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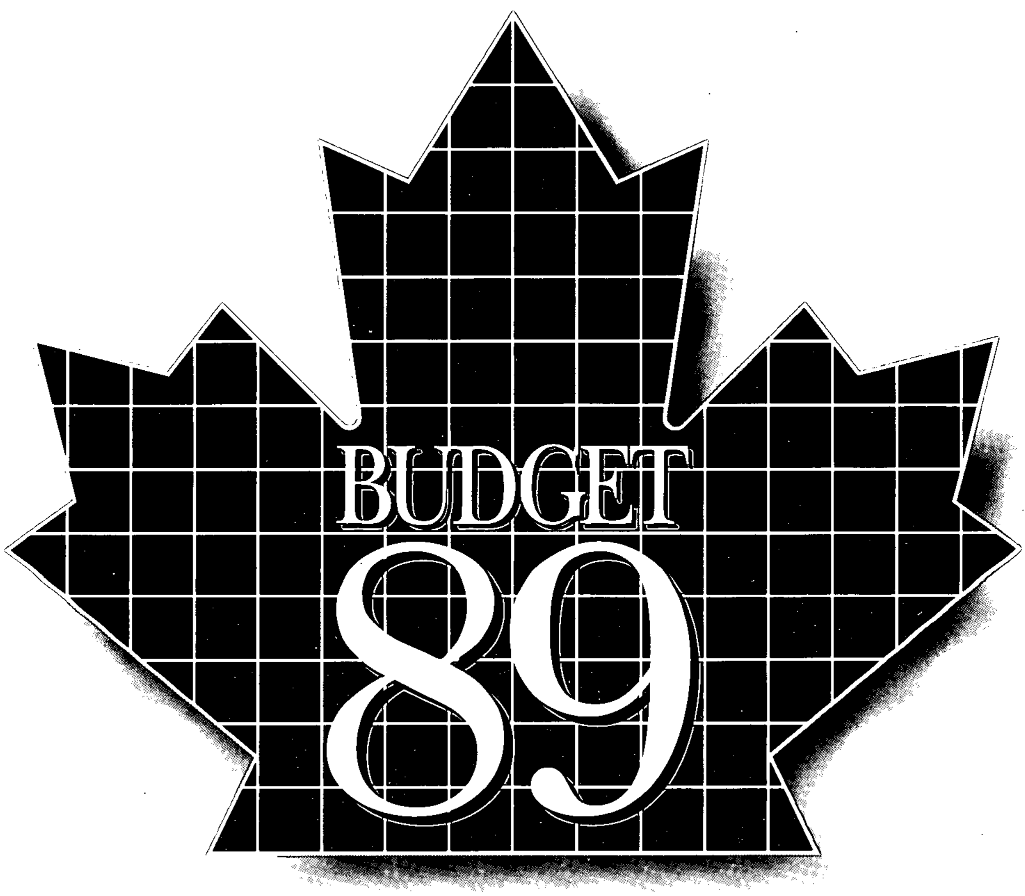
The Budget Speech

Delivered in the House of Commons
by the Honourable Michael H. Wilson
Minister of Finance

April 27, 1989



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This budget is about the future of Canada.

It is about what we must do – as a government and as a people – to maintain the social programs and high standard of living that Canadians want, for themselves and for their children.

It is about what we must do to respond to the challenges and opportunities of a changing world, to assert our sovereignty as a confident and mature nation, to meet our new and continuing priorities as a people.

Valued social programs, high standards of living, economic opportunity, sovereignty at home and respect abroad, responsive and responsible government – this is the Canada we must leave to our children. This is the Canada we will leave to our children, if we act together to face the most important challenge before us.

We, as Canadians, have a serious problem: our large and growing public debt.

In the time it takes to present my budget, that debt will grow by $3 million. By this time tomorrow, the debt will be larger by more than $80 million. In just two weeks, it will have grown by more than $1 billion.

The interest payments on the debt are also increasing rapidly. Only 20 years ago, just 12 cents of every dollar taxpayers sent to Ottawa went to interest payments. When I became Minister of Finance, four-and-a-half years ago, that figure had already increased to 32 cents. This year, it is over 35 cents.

How did Canada acquire this enormous debt? Well, like any family or individual might have done, Canada did it by living beyond its means.

Public debt is simply all the yearly deficits, added together.

Only 20 years ago, Canada had no deficit, and our total debt after an entire century of Confederation was only $18 billion. The cost of servicing our debt was well within our means.

Soon thereafter, the problem began – yearly deficits. The deficits were relatively small in the beginning. But year after year they grew in size and began to take their toll.

When I became Finance Minister, the $18 billion debt had risen to nearly $200 billion. And the annual deficit was more than $38 billion. By then, Canada had built into its public finances a self-propelling force that threatened to undermine our valued reputation for fiscal prudence and responsibility.

The sad reality of debt is that it feeds on itself. It places a nation on a treadmill. Each year, added effort is required from its citizens to produce new revenues that merely go to pay the interest on a growing debt.

We must ask ourselves: should this enormous debt be our legacy to future generations?

Let's be clear about what it means if we continue, year after year, government after government, to borrow and borrow just to pay the interest on that debt.

We would be borrowing from our children, not paying our own bills.

It's easy to borrow from future generations because they have no voice in this debate. They have no vote. Yet it is they who must live with the consequences if we do not act.

Facing The Debt Challenge

Today we are acting. The government is bringing down a budget that will build for our future, not borrow from it.

As a government, we will act with resolve to reduce expenditures and to improve our own efficiency and operations. And all Canadians will be asked to play a greater part in dealing with this national problem.

We recognized the seriousness of the debt problem when we came to office. We have been acting to get it under control. We have succeeded in reducing the growth of the debt from almost 24 per cent in 1984 to less than 10 per cent last year. Despite that progress, the debt is continuing to grow more rapidly than our national income. On April 1, the debt was $320 billion.

And the recent surge of interest rates, in Canada and abroad, shows how much our huge debt has left us exposed. In just one year, the projected cost of paying the interest on the debt has risen by more than $6 billion. This year alone, interest will cost us $39 billion. That is more than we spend in total on health care, family allowances, old age security and social assistance.

We must take further action now to deal with the debt. With today's budget, I will be announcing reductions in government spending affecting a wide range of programs. I will also propose revenue increases affecting corporate and personal income taxes, sales taxation and the financing of the unemployment insurance program. In addition, the government will proceed with reform of the federal sales tax, effective January 1, 1991.

These debt control actions will amount to more than $5 billion this year and $9 billion next year.

