts in the second half of the 1970s caused federal revenues to grow much less rapidly than the economy. In 1974-75, federal revenues were almost 19 per cent of gross national product. This share fell to less than 15 per cent in the late 1970s. I am therefore proposing tonight changes in the personal income tax that will take effect only in future years, when the recovery is secured, to help reduce the federal deficit more quickly over the next four years.

Individual taxpayers are now eligible for a federal tax reduction of \$200. This tax reduction was originally introduced in 1973 at a rate of 5 per cent of tax otherwise payable with a minimum of \$100 and a maximum of \$500. It is not an integral part of the basic structure of the personal income tax system and has been modified from time to time in response to changing economic circumstances.

I am proposing further modifications to this tax reduction applicable to 1984 and subsequent years. The federal tax reduction will become income-tested as of January 1, 1984. The \$200 credit will be phased out in that year for taxpayers paying more than \$6,000 in basic federal tax. Those paying less than \$6,000 in basic federal tax, which is equivalent to income levels in the \$35,000 to \$40,000 range, will not be affected in 1984. The base amount of the credit will be reduced to \$100 in 1985 and to \$50 in 1986 and subsequent years.

These changes will take effect gradually and only when the recovery has firmed up. No taxpayer will be affected in 1983, and only those with high incomes in 1984.

[Translation]

The direct impact of all the measures I have announced tonight will be to increase the deficit by \$1.9 billion in the current fiscal year and by \$650 million next year. In the following two fiscal years, as the economy improves, these measures will reduce the deficit by \$1.8 billion and \$2.6 billion, respectively.

I believe that the nature and timing of these measures are both appropriate to our short-term economic situation and necessary to safeguard the ability of the private sector to provide jobs for Canadians over the medium term. I will continue to monitor the medium-term deficit and take appropriate action as necessary to bring it down as quickly as possible without compromising the performance of our economy.

Madam Speaker, I am tabling with this budget Ways and Means Motions to give effect to the tax and tariff changes I have proposed, and I also ask the consent of the House for tabling the budget papers to which I have referred.

Some Hon. Members: Agreed.

[English]

CONCLUSION

Mr. Lalonde: Madam Speaker, the most critical and also the most difficult step towards recovery is to break out of the recession mentality. It is to cure ourselves of the collective trauma engendered by present difficulties and to look once again squarely and confidently into the future.

This can be achieved only by an act of national will. The Government by itself cannot will the economy onto the path of lasting recovery.

But the Government has the capacity to act decisively to restore confidence in the ability of Canadians to mobilize brain and brawn, to muster our energies, and to make our economy more productive and more competitive. It has the capacity to strengthen our private sector and to enable it to provide once again the jobs Canadians need.

This is what this recovery budget seeks to achieve for Canada.

I set out with two goals: to ensure that recovery firmly take hold and that it be durable. To create the jobs Canadians need, I proposed actions that will go into effect immediately but that will also be geared to the medium term.

The budget provides targeted stimulus to boost the recovery. It introduces a \$4.8 billion Special Recovery Program. This program will create jobs and make possible new private and public investment that would otherwise have been undertaken only later in the decade.

The budget provides more direct support for employment, more buying power for lower income Canadians and more stimulus for housing. It proposes actions to improve our growth prospects by strengthening the financial position of our