supply and products not grown or made in Canada.

### Sales and excise taxes

The federal sales tax is abolished on all children's clothing, including shoes and other footwear. The federal sales tax is abolished on all "near" food products, including confectioneries, chocolate bars, soft drinks, fruit drinks.

The special luxury excise tax of 10 per cent is abolished on toilet articles and cosmetics and the special luxury excise tax of 10 per cent on clocks and watches is removed except to the extent that a manufacturer's price exceeds $50.

### Changes related to tax reform

Further improvements to tax reform were introduced, including the repeal of the ineligible investment test – corporations enjoying the small business deduction are free to reinvest earnings without restriction. Family farms will be permitted to pass from generation to generation free of capital gains tax.

Local school taxes on property will be included in the equalization formula, increasing payments by $190 million in 1973-74 to the Atlantic Provinces, Quebec, Manitoba and Saskatchewan.

### Economic and financial background

With faster rates of growth last year in Europe, Japan and North America, the increase in output of industrial countries almost doubled the rate of 1971.

Canada's gross national product in 1972 rose by 10.5 to 11 per cent, its personal income per head by 10.5 per cent, and the standard of living by 5.5 per cent as measured by *per capita* consumer expenditures, less the effects of increases. Housing starts rose 7 per cent; 250,000 new jobs were created, compared to 200,000 in 1971, an increase of 25 per cent; and farm income rose strongly.

The economic expansion in Canada was interrupted in the third quarter of 1972 by adverse weather and serious strikes. There has been a sharp rebound since September and it is anticipated that the fourth quarter will turn out to have been "quite extraordinary".

Expansion in 1973 will be led by business capital investment and a buildup of inventories. Consumer spending and house-building will continue at high levels but could rise less rapidly.

Unemployment remains too high despite two full years of economic expansion. The budget of last May, and winter-employment programs announced since then, are directed to the Government's highest priority – the creation of jobs. An increase in real output appreciably in excess of Canada's long-term average is needed if new job-creation is to keep up with labour-force growth and cut into unemployment.

Inflation is a world-wide problem. Canada's experience was less favourable in 1972 than in 1971, with a sharp rise in food costs mainly responsible for the acceleration in consumer prices. The Government's approach to the problem of inflation is to try to increase the supply of goods and services, to increase personal disposable income, to relieve pressures on those who are hurt, to restrict the Government's own demands upon the economy and, above all, to encourage self-restraint by all groups in their demands for higher income.

The fiscal policy is responsive to the twin problems of unemployment and inflation and it should, therefore, provide the necessary stimulus in ways which offer the maximum resistance to inflationary forces. With fair crops, labour peace and international stability, real growth of the economy in 1973 should be about 7 per cent.

The rate of expansion this year should provide jobs fast enough to bring about a significant reduction in unemployment – a year from now 300,000 more Canadians should be holding jobs.

In the fiscal year 1972-73, the Federal Government's total cash requirements (excluding foreign exchange) are expected to be about $2 billion, made up of an approximate balance on budgetary account and non-budgetary cash requirements of approximately $2 billion.

For 1973-74, the measures proposed in this budget will have the gross effect of increasing cash requirements by approximately $2 billion. The measures will induce more expansion, resulting in some revenue increases and expenditure savings with a total offsetting effect of the order of $500 million. As a result, the net financial requirements imposed by the measures are about $1.5 billion, which will be reflected in cash requirements for 1973-74.

The budgetary deficit for 1973-74 will be some $975 million and non-budgetary requirements $1,025 million. The total cash requirement is estimated to be $2 billion, the same as in the current fiscal year.

## Telephones for Turkey

To help Turkey modernize and expand its telephone system, the Canadian International Development Agency (CIDA) is providing that country with a $9.85-million long-term loan, and Canada's Export Development Corporation (EDC) is making available a further $26 million.

Turkey's $60-million, second five-year program (1972-77) for communications improvement aims at boosting the system with new switching equipment and an additional 300,000 lines and telephones. CIDA granted $4.13 million and the EDC loaned $20.37 million in support of the first five-year program, under which Northern Electric Ltd. of Montreal helped build and equip a manufacturing plant at Umraniye as a joint venture with the Turkish Government. Equipment will be partially manufactured in Canada and completed in Turkey at the Umraniye plant.

## Public service investigation branch

Public Service Commission Chairman John J. Carson recently announced the appointment of A.R.K. Anderson, Director General of the Commission's Staffing Branch, as head of the newly-established Commission's Investigation Branch.

The Investigation Branch was set up to study and process complaints of alleged discrimination on the grounds of sex, race, national origin, colour or religion, with a view to the application of the Public Service Employment Act.