The budget measures will cut the annual deficit in half to $15 billion by 1993-94. Financial requirements will be down from $20 billion this year to $3 billion. As the deficit goes down, the debt will shrink as a proportion of our national income.

Interest costs will take less of every revenue dollar. This will restore the flexibility that we need to continue to maintain programs Canadians value and to build a better future for our children and grandchildren.

Controlling the debt will require the resolve of government and all Canadians now and for many years to come.

We began to address the problem in 1984 with a series of tough measures to restrain government spending. We eliminated programs that had outlived their usefulness. We cut waste and improved the efficiency of government. Total spending on government programs dropped significantly as a proportion of national income. We closed tax loopholes for business and high-income individuals. We increased tax revenues. We reduced the annual deficit; it has dropped sharply as a proportion of national income. As a result, in the year ended March 31, 1989, the deficit was $28.9 billion, almost nine and a half billion dollars below the level of 1984-85.

Achieving Sustained Economic Growth

Our program of fiscal action was carried out as part of a comprehensive, long-range plan to build the economic strength essential in a fast-changing and increasingly competitive world.

Starting in 1984, we built a strong foundation on which Canadians could achieve their economic potential. We modernized the regulatory environment for business; we reformed the federal income tax system; we negotiated the Canada-U.S. Free Trade Agreement; we encouraged research and development and improved job training programs. Together with responsible fiscal actions, our economic measures created a climate in which Canadians could face the economic challenge of a tough, competitive world.

The record shows just how well Canadians responded.

Since 1984, Canadians have created one-and-a-half million new jobs and our economy has expanded faster than most other industrial nations. We made this progress together as a government and as a nation because we made tough choices and took strong actions to deal with our fiscal and economic problems.

But that progress is at risk because of rising inflationary pressures here and in other countries.

In response to these pressures, short-term interest rates have risen; they will be much higher this year than was widely expected even a few months ago. In early 1988, most economic forecasters had expected that the impact of the world stock market plunge of October 1987 would slow the growth of industrial economies to more sustainable levels. Nowhere – not in Canada or in any of the major industrialized countries – did forecasters project the rapid growth and inflationary pressures that have emerged. Growth has been very strong. And monetary policy has tightened – in Canada and abroad – to contain inflation.

If we do not act now, we will face a growing danger of higher inflation and even higher interest rates that could lead to a severe recession.

Higher interest rates also have had a major impact on the cost of carrying our large debt. This year, just to pay the interest on the public debt, it will take all the personal income tax paid by Canadians from January to mid-October.

I know that people right across Canada feel frustrated by high interest rates. Some suggest that interest rates should be lowered by decree. But interest rates do not rise in isolation from other economic forces and they cannot be made to fall that way either. Rising inflationary pressure leads to higher interest rates. To try to deal with the symptoms of high interest rates rather than the fundamental causes would be self-defeating and ultimately very painful.

Printing money has never brought lower inflation. High inflation always leads to higher interest rates. This kind of inflationary spiral is a recipe for economic disaster.

We will not make that mistake. Let us not forget the explosion of inflation and interest rates in the early 1980s; the shattering of economic confidence; the collapse of economic growth and employment in every region of Canada; and above all, the enormous damage inflicted on the lives of millions of Canadians.

In line with our goal of reducing inflationary pressure, I expect economic growth to moderate and to average about 2 per cent at an annual rate for the balance of 1989 and 1990. Employment will continue to grow during this period, but at a somewhat slower rate than in recent years.

It is clear that a period of moderation in demand is required to keep the economy on a course of sustainable growth. A healthier fiscal position will help to reduce inflationary pressures and thus create an environment favourable to lower interest rates. In this way, the fiscal actions in this budget make an important contribution to achieving sustainable economic growth.

Over the medium term, I expect inflation and interest rates to decline and the economy to resume growth at its potential rate, averaging in excess of 3 per cent a year between 1991 and 1994. But achieving that potential growth rate will not happen automatically.

We must have firm, measured and consistent fiscal and monetary policies that keep us moving in the right direction to get inflation and interest rates down and keep them down; realistic, responsible policies that carefully balance shorter-term risks and longer-term goals.

For the longer term, we will continue to build the foundation for economic progress by moving forward with a balanced agenda of fiscal and economic action. We will move ahead with important economic initiatives, including:

- implementation of our new labour force development strategy;
- reform of the federal sales tax system;

- the final stage of regulatory reform for the financial sector;
- reform of the tax treatment of retirement saving;
- the promotion of further liberalization of world trade through the Multilateral Trade Negotiations;
- encouragement of a productive and economically viable agriculture sector;
- privatization of more Crown corporations; and,
- action to ensure that economic development occurs in an environmentally sound way.

A healthy economy is necessary to achieve our economic potential in the years ahead. It will provide more and better jobs and the ability to meet the social and cultural priorities of Canadians.

Action for Debt Control

But we will not achieve this if we do not deal with the threat posed by the growing burden of the public debt. A healthy economy is essential to control the debt. But it is not enough. We must take further action to achieve our economic and fiscal goals. We will, therefore, cut spending and increase taxes.

The measures in this budget reflect the seriousness of the situation we face. We have made choices, difficult choices. We have worked to ensure that the total package of measures is balanced, reflecting regional circumstances and placing the greater burden on those who are better able to carry it.

Expenditure Measures

The expenditure measures in this budget result from a comprehensive review of government spending carried out in the past three months by the Expenditure Review Committee of Cabinet. This committee will continue to work to keep expenditures under control.

Major reductions in program spending have been achieved. When fully implemented, these will total about $2.5 billion a year.

These measures are an extension of our expenditure restraint actions undertaken since 1984. As a result of these and earlier actions, program spending has declined from 19.5 per cent of GDP five years ago, to 16 per cent this year. By 1993-94, it will fall further to just over 15 per cent, the lowest level in a quarter of a century.

Let me outline some of the larger expenditure reductions.

National Defence

Defence spending will increase in each of the next five years, but at a slower rate than previously planned. This will yield savings of $575 million this fiscal year and $600 million next year. Savings over the five-year period will total $2.7 billion. The basic parameters of the White Paper remain the defence policy of the government. In the current fiscal context, however, that policy will need to be implemented more slowly.

As a result of these decisions, the government will close or reduce in size 14 military bases and stations across the country. There will be a slight reduction in the size of the Canadian Forces and the Defence Department's civilian workforce. In addition, a number of significant procurement programs will be cancelled, reduced in size or put on hold.

For these reasons, the government has decided not to proceed with the acquisition of nuclear-propelled submarines. The government will immediately examine alternatives for the continued rebuilding of an effective navy, so vital to Canada's national security.

