

federal marginal tax rate on personal income will be cut to 34 per cent, resulting in an average federal-provincial maximum rate of about 50 per cent (varying according to province). The maximum capital gains tax will accordingly be cut to an average of 25 per cent. The special federal tax credit which now ranges from \$200 to \$500 will be cut to a flat \$200, with an additional \$200 credit for dependent spouses. This provision will be of particular benefit to low-income families.

Full indexation of the personal income tax is retained. This will provide a 12.2 per cent increase in exemptions and tax brackets for 1982, effectively reducing taxes by \$3 billion for that year.

The existing corporate surtax will be extended to 1982 at the current 5 per cent rate and into 1983 at a 25 per cent rate. In the year of acquisition of new investment, depreciation allowances are reduced to one-half the annual rate. Small business will be exempt from the surtax and the qualifying limit for the low tax rate is raised to \$200,000 a year with a cumulative limit of \$1 million.

Apart from continuing phased reductions agreed to in 1979 in the multilateral trade negotiations, tariff changes are being introduced in line with recommendations of the Tariff Board to broaden product coverage under the General Preferential Tariff (GPT) and reduce rates on a range of products of interest to developing countries. As previously announced, duties will be eliminated on goods covered by the GPT when imported from the least developed countries.

The net effect of income tax changes is to raise revenue by \$1.4 billion in 1982-83 and \$2 billion in 1983-84. New energy taxes agreed with the provinces will add \$900 million in 1982-83 and \$1.5 billion in 1983-84 more than projected in last year's budget. Total tax revenues will rise in 1982-83 by 21.4 per cent, to \$58.8 billion, and total budgetary revenues by 19.6 per cent, to \$65 billion.

Expenditure program

The government's plan of keeping expenditures within the trend rate of growth of GNP is continued. Despite higher interest costs, total outlays for fiscal 1982-83, at \$76.3 billion, will rise by only 11.7 per cent, compared with an increase of 14.4 per cent for GNP. By 1985-86 the ratio of outlays to GNP will have fallen to 19.2 per cent, down from 10.6 per cent in 1981-82.

Within this framework of over-all restraint, economic development programs remain a priority. The NATO commitment to increase defence spending by 3 per cent in real terms will continue, as will that to raise official development assistance to .5 per cent of GNP by 1985. Special relief is provided to those homeowners, farmers, and small business operators who have been most seriously affected by high interest rates. Construction of rental housing will be encouraged by interest-free loans to builders in areas where the housing market is tight.

The budget also proposes changes in the fiscal arrangements with the provinces for the 1982-87 period. These are to be discussed with the provinces at a later date. These changes together with reductions in energy and certain other areas will help limit expenditure growth.

Economic development

The economic development policy framework set out in a budget background paper addresses structural change in the economy, particularly investment, productivity, and adjustment to strengthen international competitiveness. The principal focus is on resource-based expansion and industrial restructuring with emphasis on balanced regional growth and an orderly pacing of development.

"The policies and programs of the national government are major instruments for managing and exploiting these development opportunities and ensuring that the benefits are shared fairly. Harnessing the resources of the economy is a national enterprise which includes but extends beyond the interests of particular regions or sectors," said Mr. MacEachen.

Canada remains committed to an international competitive environment and rejects protectionism. Foreign capital and technology will continue to play an important role in Canada. The strategy is not a blueprint for increased intervention but rather a broad framework of principles and priorities aimed particularly at balanced growth among regions. The government's role is to support private sector efforts by strengthening the economic base and the performance of markets.

While reaffirming the government's commitment to the National Energy Policy, the framework paper states clearly that special measures to achieve Canadian ownership and control of the oil and gas industry are not appropriate for other sectors.

With respect to the Foreign Invest-

ment Review Act, no legislative action is intended on buy-back and prenotification measures until progress on the major initiatives already undertaken by the government has been assessed. Mandatory performance review and reporting mechanisms for major corporations are not being proposed. As part of regular government-business dialogue, the government intends to consult with major Canadian corporations, irrespective of ownership, concerning development opportunities.

No new measures are proposed in the area of international trade and export promotion. The provision of export services by government is seen as a complement to, and not a substitute for, trade competitiveness. In export financing, the government supports international agreement to contain the use of concessional financing as a competitive instrument.

Medium-term outlook

The budget is designed in a medium-term framework in recognition that economic problems which have built up over many years cannot be resolved quickly. Economic and social goals can only be realized with care, determination and persistence. Interest rates will fall as inflation slows.

After strong expansion in the first half of 1981, the growth rate for the year as a whole is projected to be 3.6 per cent. Growth in the period ahead will likely be more gradual. The average growth rate is projected to rise from 2.2 per cent in 1982 to 2.7 per cent in 1987, with business investment in plant and equipment providing the major source of strength over this period. Government expenditures will grow more slowly than those of the private sector.

"The government intends to consult with the provinces, business and labour concerning the five priority areas of economic development policy ... industrial development, resource development, transportation, exports promotion and human resources. In this decade of development we must work together to renew the foundation for the fair sharing of wealth and opportunity that binds us together as Canadians," Finance Minister MacEachen told the House of Commons.

The unemployment rate will remain high until 1984 when labour force growth will fall below 2 per cent for the first time. Inflation, as measured by the CPI, has peaked and will fall steadily from the 1981 rate of 12.7 per cent to 11.7 per cent in 1982 and to 7.1 per cent by 1987.