

us to improve our economic prospects in the near term and lay the basis for healthy growth in the medium term. The measures I have announced will help create more jobs for Canadians this year and in years to come. They will do so primarily by supporting growth in the private sector. Our unemployed relatives, neighbours and friends want to work, but they also want secure, productive and satisfying jobs. These jobs will have to come from a strong and dynamic private sector.

Ten months ago, the Government proposed the 6&5 program. Canadians were asked to join in a national effort to bring down inflation. That effort has brought results more quickly than most people expected. Millions of Canadians shared in this national effort by having their salary increase, or their family allowance indexing, or their pension increase, limited to 6 per cent in 1983. They will find that their real purchasing power has not decreased much, if at all, in these two years. Indeed, they will have fared better than many other Canadians who have seen their incomes grow by much less than 6 per cent in the aftermath of the recession. In the spirit of the 6&5 program, I am asking Canadians tonight to join in a collective effort to build a stronger economy.

[Translation]

THE DEFICIT

I have said many times tonight that the Government alone cannot bring about lasting recovery. But there is one area where it must, by its own actions, take the responsibility for ensuring satisfactory growth in the medium term. This is the management of the federal deficit and of the Government's financial requirements.

When I reported to the House in February, I gave estimates for the deficit and financial requirements for 1982-83. Since February, it has become apparent that expenditures have been about \$300 million lower than anticipated and revenues almost \$1.7 billion higher. This development provides a further indication that recovery has begun. Final figures for last year will not be available for some time, but I now estimate that the 1982-83 deficit will be about \$2 billion lower than expected two months ago, or about \$25.3 billion. Cash requirements will be about \$23.5 billion.

The causes of last year's high deficit are well understood. The depth of the recession forced a substantial increase in Government expenditures, most of it to help those Canadians most seriously affected by the recession. At the same time, federal revenues grew by only 1.5 per cent. The deficit increased sharply, but its financing did not put upward pressure on interest rates. Indeed, interest rates moved down dramatically in 1982.

The fact that the deficit has reached such a high level means that it will inevitably take time to bring it down. Indeed, as I have indicated previously, because recovery will be moderate, because unemployment will remain high, and because oil prices have fallen abroad and will fall in Canada, the deficit would have been higher this year than last year even without

the actions I have announced in this budget. The direct impact of all the measures I have announced tonight will increase the deficit by \$1.9 billion and bring it to \$31.3 billion for the current year.

Financial requirements, which are a better measure of the pressure that the federal Government will put on financial markets, will increase by less than the deficit. They are projected to reach a level of \$26.7 billion, about \$3 billion higher than last year. I have no doubt that these requirements can be financed this year without putting pressure on interest rates and without threatening economic recovery. Private investment will continue to be weak and savings rates to be high in 1983.

Over the medium term, however, the deficit problem is more difficult. In the absence of further action, the deficit would have declined after this year, but it would do so only very slowly. Government borrowing requirements would decline more quickly but would still be high in 1986-87.

[English]

It is important that Canadians understand how the deficit arose, how it ought to be interpreted and what its implications are for economic performance. I have found in my consultations with Canadians that there is a great deal of legitimate concern, which I share, about the level of future deficits. But I have also been struck by the complexity of the issues involved and the need for a balanced understanding of them. I will therefore be tabling tonight with this budget a background paper entitled "The Federal Deficit in Perspective". I hope that this paper will make a useful contribution to the continuing debate on this important subject.

This background document makes four important points, and I invite the Opposition to read it.

First, the federal deficit over the second half of the 1970s was not due to runaway expenditures. It was due in large part to a succession of tax cuts introduced in response to weak economic activity.

Second, the impact of the federal deficit on financial markets and interest rates cannot be looked at in isolation. From 1975 to last year, other Governments in Canada ran a consolidated surplus on a national accounts basis and this surplus helped to offset federal borrowing requirements.

Third, the so-called structural deficit, after allowing for the impact of economic cycles on federal revenues and expenditures, fell steadily from 4.3 per cent of GNP in 1978 to only 1.8 per cent of GNP in 1981. It rose in 1982, but will decline again through the medium term.

Fourth, because accounting procedures for Governments are distorted by inflation just as they are for companies in the private sector, the growth of the real value of the national debt is less than implied by the deficit numbers. This has important implications for the ability of the Government to finance its deficit without putting pressure on interest rates.