Official Development Assistance

The government has also re-evaluated its contribution to foreign aid. The growth of Canadian aid to developing nations has been one of the fastest growing government programs, increasing by an average of 7.4 per cent per year over the past four years. Against this background of exceptionally rapid growth, and in view of the government's tight fiscal position, I am announcing a substantial adjustment in the funding for Canada's aid program. These changes will result in savings over the next five years of almost $1.8 billion. The level of spending will decline from $2.8 billion last year to $2.4 billion this year. From that base, it will grow according to a formula which will increase official development assistance as a percentage of GNP through the medium term. Canada's aid contribution will continue to be among the most generous of the developed world.

Rail Passenger Service

As part of our expenditure reduction process, the government has also examined VIA Rail. In 1985, the government set performance targets for VIA Rail which required the corporation to control costs and to increase both revenues and the number of people travelling by train. VIA was to reduce its reliance on subsidies from taxpayers from $600 million in 1985 to $400 million in 1989. Instead of falling, the subsidy has grown; it reached $641 million last year. Simply put, this means that taxpayers provide a direct subsidy of about $100 every time someone takes the train in Canada. The outlook is that substantial additional funding would be required over the coming years. Even taking into account the modest increase in ridership in 1988, the number of passengers was still lower than in 1985 and even lower than in the early 1980s. We cannot afford to spend so much money on a system that so few people use.

The government's objective is a substantial reduction in subsidies to VIA. The subsidy will be reduced to $541 million in 1989-90 and will be reduced further in each of the next four years. This will represent a $500 million saving from the amounts previously budgeted for VIA and substantially more from the level of subsidy that would be necessary to maintain the status quo.

The government will request that VIA accelerate the submission of its report on the outlook for passenger rail service and bring forward a business plan consistent with the new financial framework. Options which will be considered include: an increase in fares; service reductions; and closure, sale or transfer of substantial parts of the system. Assistance to provide service to remote communities will continue.

Child Care

We have begun to implement the child care strategy which we announced in December 1987. The government is providing $2.3 billion over the next seven years to increase tax assistance for families with pre-school children and children with special needs. These new tax measures help 1.4 million families with the cost of caring for their children and are basic to the government's child care policy. A second measure is also in place: a fund of $100 million to support special initiatives to improve child care services.

A third measure had been proposed to accelerate the creation of additional child care spaces across Canada. Because of the fiscal situation, the government is not in a position to proceed with this measure at the present time.

The government will act during this mandate to meet its child care objectives. In the interim, we will continue to share costs of child care services under the Canada Assistance Plan.

Transfers to Provinces

Total transfers to provinces will be $34 billion in 1989-90. Cash transfer payments alone represent 23 per cent of federal program spending. Any broadly-based effort to deal with the problem of the debt cannot exclude these transfers.

The government will reduce the growth of transfers under the Established Programs Financing arrangements by one percentage point beginning in

1990-91. These transfers will continue to be protected so that their rate of growth will not be less than inflation.

There will be no change in the equalization program which provides substantial payments to lower-income provinces to assist them in providing services to the public.

A number of other expenditure reductions will be made, affecting the operations of government, business subsidies and other transfers and payments to Crown corporations. These include, for example:

- the decision not to proceed with construction of a new Transport Canada building in the National Capital Region;
- the renegotiation, now underway, of the federal-provincial cost-sharing of the crop insurance program;
- the elimination of the subsidy paid to landlords under the Residential Rehabilitation Assistance Program;
- the termination of the "At and East" transportation subsidy program; and,
- effective today, the termination of new spending under the Canadian Exploration and Development Incentive Program.

Information on these and all other expenditure reduction measures can be found in the Budget Papers. Further details will be made available by my colleagues who are responsible for implementing these measures.

We are committed to continue to restrain program spending. This will require sustained efforts to manage within the expenditure framework set out in this budget.

Regional Development

This government has been, and remains, strongly committed to regional development. We have introduced a new approach, moving regional development decisions out of Ottawa and into the regions. This approach recognizes that what works in one region is not necessarily right for all regions.

Federal spending on regional development has grown by almost 50 per cent over the previous five-year period, and has reached record high levels of spending. This budget establishes a sustainable funding framework for regional development.

In the coming five years, overall funding will rise by 35 per cent compared with the last five years. In the short-term, however, regional development budgets will be constrained. Funding and programming priorities will be established by my colleagues who are responsible for regional agencies.

Privatization and Crown Corporations

We will be moving forward with the government's privatization program.

To date the government has sold all or part of 17 corporations and dissolved eight others. More than $5 billion of assets have been privatized. This has led to improved operating and financial performances by many of the corporations. It has reduced potential demands on the public purse and provided funds to reduce our financing needs.

We will continue to privatize Crown corporations which are no longer required to meet public policy objectives. An immediate priority will be the sale of the government's remaining share of Air Canada. The government will seek new owners for two former divisions of Atomic Energy of Canada Limited: Nordion International Inc. and Theratronics International Ltd.

In addition, the government will step up its evaluation of other suitable candidates for sale.

For those corporations which we continue to hold, our commitment has been to manage them in an efficient, business-like way. Canada Post is an example. My 1986 budget set a target for the corporation to eliminate its operating deficit by 1988.

Our approach has worked. Canada Post made a profit last year and forecasts continuing profits over the next five years. With this strong cash flow, the corporation will be in a position to make capital investments of almost $2 billion over the next five years to further improve service and productivity. In light of this turnaround, the government is establishing new financial targets for the corporation, including the payment of dividends which are expected to total $300 million over the next five years. In addition, the scheduled two-cent increase next January in the price of a first class stamp will be reduced to one cent.

Repayment of Social Transfers

Significant fiscal progress cannot be made without also examining transfers to individuals. They now account for 30 per cent of federal program spending and have been growing at higher rates than program spending as a whole.

Canada's social safety net is important to all of us. It must be preserved, not only for those who require it now, but for the future as well. The central purpose of the social safety net is to assist those most in need, not to subsidize those with high incomes.

Canadians age 65 and over are eligible for old age security pensions, regardless of their income or need for assistance. Similarly, families with dependent children under age 18 are eligible for family allowance payments. These payments have been subject to income tax for many years.

I am now proposing that high-income taxpayers repay, through the tax system, old age security and family allowance benefits at the rate of 15 per cent of individual net income exceeding $50,000. This measure will be phased in over three years. It will affect about 4 per cent of the three million seniors who receive old age security pensions; less than 2 per cent will have the full amount recovered. About 14 per cent of the 3.8 million recipients of the family allowance will be affected by this measure; fewer than 10 per cent will repay the full amount.

