

One must admit that the Minister has been quite clever about this since it will be difficult to mount any large-scale campaign against the indexing limitation in the tax system when it is tied so closely to the indexing limitation upon public remuneration and prices. Nevertheless, the capping of the index factor is a partial abandonment of the system and the public should be on guard to ensure that this is a temporary aberration rather than the beginning of the end. It represents a tax increase of significant proportions which is almost impossible to measure on an individual basis and it will, therefore, be important to remind the next Minister of Finance of Mr. MacEachen's promise to resume full indexing in 1985. Indexing of personal exemptions and tax brackets (along with a number of other limitations such as pension or retirement plan contributions which are not presently indexed) is such a fundamental part of our tax system that any abandonment of the principle constitutes a major threat to the tax system's basic equity. While, as stated, it may be hard to rail against the capping at this time in the particular circumstances, it should be borne in mind that until inflation is wrestled to the ground, indexation must be an integral part of our tax system and should be extended on a broad basis to virtually every deduction or measurement in the tax system. Without indexation, the system shifts the burden of tax appreciably, as even the Government admits. While some shifts may be desirable as a matter of public policy, those that arise imperceptibly through the failure to index cannot be tolerated for very long.

THE DEFICIT

Perhaps the most worrisome thing about the Budget is the expected size of the Federal deficit – some \$19.6 billion. This may have a considerable impact upon interest rates and will make it that much harder to reduce inflation. While the virtual doubling of the deficit may be attributed largely to a drop in tax revenues, and increased Unemployment Insurance payments, the Government could, and should, have taken a lesson from the private sector and instituted significant reductions in staff and programs. It seems to have been unwilling to bite this bullet and it has therefore exposed its flank quite seriously. It could be saved by an economic upturn, but it may be whistling in the dark to expect much improvement in the economy in the short run. There is room for cutbacks in expenditures and the elimination of duplication between various levels of government, and it is disappointing that this was not a major plank in the Budget. In fact, this one feature alone may be enough to discredit the whole Government, not only at home, but abroad as well.

CONFIDENCE

Insofar as confidence or optimism are concerned, there is very little in the Budget that might persuade Canadians to accept some short term pain for long term gain. No measures were announced to help increase productivity, no assistance was offered to help stimulate research and development, and no messages were sent to those abroad that Canada is a good place for investment. While some relaxation of the Foreign Investment Review Act rules were announced, these were quite inconsequential and offered no hope that there might be a change in attitude towards investment in Canada. One of the major irritants to those abroad is the extraterritoriality of the FIRA which can presumably impede a takeover by a foreign firm of another foreign firm if the latter has a Canadian subsidiary – this should have been removed entirely. As well, the upping of the limits for short form reviews of smaller companies will not convince many that our policies towards foreign investment have improved. What is needed is a blanket exemption for smaller businesses with a right to review those in sensitive areas which are clearly defined. The confidence of both Canadians and others was not helped either by the Minister's steadfast refusal to go back on his November announcement to cut capital cost allowances in half in the year of acquisition. While there may be good theoretical reasons for this, the timing is abysmal. Canada needs every incentive possible to buy and upgrade its industrial equipment and to emasculate a long-standing feature of the tax system at this time seems completely erroneous – revenue requirements notwithstanding.