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Budget

in brief

May 25, 1976



Finance Finances



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From the budget speech
May 25, 1976

"It will take time and patience to restore price stability and a high level of output and employment. This approach is evident in our monetary policy, our fiscal policy, our expenditure policy, our energy policy and our control policy. In all these fields, drastic action to yield quick results would be highly disruptive, damaging to the interests of the groups most affected and unlikely to be sustainable. It is far better to maintain a steady course in order to restore confidence and enable all groups in society to plan with greater assurance of settled times ahead."

Donald S. Macdonald
Minister of Finance



1910



The Economy

The world economy is launched on recovery from the worst recession since the great depression of the 1930s. As an exporting nation, Canada was bound to be affected by the slump among its trading partners.

Yet the performance of the Canadian economy during this period in terms of output, employment and real incomes has been better than virtually every other industrial nation. The major reason for our better performance has been the concerted and far-reaching action of governments, whose expansionary policies have saved the Canadian economy from severe recession.

But our performance has in itself served to intensify some of our current problems. Our own spiral of costs and prices has developed, threatening the ability of our economy to compete with other nations. With imports still strong but exports comparatively weak, a record balance-of-payments deficit has emerged. Relatively high interest rates reflect the continuing high rates of price increase, the strong demand for credit to fuel our expansion, and deliberate steps to lean against inflation by moderating growth of the money supply.

The critical national need is to gear down the rate of inflation without impeding our economic recovery. To this end, the anti-inflation program was launched in October. The budget delivers a progress report on the four key elements of that program.

The Anti-Inflation Program

Prices and Incomes Policy

Controls over prices and incomes were introduced to reduce expectations about continued inflation and to permit general economic policies to work more effectively in bringing about real growth and declining inflation.

Inflation has slowed noticeably since the introduction of the program. A major factor has been a drop in food prices, which has resulted largely from market forces rather than the anti-inflation guidelines. But the program has ensured that these decreases in costs to the processing and distribution sectors were passed on to the consumer.

Compliance with the program is widespread. In the first six months, about two-thirds of wage proposals reported to the Anti-Inflation Board were within the arithmetic guidelines. For all groups subject to mandatory controls, average increases in compensation are only 1 per cent above the level provided in the arithmetic guidelines.

On the prices and profits side, the government is proposing to revise the regulations to make the program fairer and more effective. The changes represent an evolution of present rules. They will ensure that pricing by firms is consistent with the price targets of the program. In addition, more firms will be required to notify the AIB in advance of proposed price increases. Effective October 15, 1976, the freeze on dividends will be lifted to permit an increase of 8 per cent in annual dividends.

Structural Policies

Underlying structural adjustments are required to deal with persistent inflation. There are difficult questions as to the most effective functioning of our mixed economy; and as to social and institutional forces which make for inflationary pressures. These problems deserve wide-ranging public discussion, and the government is looking forward to meeting with all major groups in the economy. Some immediate initiatives are discussed at this time.

Conserving Energy

Energy is typical of the areas in which the short-term goal of minimizing price increases must be balanced with the longer-run goal of assured supplies. Further increases are required in petroleum and natural gas prices this year to encourage more economizing in the use of energy and to finance development of new energy supplies. At the same time, the government is directly encouraging both energy conservation and greatly expanded oil and gas exploration and development. Measures in this budget will augment both the conservation and incentive programs.

Pricing of Government Services

Many government services are encountering rapidly growing deficits, with users paying only part of their costs and the general taxpayer bearing the balance. Undue delay in needed price increases to users will simply enlarge the deficits and make it harder to pay our way in the future. Transportation subsidies are being examined to ensure that they serve a social purpose without impeding the development of efficient systems.

In the absence of rate changes in more than four years, the postal deficit has grown from \$72 million a year to \$700 million, and the fraction of the cost of service borne by users has dropped from 88 per cent to less than 50 per cent. To slow down growth of the postal deficit, a number of rate changes have been announced by the Postmaster-General to take effect later this year and in 1977.

The Efficiency of the Economy

Falling productivity in the Canadian economy during both 1974 and 1975 is a source of concern. The government is giving urgent attention to the whole range of policies which can help foster higher productivity. Important tax incentives are already in place and the government is pressing ahead with development of competition policy to promote efficiency. The budget announces further help to small business, and calls for proposals from the public to facilitate risk-taking, especially in development of high technology, through new venture capital provisions in the tax system.

