

## INFLATION DANGER

Among other things, this situation could be inflationary, the Council noted. Just as people argue for higher pay to offset price increases, they are anxious to protect their real take-home pay from the increases in taxes and pension deductions that occur when their gross or "nominal" incomes go up. To the extent that they succeed, the whole process would be "tilted in the direction of inflation".

Moreover, if the revenues yielded by existing tax rates were used only to finance existing government programs, even though their cost would rise sharply — with transfer payments alone jumping from \$6.8 billion to \$17.7 billion over the decade ahead — governments would roll up huge surpluses. These, the Council said, would amount to a heavy "fiscal drag" that would sap the economy's natural strength and produce 6 per cent unemployment over the last half of the 1970s.

To reconcile its own economic projections, the Council therefore assumed expansion of existing government programs, and the creation of new ones. It allowed for new spending in such areas as welfare, urban renewal, "environment improvement", new airports, power development, and resource projects in the North. And its calculations still showed a \$1.5-billion surplus in 1980.

In its original projections, the Council allowed for the "progressivity" of the tax structure by assuming that by 1980 the effective average rate of income tax would be 27 per cent, and that the proportion of income that is taxable would rise to 75 per cent. In its test of lower taxation, the Council dropped the effective rate of tax to 23.5 per cent — roughly the present level — and the proportion of income that is taxable to 65 per cent, a little lower than it was in 1970.

The result: hardly any change at all in economic output, employment, prices, or productivity. But the tax cuts would, of course, mean that after-tax *per capita* income would increase faster — by 4.5 per cent a year, instead of 4.1 per cent. And the share of GNP used by governments would remain at the present 36 per cent instead of jumping to 40 per cent.

As for government revenues, the tax cuts would "cost" about \$4.5 billion — total revenues would be \$69.7 billion in 1980, instead of \$74.2 billion under existing tax rates. Within this decline, personal income taxes would drop by about \$5.5 billion in 1980 from what they would be otherwise, but corporate and indirect taxes combined would be roughly \$1 billion higher.

The Council concluded:

"In our opinion, a reasonable stance over the next few years would be to keep direct and indirect taxation rates at their present levels, if not to reduce them.

"Since the progressive nature of income taxes will cause tax revenues to continue to grow at a faster rate than GNP, such an approach would by no

means prevent governments from introducing new programs of expenditures or improving the present ones.

"Besides, as we have seen...a relatively more modest role of governments is by no means inconsistent with satisfactory performance with respect to employment and economic growth.

"Of course, governments remain free to choose. Our task is merely to indicate the implications of the choices to the extent that it is possible for us to perceive them."

## LABOUR FORCE

Employment and unemployment alike increased during September and October. The increase in employment was close to the usual percent change during these months, while the increase in unemployment was somewhat less than usual, and resulted in a decrease in the seasonally-adjusted unemployment rate to 6.9 in October from 7.1 in September.

The actual size of the labour force increased to 8,878,000 in October from 8,840,000 in September, a normal increase for this time of year.

The number of employed persons rose to 8,395,000 from 8,381,000.

There were 483,000 unemployed persons in October compared to 459,000 in September. The unadjusted unemployment rate, representing the actual number of unemployed as a percent of the labour force, was 5.4 in October, up from 5.2 in September.

Compared to that of a year earlier, the labour force was up 180,000 (2.1 per cent); employment was up 144,000 (1.7 per cent); and unemployment was up by 36,000.

The seasonally-adjusted employment level increased from 8,310,000 in September to 8,328,000 in October. The employment level increased for men 25 and over and persons 14 to 24 years old, while the level decreased for women 25 and over. Small employment increases were recorded in all regions except the Prairies, where there was a small decline.

The seasonally-adjusted unemployment rate declined to 6.9 in October from 7.1 in September. The rate increased for persons 14 to 24 years old, but decreased for persons 25 and over.

## SANTA'S HELPERS

Two truckloads of toys and about \$2,500 in cash were collected in Ottawa on December 9 during a parade sponsored by the Ottawa Professional Firefighters Association to help children of low-income people and welfare recipients enjoy Christmas.

Last year the firefighters supplied 2,000 Ottawa children with three toys each.

Despite the success of the parade more toys were required to reach last year's number. All city fire stations accepted both new and used toys up till December 15.