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BUDGET MEASURES AND TAX REFORM

Mr. Edgar J. Benson, Minister of Finance, presented the Budget to the House of Commons on June 18. Some highlights of the tax reform legislation it contains, which is intended to come into effect next year, follow:

PERSONAL INCOME

- Basic exemptions increased: single, to $1,500 from $1,000; married, to $2,850 from $2,000.
- On wage or salary income, all married-status taxpayers pay less in 1972 than at present; single-status taxpayers pay less on employment income below $8,000.
- Initial 17-per-cent rate of federal tax will be reduced progressively to 6 per cent by 1976.
- Child-care expenses deductible up to $500 a child under 14, maximum of $2,000 a family.
- Special exemption of $650 for individuals age 65 and over. Replaces exemption of $500 at age 70.
- Employment expenses deductible: 3 per cent of employment income up to $150 a year.
- Moving expenses deductible for taxpayers changing jobs.
- Employer-paid living expenses at distant work sites made tax-free.

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- More items included in income.
- Calculation of tax simplified.
- Limits raised on contributions to pension plans and other retirement plans.
- Limit on total charitable donations raised to 20 per cent of income from 10 per cent.
- Two income-averaging plans available.

CAPITAL GAINS

- Half of capital gain taxable at taxpayer's personal rate.
- Half of capital loss deductible.
- Five-year revaluation dropped. Accrued capital gains taxed at death.
- Federal gift and estate taxes abolished on December 31, 1971.
- Taxpayer's home and one acre of land completely exempt from capital gains tax.
- Personal-use property exempt unless selling price is more than $1,000.
- Special rules for corporate reorganizations.

CORPORATIONS AND SHAREHOLDERS

- General tax rate for corporations is 50 per cent in 1972, declining one percentage point annually to 46 per cent in 1976.
- Tax rate of 25 per cent on first $50,000 of business income available to Canadian-controlled private corporations to assist growth.
- Dividend tax credit increased to 33 1/3 per cent and included in income.
- Dividends received by corporations generally tax-exempt.
- Refund of taxes available on investment income and taxable dividends of private corporations.

MINING AND PETROLEUM

- Automatic percentage depletion continues to 1976, then replaced by earned depletion.
- Three-year tax exemption for new mines to be withdrawn after 1973, replaced by fast write-off.

(Over)

- Federal tax on mining profits to be reduced to 25 per cent from 40 per cent in 1977 to allow for provincial mining taxes.

BUSINESS AND PROPERTY INCOME

- Interest paid by corporations on money borrowed to buy shares in other corporations made deductible.
- Reasonable entertainment and convention expenses continue to be deductible, with geographical limitation on conventions.
- Club fees, costs of yachts, camps, lodges not deductible.
- Taxpayers in the professions will bring amounts into income as fees are billed.

INTERNATIONAL INCOME

- Tax treaty expansion to seek competitive tax treatment for Canadians investing abroad.
- Witholding tax on investment income paid to non-residents remains at 15 per cent until the end of 1975, then increased to 25 per cent in non-treaty countries. Pensions subject to withholding tax after January 1, 1972 but all Old Age Security pensions and $1,290 of Canada and Quebec Pension Plan benefits exempt.
- Tax imposed on income diverted to tax havens.

ECONOMIC REVIEW

To reinforce the expansion of the economy now under way, the budget proposes the following 1971 tax and tariff changes:

- Removal of the 3-per-cent surtax on personal and corporate income taxes effective July 1, 1971, at a cost of $130 million for the balance of the calendar year.
- Changes effective July 1 in lowest tax brackets to exempt taxpayers with less than $500 of taxable income.
- Exemption of Guaranteed Income Supplement from taxation retroactive to January 1, 1971.
- Low-bracket changes and GIS exemption end income taxes for more than 750,000 people effective July 1.
- Removal of 12-per-cent sales tax on margarine, effective immediately, at a cost of $7 million in a full year.
- Removal of 12-per-cent sales tax on all anti-pollution equipment used in production, effective immediately, at a cost of about $8 million in a full year.
- Abolition immediately of 15-per-cent excise tax on television, radio and hi-fi sets, their components and other electronic equipment, at a full-year cost of about $40 million.
- Duty on petroleum feedstocks of 3/4 cent a gallon under British Preferential Tariff and 1 cent a gallon under most-favoured-nation tariff reduced to 1/3 cent a gallon to aid Canadian petrochemical industry.
- Increase in tariff on polyethylene resins from 7 1/2 to 10 per cent, with corresponding increases for further processed forms of these resins, to assist Canadian plastics industry.
- Duty-free entry of production machinery not available in Canada and considered to be in the public interest extended to cover sawmill and logging machinery for the benefit of the Canadian forest industry.
- Suspension for two-year period of 1/3 cent a gallon duty on heavy fuel oils to help offset recent substantial price increases incurred by pulp and paper producers and power utilities, the saving for the pulp and paper industry alone amounting to over $3.5 million.

