

The Budget—Hon. D. M. Fleming

It being six o'clock it is my duty to rise, report progress and request leave to sit again at the next sitting of the house.

Mr. McCleave: You fellows hate Quebec, don't you?

Clause 2 stands.

Progress reported.

At six o'clock the house took recess.

AFTER RECESS

The house resumed at 8 p.m.

THE BUDGET**ANNUAL FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE**

Hon. Donald M. Fleming (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, this evening I present my sixth budget. There were as well the financial proposals introduced on December 6, 1957. Each has been designed to serve a long range goal; each has been fashioned also to meet the needs and conditions of its own time. The goal I defined in these words:

The abiding goal of our fiscal policy is the maintenance of a sustainable rate of growth in terms of employment, development of resources, and a sound dollar.

Budgets are normally annual. The fiscal program for the year must be adapted to existing economic conditions. These in an open dynamic and sensitive economy like Canada's are always changing. Flexibility must therefore characterize our financial programs. Adaptation has marked our annual budget programs in these past five years, adaptation to conditions, adaptation to change.

Je suis heureux de signaler que les circonstances dans lesquelles se présente ce budget du Canada sont une prospérité grandissante, un nombre accru d'emplois, de plus grandes possibilités et une rapide croissance économique. La politique énoncée dans ce budget demeure expansionniste, adaptée à la conjoncture économique nationale. Telle est la note dominante de mon discours.

I am happy to report that the circumstances attending this Canadian budget are rising prosperity, more jobs, greater opportunities, and rapid economic growth. The policy expressed in this budget will continue to be expansionist, suited to our national economic circumstances. This is my keynote.

[The Chairman.]

GOVERNMENT ACCOUNTS 1961-62

The financial transactions of the government for the fiscal year which ended on March 31 are set forth and analysed in detail in the white paper which was tabled and published yesterday. I need therefore refer to them only briefly this evening. The figures presently available are, of course, subject to some changes, since many payments must still be made and the final figures will not be available until the accounts for the year have been closed and audited.

In my last previous budget ten months ago I forecast revenues for the fiscal year ended March 31 at \$5,765 million. Our current estimate is \$5,772 million, an increase of \$7 million, within one eighth of one per cent of the forecast. Expenditures which were forecast at \$6,415 million have turned out to be \$6,563 million, an increase of \$148 million, or 2½ per cent. More than four fifths of this excess is due, however, to events and policy decisions which could not have been foreseen when the earlier budget was presented. There has been an increase of \$40 million in defence expenditures resulting from policy decisions made and announced at the time of the Berlin crisis last August, and the abnormally low crop yields on the prairies required an increase of \$40 million in statutory disbursements under the Prairie Farm Assistance Act and resulted in the decision in this present session to provide further payments of \$42 million to western grain producers. Apart from these three items expenditures for the past year were about \$25 million, or two fifths of one per cent higher than originally forecast.

The budgetary deficit for the year just ended is thus \$791 million, or \$141 million greater than last June's estimate, due to the cost of the unforeseen events to which I have just referred. These additional costs received the unanimous approval of the house, except perhaps for certain hon. members who argued that they should have been considerably greater.

Our non-budgetary receipts and disbursements have differed considerably from the figures I put forward in June, but it will be recalled that my June budget statement explicitly excluded any forecast of unpredictable changes in the exchange fund. Last June I expected an over-all cash requirement of \$980 million. It now appears that our over-all cash deficit has been only \$479 million. This reduction of \$500 million in our cash requirements is largely the result of repayments of more than \$240 million from earlier advances to the exchange fund, a reduction of about \$40 million in the advances anticipated under the National Housing Act due to market sales by Central Mortgage and Housing Corporation

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of over \$40 million of existing mortgages, a decrease in loans to Canadian National Railways of some \$40 million, and the repayment of \$67 million of advances to the unemployment insurance commission. As a result of the reorganization of the unemployment insurance fund to which I referred last June we have replaced cash advances to the unemployment insurance commission by the purchase of its former portfolio and by redemptions from its holdings of non-marketable bonds.

In conformity with the Old Age Security Act I should also report to the house the current position of the old age security fund. Details of this are set forth on pages 2805 and 2806 of the white paper. In brief, the revenues of the fund under the statute for the past year have been \$649 million, the pension payments including the increase to \$65 a month effective February 1, 1962, have totalled \$625 million resulting in a surplus for the year of \$24 million. There was, however, an outstanding loan to the fund by the Minister of Finance of \$17 million a year ago. This was repaid, leaving a surplus of \$7 million.

For the new fiscal year, 1962-63, total benefit payments under the Old Age Security Act will be about \$736 million, revenues under the act will be about \$672 million which will result in a deficit for the year of \$64 million and an accumulated deficit of \$57 million. We shall be giving this subject further consideration in the light of future policy decisions regarding social welfare pension plans following the present consultation with the provinces as to a constitutional amendment to permit parliament to legislate a contributory plan with survivors' benefits. Studies in relation to portability of pensions also are being actively pursued.

ECONOMIC REVIEW

It is a source of satisfaction to be able to report to the house, first, that the Canadian economy is experiencing healthy expansion; second, that this expansion is considerably more rapid than in the last similar period and that our international trade and payments are in better balance than they have been for many years; third, that measures taken by this government are contributing constructively and decisively to these developments; and fourth, that given continuation and adaptation of these measures this new fiscal year, we have good reason to expect substantial further economic growth and prosperity.

The increase in levels of economic activity during the course of 1961 has indeed been impressive. The gross national product, expressed at annual rates, increased from the first quarter of the year to the fourth quarter

by \$2.4 billion, a gain of 7 per cent. From March to December 1961, the index of industrial output rose by more than 9 per cent. By the year end it was nearly 5 per cent higher than it had ever been before. Particularly sharp advances were achieved in the output of certain types of heavy industry. For example, production of steel ingots in 1961 was 12 per cent greater than in 1960, and reached a record high of almost 6½ million tons. Over the past five years output of this basic product has increased by 23 per cent, and the capacity of the entire industry has been expanded, broadened and diversified. Today this industry is meeting more of our domestic needs. In 1956 Canadian producers supplied 70 per cent of our steel requirements; since then this proportion has risen to approximately 80 per cent. A wide range of primary and secondary steel products previously supplied from abroad, such as heavy steel shapes and large diameter pipe, is now being produced in Canadian mills. Our exports of steel products have also been higher. This is but one example of the many industries in Canada which have been progressing and developing notwithstanding the changing world economic environment.

Mining output, too, has reached new peaks, rising sharply in the course of the past year. The largest increases have been in the production of nickel, asbestos, natural gas and petroleum.

Exports of Canadian goods rose sharply in 1961, and in the fourth quarter of 1961 reached a level of \$6,256 million, seasonally adjusted at annual rates, 19 per cent above the level achieved in the fourth quarter of 1960. The house is well aware of the success which has crowned our efforts to expand sales of agricultural products, especially wheat. But the house may not be fully aware of the substantial increases which have taken place in sales abroad of other Canadian products such as livestock, cotton textiles, industrial machinery, electrical apparatus, petroleum, nickel, basic plastics, asbestos and chemicals. The increases in the exports of these products in 1961 over 1960 have exceeded \$150 million.

In response to the quickened tempo of economic activity in 1961, employment increased substantially. In 1960, when all of the gain in employment took place in the service industries, women accounted for most of the increase, but in 1961 increased employment in manufacturing was particularly significant and it involved a substantial growth in male employment. In February 1962 there were 196,000 more people employed in Canada than a year earlier, and of these 164,000 were

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men. Accordingly there was a significant drop in the rate of unemployment, particularly among men.

Largely as a result of this increase in employment labour income increased markedly during 1961. Over the eight months from April to December 1961, the increase in labour income equalled that of the 15 preceding months. Business profits increased sharply as well, and by the fourth quarter of 1961 had reached a new peak of \$3.8 billion, 4 per cent higher than ever before.

Increased incomes encouraged increased consumer spending which rose by over \$800 million during 1961. By the end of 1961, the level of consumer spending was nearly 8 per cent higher than it had been at the previous peak of business activity.

This acceleration in the tempo of our economy is highly gratifying. The rate of expansion during the last nine months of 1961 was more rapid than in comparable stages of the preceding cyclical advance in 1958. During the first nine months of the previous expansion the volume of non-farm output increased by only about 3 per cent. During the first nine months of the present expansion, the increase has been almost 5 per cent. The expansion which we have enjoyed in 1961 has already taken the volume of non-farm output to a level 4 per cent higher than the previous peak. By a similar point in the previous expansion the volume of non-farm output was about 1½ per cent above its previous peak.

All too often in the past a resurgence in economic activity has been accompanied by substantial increase in prices. Happily, this has not been our experience in 1961. During the last nine months of 1961 the consumer price index increased by only half of 1 per cent, while in the comparable period of the previous advance it went up by 1½ per cent. Having in mind our very proper concern over the dangers of inflation I am sure the house and the people of Canada will welcome such striking evidence of price stability.