This measure maintains the universal character of these transfer programs. Everyone eligible for these programs will continue to receive their benefits, regardless of income. Those who need assistance most will continue to retain all their benefits. Recipients with high incomes will retain less. This preserves the social safety net and helps provide a sound financial basis for social programs into the future.

Revenue Measures

While expenditure reductions must and will make a significant contribution to the goals of this budget, a greater share of the burden will fall on measures to increase revenues.

Nobody likes tax increases. But the debt is a major problem today because in the past we have not paid for the entire costs of programs. Because of that, we must pay more now.

Prior to 1984, successive government actions had narrowed the tax base. The result was a lack of fairness and reduced revenues for the government. Since then, we have acted to restore the integrity of the tax system. I have taken many specific actions over the last four-and-a-half years – in budgets and outside of budgets – to eliminate special preferences, close loopholes, and curb opportunities for corporations and high-income earners to avoid tax. I have also reduced the incentive for tax avoidance through comprehensive tax reform by broadening tax bases and lowering tax rates. A listing of these measures is set out in the Budget Papers. These actions have made the tax system a fairer and more reliable means of raising the revenues we need to protect Canada's future.

Let me outline briefly the major revenue measures in this budget. They are designed to weigh more heavily on taxpayers with the means to contribute more and are balanced among a number of revenue sources.

Corporate Tax

To ensure that all large corporations pay tax and contribute to debt control, a new Large Corporations Tax will be levied on corporate capital employed in Canada in excess of $10 million. This tax will be effective July 1, 1989 and will be creditable against the existing 3 per cent surtax. The new tax will ensure that all large corporations pay at least a minimum amount of tax each year.

Smaller businesses will not be subject to the new tax. However, the base for the existing corporate surtax will be modified to raise the effective tax rate for most companies subject to the low, small business tax rate. For such companies, the effective federal tax rate, including surtax, will rise from 12.4 per cent to 12.8 per cent.

These measures will increase corporate tax revenues by 7.1 per cent or almost $1 billion in their first full year.

I am also announcing other significant changes to tighten up the corporate income tax system and provide the government with additional revenues or guard against future revenue losses. These changes include:

- eliminating the after-tax financing advantages of leasing rules;
- extending the period in which certain tax audits must be completed; and,
- stopping abuse of dividend rental arrangements.

Personal Income Tax

I am proposing two changes in the existing personal income surtax.

The surtax on all individuals will increase by 2 percentage points beginning July 1.

A new federal surtax of 3 per cent will be applied to individuals with incomes over $70,000, beginning July 1. These individuals will now pay 8 per cent in surtax.

These measures will increase personal income tax revenues by 2.3 per cent or about $1.2 billion in the first full year.

Excise Levies

The government is committed to protecting the environment and reducing health risks among Canadians. In examining possible sources of new revenues, we bore these concerns very much in mind.

Effective tomorrow, the excise levies on cigarettes will be increased by $4 a carton and the taxes on cigars will be increased proportionately. For manufactured tobacco, the tax will rise at the same time by $4 per 200 grams and by an additional $1.30 on October 1, 1989.

The excise tax on gasoline will rise by 1 cent per litre effective tomorrow and by another 1 cent per litre, effective January 1, 1990. The excise tax on leaded gasoline will rise by an additional 1 cent per litre effective tomorrow.

These measures together will raise an additional $1.6 billion in their first full year.

The rebate of excise tax on gasoline and diesel fuel for primary producers will be allowed to expire as scheduled on December 31, 1989. The rebate of sales tax will be extended until December 31, 1990.

Federal Sales Tax

I am also announcing a number of measures to increase revenues from the existing sales tax in advance of sales tax reform.

The rates of federal sales tax will be increased by one percentage point on alcoholic beverages and tobacco products, on telecommunications services, and on construction materials. The increases are effective tomorrow for tobacco and alcohol, June 1, 1989 for telecommunications and January 1, 1990 for construction materials. The federal sales tax rate on all other taxable goods will rise by one-and-a-half percentage points, effective June 1, 1989.

The government will not proceed with interim measures relating to wholesaler licences and marketing and distribution costs.

These measures will raise additional sales tax revenues of about $2 billion in their first full year.

The existing refundable federal sales tax credits for adults and children will be doubled. By 1990 they will be $140 for adults and $70 for children. In addition, the income threshold up to which the full credit is provided will be raised in 1990 from $16,000 to $18,000. This means that an individual with income of less than $18,000 would receive $140 next year. A family of four would receive $420. This measure will provide support totalling $655 million to lower-income Canadians for the 1990 tax year.

Financing Unemployment Insurance

The new approach to worker retraining and skills upgrading announced by the Minister of Employment and Immigration will enable the Unemployment Insurance program to contribute more effectively to meeting the challenge of economic change and adjustment in the years ahead. These initiatives are in keeping with the needs of employees and employers today. They redirect about 10 per cent of the program toward more active labour market support – such as skills training activities – and they improve equity and incentive provisions. The fundamental nature of UI remains unchanged.

At the same time, changes will be made to ensure that the financing of the program is consistent with our efforts to control the debt. Beginning January 1, 1990, unemployment insurance payments will be fully financed by employer and employee premiums. To provide for stability in the future and to cushion the impact of the change in financing, the premium rate for employees will be set at $2.25 per $100 of insurable earnings for 1990, 1991 and 1992. The maximum increase in after-tax premiums for workers will be less than $1.40 a week in 1990. Employers will continue to pay 1.4 times the employee rate. The government will continue as it did in the early 1980s to finance any deficits in the unemployment insurance account in difficult times when it may not be appropriate to allow premiums to rise. This measure will contribute $1.9 billion to deficit reduction in its first full year.

Summary of Fiscal Impact

Taken together, these measures will amount to more than $5 billion this year and $9 billion next year. This year they will almost offset the rise in interest costs and leave a deficit of $30.5 billion. Next year the deficit will drop to $28 billion.

The debt-to-GDP ratio will stabilize next year. The debt will stop growing faster than the economy. This is an important achievement.

In five years the deficit will be cut in half. On the basis of accounting standards used in the preparation of budgets in the United Kingdom and the United States, we would then have a balanced budget.

Reform of the Federal Sales Tax

The replacement of the existing federal sales tax is a key element of the government's strategy to safeguard essential programs and strengthen Canada's economy.

The present tax is widely recognized as being fundamentally flawed. It is hidden, unfair and damaging to our economy. Earlier this week I indicated that a joint federal-provincial sales tax now seems to be beyond reach. The time has come for the federal government to proceed with a new system.

