

The Budget—Hon. Michael Wilson

Most Canadians agree that we must restore fiscal order. But they rightly feel that this process must start by eliminating waste and inefficiency in government, and that any further actions that are necessary must be balanced and fair.

The measures I have outlined to put our own house in order, together with the actions announced in November, represent a significant step in getting control of government spending. Program expenditures are expected to increase by slightly more than 2 per cent this year and next year—the lowest rates of increase in almost two decades. The government's non-statutory program expenditures, excluding defence and foreign aid, will actually decline by more than \$1 billion next year—the first such decline in more than two decades.

This is an impressive start. But it is not enough. Over the past decade, the financial position of the Government of Canada has worsened at an accelerating pace. As a percentage of Gross National Product, budgetary expenditures rose by 3.7 percentage points in the past decade. During the same period, budgetary revenues as a percentage of Gross National Product have dropped by 3.5 percentage points. There is a built-in structural imbalance that contributes to an everwidening gap between revenues and expenditures. With each passing year, government policies that tend to widen this gap have become less and less sustainable.

With total spending that now exceeds \$100 billion, we cannot make significant saving without examining transfer programs. These programs now account for over \$40 billion and are growing rapidly. One of the key factors in this growth is the automatic indexation of transfer programs to the consumer price index, regardless of the income situation of the recipient.

The purpose of indexation has been to protect Canadians from the effects of rising prices. But it has become increasingly clear that Canadians must also find a way to protect themselves against rising deficits and the soaring national debt.

Accordingly, I propose to modify indexation for old age security payments and family allowances. Beginning January 1, 1986, these payments will be indexed only for the annual increase in the consumer price index greater than 3 per cent. No payment will be reduced as a result of this measure. Any increase in inflation above 3 per cent will be fully compensated.

By maintaining the principle of indexation, we are assuring Canadians that if serious inflation breaks out again, these payments will be protected by this potent form of insurance. The government will review the adequacy of payments in light of future circumstances and will increase them as resources permit.

[*Translation*]

Indexation to the full consumer price index will continue for the guaranteed income supplement and for payments to veterans.

[*English*]

To spread the burden of expenditure reduction fairly, the government will also be seeking to limit the rate of growth of

transfers to provinces to yield annual savings of \$2 billion by the end of the decade. There will be no absolute reduction in federal transfers. Even after this adjustment, federal transfers to provincial governments will grow significantly over the balance of this decade. In 1990-91, they would represent about the same share of total program expenditures as they do today.

● (1740)

With this budget and the action taken in November, we have reduced every area of government spending. It is only reasonable that transfers to provinces, which account for 19 per cent of program expenditures, should be included. I made a commitment to my provincial counterparts last January that I would not reduce these transfers in the current fiscal year and that commitment will be honoured. I will meet with provincial Finance Ministers this fall to discuss the full range of issues relating to federal-provincial fiscal arrangements. I will wish to discuss at that time how quickly and how best we can move to secure the savings the government intends to achieve.

[*Translation*]

We have looked hard at areas for expenditure reduction. We have started with our own operations and we have restructured programs in a balanced and effective way. We have put in place a plan that will meet the need for sustained reduction of deficits over the medium term. We have tried to be fair to individuals to other governments. We have delivered on our commitment to take actions that will achieve net expenditure reductions of \$15 billion in 1990-91. And we have done so in a balanced way that is sensitive to the regions of the country.

[*English*]

This restructuring is very significant. But it is not enough to make a meaningful start on restoring a healthy fiscal balance. I have therefore, reluctantly, accepted the necessity of increasing taxes.

I am proposing the following changes:

The automatic indexation of excise levies on alcoholic beverages and tobacco products is being terminated. Effective today the excise levy on alcoholic beverages will increase by 2 per cent. Effective this afternoon the levy on tobacco products is being increased by 25 cents on a package of 25 cigarettes. I recognize this increase is substantial, but I have taken into account the serious health hazards and high public health costs related to smoking.

Some Hon. Members: Hear, hear!

Mr. Boudria: For our own good, Michael?

Mr. Wilson (Etobicoke Centre): I see the Hon. Member is trying to buy a package of cigarettes before the price goes up.

The Canadian Ownership Special Charge of 0.7 cents per litre on transportation fuels will be removed June 1. In its place, the excise tax on transportation fuels will increase by 2 cents per litre, effective September 3. I am delaying this increase until after Labour Day in order to avoid any impact