A little earlier, Mr. Speaker, I outlined the substantial growth in exports which was achieved in 1961. Imports of goods increased in 1961 by 3 per cent amounting to \$5,717 million with most of the increase occurring in the later months of the year. A substantial increase in imports is quite normal during a business upturn. But contrary to previous experience, exports have increased much more rapidly than imports. As a result we were able to achieve a sizeable trading surplus on merchandise account totalling \$179 million. This is the first favourable balance of trade of any consequence that this country has achieved in the last ten years and is in contrast to a record deficit on

merchandise account of \$728 million in 1956. This improvement in our trade position was more than sufficient to offset an increase in our deficit on non-merchandise account. Consequently the total current account deficit in the balance of payments was reduced to \$989 million in 1961. This represents a 19 per cent reduction from the deficit in 1960 and a 28 per cent reduction from the deficit in 1956. In fact the deficit in 1961 was the lowest since 1955.

The growth of our economy in recent years has revealed itself in a number of other ways besides the improvement in our balance of payments. In fact, Mr. Speaker, key economic statistics adjusted for normal seasonal trends show that our record is better than that of either of our major trading partners, Great Britain and the United States. From 1957 to the end of 1961 industrial production in the United States increased by 15 per cent, while in Great Britain it increased by 12 per cent; in Canada it grew by more than 16 per cent. During this same period total British exports rose less than 8 per cent and total United States exports less than 6 per cent; Canadian exports in the same period surged forward by more than 30 per cent. Employment in both Great Britain and the United States increased by about 3 per cent; employment in Canada grew by almost 8 per cent. At the same time prices increased less in Canada than in either Great Britain or the United States.

This marked improvement in our economic situation has not happened by chance. In my budget speech last June I said that the cyclical recovery which was beginning to appear at that time was likely to be weak and unsatisfactory unless there was some positive government stimulus. I affirmed that an appropriate blending of fiscal, financial and commercial policies was required to impart an impetus to the economy, to employ unused productive capacity, to stimulate growth, to increase trade and thus to expand employment opportunities for our people. Since then we have witnessed a major expansion. The vigour of the expansion that has occurred is due in no small measure to the blend of sound, strong policies we have introduced. While many of these policies have been directed towards particular situations of a specific nature, they have been part of a coherent and co-ordinated approach to the broad objective of improving the performance of the Canadian economy in both the short run and the long run.

In the short run we had as our objective the expansion of domestic demand to take up the slack in the productive resources of the country. To this end we planned and incurred a substantial fiscal deficit. As I explained

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to the house in my last budget speech, by means of such a deficit the government places in the hands of the public more purchasing power than it draws from it. The increased demand thus generated encourages higher levels of production and employment.

A deficit appropriate in size to economic circumstances such as we have confronted may result from a variety of fiscal measures. Tax cuts, increases in direct expenditures by the government on goods and services, and increases in transfer payments to persons or to other levels of government, may be used singly or in combination. This government has, as you know, made significant tax cuts in order to stimulate consumer demand. Generally speaking there have been only moderate increases in total direct government expenditures on goods and services. Total expenditures on goods and services by the federal government have been a smaller proportion of gross national expenditure in 1961 than they were in 1956. Our most important contribution to the expansion of purchasing power, demand and economic growth, throughout the length and breadth of the country has been through increases in welfare payments and in transfer payments to provinces and municipalities. We have greatly increased payments to meet the needs of old persons, of veterans, of the unemployed. We have consistently chosen to augment the incomes of these people. We have also provided large sums of money for the income maintenance of both farmers and fishermen. Similarly, this government has greatly aided provincial and municipal governments in finding the funds to provide adequate services in their areas of responsibility. Consequently we have given priority to their needs over increases in our own direct federal expenditures. Payments out of the federal treasury to individuals increased by 65 per cent from 1,224 million in 1956 to 2,014 million in 1961. Payments out of the federal treasury to provincial and municipal governments rose over 130 per cent from 485 million in 1956 to 1,123 million in 1961. These increased payments provided a significant stimulus to the whole economy as well as enormous assistance to the other two levels of government in this country.

The stimulation of demand is a desirable objective when there are pools of unused productive resources in the country. But in the long run more is required than mere expansion of demand. People must steadily become more skilled and versatile in order to compete in this increasingly complex world of technological revolution. And they must have at their disposal modern plants and equipment, efficient transportation, abundant fuel and power, all provided at reasonable

cost. Our policies have been designed to meet these requirements. In co-operation with the provinces we have encouraged and heavily financed basic and advanced training in technical and vocational schools. We have greatly increased our financial assistance to universities in support of higher education for a greater proportion of our young people. During the fiscal year ended March 31 we have spent on these programs alone about \$80 million, four times more than was spent five years ago. As already announced, we shall be adding substantially to these contributions in the new fiscal year.

Parallel to this policy of improving the technical skills of our people, we have encouraged the modernization and diversification of our industry. Special capital cost allowances for re-equipment and modernization and double depreciation allowances for products new to Canada or new to designated areas of surplus manpower were introduced in the last two budgets to stimulate expenditures on plant and equipment. The establishment of a productivity council and the introduction last year of special incentives to private research are improving the output of Canadian industry. Later this evening I shall be making further proposals to stimulate technological research and development.

The government has pursued a vigorous policy of developing Canadian resources in all parts of the country. The national oil policy has, by providing markets for oil at home and abroad, brought about a substantial increase in production of this important source of energy. In recent weeks we have taken the initiative in exploring in co-operation with the provinces the technical problems of long distance, high voltage transmission systems for electric power.

The establishment of a new federal Department of Forestry reflects the interest of the government in this valuable Canadian resource and its determination to help in ensuring that Canadians will benefit to the maximum extent possible from the future growth of world markets in wood and wood products. Action has been taken to push the frontiers northward and to improve the opportunities for exploiting the riches, particularly the mineral resources, in our more remote areas. The roads to resources program and the recent legislation for the construction of the Pine Point, Gaspé and northern Manitoba-Optic lake railways are striking examples of the government's vigorous effort in this field.

In addition to these and many other projects which are already under way, the government has taken action which holds the promise that an extensive but well-balanced program for the development of Canadian resources will

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continue apace in the future. In October of last year, the resources for tomorrow conference held in Montreal provided a unique opportunity for an intensive survey and study of the potential for Canadian development of renewable resources. The benefits from this broad assessment of opportunities and challenges will be felt increasingly in years to come as Canadians bend to the task of managing our land, water and forest resources. As a first step in the government's comprehensive approach, the Agricultural Rehabilitation and Development Act was designed to make the most effective use of our land, to raise the productivity of our agricultural resources, and to provide for rural adjustment and better income opportunities in rural areas.

Measures related to the functioning of our capital markets have assisted Canadian business to find from domestic sources the capital necessary to expand both production and exports. The wide expansion of activities by the Industrial Development Bank is now providing capital to small and medium sized business at the rate of \$100 million a year. In the 1957 fiscal year the bank approved 401 loans totalling \$30 million; in the 1961 fiscal year the bank approved 1,364 loans amounting to \$71 million. In the past three years ten new branches have been opened and the bank now has 16 regional offices doing business across the country. The new policy of guaranteeing term loans to small businesses by the chartered banks is rapidly achieving results. Export Credits Insurance Corporation has experienced a fourfold expansion of business over the past few years. These are some of the results that testify to the vigour of the government's measures.

In addition, improvements in the field of debt management, combined with a policy of monetary expansion pursued by the Bank of Canada, have improved our capital markets. In spite of a large increase in the total demands on our capital markets last year, and in spite of a reduction in the inflow of foreign capital to supplement our own financial resources, interest rates in this country are now lower than they were a year ago. The spread between interest rates in Canada and those in the United States has narrowed. Consequently the incentive to capital inflows has been considerably reduced. Later this evening I shall discuss in some detail our exchange rate policy and the beneficial results it is achieving. At this point I shall say only that, largely as a result of the reduction in the external value of the Canadian dollar, prices of Canadian goods are more competitive at home and abroad, and Canadian production is being effectively stimulated.

In connection with these financial developments I should like to express my warm

[Mr. Fleming (Eglinton).]

appreciation of the assistance I have received from the Bank of Canada. At the time of Mr. Rasminsky's appointment as governor last July he and I, in separate statements, agreed that a judicious and co-ordinated combination of monetary, fiscal and debt management policies was needed for the promotion of national economic growth and prosperity. We both emphasized the importance of regular and close consultation in order to achieve that co-ordination of policies. Since his appointment the governor and I have held regular meetings at least once a week, and I have profited greatly from our exchange of views and information.

Let me turn to the future, Mr. Speaker. Recent economic developments have been encouraging, but we must not be complacent. We still have unused capacity in our industry; seasonally adjusted unemployment fell from 7.8 per cent in February 1961 to 6.0 per cent in February 1962, but this gratifying reduction must be carried much further; and our balance of payments position needs to be still further improved. The economic upswing which we are enjoying is strong, but we must not be content to assume that it will automatically carry forward to the point where our productive capacity is fully utilized. The co-ordinated policies announced last summer were good and our resulting progress has been vigorous. However, that progress has not yet reached a point where a fundamental change in approach is required, we must be careful to avoid a premature dampening down of the upswing which is under way. Fiscal policy must continue to provide stimulus to the economy and further specific measures must be introduced to improve the quality and quantity of our industrial output, thereby stimulating employment and income. These are matters to which I shall return a little later.

