

# Canada Weekly

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Budget emphasizes restraint and reduction in inflation and taxes, 1

UN contribution announced, 3

King of Jordan visits, 3

Priority for Polish visas, 3

Canada takes part in nuclear fuel waste project, 3

Sensible handling of issues needed to manage Canadian-American relations, 4

Canadarm excels in space tests, 5

Canada and Belgium discuss culture, 6

Mitel expands in France, 6

Relief for Afghan refugees, 6

Asia-Pacific foundation studied, 6

News of the arts — exhibit, movie, 7

News briefs, 8

## Budget emphasizes restraint and reduction in inflation and taxes

Finance Minister Allan MacEachen brought down a budget, November 12, that emphasized fiscal conservatism and the fight against inflation.

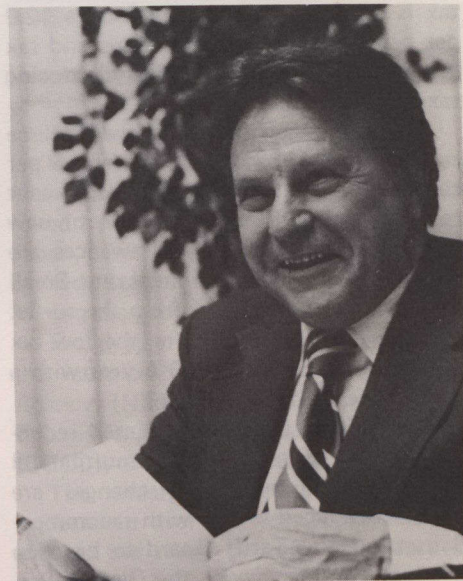
In his address to the House of Commons, Mr. MacEachen said: "We are confronted by severe inflation and extremely high interest rates. Inflation and interest rates at their present levels are bringing economic growth to a standstill and creating grave inequities among Canadians. The impact of high interest rates on homeowners, small business and farmers is visible and damaging. But high interest rates flow from high inflation and there can be no deep and lasting relief until inflation can be reduced. We cannot hope to insulate ourselves from interest rate policies unless our inflation rate is lower than theirs."

### Fiscal plan

The federal government's budget focused on three themes: restraint, equity and renewal. Restraint is needed to reduce inflation which in turn is a prerequisite to lower interest rates; this is to be fostered by steady declines in the government's deficit. Equity demands a fairer tax structure and relief for those most seriously affected by high interest rates. Renewal will be founded on the major economic development opportunities that lie ahead as inflation is brought down.

Mr. MacEachen said there is a need for restraint on the part of the government and all Canadians. "For our part, I believe we must reduce our deficit and our borrowing requirements substantially.... This will take pressures off credit markets, ease interest rates and provide room for needy borrowers. The control of the money supply by the Bank of Canada is an essential element in our strategy to fight inflation, but it has to be supported by greater fiscal restraint," said the finance minister.

A combination of higher tax receipts and continued expenditure restraint will



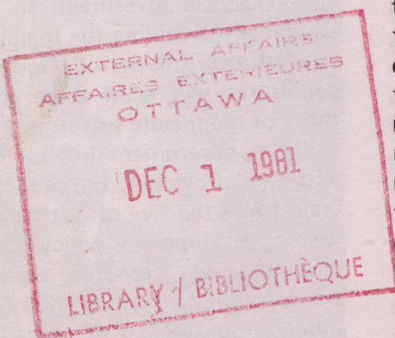
*The budget "will not provide a quick fix" to Canadian economic problems, said Finance Minister Allan MacEachen in his speech to Parliament.*

result in significant reductions in the deficit. Financial requirements will fall from \$10.1 billion in fiscal 1980-81 to \$9.8 billion in 1981-82, \$6.6 billion in 1982-83, and \$5.5 billion in 1983-84. The corresponding ratios to gross national product (GNP) are 3.5, 3.0, 1.7 and 1.3 per cent. In every case these figures are substantially lower than those projected in the budget a year ago.

### Tax changes

To improve the fairness of the tax system, to increase incentives to work, save, and invest, and to add to government revenues, important changes in the income tax system are proposed. "I dedicate myself and this government in this and succeeding years to maintaining a fundamental sense of fairness in our society," said Mr. MacEachen in announcing a major overhaul of the personal income tax system.

Several tax deferral and tax preference provisions are eliminated and the top



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