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# Budget In brief

June 1982

Compliments of ....  
**CAPITAL BRIEFING**



Canada

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June

*"Solidarity and sharing built Canada. That sharing is what the unemployed, the many firms in trouble, and the thousands threatened by layoffs now need. I count on the willingness of all Canadians to bear their share of the collective effort to bring down inflation. Commitment to restraint and discipline in our income demands is the price we must pay to get the economy growing again and to make it possible for all eventually to benefit from rising employment and real income."*

Allan J. MacEachen  
Deputy Prime Minister and  
Minister of Finance

## **Economic Background to the Budget**

The present economic situation is serious. We are in a severe recession. Unemployment has risen to record levels in Canada and most other countries. Profits are now at the lowest ratio relative to GNP since 1947. The downswing in economic activity in the U.S.A. and Canada is much sharper than anyone forecast last fall.

The current levels of depressed activity are having an understandably negative effect on confidence. The deterioration of our competitive position must be stopped by getting our inflation rate into line. Otherwise the prospects for sharing in any gradual, paced recovery are not bright.

Our budgetary deficit has gone from \$12.9 billion in 1981-82 to a forecast level of \$19.6 billion this year, whereas the last budget had forecast this year's deficit at \$10.5 billion.

Our financial requirements, instead of \$6.6 billion as forecast last November, are now projected to be \$17.1 billion. The dominant factors in this increase are:

- (a) loss of taxation revenue from a weaker economy;
- (b) an increase in payments of unemployment insurance benefits;
- (c) public debt charges on the higher deficit;

- (d) lower energy revenues from weaker international oil prices;
- (e) major energy expenditures deferred from 1981-82 to 1982-83.

While at record levels in dollar terms, the resulting deficit is of the same relative magnitude as that experienced in 1978-79 when the economy was stronger. Canadian deficit levels are not out of line in relative terms with those of most other OECD countries.

### **What Were the Choices the Government Examined?**

As the recession deepened and as interest rates remained high and as Canadian costs rose faster than those of our competitors, various groups and institutions urged the government to attack the symptoms of reduced output and reduced employment by massive fiscal and monetary stimulus.

Others urged severe cuts in government expenditures along with tax measures to reduce the federal deficit.

Still others suggested income and price controls.

During valuable consultations in the past six months, these options were examined and rejected because each focussed on one aspect of our difficulties and set aside the others. An appropriate balance of approaches is required to achieve economic goals.

In consultations with business, labour and cooperatives over the last few months, certain common themes emerged.

- Comprehensive wage and price controls received little support.
- There was almost unanimous recognition of the need to continue the battle against inflation.
- There was general agreement that abandoning fiscal and monetary restraint would make matters worse rather than better.
- Deteriorating confidence is a serious hindrance to recovery.
- The world and Canadian economies are in for an extended period of difficulty and it is not within the power of any government to find an easy way out.

Reduction in inflation is a precondition to sustained improvement in economic welfare and employment levels. Inflation saps the vital energy of our economic system, and destroys the confidence that is necessary to bring unemployment down by getting growth moving once again. As long as inflation is expected to increase, wage pressures will remain intense, our cost structure will continue to worsen, and we will no longer be able to compete in world markets.

There is no choice but to continue our basic stance of reasonable monetary and fiscal restraint.

Recovery depends on making much faster progress in reducing inflation and in restoring business and consumer confidence. By concentrating on these objectives we can avoid further deterioration, set a course for recovery and provide a basis on which other sectors of the economy can build a constructive response.

# **A Strategy to Bring Down Inflation**

## **A 6 Per Cent Limit on Government Wage and Salary Raises**

Public Sector Compensation Restraint Program will constrain rates of pay of federal government employees to increases of no more than 6 per cent in the first year; no more than 5 per cent in the next year. This

- applies to the entire federal public service,
- applies to all Cabinet ministers and all senior executives,
- applies to all Members of Parliament and Senators,
- applies to the Armed Forces, the Royal Canadian Mounted Police, the judiciary and to most Crown corporations.
- Cabinet ministers, MPs and Senators will be asked to cut their own pay for the rest of the year to a level of 6 per cent above last year's.

This will reduce government spending by \$250 million this year and \$550 million next year.

## **A 6 Per Cent Limit on Increases in Indexed Social Payments**

- comes into effect with the January, 1983 increases; stays in effect for two years, dropping to 5 per cent for 1984,

- applies to family allowances, but the Child Tax Credit for 1982 goes from \$293 to \$343 per child,
- applies to people receiving public service pensions,
- applies to old age pensions but does *not* affect people who receive the Guaranteed Income Supplement; they will be fully compensated for the reduction in Old Age Security indexing,
- will generate \$45 million this year and \$315 million next year for reallocation,
- veterans' pensions will continue to be fully indexed.

### **A 6 Per Cent Limit on Indexing of Personal Income Tax**

- 6 per cent limit on tax indexing will apply for 1983, and a 5 per cent limit for 1984,
- full indexing resumes in 1985,
- full indexing of the Child Tax Credit continues for 1983 and 1984.