The momentum of the upswing now under way, reinforced by the measures already introduced and by others to be announced tonight, will carry the level of economic activity in Canada to record heights. Assuming normal crops and no unforeseen adverse events, I expect that the growth in gross national product from 1961 to 1962 will be about 7 per cent. An increase of this magnitude has been exceeded only twice in the last ten years.

Mr. Speaker, I had expected at this point to say something at length on the subject of international economic developments, but unless the house is prepared to extend the time of this evening's sitting there will not be time for that chapter.

MANAGEMENT OF THE PUBLIC DEBT

During the past fiscal year we have introduced a number of significant changes in the management of the public debt which

have lent strength and stability to the bond market. The fluctuations in market yields of government securities have been quite moderate, the trend of interest rates has been downward and the differential between yields on United States and Canadian government securities has been substantially narrowed. The results have been very beneficial to the Canadian economy.

In the past 12 months total sales of new issues of government bonds have amounted to \$3,451 million, of which \$2,233 million were market issues and \$1,218 million were non-market issues, mostly Canada savings bonds. On the other hand \$549 million of market bonds matured and were paid off, \$883 million were retired by advance refunding, \$486 million were acquired and cancelled prior to maturity, and \$676 million of non-market bonds were encashed. The net result is that the outstanding amount of market bonds increased by \$315 million and of non-market bonds by \$542 million. Mr. Speaker, the table which I should ask leave to have printed in *Hansard* at this point contains the more detailed statistics of these issues and retirements.

Mr. Speaker: Has the minister leave to incorporate the table just referred to at this point in his speech?

Some hon. Members: Agreed.

[Editor's note: The table referred to above is as follows:]

TABLE 1

Bond Issues—Fiscal Year 1961-62 (in millions of dollars)			
Market Bonds			
New issues	2,233		
less: Matured	549		
Advance Refundings ..	883		
Purchased and Cancelled prior to maturity	486	1,918	
Net increase			315
Non-Market Bonds			
Sold to Unemployment Insurance Commission	162		
Canada Savings Bonds	1,056	1,218	
less: Redemptions			
Unemployment Insurance Commission	109		
Canada Savings Bonds	567	676	
Net Increase			542
Total Increase			857

Mr. Speaker: Having regard to past experience there may be other tables, and there might be an economy of time if the house

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would concur now in the incorporation of such other tables as the minister may introduce. Agreed?

Mr. Chevrier: No, Mr. Speaker, I think we should see these tables.

Some hon. Members: Oh, oh.

Some hon. Members: Shame.

Mr. Fleming (Eglinton): Let me say very simply, Mr. Speaker, that in the matter of economy of time the speech I have prepared, as I have indicated, could not be completed unless the house were prepared to extend the time of sitting, as I wish to make it a firm rule that there should be a reasonable time left for reply by the opposition tonight.

Hon. L. B. Pearson (Leader of the Opposition): On that point, Mr. Speaker, the minister will know that we have already agreed to the extension of his time on this subject. When we talk about tables not being printed automatically in *Hansard*, of course if they are long tables they should go in, but if they are short ones naturally the minister would like to read them.

Mr. H. W. Herridge (Kootenay West): Mr. Speaker, I would just like to say on behalf of this group that we will agree to the minister's time being extended provided he agrees on behalf of the government to permit this budget debate to be continued tomorrow, and continued without interruption for six days as provided by the rules.

Some hon. Members: Oh, oh.

Mr. Fleming (Eglinton): In my budget speech last June I said that in order to avoid congestion in the long term bond market we would for at least several months confine new federal issues to short term bonds. During the past nine months we have issued no long term bonds; \$375 million ranging in term from 5½ to 6 years were placed directly with the Bank of Canada, and the terms of all other market issues in no case exceeded 3½ years. This policy of not issuing long term bonds has rendered important assistance to the provinces and municipalities and to corporations in meeting their long term capital requirements. We intend to continue a debt management program that will promote a sound and orderly investment market and investor confidence.

As announced in the June budget, we purchased last September at their book value all bonds held in the unemployment insurance fund and out of these proceeds, plus its net revenues in October and November, the unemployment insurance commission repaid to the treasury the \$67 million of cash advances previously made to the fund and purchased \$162 million of non-marketable

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bonds redeemable at par at any time on 30 days' notice. Of these non-marketable bonds \$109 million have since been encashed.

The June budget also announced that we would establish a purchase fund to provide for the orderly retirement of government debt and at the same time contribute to the stability of the longer term bond market. The initial amount made available to the purchase fund was \$100 million, and in September the house was informed that we would not limit our purchase fund operations to this amount. To date the purchase fund has acquired \$166 million par value of long term bonds in the market at a cost of \$157 million, and all these bonds have been cancelled. I propose to continue to operate the purchase fund during the coming year.

I should like to refer to the increasing popularity and effectiveness of our Canada savings bond issues. In recent years individuals of moderate incomes have shown increasing interest in investing a substantial amount of their savings in Canada savings bonds. At the end of 1957 the outstanding amount of Canada savings bonds was \$2,649 million, which was about \$100 million greater than a year earlier. During 1958 the holdings of Canada savings bonds increased by \$250 million, in 1959 by \$300 million, in 1960 by almost \$400 million and in 1961 by nearly \$500 million. The total holdings of Canada savings bonds on December 31, 1961 was \$4,080 million, a net increase of \$1,539 million in five years.

Interest rates on government securities have declined during the past year. The average interest rate on three month treasury bills during March, 1962 was 3.09 per cent, or one eighth per cent below the rate in March, 1961. Between the same periods the yields on two

to ten year bonds have dropped by about three quarter per cent, and on over ten year bonds by one quarter to one half per cent. Of even greater significance has been the narrowing of the spread between interest yields on United States and Canadian government issues. The spread between average Canadian and American treasury bill yields during March, 1961 was 0.83 per cent, during the past month it has been 0.36 per cent. In the long term bond area the spread during the first half of 1961 was between 1.25 and 1.40 per cent; from July to September the spread was around 1.00 per cent and during the past month it has averaged 0.89 per cent.

The total net government debt is now \$13.2 billion. This amounts to \$712 per capita as compared with \$685 a year ago, \$701 in 1956 and \$774 in 1952. As a percentage of gross national product our net debt now stands at 35.9 per cent as compared with 34.6 per cent a year ago, 41.6 per cent in 1956 and 52.8 per cent in 1952.

The net interest cost of our net debt in the current year has been 3.77 per cent, a decline from 3.80 per cent a year ago and 4.10 per cent two years ago. The average term of our outstanding debt, excluding Canada savings bonds and perpetuals, was 8.3 years on December 31, 1961. In 1960 it was 9.4 years, in 1956 6.6 years and in 1952 6.8 years.

Mr. Speaker, may I insert here in *Hansard* three tables showing details of the figures in regard to debt.

Mr. Speaker: Does the house agree to the insertion of these tables?

Some hon. Members: Agreed.

[*Editor's note: The tables referred to above are as follows:*]

TABLE 2
GOVERNMENT OF CANADA
Gross and net direct debt

	Funded Debt	Total Debt	Net Debt	Net Debt	
				Per Capita	As per cent of G.N.P.
	(billion \$)	(billion \$)	(billion \$)	\$	
March 31—					
1952.....	14.7	17.3	11.2	774	52.8
1953.....	14.8	17.9	11.2	752	46.5
1954.....	14.6	17.9	11.1	727	44.4
1955.....	14.5	18.0	11.3	717	45.3
1956.....	15.4	19.1	11.3	701	41.6
1957.....	14.4	18.3	11.0	664	36.0
1958.....	14.2	18.4	11.0	648	34.6
1959.....	15.6	20.2	11.7	669	35.5
1960.....	15.9	21.0	12.1	679	34.7
1961.....	16.1	21.6	12.4	685	34.6
1962.....	16.9	22.9	13.2	712	35.9

TABLE 3
GOVERNMENT OF CANADA
Interest Cost of Gross and Net Direct Debt

Year ending March 31	Interest paid on	Return on	Net	Net Interest
	Total Debt	Investments	Interest	as p.c. of Net Debt
	(millions \$)	(millions \$)	(millions \$)	
1952.....	432	123	309	2.77
1953.....	451	126	325	2.92
1954.....	476	152	324	2.91
1955.....	478	134	344	3.05
1956.....	493	149	344	3.04
1957.....	520	207	313	2.85
1958.....	539	169	370	3.35
1959.....	606	221	385	3.30
1960.....	735	239	496	4.10
1961.....	757	284	473	3.80
1962.....	804	305	499	3.77

TABLE 4
GOVERNMENT OF CANADA
Maturity and Distribution of Direct and Guaranteed Debt

December 31	Average term of debt*	Amount of Debt held by			P.C. held by Gen. Public
		Banks	Government accounts	General Public	
	Years	(\$ millions)			
1952.....	6.8	5,176	1,102	8,909	58.7
1953.....	6.2	5,184	1,314	9,139	58.4
1954.....	7.2	5,633	1,204	8,629	55.8
1955.....	6.3	5,540	1,491	8,969	56.1
1956.....	6.6	4,950	1,518	8,766	57.5
1957.....	6.0	5,105	1,367	8,693	57.3
1958.....	10.3	6,190	1,258	8,968	54.6
1959.....	9.5	5,487	923	10,725	62.6
1960.....	9.4	5,801	866	11,080	62.4
1961.....	8.3	6,669	644	11,323	60.8

* Excluding Canada Savings Bonds and Perpetuals

Mr. Fleming (Eglinton): I continue:

EXCHANGE RATE AND EXCHANGE FUND

At this point it is appropriate to review government policy towards the exchange rate against the background of our balance of international payments and our relations with the International Monetary Fund.