Employment and the Labour Force

The Economic Council's recent study recognizes that manpower and direct employment programs and the unemployment insurance program have all made useful contributions toward dealing with the structural problems of the labour market in Canada. The study concludes, however, that all of these government programs should be improved.

Selective programs of job creation will continue to be needed in order to bring down the rate of unemployment without generating new inflationary pressure. These direct employment programs must be designed to obtain maximum impact from the limited resources available in view of the control on government expenditures.

The budget announces that further legislation will be introduced to make the unemployment insurance system more equitable, more responsive to regional unemployment and less costly.

The present requirement for eight weeks of insured employment to qualify for benefits will be increased to 12 weeks.

The number of weeks during which benefits may be drawn will be more directly related to the number of weeks worked, and regional extended benefits will be more sensitive to regional unemployment.

Severance pay will not affect eligibility for unemployment insurance benefits.

Amendments will permit the payment of unemployment insurance to beneficiaries on a discretionary basis where they take part in such activities as selective employment, training or short-time work programs.

The administration of the unemployment insurance systems and Manpower Canada's programs and services will be integrated.

Expenditure Policy

Beginning with its cuts in planned expenditures for 1975-76 and 1976-77, the government is undertaking a basic change in the trend of expenditure growth. This is a deliberate and sustained process. The gains to date in exercising control will be consolidated in 1977-78.

The government has stated that the trend of total government spending should not rise more quickly than the trend in gross national product. The increases in federal spending anticipated for both 1976-77 and 1977-78 are less than the expected rate of growth of GNP.

Fiscal and Monetary Policy

The aim of both fiscal policy and monetary policy in the anti-inflation program is to increase total demand and production in the economy at a rate consistent with declining inflation.

The Bank of Canada has set a target for the growth of the narrowly defined money supply initially in the range of 10 to less than 15 per cent. With continuing real growth of the economy, this target range will have to be lowered over time so that the rate of monetary expansion will be consistent with the objectives of the anti-inflation program. In its refusal to underwrite continuing high rates of inflation, monetary policy is helping to destroy expectations that they will continue.

In present circumstances, the best way to achieve this same goal through fiscal policy is by maintaining close control over the growth of government spending. With the recovery well established and private spending rising, it is appropriate for the deficits of both the federal and provincial governments to recede.

Budget Measures

Tariff Changes

Temporary tariff cuts initiated in 1973 on a wide range of consumer products will be extended for another year to June 30, 1977, except for two items. Annual trade affected by the cuts is valued at \$1 1/2 billion.

New cuts are being introduced on a temporary basis on fresh pork, ham, bacon and macaroni.

Energy Conservation

To provide incentives for energy conservation:

The two-year tax write-off will be extended to cover equipment which enables industrial wastes to be used as a fuel source and which produces energy from municipal waste.

Federal sales tax will be removed from many items which contribute to energy conservation, or encourage the development of alternative forms of energy, including solar furnaces and heating panels, wind-powered generating equipment and heat pumps.

To deter wasteful consumption of energy:

A specific tax of \$100 will be imposed on air conditioners for automobiles, station wagons, vans and smaller trucks.

The present excise tax on heavier cars will be increased in four stages between 1976 and 1979.

Excise Tax on Heavy Cars

Weight of Car (lbs)	Current Tax	Proposed Tax			
		1976	1977	1978	1979
3,500	—	—	—	—	—
3,750	—	—	—	—	120
4,000	—	—	—	120	240
4,250	—	—	120	240	420
4,500	—	120	240	420	540
4,750	75	240	420	540	720
5,000	135	420	540	720	840
5,250	225	540	720	840	1,020

Capital Cost Allowances

After an intensive review of Canada's system of capital cost allowances, the government proposes a number of changes in rates and a new restriction with respect to leasing.

Among individual changes, rates will be increased on computer hardware and software and reduced on aircraft, and radio, TV and radar equipment.

Taxpayers will no longer be allowed to claim capital cost allowances on leased equipment in excess of their net rental income from that type of property.

The general conclusion of the review is that the capital cost allowance system is basically sound. It is not out of line with systems in other countries and it is easy for the taxpayer to apply. No fundamental changes are contemplated at this time.

