# Canada Weekly

Ottawa
Canada

Volume 10, No. 28
July 14, 1982



Following the tabling of the budget in the House of Commons, Prime Minister Pierre Trudeau met with the provincial premiers in Ottawa, June 30 to discuss the Canadian economy. The Prime Minister and First Ministers agreed on a meeting of federal and provincial ministers to co-ordinate housing and job-creation measures and they examined the possibility of another First Ministers' meeting on the economy in the fall.

External Affairs Canada    Affaires extérieures Canada

## New budget emphasizes restraint to curb inflation and increase investment

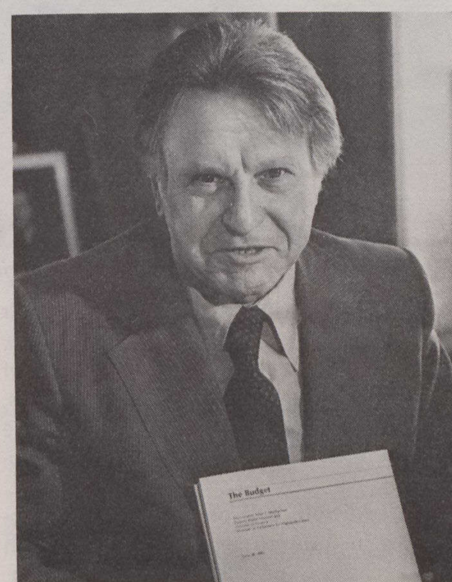
Finance Minister Allan J. MacEachen brought down a budget on June 28 designed to reduce inflation more quickly, shore-up investment and business confidence, and assist those Canadians most seriously affected by the recession, while at the same time containing the deficit.

The main actions proposed to promote these objectives involve restraint on wage and salary increases in the federal public sector, a strategy to lower annual increases in earnings from 12 to 6 per cent over two years, and a rearrangement of government spending priorities to provide more help to persons hardest hit by unemployment and high interest rates.

In presenting his budget, Mr. MacEachen emphasized the severe negative impact that inflation and the current recession are having on employment, profits, and Canada's competitive position as well as business and consumer confidence. The deterioration in the economic situation has also led to a sharp increase in the budgetary deficit, which has increased from $12.9 billion in 1981-82 to a forecast level of $19.6 billion this year, whereas the November 1981 budget had forecast this year's deficit at $10.5 billion. As a result, government financial requirements are now projected to be $17.1 billion compared to $6.6 billion as forecast last November. The minister noted that the Canadian deficit is not out of line in relative terms with those of most other Organization for Economic Co-operation and Development countries.

Reducing inflation is seen as a pre-condition to sustained improvement in economic welfare and employment levels. As long as inflation is expected to increase, wage pressures will remain intense, the cost structure will worsen and Canada will have difficulty competing in world markets, warned Mr. MacEachen. The government therefore intends to maintain its basic stance of monetary and fiscal restraint since abandoning such restraint would make matters worse, he added.

In his budget speech to the House of



Peter Bregg, CP

*Finance Minister Allan MacEachen holds June budget papers.*

Commons, Mr. MacEachen emphasized that the persistence of the U.S. recession and high interest rates in that country are the foremost international obstacles to a resumption of growth in Canada and the rest of the world. He noted that, while there are signs that the recession in the United States may soon "bottom out", high real interest rates in that country remain a barrier to strong recovery and are keeping interest rates higher than domestic circumstances require in other countries, including Canada.

### Strategy to reduce inflation

Mr. MacEachen expressed concern about current rates of price and wage increases in Canada relative to those of the country's key trading partners, notably the United States, Japan and the Federal Republic of Germany. He proposed a strategy to bring wage and price inflation down in the country, under the leadership of the federal government.

Under the plan, a public sector compensation restraint program will constrain rates of pay to increases of no more than