

Phase-out of federal wage and price controls

In his first statement to the House of Commons as Minister of Finance, Jean Chrétien announced on October 20 that the Federal Government's wage and price controls would be phased-out beginning on April 14, two-and-a-half years after they began.

The Minister also announced a personal income tax cut of up to \$100 for low- and middle-income taxpayers; further job-creation programs; an employment credit for job creation; and the maintenance of strict restraint on Government spending.

Excerpts from the speech, which was televised, follow:

The further period of control will enable us to make more progress in bringing down the rate of inflation and in reducing inflationary expectations. In the next few months we will amend the Anti-Inflation Act to ensure effective administration of controls during the period of transition and to minimize the risk of a bulge when controls come off. We will also proceed with establishment of an agency to monitor and report upon price and cost developments.

In the phased process of decontrol beginning next April 14, employees will be free of controls for their guideline years which start after that date. Business will be free of price and profits controls for their fiscal years which begin after that date.

Changes are being made in the guidelines for the third year of the program... Briefly, the basic guideline for wages and salaries will be 6 per cent. The experience-adjustment factor will continue to apply. Dividends will remain under control. The permissible increase will be reduced from 8 per cent to 6 per cent, the same amount as for wages and salaries.

We have no choice but to keep slowing down the increase in costs if we are to get the economy going again and reduce unemployment. Barring unforeseen events, the rate of inflation will come down below 6 per cent next year, so the lower guideline will not lead to a fall in real incomes....

If we had left the regulations unchanged, the guideline would have been about 8 per cent because the consumer price index has gone up by more than the price target this year. But I would like to emphasize that the first two years of the program taken together were just about on target. We did better than the target by almost 2 per cent in the first year and seem likely to fall short by about the same amount in the second year. This was due to two main factors. First, food prices fell in 1976 and then rose sharply in 1977.

Second, the Canadian dollar remained quite strong through much of 1976 but has since fallen quite sharply. This has pushed up the prices of the things we buy abroad.

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Fiscal measures

...First, I am cutting taxes for low- and middle-income taxpayers by \$100. I propose to do this by increasing the minimum amount of the 9 percent federal tax credit from \$200 to \$300. This will apply only to the 1978 taxation year. The value of this additional \$100-cut will be more than \$700 million.

To provide quick stimulus, the reduction will be concentrated as much as possible through the January and February deductions at source. The take-home pay of millions of employees will increase by \$50 in January and \$50 in February. Many will enjoy a holiday from federal income tax in those two months and some for the whole year. Here are some examples.

A typical married taxpayer with two children and an annual income of \$15,000 will see his federal tax reduced in January and February by the full \$100. If his income is \$10,000 or less, he will pay no federal tax at all in these two months. If he earns about \$8,500 or less, he will have a holiday from federal taxes for the year as a whole.

Over 7,500,000 taxpayers will benefit from this tax cut. About six million will receive the full \$100-cut.

I also wish to announce that the indexing factor for the personal income tax for 1978 will be 7.2 per cent. This means that the basic personal exemption will increase from \$2,270 to \$2,430. For a family of four, total personal exemptions will rise by \$360 from \$5,120 to \$5,480. In total, Canadians will pay \$850 million less in taxes next year as a result. I only regret that the importance of indexation

is so often forgotten or ignored in public discussion.

Job creation

...We have already allocated a total of \$450 million this year for Canada Works, Young Canada Works and the other job-creation programs. These programs will be maintained at this very high level for 1978-79. In addition, we are providing \$150 million for work projects with a high employment content. These will be focused on high unemployment areas beginning immediately. In total, for the current and the next fiscal year, the Government will be spending over \$1 billion for direct job creation. All of these funds are being provided within the expenditure ceilings to which we are committed.

I also expect to introduce shortly a new program of employment credits for private business firms. This will be a new approach to job creation in Canada, and I have to give careful study to alternative ways for carrying it out efficiently and effectively. I fully expect, however, that legislation will be introduced to initiate this new job-credit plan early in 1978, at an approximate cost of up to \$100 million.

Last, I am taking this opportunity to announce some other tax changes. I will be extending by regulation the fast write-off for anti-pollution equipment until 1980. I will also be extending by regulation for another year the special provision permitting taxpayers to offset against other income their losses on rental housing generated by capital-cost allowances. This will maintain the incentive for the construction of multiple-unit residential housing. I am bringing the capital-cost allowance on wood-frame buildings into line with other kinds of buildings. Furthermore, tonight's Notice of Ways and Means Motion includes changes relating to life insurance, corporate surplus and loans by companies to their employees. As a result of representations from Members on all sides of the House, I will not be proceeding at this time with the measure for taxing the investment income realized by a policy-holder on the death of the person insured....

Dollar continues to float

Finally, I want to say a word about the exchange rate. The policies we are following of getting our costs down and our employment up are directed at our fundamental problems. With such policies, our balance of payments will improve. We