REVENUES AND EXPENDITURES

The budget deficit for 1970-71 was just under $420 million, representing a swing of $810 million from the surplus of some $390 million in 1969-70. Non-budgetary cash requirements rose by $550 million, with the result that total cash requirements for 1970-71 increased by $1,360 million over those of the previous year, not including funds required to finance foreign exchange transactions.

For 1971-72, budgetary revenues after tax changes are estimated at about $13,660 million and expenditures at $14,410 million, leaving a budget deficit of $750 million.

Net non-budgetary requirements are forecast at $1,680 million not including foreign exchange transactions, and total cash requirements for 1971-72 are estimated to be $2,430 million.

BACKGROUND TO BUDGET

The Minister said that in his view, the advance of the economy in the second half of 1971 was stronger than it was at the time of his budget last December. He expects that the gross national product for the balance of this year will be 9 per cent or more above that for the same period last year.

"The Canadian economy last autumn marked a turning point from declining to expanding rates of growth in demand, output and employment. I am confident that as we move on through the second half of 1971 and into 1972, the performance of the economy will be strong and gaining momentum," he stated.

Total domestic demand increased in the first quarter of 1971 at the very high annual rate of 8 per cent, boosted particularly by high levels of expenditures for housing and consumer durables and by all levels of government.

Business capital investment continued to be the weakest element in the economy. But the stage has been set for an upturn by the expansion under way in demand for goods and services, the removal of uncertainty associated with tax reform, and the improvement in profits during the first quarter of 1971.

Consumer spending on goods and services other than durables has been relatively sluggish to date in 1971, but high rates of personal savings, the ready

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CANADA-FRANCE SHIPBUILDING PACT

The largest commercial shipbuilding agreement in Canadian history, valued at more than $100 million, was announced recently by Mr. Jean-Luc Pepin, Minister of Industry, Trade and Commerce.

Mr. Pepin said a letter of intent had been signed by Marine Industries Limited of Sorel, Quebec, and two large French international shipping companies – la Compagnie Maritime des Chargeurs Réunis and la Société Navale Chargeurs Delmas-Vieljeux – for the purchase of 12 vessels to be constructed by Marine Industries over a four-year period.

"This transaction is being made possible by the co-operation between my Department, which will provide up to $21 million to the company under the Shipbuilding Temporary Assistance Program, the Government of the Province of Quebec, the Government of France and Canada's Export Development Corporation," Mr. Pepin said. "The Export Development Corporation has indicated its willingness to consider extending long-term credit for 80 per cent of the contract value to the shipowners. Thus, the total credit to be made available to both shipowners would be in the order of $82 million."

The letter of intent calls for 12 multi-purpose container vessels, each weighing 15,600 deadweight tons, to be built for the two shipping firms. "This will provide more than 3,300 man-years of employment for Marine Industries and brings to more than 8,400 man-years the total amount of new employment created in Canadian shipyards by the Shipbuilding Temporary Assistance Program since it was announced on November 27, 1970," Mr. Pepin added.

The Minister said that the ships were container vessels of general purpose type, designed by Marine Industries to meet the strong world demand. "The company, with an order for 12 ships, will benefit from the economies possible by long production runs and this foresight on their part helped them to win this important international order," Mr. Pepin added.

The agreement will provide for high employment at the Marine Industries' shipbuilding facilities in Sorel until the autumn of 1975.

OTHER ORDERS

This announcement came less than three months after Mr. Pepin told of export orders received by Davie Shipbuilding of Lauzon, Quebec for three 80,000-deadweight-ton tankers for Greece, two 14,000-deadweight-ton newsprint and automobile carriers to be built by Port Weller Dry Docks Ltd. for Burnett Steamship Co. Ltd. of Newcastle-upon-Tyne, England, and three 30,000-deadweight-ton petroleum product carriers to be built by Saint John Shipbuilding and Dry Dock Company Limited for Esso Tankers Inc. of New York.

