The manufacturing and processing tax rate will be cut from 23 per cent to 22 per cent effective January 1, 1993, and to 21 per cent on January 1, 1994.

The capital cost allowance for manufacturing and processing machinery has been increased from 25 per cent to 30 per cent.

Third, we are also prepared to reduce the withholding tax on direct dividends paid to non-residents. This step, combined with the drop in the manufacturing and processing tax rate will help improve the investment climate and competitive edge we have. It will help rebuild the manufacturing and processing sector that has been shaken by the economic slowdown and restructuring.

I read out a lot of numbers and I am sure some members of Parliament are a little confused by what all this means. It is important because we happen to be located next door to the United States of America. When you take a look at the marginal effective tax rate on companies, it is currently 21.6 per cent in the United States, while in Canada it is 23.4 per cent.

Those were the numbers before this budget. After these three changes take place the effective rate in Canada will drop to 20.6 per cent. The Americans, if they do not do anything and they do not increase or reduce taxes—and they have a large debt they have to pay—would stay at 21.6 per cent.

In other words, today the tax rate for a Canadian manufacturer is 1.8 per cent higher than its U.S. competitor. But as of 1994 the Canadian marginal tax rate will be 1 per cent lower. Therefore, by doing those sorts of things it helps Canadian manufacturers. By helping Canadian manufacturers it creates employment. I will repeat again, governments do not create jobs; it is industry that creates jobs.

We are also establishing a small business financing program to help firms in temporary financial difficulty adjust. The ceiling for loans under the Small Businesses Loans Act will be doubled.

We will also streamline the administration of the scientific research tax credit system and in this way enrich it by a further $230 million. We will revise the lifetime capital gains exemption to restrict its application to real estate. This will encourage Canadians to direct financial resources toward productive investments that boost the ability of Canadians to compete globally.

These measures do not compromise our commitment to reducing the deficit. The budget includes spending cuts needed to balance our tax cuts and continue the track needed to reduce the deficit to the point where we can begin the process of paying down our national debt.

What are some of those spending cuts? Defence spending will be cut by $2.2 billion over the next five years and this is a real peace dividend. We certainly will not disregard our obligation to our forces but the results will be a smaller and also a more effective and better equipped defence force.

Forty-six federal agencies and organizations will be eliminated, streamlined or deferred and federal grants and contributions will be reduced by $375 million over a five-year period.

Then of course, these actions will allow us to provide a tax break to all Canadians. This also helps the manufacturing and processing sector while setting us back on course to get the deficit to fall to $27.5 billion this year and $22.5 billion in the next fiscal year.

By 1995-96 we will have zero financial requirements. In other words, there will be no need for the Canadian government to go to the market and borrow. The government will have sufficient cash flow to meet its requirements during the fiscal year.

In closing, let me point out that the current economic situation is in line with what was indicated in the budget, that the 1991 final quarter was weak and that this weakness would continue over into the first half of 1992. I am glad to say that there are also real signs that this turnaround is taking place to the benefit of Canadians.

The simple fact is our structural reforms and budget measures combined with an upturn in the United States, our major export market, has positioned Canada for renewed growth and job creation as the year progresses. This is not just a matter of opinion. These are positive indications that the economy is strengthening.