Highlights of the Budget

Monday February 19, 1973

Finance Finances

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A budget designed to:

Reduce unemployment and encourage faster growth

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Reduce inflationary pressures and offset effects of past inflation

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Increase real income and ensure older Canadians a fairer share of prosperity

*

Contribute to more balanced economic expansion among all regions of Canada

BUDGET MEASURES

Personal Income Taxes

* Basic exemption for all taxpayers increased to $1,600 from $1,500, effective January 1, 1973.

* Exemption for a married couple increased to $3,000 from $2,850, effective January 1, 1973.

* Basic federal tax cut by 5 per cent, with a maximum reduction of $500 and a minimum reduction of $100, effective January 1, 1973.

  These three measures

  - have no termination date
  - concentrate relief among those most in need
  - drop 750,000 people from federal tax rolls.

* Personal income tax system to be indexed beginning in 1974, to end the erosion of purchasing power resulting from the interaction of inflation with the progressive tax system.

  Indexing to be accomplished by raising tax brackets and increasing principal exemptions each year by an inflation factor based on the Consumer Price Index.

Pensions

* Basic rate of old age security pension to be increased to $100 per month from the current rate of $82.88, effective April 1, 1973. The combined old age security/guaranteed income supplement becomes $170 a month for a single person, $325 a month for a married couple.

* War Veterans' Allowances and Civilian War Allowances to be increased by similar amounts to a minimum of $151 per month for single recipients and to $257 for married recipients. Guaranteed income for recipients over 65 to be raised to $206 per month for single recipients, $357 per month for married recipients.

Customs Duties

* Temporary tariff reductions averaging 5 percentage points introduced immediately on about $1.3 billion of imported consumer goods.

  Cuts selected to dampen upward pressure on prices without adverse impact on production and employment. Concentrated among consumer goods now facing higher-than-average duties, products in short supply and products not grown or made in Canada.

Sales and Excise Taxes

* Federal sales tax abolished on all children's clothing, including shoes and other footwear.

* Federal sales tax abolished on all near food products, including confectioneries, chocolate bars, soft drinks, fruit drinks.

* Special luxury excise tax of 10 per cent abolished on toilet articles and cosmetics.

* Special luxury excise tax of 10 per cent on clocks and watches removed except to the extent that a manufacturer's price exceeds $50.

Changes Related to Tax Reform

Further improvements to tax reform introduced, including:

* Ineligible investment test repealed - corporations enjoying the small business deduction free to reinvest earnings without restriction.

* Family farms permitted to pass from generation to generation free of capital gains tax.

Equalization

* Local school taxes on property to be included in equalization formula, increasing payments by $190 million in 1973-74 to Atlantic provinces, Quebec, Manitoba and Saskatchewan.

ECONOMIC AND FINANCIAL BACKGROUND

* Faster rates of growth set in last year in Europe, Japan and North America. The increase in output of industrial countries almost doubled the rate of 1971.

* Canada's gross national product in 1972 rose by $10\frac{1}{2}$ to 11 per cent, its personal income per head by $10\frac{1}{2}$ per cent, and the standard of living by $5\frac{1}{2}$ per cent as measured by per capita consumer expenditures less the effects of increases. Housing starts rose 7 per cent; 250,000 new jobs were created, compared to 200,000 in 1971, an increase of 25 per cent; and farm income rose strongly.

* The economic expansion at home was interrupted in the third quarter of 1972 by adverse weather and serious strikes. There has been a sharp rebound since September and it is anticipated that the fourth quarter will turn out to have been "quite extraordinary".

* Expansion in 1973 will be led by business capital investment and a buildup of inventories. Consumer spending and house building will continue at high levels but could rise less rapidly.

* Unemployment remains too high despite two full years of economic expansion. The budget of last May, and winter-employment programs announced since then, are directed to the government's highest priority - the creation of jobs. An increase in real output appreciably in excess of Canada's long-term average is needed if new job creation is to keep up with labour force growth and cut into unemployment.

* Inflation is a world-wide problem. Canada's experience was less favourable in 1972 than in 1971, with a sharp rise in food costs mainly responsible for the acceleration in consumer prices.

* The government's approach to the problem of inflation is to try to increase the supply of goods and services, to increase personal disposable income, to relieve pressures on those who are hurt, to restrict the government's own demands upon the economy and above all to encourage self-restraint by all groups in their demands for higher income.

* Fiscal policy responsive to the twin problems of unemployment and inflation should therefore provide needed stimulus in ways which offer maximum resistance to inflationary forces.

* With fair crops, labour peace and international stability, real growth of the economy in 1973 should be about 7 per cent.

* The rate of expansion this year should provide jobs fast enough to bring about a significant reduction in unemployment. A year from now 300,000 more Canadians should be holding jobs.

* In the fiscal year 1972-73, the federal government's total cash requirements (excluding foreign exchange) are expected to be about $2 billion, made up of an approximate balance on budgetary account and non-budgetary cash requirements of approximately $2 billion.

* For 1973-74, measures proposed in this budget will have the gross effect of increasing cash requirements by approximately $2 billion. The measures will induce more expansion, resulting in some revenue increases and expenditure savings with a total offsetting effect of the order of $500 million.

* As a result, the net financial requirements imposed by the measures are about $1.5 billion, which will be reflected in cash requirements for 1973-74.

* The budgetary deficit for 1973-74 will be some $975 million and non-budgetary requirements $1,025 million. The total cash requirement is estimated to be $2 billion, the same as in the current fiscal year.