Canada's international economic relations are, I believe, more complex and, in relation to our size, more extensive and pervasive than those of any other country. I have in mind such facts as these. On a per capita basis Canada's trade is the highest among the major trading nations of the world; we have been heavy importers of capital from abroad, which has involved us in a network

of international associations and transactions that is unique; and finally, we are geographically very close to, and financially closely linked with, the world's largest and most active capital market—New York.

Because of such factors as these our international financial relations have, throughout our history, presented special problems and special challenges. Canada might be regarded as a classic example of a country for which, because of the diversity of our international interests and obligations, it is extremely difficult to devise and pursue an exchange rate policy that may be regarded as completely satisfactory from every point of view.

In this connection it is relevant to recall actual Canadian experience over the past

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40 years. During that time, and apart from the period of wartime controls from 1939 to 1950 there were only about half a dozen years during which the Canadian dollar was securely and effectively fixed in value despite international efforts to introduce general exchange rate stability. Going back to the inter-war period, it will be recalled that Britain led the world back to a gold standard regime of fixed exchange rates in 1925. It was less than four years after that when, as a result of an outflow of capital to the great stock market boom in New York, the Canadian dollar was driven below the maximum discount under the gold standard rules. After Britain and other countries were driven off the gold standard in 1931, the Canadian dollar floated rather unsteadily and unevenly between sterling and the U.S. dollar. Many hon. members will recall that, in December 1931, Canadians had to pay a premium exceeding 20 per cent on the United States dollar, while we could buy sterling at a discount of about the same amount. With the outbreak of war, in September 1939, major currencies including the Canadian dollar were brought under control and stabilized.

During the war period from 1939 to 1945 the Canadian exchange rate was fixed at a level 10 per cent below the U.S. dollar. This period was, however, exceptional not only for Canada, but for other countries. In Canada, as elsewhere, the stability of our currency in relation to other currencies required the support of a complex system of foreign exchange controls and import controls as well.

During the next five years, from 1945 to 1950, Canada continued to pursue a policy of fixing its exchange rate but it could hardly be claimed that this policy was an unqualified success. In the first place, the system of foreign exchange controls was continued and for part of the period a system of import controls was also needed. In the second place, while the official rate was at no time during those years allowed to fluctuate on the basis of market forces, there was, during much of the period, an "outside" or "unofficial" market, available to investors and tourists abroad, where a fluctuating rate acted as a sort of safety valve in relation to controlled dealings at the official rate. In the third place, it was found necessary during that period to alter the official exchange rate on no fewer than three occasions. In 1946 the government of the day removed the 10 per cent premium that had been established on the United States dollar at the outbreak of war; in 1949 it restored the premium of 10 per cent on the U.S. dollar at the same time that Britain and certain other countries depreciated

the value of their currencies by 30 per cent; in 1950 the government of the day found itself unable to counteract the inflationary impact of a rapid inflow of capital, based in part on the conviction in many quarters that the rate chosen by the government in 1949 was proving too low, and the Canadian exchange rate was allowed to float free, to find its own level. Within two years, the last vestige of foreign exchange control was abolished.

Continuously since 1950 the Canadian exchange rate has been basically determined by the market forces of supply and demand, as represented in our international transactions on current and capital account. It should be noted that throughout this period the Canadian exchange rate has in fact been much more stable than it was during the preceding five years. Since 1950 the government, using the exchange fund which was set up in 1935, has operated to restrain and smooth out the more rapid movements of the rate in one direction or the other. At no time, throughout the whole period, have the resources of the exchange fund been used aggressively, to push the exchange rate in one direction or the other against market forces.

In my last budget speech, on June 20, 1961, I expressed the desire of the government to see the Canadian dollar move to a lower level as a means of stimulating Canadian production and employment and of lessening our very heavy international deficit. In some quarters my statement was misinterpreted to mean that we were embarking on an aggressive policy in the market designed to drive our exchange rate down. This, as events made clear, was not the case. Actually, as I explained last June and previously, the essential means by which the exchange rate was to be moved to a lower level was to lessen upward pressures that had been exerted by the inflow of certain types of capital.

In this regard our efforts have been successful; I refer in particular to the various actions announced in the budget last June in the field of interest rates, international interest spreads, and debt management, to the measures taken in the interim budget of December 1960 to eliminate special incentives to capital imports, and to the warning which I issued in my budget of March 31, 1960 regarding the risks associated with capital imports. As a result of the removal of excessive pressures, the exchange value of our dollar fell to a lower level after my last budget, and since that time its fluctuations have been relatively narrow. This movement, combined with the other movements which followed my two earlier budgets,

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has relieved Canadian producers of a competitive handicap in markets both at home and abroad.

At the same time—and despite certain pessimistic predictions uttered both inside and outside this house—the Canadian cost of living has remained remarkably stable. The confidence of the government that, in the prevailing economic circumstances, a significant movement of the exchange rate could take place without inflation has been fully justified by events.

The government has not hesitated, and will not hesitate in the future, to deploy a substantial volume of funds, on one side of the market or the other, in order to prevent sudden or erratic movements in our exchange rate. In pursuit of this goal we made substantial purchases of United States dollars in the autumn, and we made substantial sales in the early part of this year. The total of our official reserves of gold and United States dollars has risen and fallen by several hundred million dollars. There may well be similar movements in the future; from time to time our cumulative purchases will no doubt substantially exceed our cumulative sales, and vice versa. It may be of interest to the house to know that since my supplementary budget of December 1960, the published figures show that our market sales and purchases have come within \$70 million of balancing each other.

The changed level of the exchange rate has unquestionably been an important factor contributing to the improvement of our international current account during 1961, including the emergence of a favourable trade balance after nearly a decade of deficits. In this situation we can take satisfaction; but it would be a mistake to allow satisfaction to develop into over-confidence. Unquestionably, with the changed exchange rate, our imports have risen less in physical volume, and our exports have risen more, than they would otherwise have done. Unquestionably, the lower exchange rate has yet to exert its full effect on our trade balance, our balance of tourist expenditures, and other items in our current balance of payments. Nevertheless our over-all current deficit is larger than it ought to be, even during the upswing of the business cycle. This must remain a matter of concern. And in this context I would renew my appeal to all Canadians, to management and to labour, to keep Canada competitive; to work together in a spirit of partnership; to hold costs down; to develop our skills and improve our technology; to meet foreign competition at home and abroad with efficient and well designed products of our own manufacture; and to persevere in the drive to expand exports.

It is in these fields that the continued reduction of our balance of payment deficits must be sought.

In order to complete this review of the exchange rate and the balance of payments, Mr. Speaker, I should add a few words in regard to the International Monetary Fund and our relations with it. Canada was a founding member of the fund. The Canadian delegation to the Bretton Woods conference in 1944 played an effective and influential part and, ever since the fund opened for business in 1946, Canada has been an active participant and vigorous supporter. Any country with such widespread and diverse international interests as Canada must, in pursuit of its national objectives, support an organization dedicated to expansion of trade and payments on a multilateral basis, and elimination of restrictions.

It was in 1950, as I have already explained that the Canadian government found itself unable to comply with article IV of the fund agreement under which members are required to maintain fixed exchange rates, subject only to alteration in consultation with the fund if a fundamental disequilibrium develops. At that time when Canada moved from a fixed to a floating exchange rate, and from time to time thereafter, the hope has been expressed by the fund authorities that Canada might find it practicable to rejoin the ranks of those that are in full conformity with this particular article. As was to be expected, this view has been reiterated in our most recent consultations with the fund.

At the same time, it has always been recognized, in recent fund discussions as in earlier ones, that Canada's international economic relations are very complex. The fund is fully aware of the nature of our official operations in the exchange market: that we have responded to and moderated market pressures and that no actions prejudicial to the interest of other countries have been taken.

Moreover, we have played a very active part in making resources available to the fund. When there was a general increase in contributions in 1959 we accepted a higher proportion than most countries; when there was a special call for credits to support sterling last summer we promptly contributed our share; when a new stand-by arrangement for supplementary resources was announced last January, again Canada was found amongst the ten leading industrial countries which participated.

Against such a background of general co-operation, Mr. Speaker, the house will understand why the fund, while naturally and properly retaining the ultimate objective of having Canada declare a fixed exchange rate,

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has not been disposed to press us into any hasty action which might prove to be premature or impossible to sustain. We on our part would wish the prospects of success to be more assured than they were when the Canadian government made its ill-starred attempts to maintain fixed rates during the years from 1946 to 1950.

