

GRS 360  
RESTRICTED [CULL]  
FM OTTAWA 242105Z MAY 85  
TO PRIORITY FCO  
TELEGRAM NUMBER 308 OF 24 MAY 1985  
AND SAVING TO WASHINGTON

RESTRICTED

THE CANADIAN BUDGET

1. THE MINISTER OF FINANCE, MR WILSON, PRESENTED HIS FIRST BUDGET YESTERDAY. IT IS SEEN AS GENERALLY GOOD FOR THE BUSINESS COMMUNITY, HARD ON THE MIDDLE INCOME CONSUMERS AND LESS TOUGH THAN IT MIGHT HAVE BEEN ON THE DEFICIT. DETAILS OF THE MEASURES AND PRESS REACTION ARE IN MIFT.
2. IN THE RUN-UP TO BUDGET DAY, MR WILSON SAID THAT HE WOULD ADDRESS BOTH CONTROL OF THE DEFICIT AND JOB CREATION. BOTH HE AND MR MULRONEY SAID IT WOULD BE A TOUGH BUDGET. IN THE EVENT, IT APPEARS TOUGH IN CERTAIN AREAS BUT PROBABLY NOT TOUGH ENOUGH TO GET FULLY TO GRIPS WITH THE DEFICIT PROBLEM. MR WILSON ESTIMATES THAT THE BUDGETARY DEFICIT WILL BE CDN 33.8 DOLLARS BILLION IN 1985/86 AND 32.7 DOLLARS BILLION IN 1986/87. HE CLAIMS THAT WITHOUT THE SPENDING CUTS AND TAX INCREASES, BOTH IN THIS BUDGET AND HIS ECONOMIC STATEMENT OF LAST NOVEMBER, THE DEFICIT WOULD HAVE BEEN HIGHER BY 4.4 DOLLARS BILLION IN 1985/86 AND 8.3 BILLION IN 1986/87. HOWEVER, IN CLAIMING CREDIT FOR THESE 'CUTS', NO MENTION IS MADE OF THE FACT THAT THE STATUS QUO FIGURES SHOW AN INCREASE ON THOSE IN THE NOVEMBER ECONOMIC STATEMENT OF 1.1 DOLLARS BILLION AND 6.7 BILLION RESPECTIVELY.
3. THE OVERALL IMPRESSION IS THAT THE CANADIAN DEFICIT OUTLOOK HAS GOT SUBSTANTIALLY WORSE OVER THE LAST SIX MONTHS, AND THAT MR WILSON'S MEASURES HAVE BARELY KEPT PACE WITH THIS DETERIORATION. THE BUDGETARY DEFICIT IS EXPECTED TO BE 7.5 PER CENT OF GNP IN 1985/86 FALLING TO 6.8 PER CENT IN 1986/87, BUT THE COST OF SERVICING THE PUBLIC DEBT IS EXPECTED TO CONTINUE RISING FROM 5.8 PER CENT OF GNP IN 1985/86 TO 6 PER CENT IN 1986/87.
4. MR MULRONEY'S PRE-ELECTION CRY OF 'JOBS, JOBS AND MORE JOBS' HAS NOT BEEN TRANSLATED INTO A JOB CREATION BUDGET. THE RELATIVELY MODEST SUM OF 900 DOLLARS MILLION IS ALLOCATED TO TRAINING AND DIRECT JOB CREATION MEASURES. THE GOVERNMENT IS HOPING THAT THE FINANCIAL INCENTIVES OFFERED TO SMALL BUSINESS WILL LEAD THEM TO EXPAND THEIR ACTIVITIES-AND LABOUR FORCE- BUT THE PROJECTION OF 10.3 PER CENT UNEMPLOYMENT BY THE END OF 1986 SUGGESTS THAT THEIR HOPES OF GREATER EMPLOYMENT ARE FAIRLY MODEST.
5. THE BUDGET INCLUDES A LARGE NUMBER OF CHANGES OR SUGGESTED CHANGES TO THE TAX SYSTEM. THE NET EFFECT OF THESE CHANGES, TAKEN WITH THOSE RESULTING FROM THE ENERGY DEAL WITH THE WESTERN

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PROVINCES SIGNED IN MARCH, WILL BE TO RAISE REVENUE BY ONLY 250 DOLLARS MILLION THIS YEAR AND 1795 DOLLARS MILLION NEXT YEAR. IN 1986/7 REVENUE FROM PERSONAL INCOME TAX WILL BE UP BY 1 DOLLARS BILLION WHILE CORPORATE TAXES WILL BE DOWN BY 500,000 DOLLARS. THIS HAS GIVEN THE BUDGET ITS FLAVOUR AS ONE WHICH SQUEEZES THE TAX PAYER—PARTICULARLY IN THE MIDDLE INCOME BRACKET AND FAVOURS SMALL BUSINESS. ON THE EXPENDITURE SIDE, MR WILSON IS

EXPECTING SAVINGS OF 2 DOLLARS BILLION THIS YEAR AND 3.5 DOLLARS BILLION NEXT YEAR, BUT MOST OF THIS IS TO COME FROM BETTER MANAGEMENT RATHER THAN PROGRAMME CUTS. IT INCLUDES DOLLARS 350 MILLION FROM PRIVATISATION MEASURES.

6. OUR INITIAL IMPRESSION IS THAT THIS IS AN IMAGINATIVE AND SKILFUL BUDGET BUT ONE WHICH WILL TAKE TIME TO WORK AND ONE WHICH IS NOT AS TOUGH AS IT MIGHT HAVE BEEN. THE CHALLENGE HAS BEEN PASSED TO THE BUSINESS COMMUNITY TO RETURN THE TAX INCENTIVES INTO EXPANDED PROFITABLE ACTIVITIES AND THUS TO REDUCE UNEMPLOYMENT. IF IT FAILS TO DELIVER, CANADA WILL BE IN SERIOUS DIFFICULTIES. THE PUBLIC SECTOR WILL PROBABLY BE RELIEVED THAT THE CUTS HAVE NOT GONE FURTHER ALTHOUGH THERE IS SOME EXPECTATION THAT THE PROGRAMME CUTS MAY BE DEEPER THAN THOSE SPECIFICALLY MENTIONED IN ORDER TO ACHIEVE THE SAVINGS ANNOUNCED.

7. A SPOKESMAN FOR THE BUSINESS COMMUNITY TOLD ME IN CONFIDENCE THAT MR WILSON HAD SAID TO HIM TODAY THAT THE SOME-WHAT CAUTIOUS NATURE OF THE BUDGET WAS AT THE INSISTENCE OF MR MULRONEY.

8. FCO PLEASE PASS TO WEBB, HM TREASURY, HEALEY, OT2/1, DTI AND STRACHAN, BANK OF ENGLAND.

**THIS TELEGRAM  
WAS NOT  
ADVANCED**

DAY

FINANCIAL

ERD  
NAD

COPIES TO:

MR WEBB, TREASURY  
MR HEALEY, OT2/1 DTI  
MR STRACHAN, BANK OF ENGLAND

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