VESSEL-SIZE LIMITS

Mr. Pepin also announced the Government's decision to lower the minimum vessel-size limits in the Shipbuilding Temporary Assistance Program regulations. The new limits correspond with those in the domestic subsidy program. The effect of this change is to give the medium-size yards in Canada the same opportunity as the large yards to obtain export assistance under the new program. Up to 17 per cent assistance is available. This announcement is expected to be of particular significance to the west coast of Canada, where most medium size yards are situated.

"This gratifying increase in export orders does not affect our domestic shipbuilding program under the Ship Construction Subsidy Regulations," Mr. Pepin said. "This program makes subsidies available for ships built in Canadian yards for Canadian ownership. More than $260 million has been provided under the program since 1961."

Recent domestic orders include two self-unloading Great Lakes bulk carriers to be built by Collingwood Shipyards and an offshore drilling rig to be built by Halifax Shipyards Division of Hawker-Siddeley Canada Limited. These orders will provide more than 1,400 man-years of work in the two yards.

CARIBBEAN AGRICULTURAL LOAN

The Canadian Government and the Caribbean Development Bank signed an agreement recently concerning the administration of Canadian funds being made available for agricultural development in the Caribbean. This is the first major commitment of funds from the $5-million Caribbean agricultural development fund announced by the Secretary of State for External Affairs, Mr. Mitchell Sharp, last December.

Under the terms of the agreement, Canada is to make an interest-free advance of $2.5 million(C) to the Caribbean Development Bank in two equal instalments, the first instalment to be paid in cash on signature of the agreement, the second on April 1, 1972. The advance will be used by the Bank to make low-interest loans to its less-developed member countries. The purpose of these loans is to provide credit to farmers, either through agricultural credit institutions or directly through governments, to assist in increasing the productivity of the agricultural sector or in diversifying the output of this sector.

The agreement was signed at the headquarters of the Caribbean Development Bank in Barbados by Sir Arthur W. Lewis, President of the Caribbean Development Bank, and Mr. G.A. Rau, Canadian High Commissioner to Barbados.

STUDY OF HOSPITAL COSTS

The Economic Council of Canada has released a special study, *Canadian Hospital Costs and Efficiency* by Professor R.D. Fraser of Queen's University.

The study served as background material for the health care chapter of the Council's *Seventh Annual Review*, "Patterns of Growth", which focused on sources and patterns of growth in the Canadian economy.

In the *Review*, the Council pointed out that health care was becoming a more important element in the economy, and its economic aspects required more careful appraisal. Increasingly persistent and probing questions are being asked about how to use rapidly-expanding capital and highly skilled human resources to the best advantage to achieve the goals that Canadian society wishes to set for itself in the area of health care. Reinforcing this need are the prospects for further large increases in expenditures on health care during the 1970s – at the same time as the rising expectations of Canadians along various other lines will be competing for some of the same capital and manpower.

In *Canadian Hospital Costs and Efficiency*, Dr. Fraser points out that hospital expenditures account for over half of total health-care expenditures in Canada. The importance of hospital services has been increasing relative to total health care and to the rest of the economy.

COSTS AND OUTPUT

The nature of hospital costs and the existence of relations between them and several economic factors is the major concern of the study. Data for 1966 on each of 1,266 public hospitals in Canada are used for the estimation of cost and production functions. Capital, as well as direct, costs were included. An attempt was made to allow for variations in the "output" of hospitals by calculating a composite measure of output for each hospital.

With regard to the relation between hospital costs and output, the evidence indicates that the greater the measured output of the hospital, the lower its average costs tend to be. The author says that incentives, such as travel subsidies, might be employed to increase the extent to which existing hospitals are used before new ones are built. There would appear to be scope for action in this regard, as average capacity utilization of hospitals varies from 66 per cent in Newfoundland to 83 per cent in New Brunswick.

Professor Fraser also says that a more general regional network of hospitals is probably warranted. Such a network would involve some hospitals specializing in intensive care, some specializing in nursing care, and some others specializing in care for the aged.

The author suggests that detailed study should be made of those hospitals exhibiting costs substantially higher or lower than what would be expected on the basis of a statistical study of costs in relation to output, capacity-utilization, and the existence of medical-training programs.

KIDS KEEN ON CLEAN-UP CONTEST

Seven thousand youngsters who participated in recent picture and essay contests sponsored jointly by the Keep Canada Beautiful Council and the National and Historic Parks Branch of the Department of Indian Affairs and Northern Development, have definite ideas on how to best use Canada's national parks and to keep them free from litter.