DOMINION-PROVINCIAL RELATIONS

Mr. Speaker, I had hoped to make a statement to the house concerning dominion-provincial relations, but in view of the statement which has been made with regard to unwillingness to extend the hours of sitting I shall have to forgo that and content myself simply by saying that whereas when the government took office—

Mr. Martin (Essex East): May I ask the Minister of Finance if this document has been given to the press?

Mr. Fleming (Eglinton): The usual arrangements with respect to the press have been observed—those which have been prevailing for many years, long years before I came to office as a minister of the crown, the same arrangements as prevailed when the hon. member was a minister.

Some hon. Members: Oh.

Mr. Fleming (Eglinton): Whereas when this government took office the provinces received a tax rental equal to 10 per cent of the federal income tax, this rental was raised to 13 per cent commencing in the fiscal year 1958-59.

The new arrangements provide for a reduction in federal personal income tax of 16 per cent in the first year of the arrangements, rising by 1 per cent each year to 20 per cent in 1966-67. Thus the provinces without imposing any additional burden of taxation will by the last year of the new arrangements be receiving double the share they received when this government took office in 1957.

At the same time the new system of fiscal arrangements provides for a broader and more realistic system of equalization. The result of the new fiscal arrangements will be to increase very substantially the contributions to the provinces by way of unconditional grants or tax abatements. The estimated value of these unconditional grants and abatements to the provinces for 1962-63 is \$980 million, an increase of \$122 million over last year and of \$428 million over 1956-57.

Although the increase in unconditional grants to the provinces since 1956-57 has been large, the increase in conditional grants has been even more rapid. I should like at this point to insert in *Hansard* a table showing the amount of the federal contributions to the provinces and certain payments to institutions in the provinces for the fiscal years 1956-57 to 1961-62 together with the estimated amount for the years 1962-63. Table 5, Mr. Speaker.

Mr. Speaker: Has the minister leave?

Some hon. Members: Agreed.

[Editor's note: The table above referred to is as follows:]

TABLE 5

Federal Contributions To or For the Benefit of the Provinces
(in millions of dollars)

	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62 pre- liminary	1962-63 esti- mated
A. Unconditional Payments.							
1. Statutory subsidies.....	22.8	22.0	21.6	21.4	21.0	23.5	23.5
2. Tax Abatements (estimated).....	157.3	275.6	275.1	313.8	307.7	313.0	715.9
3. Tax rentals.....		213.9	249.0	279.7	288.7	312.6	—
4. Equalization (including stabiliza- tion).....	365.9	139.4	149.1	180.7	192.0	170.0	178.2
5. 50% share of federal Estate Tax....	—	—	—	—	—	—	13.3
6. 50% share of Income Tax on Power Utilities.....	6.6	7.3	8.7	4.8	4.2	6.4	6.5
7. Atlantic Provinces Adjustment grants.....	—	—	25.0	25.0	25.0	2	35.0
8. Newfoundland Additional Grant....	—	—	13.6	7.3	7.7	8.0	8.0
Sub-total.....	552.6	658.2	742.1	832.7	846.3	858.5	980.4
B. Conditional Payments							
9. Agriculture.....	0.9	1.0	1.9	6.7	3.8	5.1	4.2
10. Health.....	36.4	34.6	45.9	46.0	47.9	48.9	49.2
11. Hospital Insurance.....	—	—	54.7	150.6	188.9	283.3	324.2
12. Welfare.....	38.4	48.2	74.1	90.8	102.8	139.2	150.8
13. Vocational Training, etc.....	4.7	4.8	8.1	8.4	8.7	61.0	104.8
14. Highways and Transportation.....	26.9	50.9	53.7	56.8	54.2	42.2	50.2
15. Resource Development.....	2.7	4.3	8.7	15.3	17.9	24.0	23.1
16. Municipal Winter Works.....	—	—	.2	6.6	8.9	24.7	37.9
17. Other.....	1.0	1.0	1.1	1.6	2.4	3.7	4.8
Sub-total.....	111.0	144.8	248.4	382.8	435.5	632.1	749.2
C. Payments for the benefit of Provincial Institutions—							
18. University grants (including net value of abatement to Quebec)....	16.0	16.6	25.5	26.1	26.7	27.2	37.0
19. Grants to Municipalities in lieu of taxes on federal government prop- erty.....	9.7	17.5	21.9	22.6	24.6	24.9	27.3
Sub-total.....	25.7	34.1	47.4	48.7	51.3	52.1	64.3
Total.....	689.3	837.1	1,037.9	1,264.2	1,333.1	1,542.7	1,793.9

Mr. Fleming (Eglinton): It will be seen that the total of all these payments and abatements, conditional and unconditional, is estimated at \$1,794 million for 1962-63, more than two and one half times as great as the total of \$689 million in 1956-57. Conditional grants as estimated for 1962-63 at \$749 million are not far short of seven times the total of \$111 million for the fiscal year 1956-57.

This enormous increase in the contributions to the provinces has assisted them directly and indirectly in the provision of essential services and has placed them in a better position to assist their municipalities. It has greatly added to federal financial burdens and has given rise to federal budgetary deficits.

In fact, the cumulative increase in these contributions to the provinces over the past five years has been greater than the cumulative budgetary deficits for that period by no less than \$376 million. I should like at this point to place in *Hansard* a table which compares the budgetary deficits of the dominion government for the period 1957-58 to 1961-62 with the increase in contributions to or for the benefit of the provinces. Table 6, Mr. Speaker.

Mr. Speaker: Has the minister leave?

Some hon. Members: Agreed.

[Editor's note: The table above referred to is as follows:]

TABLE 6

Comparison of Federal Budget Deficits with Increases in Contributions to the Provinces and Certain Payments to Institutions in the Provinces from April 1, 1957

Year	Budget Deficits		Contributions to Provinces			
	Annual	Cumulative	Annual	Increase over base year 1956-57	Cumulative Increase over base year 1956-57	Cumulative Increase in Contributions to Provinces minus Cumulative Budget Deficits
1956-57.....	—	—	689.3	—	—	—
1957-58.....	38.6	38.6	837.1	147.8	147.8	109.2
1958-59.....	609.3	647.9	1,037.9	348.6	496.4	-151.5
1959-60.....	413.1	1,061.0	1,264.2	574.9	1,071.3	10.3
1960-61.....	340.4	1,401.4	1,333.1	643.8	1,715.1	313.7
1961-62.....	791	2,192.4	1,542.7	853.4	2,568.5	376.1

GOVERNMENT ACCOUNTS 1962-63

Mr. Fleming (Eglinton): I turn now to our budget prospects for this new fiscal year. The main estimates for 1962-63 which were tabled on February 12 provide for authorized expenditures of \$6,276 million. Since the main estimates were printed the government has announced a number of important additional spending programs. The largest single item is the \$110 million increase in old age security benefits which, however, are non-budgetary expenditures. Of the enlarged budgetary expenditures the most important are increases of \$12 million in welfare payments to the elderly, the blind and the disabled, of about \$38 million in benefits and support to farmers, and \$70 million related to the extension of the Freight Rates Reduction Act and the recommendation of the royal commission on transportation. Further supplementaries will have to include in due course the Canadian National and the Trans-Canada Air Lines deficits which are expected to exceed \$50 million, and also provision for a renewed winter works program which is likely to cost not less than \$35 million. Other costs which are likely to emerge, less probable lapsings, will bring our total budgetary expenditures for 1962-63 to about \$6,525 million. This, I am glad to report, is \$38 million less than in the year just ended.

The shifts in the pattern of expenditures over the past several years have been significant and highly constructive. The increase in controllable expenditures over the past four years has been firmly restricted. But at the same time many important development programs of expenditure have shown very large increases. For example, in the coming year we are providing \$15.5 million for research work in universities, compared with \$3.9 million five years ago; a fourfold increase. In addition there will be grants in various areas totalling \$8 million specifically provided for

[Mr. Speaker.]

direct assistance in industrial research and development, whereas five years ago such provisions did not exist. We are providing \$105 million of assistance to technical and vocational training as compared with only \$5 million in 1957-58. Appropriations for the development of the north will amount to \$41 million, more than double the expenditure of five years ago. The essential development and expansion of air flight safety systems and of efficient airports will cost \$126 million in 1962-63 as compared with \$68 million in 1957-58. Again, the construction element of our new penal reform program requires over \$10 million in 1962-63 compared with less than \$1 million in 1957-58. We are providing \$54 million, compared with \$28 million in 1957-58, for the care of Indians; \$37 million, compared with \$16 million, for university grants; \$51 million, compared with \$38 million, for general health and hospital construction grants; \$50 million, compared with \$35 million, for the Colombo plan; \$10 million for assistance to ship construction, whereas no such provision existed in 1957-58; and \$17 million for the development and care of our forest resources compared with \$10 million in 1957-58. Finally, about \$206 million will be provided in 1962-63 for the promotion of agriculture, including the net budgetary cost of the recently announced changes relating to dairy products, compared with \$129 million in 1957-58. Last, but by no means least, in the five years ending next March 31 the federal government will have paid to the provinces and relieved all the families and individuals in Canada of their onerous hospital and medical expenses to the extent of over \$1,000 million.

I am sure, Mr. Speaker, that hon. members will agree that in the face of such necessary and highly constructive increases the fact that we have held our total controllable expenditures to an average annual increase of

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approximately 4 per cent is quite a remarkable achievement and reflects the policy of rigorous examination and control by the treasury board of all items of expenditure.