The new tax will be called the Goods and Services Tax. It will replace the existing federal sales tax on January 1, 1991. It will be imposed at a rate of 9 per cent on a very broad base, including the vast majority of goods and services consumed in Canada. Basic groceries, prescription drugs and medical devices will not be taxed. Residential rents, child care, legal aid and most health, dental and educational services will be tax-exempt. Special measures will be adopted to minimize the compliance burden for small businesses.

The 9 per cent rate will provide sufficient revenues to:

- replace the existing federal sales tax, including the sales tax revenues raised in this budget;
- allow complementary income tax reductions for middle-income households; and,

- fund a new Goods and Services Tax Credit that will involve a further, substantial expansion in the current sales tax credit. The credit will be refundable and paid quarterly, with the first payment made in advance of the start-up date for the new tax. The government's goal is to assure that families earning less than $30,000 per year will be better off as a result of the implementation of sales tax reform.

Assistance will be provided to homebuyers who might otherwise face an affordability problem as a result of the tax change.

The government will release a detailed technical paper on sales tax reform in early summer. I plan to introduce legislation for consideration by Parliament this fall.

In summary, sales tax reform will provide a more stable foundation on which the government can maintain vital public services and effectively manage the problem of Canada's debt. It will bring an overall improvement in the fairness of the tax system. It will make federal sales taxation more visible to the consumer. And it will result in major gains in economic output in the range of $9 billion a year – gains that will be felt in all sectors of the economy and in all regions of Canada.

I am tabling supplementary information including Notices of Ways and Means Motions covering changes I have announced and a number of further amendments to the Income Tax Act, the Excise Act, the Excise Tax Act and the Customs Tariff. Details of measures are included in this material.

Pursuant to a motion of this House, I will also introduce today a bill seeking borrowing authority for the 1989-90 fiscal year.

I am also asking that an order of the day be designated for the consideration of these motions.

Conclusion

As Canadians, we want a Canada that is able to protect and strengthen the fundamental values that define us as a nation.

We want:

- a Canada, caring and compassionate, with the capacity to maintain the social and cultural programs and other important public services that Canadians need;
- a Canada, economically strong and fully competitive with the world's trading nations, that continues to create good jobs and opportunities for all its people in the 1990s and beyond;
- a Canada, progressive and adaptable, able to meet priorities such as skills training and the protection of the environment;

- in short, a Canada that can guarantee a rising standard of living and better quality of life to pass on to the next generation.

That is our responsibility as a government; that is surely our goal as Canadians.

That is why this budget is about building for the future, not borrowing from it. That is why this budget deals firmly with the major obstacle to that future – the problem of our growing debt. This budget is designed to overcome that obstacle. The measures in it are tough because they match the challenge that we are facing.

These measures pale by comparison with the price we would all pay if we failed, and the far greater price our children would pay if we allowed our problem to become their crisis.

Four years ago we brought forward a plan to build a better future for Canada. We knew that to stay on that course would require a sustained national effort. Together we have made great progress.

Our future success will depend on the will of the government to continue making tough choices, and on the understanding and commitment of Canadians to join in building this stronger Canada.

Table 1

Expenditure Restraint Measures

		1989-90	1990-91
		(millions of dollars)	
A.	**Transfers to persons**		
	– Repayment of social transfers[1]	–	215
B.	**Transfers to other levels of government**		
	– Established Programs Financing	–	200
	– Canada Child Care bill	175	195
	– Crop-insurance cost sharing	90	110
	Total	265	505
C.	**Major subsidies and transfers**[2]		
	– At and East subsidies	20	40
	– Branchline Rehabilitation Program	46	2
	– Prairie Grain Advance Payment/Advance Payment for Crops Act	27	27
	– Canadian Exploration and Development Incentive Program	80	–
	– Secretary of State – grants and contributions	10	16
	– Dairy export subsidy	5	7
	Total	188	92
D.	**Major payments to Crown corporations**		
	– VIA Rail	50	75
	– Residential Rehabilitation Assistance Program	21	49
	– Publications distribution assistance	10	45
	– Canadian Broadcasting Corporation	–	20
	– Federal Business Development Bank	13	13
	– Commodity-based loans	6	9
	– Canadian Dairy Commission	3	7
	– National Capital Commission	5	5
	Total	108	223
E.	**Defence**	575	611
F.	**Official Development Assistance**	360	360
G.	**Operations of government**		
	– Unsolicited Proposals Program	10	20
	– Public Works Canada capital deferral	20	20
	– Newfoundland prison	7	14
	– Conservation and Renewable Energy Offices/National Conservation and Alternative Energy Initiatives	10	9
	– Tourism marketing	–	5
	– Automated cheque deposit	–	3
	– Canada Oil and Gas Lands Administration	2	2
	Total	49	73
H.	**Total expenditure restraint measures**	**1,545**	**2,079**

(1) This repayment will be achieved through the operation of the tax system.
(2) There will be a reduction in funding for the Defence Industry Productivity Program of $25 million per year beginning in 1991-92.

Source: The Fiscal Plan: Controlling the Public Debt, Table 3.9.

Table 2

Fiscal Impact of Revenue Measures Announced in this Budget

	1989-90	1990-91
	(millions of dollars)	
Tax measures		
Federal sales tax rate changes		
General FST	1,140	1,615
Construction materials	40	255
Telecommunications tax	80	110
Tobacco and alcohol	55	70
Withdrawal of interim sales tax measures	–520	–370
Excise levy increases		
Gasoline	360	655
Tobacco	895	970
Personal income tax[1]		
Increase in surtax	590	1,040
High-income surtax	90	160
Increase in refundable sales tax credit	–135	–465
Large corporations tax and modification to surtax	410	970
Other tax measures	265	40
Total tax measures	3,270	5,050
Financing the Unemployment Insurance Program	425	1,900
Total revenue measures	3,695	6,950

[1] In 1990-91, personal income tax revenues will also be affected by the repayment of social transfers. These have been treated as part of the expenditure restraint measures and are included in Table 3.9.

Source: The Fiscal Plan: Controlling the Public Debt, Table 3.10.

Table 3

Summary Statement of Transactions

	1988-89[1]	1989-90[2]	1990-91[2]
	(billions of dollars unless otherwise indicated)		
Budgetary transactions			
Budgetary expenditures			
Program expenditures	100.0	103.5	109.0
Public debt charges	33.0	39.4	39.8
Total expenditures	133.0	142.9	148.8
Budgetary revenues	104.1	112.4	120.8
Deficit	28.9	30.5	28.0
Percentage of GDP	4.8	4.7	4.1
Non-budgetary transactions	6.9	10.0	10.4
Financial requirements[3]	22.0	20.5	17.7
Percentage of GDP	3.7	3.2	2.6
Net public debt	321.1	351.6	379.6
Percentage of GDP	53.6	54.5	56.3

Note: Figures may not add due to rounding.