One hundred and eighty-two winners have been chosen for cash prizes totalling $2,750 and ranging from $200 to $1 each.

The two contests, for students aged ten to 12 and 13 to 14 years, are part of a recently-introduced campaign to discourage littering in national parks, after last year's expense of $3 million to clean up after the visitors. The contests were also designed to instill in Canadian youth a better understanding and appreciation of the values and ideals of a national park.

The response to the contest, which was greater than anticipated, included entries from every province and territory as well as from Europe and the Caribbean. Some entries were submitted from schools as class projects.

National parks officials report that the contestants showed a remarkable grasp of the basic conceptions of parks as nature sanctuaries. Many expressed concern over the deterioration of the natural environment and warned that future generations would be unable to enjoy a wilderness experience.

VARIOUS REMEDIES SUBMITTED

Suggestions and ideas for the management and use of national parks were unique and varied. A large number of students thought national park and unemployment problems could both be solved by hiring extra staff to patrol and clean-up parks. Others had ideas on how parks should be zoned and suggested specific uses for certain areas. A few were in favour of setting aside some sections for the exclusive enjoyment of young people. One youth suggested summer-fallowing national parks by barring visitors from certain areas during alternate years.

Other suggestions ranged from imposing stiff fines on park offenders to restricting national park traffic to horse-drawn buggies.

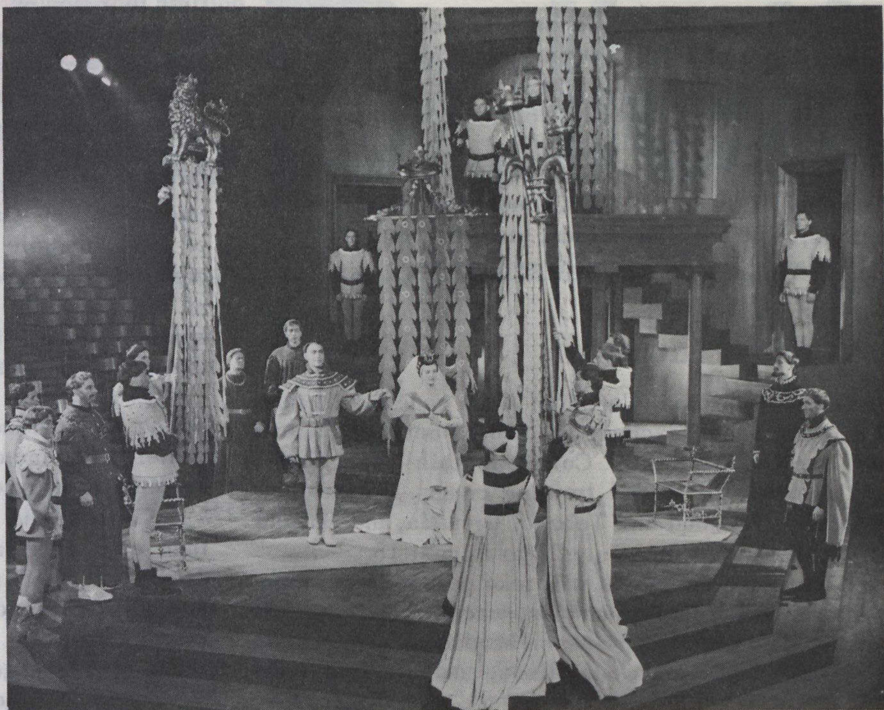
Many students, however, pointed out that more effort should be concentrated on education – on teaching the public to take a greater pride in their national parks.

Contestants also showed imagination in the decoration of their entries, many of which were embelished with ribbons, bows, drawings and even original designs for garbage cans in the shape of animals.

COLOURFUL START TO STRATFORD SEASON

The nineteenth Stratford Festival season opened last month with a flourish of trumpets, when the Company presented its production, *Much Ado About Nothing*. An innovation was a noon-hour ceremony at Stratford's City Hall, when Mayor Donald Davis proclaimed the Festival officially open. Dr. Ian Lindsay, Festival President, Mr. Fred Boyer, Director of Tourism and Information for Ontario and Mr. Robert Stanbury, the federal Minister without Portfolio, were also present.

The festivities included an opening night gala held in the foyers of the Festival Theatre following the performance, attended by 2,000 first-nighters.