I should like to add a further word on the size of staff in the public service. Including all civil servants, all prevailing rate and casual employees, and all employees of those crown corporations whose staffs are subject to treasury board control, the rate of growth in the number of employees in the public service during the past four years has been less than half of what it was in the period 1952 to 1956. The numerical increase at December 31, 1956 over 1952 was 23,700, an increase of 3½ per cent per annum. From 1957 to 1961 the total increase has been 11,600 or a growth of only 1½ per cent per annum.

While the size of the public service has been effectively controlled, conditions of service have been steadily improved. The new Civil Service Act came into force on April 1. This legislation confers on staff associations the right to be consulted on pay and conditions of employment. It confers on civil servants the right of entitlement to pay and provides for appeals against administrative actions and the creation of grievance procedures. Since 1957-58 there have been two major adjustments in salaries for all classes of the public service amounting to 22 per cent, and prevailing wages have, of course, continued to be adjusted in accordance with conditions in comparable trades and occupations in outside industry. A rotational pay review system has been developed which will ensure a periodic examination of all classes. Under this system, a third review of salaries is in process with the results for the first group recently announced.

During this period also significant changes were made in the Public Service Superannuation Act to grant pensions on a six-year rather than a ten-year average and a medical

insurance plan for public servants, their dependants and members of the regular forces and the Royal Canadian Mounted Police was put into effect. The government as employer pays 50 per cent of the premium cost of this latter provision.

In other words, the improvement in efficiency and economy in government administration and conditions of service since we took office presents a record of which parliament may be justly proud.

On the revenue side we have made the usual careful appraisal of economic trends during the coming year and their effects upon the inflow of budgetary revenues. On the basis of the present tax structure and the economic prospects to which I have already referred I expect that our budgetary revenues in 1962-63 will be \$5,830 million which is \$58 million greater than in 1961-62. This estimate reflects reductions of \$307 million in tax revenues due to the Federal-Provincial Fiscal Arrangements Act of 1961 under which all provinces are now imposing their own income taxes. While we shall be acting as a collecting agent for nine provinces in respect of personal income taxes and eight provinces in respect of corporation income taxes, the provincial revenues that we collect will not in any way appear in our budgetary accounts. All the provinces are now imposing these taxes at rates not less than, and in several provinces at rates higher than our scale of reductions.

May I here insert in *Hansard* a table showing our actual revenues for 1960-61, our estimated revenues for 1961-62 and our forecast of revenues for 1962-63.

Table 7, Mr. Speaker.

Mr. Speaker: Has the minister leave?

Some hon. Members: Agreed.

[*Editor's note: The table above referred to is as follows:*]

TABLE 7

BUDGETARY REVENUES

(in millions of dollars)

	1960-61 Actual	1961-62 Estimated	1962-63 forecast before tax changes
Personal Income Tax.....	1,711	1,800	1,810
Corporation Income Tax.....	1,277	1,205	1,190
Non-Resident Tax.....	88	115	120
Estate Tax.....	85	85	90
Customs Duties.....	499	539	550
Sales Tax.....	721	774	815
Other Duties and Taxes.....	635	639	630
Total Taxes.....	5,016	5,157	5,205
Non-Tax Revenues.....	602	615	625
Total Revenues.....	5,618	5,772	5,830

Mr. Fleming (Eglinton): With revenues forecast at \$5,830 million and expenditures expected to be \$6,525 million there would be a budgetary deficit of \$695 million if there were no amendments to our present tax structure. I shall, however, be introducing certain tax changes of economic importance which will modify this figure.

TAX POLICY

We are in a period of substantial and healthy expansion, and our fiscal policy must neither put the brakes on the momentum of our expansion nor invite the danger of inflation.

Much of our progress is due to the vigour and skill of our people—farmers, workers and management. Credit is also due to the government's policies of the past 4½ years as reflected both in constructive spending and improvements in our tax laws.

Six out of seven individual income-tax payers in Canada are better off under the present tax rates than they were five years ago. On the basis of the latest statistics I would estimate that out of a total of 5,100,000 taxpayers no fewer than 4,400,000, or 85 per cent, pay less income tax under the present rates than they would have paid under the rates in force before this government came into office. This is quite apart from the 16 per cent abatement in personal income taxes which is provided from the beginning of this year under the federal-provincial fiscal arrangements. Single taxpayers with incomes up to \$4,000 now pay less federal income tax, including old age security tax, than they did on the same amount of income in 1957. Married taxpayers without dependants with incomes up to \$5,000 now pay less federal income tax, including

old age security tax, than they did on the same amount of income in 1957. Married taxpayers supporting two children eligible for family allowances with annual incomes up to \$7,500 now pay less federal income tax, including old age security tax, than they paid on the same income in 1957. Thus our policies have brought tax relief to persons of lower and medium incomes.

Since 1957 numerous changes have been made to provide more generous deductions from income on account of medical expenses. The definition of medical expenses has been greatly enlarged by the addition of amounts paid for prescribed drugs and medicines, and numerous medical services and appliances. Formerly there were restrictive upper limits on the amounts deductible as medical expenses, \$1,500 for a single person, \$2,000 for a married couple and \$500 for each dependant. Since 1957 these limitations were abolished.

Since 1957 university students and their parents have been assisted by provisions for the deduction of tuition fees. Amendments have been enacted to allow a student in full time attendance at a university, if he is proceeding towards a degree, to deduct his tuition fees when computing his taxable income. In addition the parent has been allowed to deduct the amount of the university tuition fee from the student's income in determining whether the student qualifies as a dependant. If the student's income after deduction of his fees falls below \$950 the parent is now entitled to the \$500 exemption.

Since 1957 an amendment has been enacted to encourage corporations to make larger donations to educational institutions and other charitable organizations, by allowing them

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to deduct up to 10 per cent of their income for such donations in place of the previous 5 per cent.

Since 1957 the new Estate Tax Act has been introduced. This provides for a simplified form of tax and a reduced burden of death duties, particularly on smaller estates, a result which followed mainly from the generous exemptions. When a husband dies leaving a widow, there is a deductible exemption of \$60,000 and there is an additional exemption of \$10,000 for each dependant child.

Since 1957 important measures of relief have been introduced to minimize or avoid any combined impact of income tax and estate tax. An individual receiving income in the form of a pension or a pension benefit under a registered retirement savings plan or a payment of a death benefit by an employer upon the death of an employee is now allowed to make a deduction from such payments for income tax purposes if the asset represented by the payments has been subject to estate tax or provincial succession duties.

Since 1957 estate tax relief has been granted where the value of a pension or annuity that was part of an estate is reduced because of marriage or death of the recipient within the four year period normally allowed for reassessment.

Since 1957 an important new departure has been made in connection with gift taxes. In addition to the existing exemptions, an individual is now permitted to make a tax free gift once during his lifetime of up to \$10,000 to his wife in the form of ownership of their home or of a farm to his child.

Since 1957, as hon. members are well aware, the special excise tax on automobiles, which was formerly 10 per cent has been repealed. In effect this has relieved taxpayers of a burden of about \$90 million per year.

Since 1957 assistance has been given to municipalities by providing them with exemptions from sales taxes on many of their important purchases. These include the materials used in sewage and drainage systems, culverts, chassis for fire trucks, fire hose, structural aluminum and laminated timber for bridges and diesel fuel for use in generating electricity.

Since 1957, in addition, exemptions from sales taxes have been granted in respect of certain materials used in the construction industry, certain equipment purchased by educational institutions, certain machinery used on farms and certain articles needed by disabled persons.

Since 1957 the first bracket of corporation taxable income which is subject to a low rate of tax has been enlarged on two occasions to benefit a large number of small and medium sized companies. This bracket of income was

increased from \$20,000 to \$25,000 in 1958 and to \$35,000 in 1961. It is estimated that, on account of these successive enlargements of the lower bracket, some 12,000 companies now pay less tax than they would have paid on the same income in 1957.

Since 1957 the surtax of 4 per cent on investment income has been repealed as applied to income from Canadian sources, in order to encourage investment and to ensure more efficient application of the savings of the Canadian people.

Provision was made last year for a re-equipment and modernization allowance which was designed to assist industry and to stimulate expansion. This is in the form of a 50 per cent increase in the first year in the rate of capital cost allowance in respect of new assets acquired for use in Canada in the period from June 21, 1961 to March 31, 1963.

Employment has been rising rapidly and unemployment falling, but we still have more unemployment than is consistent with our national objectives. Capital investment is picking up sharply, but we need still more. It is important, therefore, not to apply any fiscal brakes at this time by abruptly closing the gap between revenues and expenditures.

On the other hand, prices have been very stable during the past year, and indeed during the past several years. One of my duties as Minister of Finance is the avoidance of inflation with its attendant damage and injustice, and I can assure you, Mr. Speaker, that I shall not neglect that duty. But at the present time, with a good deal of surplus capacity still in our economy and increasingly keen competition in both domestic and external markets, there appears to be little current risk of inflation. It seems to me, therefore, that the deficit I am presently forecasting will provide a sound degree of economic stimulus and at the same time will not endanger the price level during the coming year.