(1) Estimate.
(2) Forecast.
(3) Excluding foreign exchange transactions.

Source: The Fiscal Plan: Controlling the Public Debt, Table 4.2.

Table 4

Key Fiscal Indicators Over the Medium Term

	1984-85[1]	1988-89[2]	1989-90[3]	1993-94[3]
		(billions of dollars)		
Budgetary expenditures				
Program expenditures	86.8	100.0	103.5	122
Public debt charges	22.5	33.0	39.4	39
Total	109.2	133.0	142.9	161
Budgetary revenues	70.9	104.1	112.4	146
Budgetary deficit	38.3	28.9	30.5	15
Financial requirements[4]	29.8	22.0	20.5	3
Net public debt	199	321	352	440
		(percentage of GDP)		
Budgetary expenditures				
Program expenditures	19.5	16.7	16.1	15.2
Public debt charges	5.0	5.5	6.1	4.9
Total	24.6	22.2	22.2	20.0
Budgetary revenues	15.9	17.4	17.4	18.2
Budgetary deficit	8.6	4.8	4.7	1.9
Financial requirements[4]	6.7	3.7	3.2	0.3
Net public debt	44.8	53.6	54.5	54.7

Note: Figures may not add due to rounding.

(1) Actual.
(2) Estimate.
(3) Forecast.
(4) Excluding foreign exchange transactions.

Source: The Fiscal Plan: Controlling the Public Debt, Table 5.1.

Chart 1

Growth in Program Spending 1984-85 to 1988-89

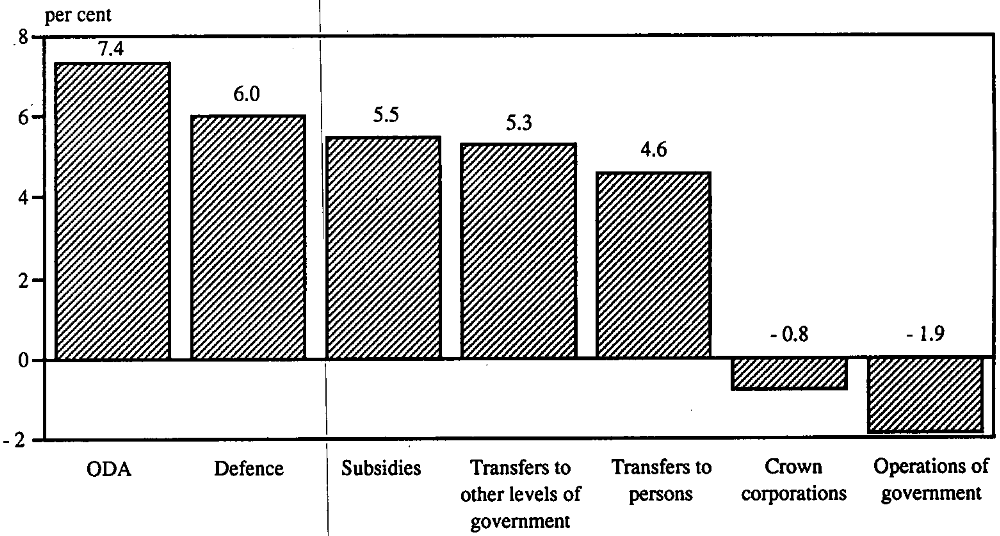
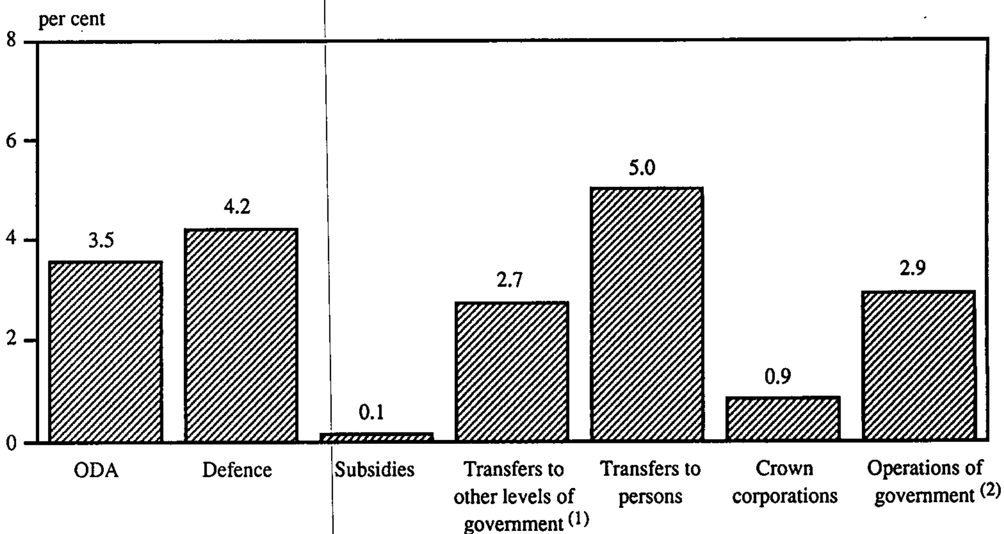


