Income Tax Act

productivity growth, continues in my opinion to be appropriate and justified. Those who advocate more economic stimulus at this time should realize that such a course must inevitably lead to further aggravation of current inflationary pressure. It would also require abandoning the policy of bringing the size of the government's deficit under control.

At the other extreme there are those who would advocate more restrictive policies. The supporters of such policies must recognize, however, that they imply some combination of increased personal and corporate taxes or Draconian measures to cut government expenditures. Any such expenditure cuts would lead to disruption of important public programs since the growth of total budgetary outlays is already under restraint. Moreover, extreme restrictive policies would have high costs in the form of lost output and higher unemployment. Rather than either extreme, I attempted in my budget to adopt a strategy of gradual deficit reduction. As such it marks a fundamental shift in the stance of fiscal policy.

After 1974 the federal deficit and financial requirements steadily mounted as the government moved to stimulate the economy. Now the government has chartered a more determined anti-inflationary course for fiscal policy. The importance of this has been driven home by the resurgence of inflation. We heard and listened to further evidence on that point during the oral question period. This shift in the direction of fiscal policy should make more funds available for supplying expanding investment. It will thus provide useful support to the government's supply-side initiative.

A major factor bringing about the deficit reduction is the government's commitment to expenditure restraint. The growth rate of spending on total outlays, that is, the sum of budgetary expenditures, loans, investments and advances, is projected to decline from 13.2 per cent in 1980-81 to 12.8 per cent in 1981-82, and to slow to around 10 per cent by 1983-84.

The planned growth in spending is within the trend rate of the gross national product. It will bring the government's share of total outlays in GNP back down to 20.3 per cent by 1983-84, the same share as in 1979-80.

The slowdown in spending growth will be achieved in significant part by removing the burden of financing petroleum compensation payments from the general government revenues and putting it where it belongs. While this burden will be shared by consumers they will still pay less for energy than if we had moved more rapidly to international levels. Inflation will thus be restrained.

The cutback in expenditure growth will also be facilitated by the new expenditure management system under which the government is identifying its priorities within an over-all framework for restraint. With this framework—

The Acting Speaker (Mr. Ethier): Order, please. I regret to interrupt the hon. minister. It being one o'clock. I do now leave the chair until two o'clock.

At one o'clock the House took recess.

AFTER RECESS

The House resumed at 2 p.m.

• (1410)

The Acting Speaker (Mr. Blaker): When the debate was interrupted at one o'clock, the Hon. Deputy Prime Minister and Minister of Finance (Mr. MacEachen) had the floor.

Mr. Knowles: Now he will have a chance to say something.

Mr. MacEachen: Mr. Speaker, when the House rose at one o'clock I was referring to the approach of the government to expenditure restraint. I said that the cutback in expenditure growth will also be facilitated by the new expenditure management system under which the government is identifying its priorities within an over-all framework for restraint. Within this framework there will be, nevertheless, room to finance new initiatives in the priority areas of energy and economic development.

These energy and economic development initiatives are an integrated part of the budget strategy. They represent an innovative supply-side approach to the inflation problem. In the past our tendency to focus too narrowly on demand management policies and our failure to tackle supply problems have contributed to the build-up in inflation. The budget took action to right this balance. Over the next three and a half years, $8.4 billion from new energy taxes has been allocated to help us achieve security of supply and reduce our vulnerability to oil price shocks.

Increased expenditures on economic development over the next three or four years will help bring about renewed growth in productivity and dampen cost increases. The amount of $1.5 billion has been set aside for a major expansion of our activities in such areas as industrial development programs, research and development, export promotion and transportation; $350 million has been set aside to promote industrial restructuring and manpower retraining in areas of particular need. I hope the Minister of Employment and Immigration (Mr. Axworthy) and the Minister of Industry, Trade and Commerce (Mr. Gray) will amplify our intentions in this respect very soon.

In addition, $2 billion has been set aside for western initiatives in areas vital to the growth and diversification of the economies of the western provinces such as western grain handling and prairie water developments. Thus, a grand total of $12 billion has been allocated in the next three years to essential productivity and supply initiatives. This should help to reduce inflationary pressures by increasing supply in Canada, which was one of the major themes struck in the budget presentation.