The encouragement of economic growth has been one of the main objectives of the government and it is the central purpose of this budget. One of the new measures is expressly designed as an incentive for further industrial expansion and increased employment. Another is intended to give a significant stimulus to scientific research in industry. Because of their economic nature these measures will offer benefits to industry. They will constitute an important addition to the structure of tax changes which I have brought to this house in recent years. Encouragement and incentive are thus being given to private industry under several related headings, to increase its efficiency, to expand employment, to improve Canada's

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competitive position and to keep current with the most advanced technical and scientific methods.

I shall also put before you, Mr. Speaker, a fairly large number of particular tax proposals. To some extent these are of a technical nature. A number of them result from probing into the deficiencies of the tax system in a continuing effort to overcome obstacles to progress and to achieve greater equity among taxpayers.

ESTATE TAX

I have not received many representations asking for changes in the estate tax. This indicates that the Estate Tax Act, sponsored by this government in 1958, is continuing to work well. As is usual, however, experience has revealed the need for a few changes to give relief, to block loopholes or to provide clarification. I am glad to say that of the few amendments I am proposing most are designed to afford relief. I should like to comment on one that is of general interest.

The Estate Tax Act contains provisions for assuring collection of the tax. Where real property situated in Canada is concerned this security is obtained by a provision imposing a lien in respect of tax payable by the successor to the property. This has caused difficulties in certifying that the title to a particular property is clear, especially in those provinces where the Torrens system of land titles is in effect. If the provincial authorities would not permit the registration of the transfer of real property until they were satisfied that the Minister of National Revenue had given his consent to the transfer, for purposes of the estate tax, the provision for imposing the lien would no longer be necessary. I am accordingly proposing that where a federal-provincial agreement to this effect has been entered into, the lien provision shall not apply. The authorities of some provinces have already been acting in the manner intended by an agreement of the kind proposed and I am hopeful that eventually all provinces may wish to co-operate in solving the problem in this way. In the meantime, however, I have come to the conclusion that the existing provision for the lien can be restricted so as to cause much less difficulty in practice.

I am proposing therefore that the cases to which the lien is to apply shall be only those where the records of the land titles or the land registry office concerned show that the deceased person had an interest in the property.

SALES AND EXCISE TAX CHANGES

The changes I am proposing in the sales tax are intended to extend and clarify some [Mr. Fleming (Eglinton).]

existing exemptions and take account of technological changes. In the 1958 budget the list of exemptions for municipalities was extended to include materials used in sewage and drainage systems. Since then the trend has been for municipalities to require subdividers and contractors to install these services. Accordingly, I am proposing that this exemption be extended to include all sewage and drainage materials. The proposed specific exemption for several items used in the fishing industry will clarify the tax exempt status of these articles and extend the exemption to goods used in their manufacture.

It is estimated that these amendments in sales taxes will reduce revenues by \$2 million per year.

I referred in my budget speech last year to the increasing tendency on the part of non-resident corporations carrying on business in Canada, and also Canadian corporations which are controlled outside of Canada, to arrange their fire and casualty insurance in respect of risks in Canada through agents or brokers located outside Canada. Certain amendments to the Excise Tax Act were proposed at that time respecting insurance placed with insurers which are not authorized to transact the business of insurance in Canada and such amendments were subsequently made. I also stated at that time that the practice of arranging insurance of risks in Canada through non-resident agents and brokers was being studied and that further steps might be taken, if necessary, to curb this undesirable practice.

Surveys that have recently been made indicate that the practice referred to continues in substantial volume. Since this practice results in loss of taxes otherwise payable in Canada, as well as loss of business, employment and income for persons in Canada, and since the laws and regulations of some other jurisdictions require that insurance covering risks in those jurisdictions be placed only through agents or brokers who are licensed therein, it is proposed to amend the Excise Tax Act further so as to extend the application of the present tax of 10 per cent levied on premiums paid to unauthorized insurers by Canadian residents. The proposed amendment would extend the tax to premiums paid to insurers authorized to transact business in Canada where insurance covering risks in Canada is effected or renewed through an agent or broker or other representative of the insurer outside Canada, subject to certain exceptions. As in the case of the present tax on insurance placed with unauthorized insurers, the new tax will not apply to certain classes of insurance, namely life

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insurance, personal accident and sickness insurance, marine insurance, and, to the extent that such insurance is not available in Canada, insurance against nuclear risks.

CUSTOMS TARIFF

On budget night last June I tabled, on behalf of the Prime Minister, a report prepared by Professor V. W. Bladen on the problems of the Canadian automotive industry. At that time I announced that, in accordance with Professor Bladen's recommendations, the special excise tax of 7½ per cent on passenger cars would be removed, effective immediately.

Professor Bladen's other recommendations included a far reaching proposal under which exports of particular parts or vehicles from Canada to other countries would earn, for a manufacturer, free entry for other parts or vehicles. Thus, it was argued, the Canadian industry could be more effectively integrated with industry abroad, and the economies of longer runs and greater output made available here.

I should like to repeat now part of what I said last June about this proposal:

The government warmly approves these objectives, and it is grateful to Professor Bladen for the constructive and imaginative suggestions that are embodied in his report. Nevertheless, his recommendations relating to tariffs are complex and sweeping, and would require extensive readjustments in the industry. It is essential that those concerned, both management and unions, should have an opportunity to assess not merely the objectives but the desirability and practicability of the means by which these objectives are to be obtained.

The response to our invitation for those concerned to submit detailed comments on Professor Bladen's tariff proposals has been quite extensive, and it is still continuing. Many constructive and helpful comments have been received. They have brought to light a number of practical problems which require further examination. For this reason, and also because the implementation of the remaining recommendations would require extensive modifications of Canada's existing international commitments respecting automobiles and parts, no further action on the Bladen report is being proposed in this budget. Indeed, I am not proposing any changes whatsoever in the automotive schedule at this time, pending completion of our review of the whole problem.

The resolutions which I shall table at the conclusion of my remarks will, however, include proposals for a number of tariff changes. All of them are in a downward direction. In some cases the effect of the proposed amendment is to remove an existing duty; in others, it is to extend the duration of an

existing free entry provision which otherwise would expire during the current year.

I am proposing that existing duties be removed from certain preparations used for medical purposes, and from certain materials imported by religious or educational institutions or societies. I am proposing also that several existing free entry provisions having statutory expiry dates of July 1, 1962, be extended. The most important of these items relate to aircraft and aircraft engines of types or sizes not made in Canada. Others relate to uranium and heavy water; conductive shoes for use in hospitals; and sodium borate for use as a fire retardant in combating forest fires.

Before leaving the subject of tariffs, I should like to refer briefly to tariff board reports which were received during the past year, and to two new tariff board references which are contemplated. During 1961 the tariff board completed its work on reference 125 relating to textiles, and submitted the final three reports thereon. These related to coated or impregnated fabrics, miscellaneous textiles, and hats and caps, respectively. The tariff amendments recommended by the board in these reports would affect items which are bound under the general agreement on tariffs and trade. Negotiations now are in progress looking toward securing adjustments in our present international commitments so as to permit the implementation of these recommendations, subject to some minor modifications which are deemed advisable in the light of representations which have been received, subsequent to the hearings. If the negotiations in question should be completed before tonight's resolutions are disposed of by parliament, consideration will be given to the possibility of introducing supplementary resolutions to implement the results.

Of the two new tariff board references which are contemplated, one relates to wire and wire fencing. The other relates to machinery and apparatus used by the Canadian printing industry, including printing presses, engraving machines, bookbinding machines, and printing plates of all kinds. If any interested parties should wish to submit views regarding the scope of either of these proposed references, they are invited to do so.

INCOME TAX CHANGES

I now come to changes in the Income Tax Act.

Personal Income Tax

The first of my proposals pertains to personal income tax. Hon. members will recall that the first fiscal measure I was privileged to place before this house, in December, 1957, included an increase in the amount deductible

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for dependants. At that time I announced that the deduction for children eligible for family allowances and for other dependants would be increased by \$100. I am now proposing a further increase to \$300 on account of a child qualified for family allowance. This is twice the amount of the deduction of \$150 in force before 1957. For other dependants the new deduction will be \$550. This compares with \$400 allowed before 1957.

This further increase in deductions will free completely from income tax about 80,000 taxpayers and will bring a modest tax reduction to all remaining taxpayers who support dependants. Taxpayers who support children over age 16 who are attending school or university will be able to deduct \$550 in respect of each dependant child and, as I have previously explained, the amendment introduced last year permits tuition fees to be deducted in determining if a child qualifies as a dependant. This tax relief will reduce budgetary revenue by \$26 million in this fiscal year and by \$35 million next year. There will also be a reduction in old age security tax revenue of \$4 million in this fiscal year and \$5 million next year.

Production Incentive

As I have already said, one of the continuing objectives of government policy is economic growth. I am bringing forward in this budget a plan to use tax incentives to induce increased production and employment. This will provide encouragement for private industry in its search for new and expanding markets. A benefit will be allowed to a company in the form of a reduction in tax on profits derived from increased sales. Since larger sales will involve more production and more employment for our citizens, this new incentive will bring benefits to the community at large in substantial addition to those which will accrue directly to the successful enterprises.