Personal Income Tax Changes

Child Care

Allowable deductions for the expenses of child care will be doubled:

Deduction per child to \$30 a week or \$1,000 a year from \$15 and \$500.

Maximum deduction per family to \$4,000 a year from \$2,000.

Deferred Income Plans

Maximum annual deductions by employees and employers for contributions to registered pension plans will be increased to \$3,500 from \$2,500. The same increases will be applied to registered retirement savings plans where a beneficiary also belongs to a pension plan, and to employer contributions to a deferred profit sharing plan. For a beneficiary of a registered retirement savings plan who does not belong to a pension plan, the annual limit is increased to \$5,500 from \$4,000.

Small Business Incentive

Profits of Canadian-controlled private corporations eligible for a reduced rate of tax will be substantially increased. The annual amount subject to the low rate will be increased to \$150,000 from \$100,000 and the cumulative total increased to \$750,000 from \$500,000.

Charities.

Following a year of study and public discussion, a series of changes are proposed in the treatment of charities under the Income Tax Act.

Charitable organizations and public foundations will be permitted to carry on businesses related to their charitable objects; private foundations will be required to pay out for charitable purposes a minimum amount of their annual income or a percentage of the value of their assets; limits will be established on fund-raising costs; and charities will be required to disclose publicly aspects of their finances and charitable activities.

The Economic and Fiscal Outlook

Real growth of the economy in 1976 is anticipated to be about 5 per cent.

The goal of bringing down the year-over-year rate of increase of the consumer price index to 8 per cent by the fourth quarter of 1976 is within our reach.

The Canadian economy is expected to generate more than 250,000 new jobs this year.

The continuing recovery in Canada will be sustained by growing exports in response to the recovery in the United States and most other industrial countries.

The trade balance will begin to show a significant improvement, bringing about a reduction in the large deficit on goods and services.

Housing expenditures will be strong. Real incomes will rise in response to growing employment and decelerating consumer prices. Consumer spending will be an expansionary force in the economy.

The rate of inflation should continue to come down in 1977.

Government of Canada
Public Accounts Presentation
Summary Statement of Transactions

	1975-76 Preliminary Actual	1976-77 Forecast ⁽¹⁾
	(\$ millions)	
<i>Budgetary Transactions</i>		
Revenues	29,811	34,400
Expenditures ⁽²⁾	-33,887	-39,400
Surplus or Deficit (-)	-4,076	-5,000
<i>Non-Budgetary Transactions</i>		
Loans, Investments and Advances ⁽²⁾	-3,338	-2,750
Annuity, Insurance and Pension Accounts	1,025	2,300
Other Transactions	1,799	950
Net Source or Requirement (-)	-514	500
<i>Financial Requirements</i> (Excluding Foreign Exchange Transactions)		
	-4,590	-4,500
<i>Foreign Exchange Transactions</i>		
	-190	
Total Financial Requirements ..	-4,780	

(1) Numbers in this column should be interpreted as mid-points of ranges of estimates. No forecast is made of the cash requirements of the Exchange Fund Account.

(2) Total outlays are composed of budgetary expenditures plus loans, investments and advances.

**Government of Canada
Summary, Extended
National Accounts Presentation**

	1975-76 Estimate ⁽¹⁾	1976-77 Forecast ⁽²⁾
	(\$ millions)	
<i>Current Transactions</i>		
A. Revenues	32,130	37,950
B. Expenditures	-36,365	-41,250
Surplus or Deficit (-)	-4,235	-3,300
<i>Loans and Other Transactions</i>		
A. Loans, Investments and Advances	-2,850	-2,540
B. Cash vs Accruals	2,313	1,215
C. Other Transactions	182	125
Net Source or Requirement (-)	-355	-1,200
Total Financial Requirements (Excluding Foreign Exchange Transactions)	-4,590	-4,500
<i>Foreign Exchange Transactions</i> ..	-190	
Total Financial Requirements ..	-4,780	

(1) Estimates for Current Transactions items in this column are based on the official national accounts statistics, issued by Statistics Canada, for the first three quarters of the fiscal year, and on Department of Finance estimates for the final quarter.

(2) Numbers in this column should be interpreted as mid-points of ranges of estimates. No forecast is made of the cash requirements of the Exchange Fund Account.

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