Christopher Plummer and Ginette Letondal in a scene from Henry V *at Stratford.*

FORT HENRY GUARD

The Guard from old Fort Henry and Stratford's 4th Royal Canadian Regiment Pipes and Drums also took part in the noon celebrations; the former unit has twice before performed at Stratford. In 1969 and 1970, it presented its impressive display of drill and tactics in Chicago for the opening of the Stratford Company's annual spring tour.

IN THE BEGINNING

The Festival has come a long way since its opening night, July 13, 1953 in the tent theatre, when Sir Alec Guinness performed the title role in *Richard III*. Festival productions have travelled to other parts of the world – to Edinburgh, to New York and, in 1964 for the first time, to England. The Chichester Festival theatre in which they performed was inspired by the theatre at Stratford, Ontario.

Two of the Gilbert and Sullivan operettas in the Company's repertoire were presented in London under another management before being taken on an extended tour. In the winter of 1962 Michael Langham also devised and directed *Two Programmes of Shakespearean Comedy*, a study in approaches to staging, for presentation at 11 universities in Canada and one in the United States. In February and March 1967, The Stratford Festival Company made its first coast-to-coast tour of Canada, under the auspices of Festival Canada, as part of the centennial celebrations. Since becoming the Stratford National Theatre of Canada in December 1967, the Company has undertaken four spring tours (1968, 1969, 1970 and 1971) in major centres in Canada and the United States and has presented a seven-month program at the National Arts Centre in Ottawa during 1969-1970.

Audiences are drawn from every province in Canada, every state in the United States, and as many as 50 other countries from Bermuda to Uganda.

Fort Henry Guards put on an impressive display of drill and tactics as part of the opening ceremonies of the Stratford Festival season this year. Their uniforms are modelled on the uniforms of British infantry of the line, 1867, such as the Royal Welch Fusiliers.

TRADE FAIR SUCCESS

Nine Canadian textile manufacturers sold $2.1-million worth of fabrics during Interstoff, the world's largest textile trade fair, in Frankfurt, Germany in May. The value of potential follow-up orders is estimated at $20 million.

Sponsored by the federal Department of Industry, Trade and Commerce, the Canadian exhibit featured cottons, woollens, worsteds, natural and synthetic fibre blends and 100 percent synthetics.

ARMY CADET EXCHANGE

Some 100 Royal Canadian Army cadets will take part in the annual exchange of cadets between Canada and the Commonwealth Carribean this year. Cadet contingents will attend training camps in Jamaica, Barbados, Trinidad and Tobago, Grenada, and Guyana during the period from July 23 to August 15.

The Canadian cadets will take part in the training programs of the host countries, where activities will include rifle-coaching, weapon-handling drill, rescue and first aid, communications, map-reading, and leadership.

BUDGET MEASURES AND TAX REFORM

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availability of consumer credit and the growth of income produced by an expanding economy will all help to generate accelerating consumer expenditures.

More recent statistics confirm the accelerating expantion of the economy. Retail sales increased substantially in April. New orders received by manufacturers and shipments moved ahead vigorously in April following some hesitation in March. The value of non-residential building permits issued for the first four months of 1971 was up 5 1/2 percent above the total for the same period last year. On a seasonally-adjusted basis, exports in May were up to 5 percent above the previous month total and 4.7 percent above the very high level in May 1970.

Canada had a record merchandise trade surplus of $3 billion during 1970 and this strong merchandise trade position was maintained during the first quarter of 1971, despite a rise in imports. The budget expressed concern about the appreciation of the value of the Canadian dollar that resulted from Canada's strong balance-of-payments position and welcomed the recent decline in the exchange rate.

Employment, which grew by 140,000 jobs last spring and summer, grew by 180,000 in autumn and winter. This increase was not sufficient to bring the unemployment rate down far enough.

Canada had a better price performance record than any other industrial nation in 1970. While the decline in food prices that occurred last year was partially reversed in the early months of 1971, the rate of increase in other consumer goods and services continued to moderate.

There has been some slowing down in the high rate of cost increases, which have also been offset to some extent by rising productivity.

FEDERAL AID TO THE PROVINCES

More than $4 billion raised by the Federal Government during the current fiscal year will be made available to the provinces and municipalities to support their services. This represents 31 per cent of total federal budgetary resources, compared to less than 23 per cent five years ago. Over $1 billion will be paid to the provinces in the form of equalization grants during the current fiscal year, compared to the total of $370 million five years ago.