

butes to even higher deficits and indebtedness. Final figures for the 1984-85 Canadian deficit are not yet available, but current estimates say it will be just under \$36 billion. Government expenditures will be lower than projected, but revenue projections have not been met.

With the total public debt approaching \$200 billion, interest charges have become the fastest-growing component of government expenditures — rising from \$8 billion per year in the late 1970s to \$22 billion last year.

The Budget, Wilson said, is a significant step in redressing the widening gap between expenditures and revenues. Expenditures are expected to increase by slightly more than 2% this year and next year — the lowest rate of increase in almost two decades. Meanwhile, net expenditures will be cut by \$15 billion by 1990-91.

#### Budget highlights

Among the Budget highlights were the following:

- To encourage investment in small and large businesses, the Budget proposes a life-time capital gains exemption of \$500 000 for every Canadian. All capital property will qualify. The exemption limit will be phased in over six years beginning this year with a \$20 000 exemption for total capital gains.
- To promote investment in research and development, the Budget aims to help small companies by refunding all of the tax credit which they earn on their first \$2 million of qualifying R&D each year.
- To assist the unemployed, increased funding will be provided to programmes of training and direct development, aimed at greater private sector and local participation. In addition to the \$900 million allocated to these programmes this year, \$900 million will be allocated in 1986-87.
- To improve government effectiveness, the Budget announces Ottawa's intention to sell Crown corporations that have a commercial value but no ongoing public-policy purpose. Crown corporations with no commercial value and no effective public-policy purpose will be dissolved; and others, where appropriate, will be absorbed within existing departments. As a first step, up to

13 corporations in these categories have been identified.

The government also intends to reduce the size of the public service by 15 000 in the next six years, beginning next year. Operating and capital costs will also be restrained.

- To improve tax fairness, the Budget will introduce: (1) a minimum income tax imposed on high-income Canadians, effective for the 1986 taxation year; (2) amendments which prevent taxpayers from avoiding tax by splitting income through the use of loans to spouses and children; (3) elimination of tax shelters involving property such as yachts, recreational vehicles and hotels; and (4) measures to achieve fairer tax administration.
- To reduce its spending, the government will make major savings in a variety of its programmes. Also, it will reduce transfer payments. For example, it plans to limit the indexation of family allowances and old age security payments to annual increases in the consumer price index which exceed 3%.
- To increase its revenues, the annual indexation factor, which applies to personal exemptions and tax brackets, will reflect now only those increases in the consumer price index above 3%. A temporary deficit-reduction surtax will be imposed on higher-income individuals for 18 months, starting July 1, 1985, and on large corporations for 12 months, starting July 1, 1985. A two-year tax will be imposed on the capital of large chartered banks and trust companies, effective in 1986. Also, there will be a one-percent increase in the federal sales tax, beginning in 1986; and a two-cent-per-litre increase in the excise tax on petrol and other transportation fuels, effective September 3, 1985.

#### Measures carefully balanced

In summing up his Budget proposals, Wilson said that the measures they contain had been carefully balanced so that costs and benefits would be fairly shared. In acting to reduce the deficit, the government's first priority had been better, more efficient management; then, a rationalization of assets and programmes; and finally, as a last resort, tax increases. Over all, the government had acted to ensure that an appropriate balance between expenditure and revenue measures would be maintained.

The end result is that the estimated deficit this year will be reduced by \$4.4 billion, to a level of \$33.8 billion. Next year, the forecast deficit will be reduced by \$8.3 billion to \$32.7 billion.

Taken together, the measures announced by the government in the November, 1984, economic statement and in this Budget will ensure that by the end of the decade, the annual deficit is \$20 billion lower than it would otherwise have been. About 80% of that reduction will be on the expenditure side.

*On June 10, at a Canada-UK Chamber of Commerce luncheon in the City of London, the Hon. Barbara McDougall, Minister of State for Finance, addressed the Chamber on relevant aspects of the Budget, expanding on how these measures will help to improve business opportunities and investment in Canada.*

Parliament Buildings in Ottawa



Photo: External Affairs, Canada House