Chart 2

Growth in Program Spending 1988-89 to 1993-94



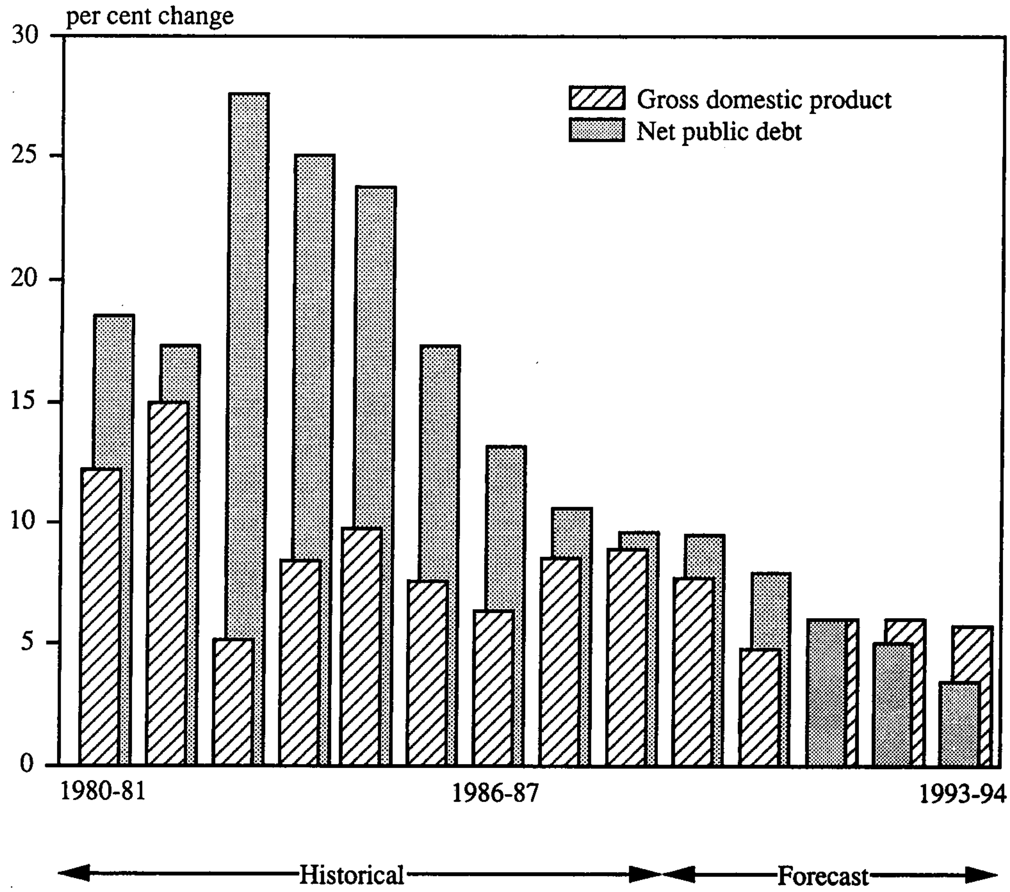
(1) Cash transfers only. Including tax transfers, transfers to other levels of government grew by 6.4 per cent from 1984-85 to 1988-89 and are expected to grow by about 4 per cent from 1988-89 to 1993-94.

(2) Excludes reserves-net-of-lapse.

Source: The Fiscal Plan: Controlling the Public Debt, Charts 3.3 and 3.4.

Chart 3

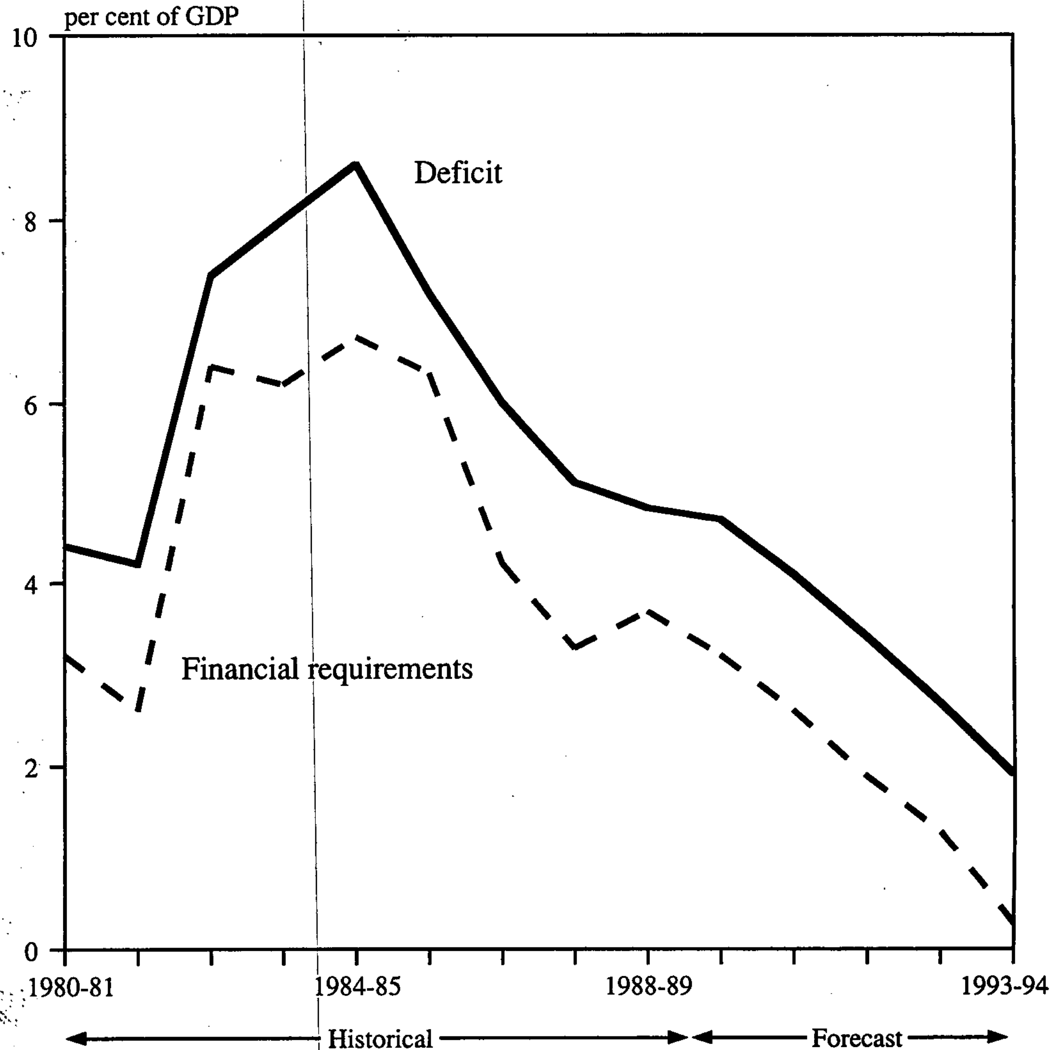
Gross Domestic Product and Net Public Debt



Source: The Fiscal Plan: Controlling the Public Debt, Chart 5.1.

Chart 4

**The Deficit and Financial Requirements*
1980-81 to 1993-94**



* Excluding foreign exchange transactions.

Source: The Fiscal Plan: Controlling the Public Debt, Chart 5.3.