### **Restraint in Pricing by Federal Regulatory Agencies**

Federal agencies which regulate prices of certain goods and services are asked to adhere to the objectives established. The government will monitor price decisions, and will seek similar action from the provinces.

# **Tax Proposals**

## **New Tax Proposals for Investment Income**

1. *Indexed term deposits and loans:* Under this proposal, the interest on money put into such term deposits would have two components: a compensation for the decline in the purchasing power of the funds due to inflation, and a contractually-fixed real interest rate. The interest earned in the form of inflation compensation would be non-taxable. Thus, depositors could accept lower interest rates and their savings would still be safeguarded against inflation.

The pools of savings accumulated in these indexed term deposits would be available to provide low-cost financing to purchasers of new homes and to small businesses, farmers and fishermen acquiring new plant and equipment and other depreciable property.

2. *Registered shareholder investment plan:* Under this proposal, the investor could put his money in a registered fund that buys publicly-traded common shares in Canadian corporations. One-half of capital gains on the shares would be taxable each year but only to the extent they exceed the rate of inflation.

3. *Public consultation:* A committee of prominent financiers, accountants and economists is being established to advise on the practicality of the proposals and on the most effective means of implementing them. The committee is asked to report no later than September 30. Broad public discussion on the proposals is also invited, and Canadians are asked to submit comments before August 31.

## **Measures From November Budget**

- The 12 1/2 per cent corporate distributions tax applicable to small business will be postponed for one year to January 1, 1983.
- Proposals related to the deduction of investment interest expense will be reviewed. They will not apply before 1983.
- Rules on restriction of interest expense will not apply to commitments relating to employee share-purchase loans undertaken prior to November 12, 1981.
- The proposed automobile standby charge is reduced from 2 1/2 per cent to 2 per cent.
- Proposals relating to forward averaging for artists and athletes are modified.
- Changes are made in proposals relating to corporate reorganizations and loans to non-resident corporations.
- The changes will reduce uncertainties on application of the November measures. Public comments are invited.

## **Immediate Action**

### **Outright Grant of \$3,000 for Buyer of New Home**

Effective immediately, the purchaser of a newly constructed home or first-time purchaser buying an existing home can receive an outright grant of \$3000.

### **Outright Grant to Reduce Interest on Small Business Loans**

Effective immediately, the government will pay grants to reduce the interest rate by up to 4 percentage points for two years on loans taken out by small businesses to finance new investment and research and development. Eligibility will parallel the previous small business development bond program, but loans to both incorporated and unincorporated small businesses can qualify.

Farmers will be eligible for these types of loans. In addition, farmers in financial difficulty will be able to obtain special interest relief through the Farm Credit Corporation.

### **Creating and Sustaining Jobs: \$1.4 Billion**

1. The government will invest \$300 million to stimulate job creation in the private sector.
2. The government will put an additional \$200 million into direct job creation programs.

3. The government will put about \$400 million into the housing industry.
4. The government expects to spend \$400 million in the small business interest relief program as the businesses borrow to make new job-creating investments.
5. The government will put an additional \$100 million into the interest assistance program for farmers in distressed financial condition.

### **More Help for People**

- Child tax credit goes from \$293 to \$343 per child for 1982. Eligible lower and middle income families will receive their cheques after filing their 1982 income tax returns.
- Unemployment insurance benefits are expected to increase from \$5.4 billion last year to \$8.7 billion this year.
- Canada Mortgage Renewal Plan will be extended for another year. People whose gross mortgage costs exceed 30 per cent of their income will receive outright grants in place of deferred interest.

## **No Need to Accelerate Canadianization of Energy**

The government does not intend to accelerate the pace of either private or public acquisition of foreign energy holdings in the immediate future because the government is running ahead in approaching the goal of 50 per cent Canadian ownership by 1990.

## **Canada Will Continue to be Fertile Ground for Foreign Investment**

Foreign investment will continue to make a major contribution to Canada's economic development. Canada is now in a position to act on recommendations following the review of the Foreign Investment Review Agency.

- FIRA's small business procedures for new investments or direct acquisitions in Canada now apply to companies with 200 employees and assets of \$5 million (used to be 100 employees and \$2 million).
- When a foreign-controlled Canadian company is acquired in the course of the acquisition of its parent by another foreign-controlled company, the small business procedures will apply to companies with up to 600 employees and \$15 million in assets.
- Small business investments are subject to the full review procedure when they appear to raise important policy issues.

- When investors are required to have a full review, new administrative procedures will contribute to greater clarity and speed of decision making.

*“Even in the best of circumstances, recovery will take time. And the government alone cannot do the job. Some say it should print more money. Others say it should let the deficit rip. But that would fail miserably. Inflation and unemployment would get worse. Interest rates would rise even more. Canada would price itself out of world markets. Recovery would be postponed.*

*“Still others say the government should order every detail of everyone’s life, fix every price and set every wage bargain. But is that what Canadians want?*

*“The choice is ours. On the one hand, the road to recovery; on the other, a further slide into recession or a controlled society. The government has pointed the way to recovery, but it alone cannot get Canada on the move. We must tackle this task together.”*

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