

*The Economy*

unemployment. Honourable Members are well aware that over the past year it has been drawn upon more heavily and extensively than ever before to meet the objectives for which it was designed. The program is financed through premiums paid by workers and their employers, and through contributions from the federal government. Over the years, premiums have moved up and down in response to general economic conditions and the consequential demands made on the Unemployment Insurance Account. Premiums were in fact reduced last year from the 1980 level of \$1.80 for employees to \$1.65 per \$100 of insurable earnings—the same premium level as in 1976.

Unfortunately, we now face a very different situation. The severity of the recession has resulted in a very high number of claims on the Unemployment Insurance Account. It is estimated that by the end of 1983, in the absence of any increase in premium rates, the cumulative deficit could rise to more than \$6.5 billion. Some increase in premium rates is therefore unavoidable. However, balancing the Account at this time would have imposed an intolerable burden on the private sector, requiring an employee premium rate as high as \$3.75 in 1983.

To have raised premiums to such levels would have amounted to a massive tax increase on Canadian workers and businesses, an increase that would have jeopardized economic recovery. At the same time, keeping rates at their current levels could have added more than \$3 billion to the government's cash requirements in 1983. It would also have required even higher rates in the future since the deficit of the Account would continue to mount.

The Minister of Employment and Immigration and I have both consulted with business and labour as to the fairest way to resolve this dilemma. There is a strong desire on the part of the private sector not to tamper with the basic insurance principle of the program. The government supports this principle. Yet a strong case can be made for sharing more widely the burden of unemployment insurance in current circumstances, thereby enhancing the stabilizing properties of the program and demonstrating the willingness of Canadians to help those among us who are most in need. Setting premium rates at the levels I have just indicated will require the government to advance more than \$1 billion to the Unemployment Insurance Account in 1983, over and beyond its normal contribution as an employer. The government's borrowing requirements will increase by an equivalent amount. The government's decision will lead to an increase in the cumulative deficit in the Account in 1983—a matter of serious concern to all of us. Over the coming months, my colleagues and I will continue to assess closely the extent of the deficit and its implications, and to pursue the matter in further consultations with business, labour and other interested parties.

• (1610)

[English]

Mr. Speaker, I would now like to go into a number of taxation issues, particularly bearing in mind the decision I have just announced relating to unemployment insurance. Taxation policy has been hotly debated over the past year. Our tax system must balance the need for fairness, the need for incentives, the need to avoid distorting private sector decisions, and the need to raise revenues. Many commentators have emphasized the importance of tax simplicity. I agree. However, some degree of complexity is unavoidable if the tax rules are to reflect the real and very complex world in which we live, and if tax incentives are to apply only to those for whom they are intended.

The government has welcomed consultations and constructive suggestions on tax policy. A committee of this House has examined the tax proposals from the November 1981 budget. Several groups of outside tax experts and private sector representatives have been appointed to examine important tax proposals. I have personally held many consultations on taxation issues since becoming Minister of Finance and I plan to continue this process.

I have a number of announcements to make concerning certain measures from the November budget. Many of these respond to representations made by individuals and associations either directly to me or my predecessor, or before the House Committee.

In reviewing these representations I have been guided by three considerations. First, it is important to ensure that incentives extended to some taxpayers are fair, that they do not unnecessarily distort economic activity, or result in higher tax rates for others.

Second, I do not believe that the Government can continually pile incentive upon incentive without looking at the revenue loss involved, the overall government deficit, and the capacity of the country to afford these incentives. The November changes were in the right direction and I am not prepared to abandon that approach, as some have suggested.

Third, since last November the Canadian economy has been hard hit by the world recession and, for this reason, some adjustments in the government's tax proposals are warranted. Now is the time to remove uncertainty, to end the debate over the merits of this or that proposal, to reduce tax complexity, and to move on to the many pressing economic problems that confront us.

Working Canadians are faced with uncertainty in employment and restraint in their living standards. The government is asking them to share with other Canadians the burden of mounting unemployment insurance costs. I am therefore making two tax adjustments that will directly benefit working Canadians.

I will not proceed with the proposal to tax the health and dental plan benefits of employees.

**Some hon. Members:** Hear, hear!