Chart 5

Debt Charges as a Per Cent of Budgetary Expenditures

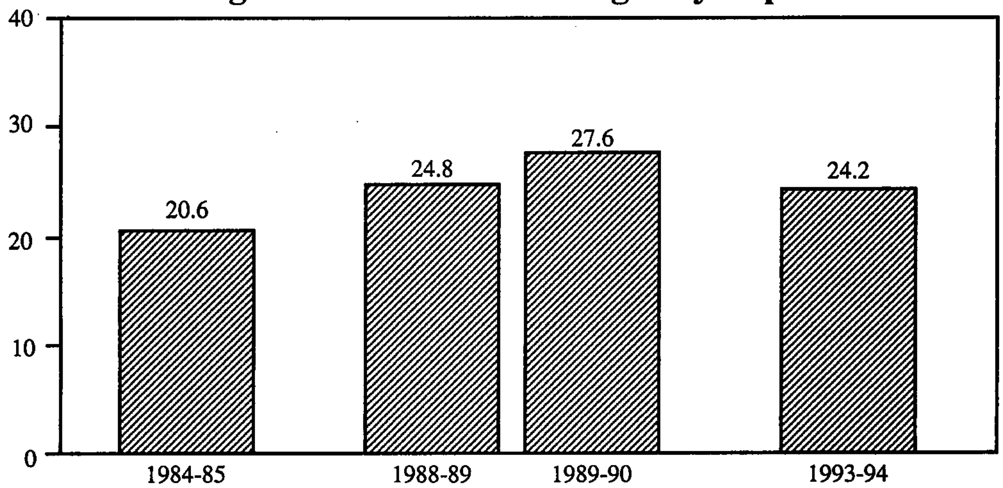
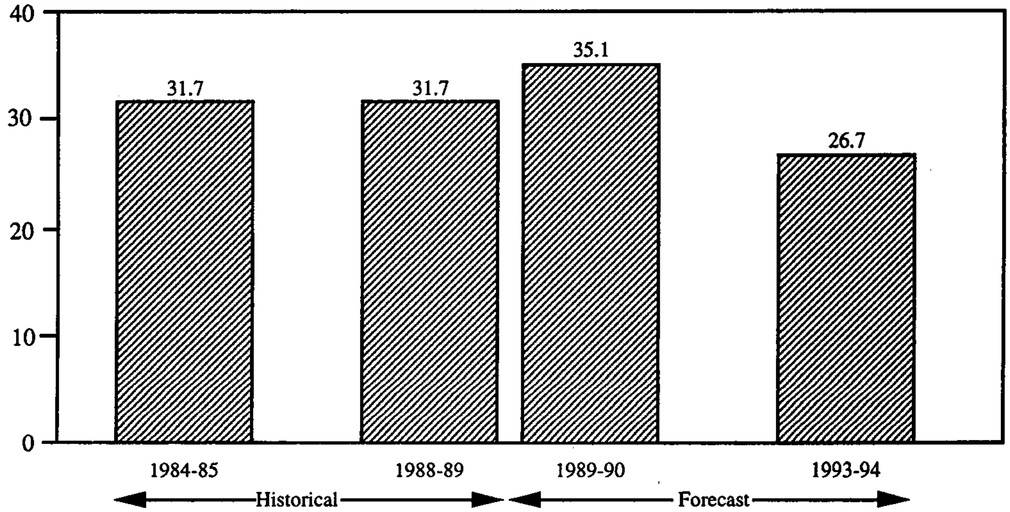


Chart 6

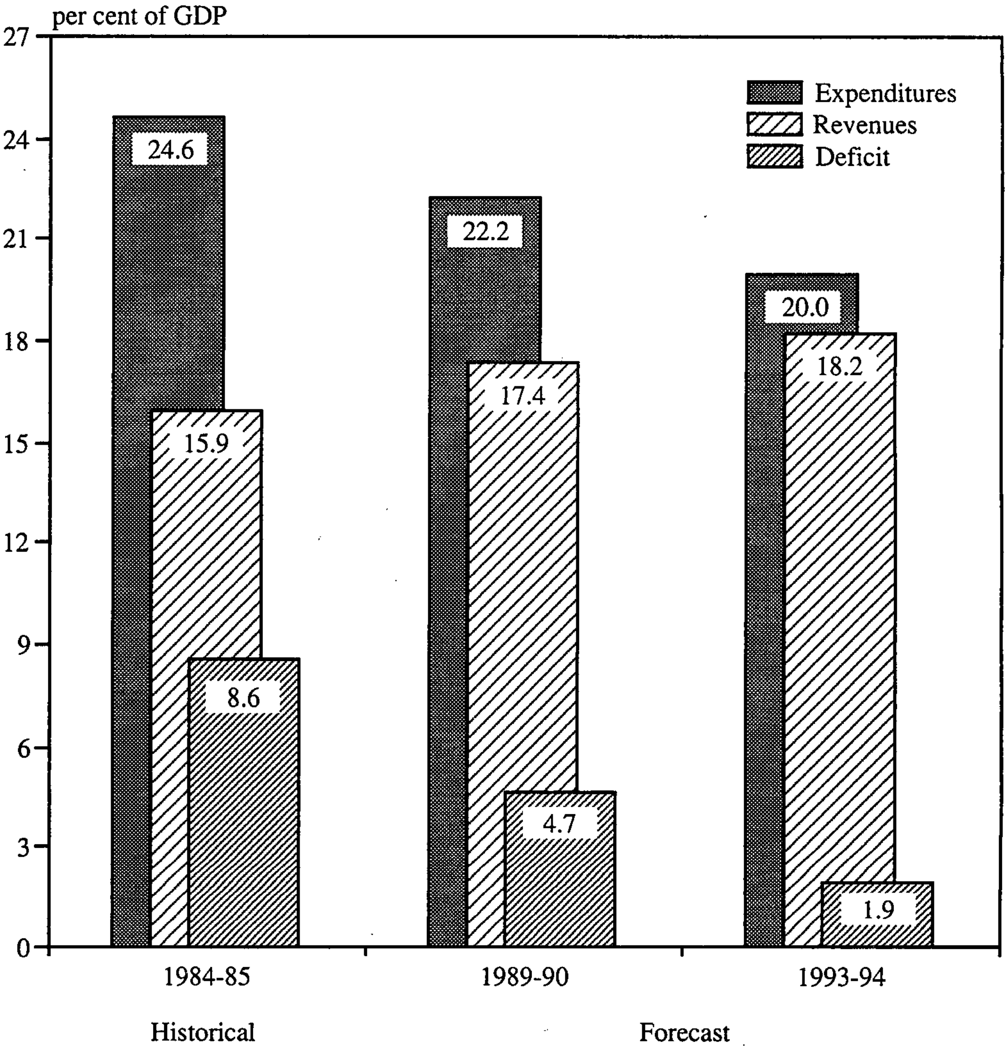
Debt Charges as a Per Cent of Budgetary Revenues



Source: The Fiscal Plan: Controlling the Public Debt, Charts 5.5 and 5.6.

Chart 7

Expenditures, Revenues and Deficit Relative to GDP 1984-85, 1989-90 and 1993-94



Source: The Fiscal Plan: Controlling the Public Debt, Chart 5.9.