THE ECONOMIC AND FINANCIAL SITUATION

The recession has been abrupt and severe. Unemployment has reached record levels. Business profits have fallen dramatically. Bankruptcies have increased. Demand for goods has shrunk, both at home and in our markets abroad.

The economic woes of the United States and all the industrialized countries of Europe have caused additional hardship for Canadians. Unemployment in all those nations has reached record levels. Their industries and their consumers are suffering from high interest rates and lower output, just as ours are. They cannot afford to buy as much of our natural resources and manufactured products as before. Their governments are unable or have not chosen to design their economic policies to help us get out of the recession.

The persistence of the U.S. recession and of high interest rates in that country are the foremost international obstacles to a resumption of growth in Canada and the rest of the world. There are signs that the recession in the United States may soon bottom out and that a modest recovery may begin shortly, but production for all of 1982 is still expected to be 1½ to 2 per cent below the 1981 level. Moreover, high real interest rates in the United States remain a barrier to strong recovery. They are also keeping interest rates higher than domestic circumstances require in other countries, including Canada. In recent months, money has flowed toward high U.S. interest rates in such magnitude that the U.S. dollar has risen strongly against every major currency. Its rise against the Canadian dollar has been less than against other major currencies.

Though our economy has been seriously affected by these international forces, its fundamental strengths remain. Canada's resource wealth is undiminished. Canadians are as trained and capable as ever. Our corporate sector has to cope with depressed markets, falling profits and serious cash problems, but it has the capacity to weather the storm. Our financial institutions are well managed and prudently regulated. Our small business and housing sectors are facing greater difficulties, but the actions I am announcing tonight will provide them with substantial assistance. The stabilizers built into our tax and public expenditure systems help sustain incomes in the face of the decline in economic activity.

However, there is a major risk that we will let our competitive position slip. We are now doing much worse on inflation than our key trading partners. Our productivity performance has also been very disappointing. That imposes costs on all of us right now. But the consequences for the future are even more menacing if our performance does not improve. We would be priced out of foreign markets. That would cost us dearly in jobs and growth.

We should all be concerned about our slow progress in bringing down inflation. The increase in the consumer price index was 11.8 per cent in May. If present trends continue, our rate of inflation will not fall much below 11 per cent for 1982 as a whole. This would be 4 to 5 percentage points higher than in the United States, and about 6 points higher than increases in Germany and Japan. Clearly this is not good enough. Wage settlements in Canada also increased by 12¾ per cent in the first quarter of this year. Our wage settlements are therefore running about 5 percentage points higher than the trend in the United States. How can we expect to compete if this persists?

The recession also has caused a serious worsening of the government's fiscal position. The sharp fall in federal revenues is the inevitable consequence of the decline in production, employment and income. I estimate the revenue loss attributable to the recession to be about $4.5 billion in 1982-83. Lower international oil prices, and the lowering of energy taxes recently announced by the Minister of Energy, Mines and Resources (Mr. Lalonde), have also reduced federal revenues by another $1.5 billion in the current fiscal year. I now expect total budgetary revenues of $58.6 billion in 1982-83, $6.4 billion less than my November forecast of $65 billion.

Federal spending has also been affected by the recession. Higher interest rates add to the costs of governments as well as firms and individuals. Public debt charges are expected to be $1.1 billion higher than originally forecast. The deferral of some energy expenditures to the current fiscal year have reduced our outlays by $1.1 billion in 1981-82 and raised them by a similar amount in 1982-83. Over and above that, the government has approved few additional expenditures, and most are also related to the recession. Earlier this year $400 million were allocated to direct employment support and the extension of variable entrance requirements under the unemployment insurance program. The higher payments to provinces to which I agreed during negotiations on the fiscal arrangements will add $200 million to our outlays this year. The net effect of these and other minor changes has been to raise total budgetary expenditures to $78.1 billion in 1982-83. This is $2.6 billion higher than my November forecast of $75.5 billion. In addition, the rise in unemployment insurance payments will add an estimated $2.0 billion to our financial requirements.

The result is that the projected budgetary deficit for the current fiscal year is very much higher than that forecast in the November budget: $19.6 billion, compared to the $10.5 billion initially projected and to the $12.9 billion estimate for 1981-82. Our financial requirements are now projected at $17.1 billion, instead of the November budget forecast of $6.6 billion.

These increases reflect mainly the automatic response of our tax and expenditure systems to the recession. These automatic stabilizers must be allowed to operate to avoid making the recession worse. This is not the time to do away with these stabilizers, not the time to cut unemployment insurance or slash expenditures that provide income to Canadians.

• (2020)

The last budget put in place a structure of revenues and expenditures that should, when recovery gets fully under way, gradually lower the deficit and avoid putting excessive pressures on capital markets as private borrowing picks up to finance investment. I am introducing new tax and expenditure initiatives to respond to pressing needs, but I am not adding further to the deficit already facing us in 1982-83. The cost of