The benefit, which will be available to companies engaged in manufacturing or processing, will consist of cancellation of 50 per cent of the tax on the first \$50,000 of taxable income arising from increased sales and cancellation of 25 per cent of the tax on any additional income arising from increased sales. In the first year the plan is in operation the amount of taxable income to be attributed to the increased sales will be calculated by reference to the amount, if any, by which gross sales in the current tax year exceed the gross sales of the immediately preceding year. The ratio of this excess to sales in the current year will be applied to taxable income to determine the amount of taxable income to be attributed to increased sales.

[Mr. Fleming (Eglinton).]

In the second year of the plan the amount by which sales have increased in the current year will be determined on the basis of average sales in the two preceding years.

In the third year of the plan, and thereafter, the amount by which sales have increased will be determined on the basis of average sales in the three preceding years.

In this way the gradual extension of the base to the average gross sales of the preceding three years will provide as time goes on for the continuing effectiveness of this new measure and for the increasing stability of its operation.

The proceeds of disposal of a company's capital assets will not, of course, be included in gross sales for the purposes of the tax concession.

The cancellation of half the tax on as much as \$50,000 of taxable income arising from increased sales is sufficiently generous to allow the great majority of eligible companies to obtain the full 50 per cent cancellation of tax on all income arising from increased sales. For example, a company which increases its sales by 10 per cent, thus bringing its total taxable income to over half a million dollars, will pay tax on only half its taxable income arising from the increase in its sales.

Small companies whose taxable income is wholly or largely within the first bracket of \$35,000, and therefore subject to the lower rate of corporation income tax, will be able to claim the reduction of 50 per cent on all of their taxable income attributed to increased sales, both the amounts normally taxed at 12 per cent and any amounts normally taxed at 41 per cent.

It is the policy of the government to promote by every practical means the further development of processing and manufacturing in Canada. In existing economic circumstances, furthermore, the greatest opportunities for increased employment are to be found in the industries which manufacture and process. The benefits of the new plan are to be made available, therefore, in these large areas of industry where they can do the most good by having the greatest effect.

More concretely, the benefit is to be made available to companies whose principal business is manufacturing or processing of goods for sale. Companies will be excluded whose principle business is shipbuilding, oil or gas wells or mines benefiting from percentage depletion. A company whose principal business is processing will be able to qualify whether it be crushing and concentrating ore, refining petroleum or freezing and canning foodstuffs.

The new plan will not be extended to unincorporated businesses in which the earnings are subject to taxation at the graduated rates

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of individual income tax. The large majority of unincorporated businesses are in any event in the fields other than the manufacturing and processing of goods for sale. As for the others, it has been found after careful technical study that a benefit comparable to the one being extended to corporations would be both inequitable and far too complicated.

New companies will be allowed to claim the tax credit provided they have at least one full year of sales experience, prior to the current tax year, on which to base their claims.

The bill to be put before the house will contain some special rules to deal with cases in which an extensive corporate reorganization of some sort has taken place including amalgamations, mergers, purchase of assets, transfers of sales contracts and so forth. In each case the purpose will be to establish, if possible, a total of gross sales during the preceding year which can be compared with gross sales in the current year.

The plan to induce increased production and employment is to take effect as from the beginning of this month. Taxpayers will be allowed to claim the benefit in respect of their current taxation year, a portion of which will already have expired in most cases. In this first taxation year the taxpayer will calculate the full amount of tax credit according to the formula and will then reduce this amount by the proportion of his taxation year which had expired by April 1.

In summary, by means of this plan to induce increased production and employment the large majority of processing and manufacturing companies which increase their sales will be allowed to retain half the taxes they would otherwise be required to pay on their additional income. The effect on revenue of this plan is very difficult to estimate because the extent of sales increases cannot be precisely estimated in advance. It is believed that the amount of tax cancelled under the plan in a full year will be at least \$50 million and it may be considerably more. The tax that is given up will be offset in some measure by compensating benefits including increased revenue on other income. Although the plan is expected to exert an immediate stimulus the reduction in corporation income tax revenue in this fiscal year will not be great because in a period of rising profits most companies base their interim monthly payments of estimated tax on their previous year's actual income.

Double Depreciation

In the supplementary budget of December 20, 1960 I introduced the program of double depreciation for investment in assets acquired to manufacture products new in Canada or

new in designated surplus manpower areas. This program was designed to encourage the production in Canada of goods not hitherto produced here and to stimulate industrial development in surplus manpower areas. In the June budget speech I informed the house that an increasing amount of interest was being shown in this program on the part of Canadian industries. Up to the present, assets certified under the plan have reached a total of \$112,000,000 and a steady stream of applications is still being received and processed. This program was introduced initially for a period of two years extending to January 1, 1963. However, manufacturers whose plans for additional investment may require a longer time for completion are already beginning to make inquiries concerning continuation for a further period. I am pleased to announce, therefore, that this program of double depreciation is to be extended for another calendar year, that is until January 1, 1964.

The extension of this program will not substantially affect revenues in 1962-63 but, it will, of course, extend the revenue effects of the program, originally estimated to be about \$25 million a year, for an additional 12 months.

Scientific Research in Industry

The government gives a high priority to encouraging and assisting scientific research in Canada of all kinds. There has been steady and substantial expansion in the areas where the federal government directly supports research through Atomic Energy of Canada, the Defence Research Board, the National Research Council and various other agencies. If Canada is to maintain and extend its place in the world continuous advances must be made in industrial research and in the development of new methods and new products.

In the 1961 budget I expressed the view that Canadian industries, particularly the subsidiaries of foreign companies, have developed an excessive dependence on research done abroad. To stimulate increased industrial research in this country I announced important tax changes at that time, providing for acceleration of the rate at which capital expenditures on research could be written off as expenses. These amendments have apparently given rise to very constructive results in the limited time they have been in operation.

As announced in the speech from the throne, the government has this year introduced a program of direct financial aid to research in industry. Under this plan, administered through the National Research Council, financial assistance for applied research and

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development will be given on a matching basis, with the government contributing up to as much as 50 per cent of the cost of some projects. It is believed that this program will be of far reaching assistance in building up new research and development in industry, and in expanding existing efforts.

Unprecedented opportunities exist today for the enhanced co-operation of science and industry. The great need is for industry itself to grasp the vital importance of more research if it is to forge ahead. I now propose a new and powerful incentive to corporate taxpayers who undertake increased industrial research in Canada.

Commencing in 1962 such taxpayers will be permitted to deduct 150 per cent of their increased expenditures on scientific research for industrial purposes when computing income for tax purposes. This deduction will apply in each year to current as well as capital expenditures on research to the extent that these exceed similar expenditures by the taxpayer in his latest tax year which ended before tonight. The use in this way of a fixed base period will provide taxpayers with scope to earn substantial tax benefits through increased research. Because there will be need to reconsider the formula after a few years the plan will be introduced initially for a five year period. This will provide time for taxpayers to put comprehensive programs into operation.

This amendment to allow taxpayers to deduct 50 per cent more than the amount actually spent will make it necessary to review carefully what should qualify under the heading of scientific research.

A definition of eligible research must, of course, rule out programs for which taxpayers receive payments from governments as well as expenditures related to sales promotion, such as market research and surveys of customer acceptance. It is intended that payments should qualify which are made to universities and approved institutions and associations in Canada to have research carried out. In administering this tax concession my colleague, the Minister of National Revenue, will have the assistance of the National Research Council.

I should add that this new measure is not intended to serve as a precedent to encourage taxpayers to seek the right to deduct more than they spend in other fields.

Here also the effect of the proposed incentive upon revenue is very difficult to forecast because it will depend upon the extent to which taxpayers avail themselves of the potential benefits. Moreover, it is expected that the revenue cost will increase over the next several years as new research programs proceed. The revenue given up may easily

be \$20 million in a full year after the plan has been in operation for one or two years. The loss of revenue in fiscal year 1962-63 is expected to be about \$8 million.

Oil and Gas Industry

The government has given much study to the position of the oil industry. Numerous proposals by representatives of the industry and others have been received and considered. The measures I am including in this budget have been selected on the basis that they are responsive to requests received from the oil industry and particularly from those known as independents, that their cost to the treasury in terms of tax revenues can be justified and that they will contribute constructively to the attainment of national objectives.

The petroleum and natural gas industries have developed at an increasing pace during the past year. These industries are in a much healthier condition than before this government took office. The improvement which has taken place is due in no small measure to the policies the government has pursued and, in particular, to the national oil policy. The natural gas industry is consolidating its position in the Canadian markets to which it has access and it has penetrated very large United States markets under the export policies implemented by this government. The response of the oil industry to the new policies has been commendable, particularly since some of the readjustments involved are, at least in the short term, expensive for the companies concerned.

Representatives of the petroleum industry have expressed a strong desire, which is shared by the government, to secure a more substantial and widespread participation in the oil industry by persons normally operating in other fields of industry and by Canadian investors. They have sought tax concessions to this end.

Although surplus productive capacity for oil still exists the prospects for the petroleum and natural gas industries are very good in the long run. There is growing concern, which the government shares, that the pace of exploration for hydrocarbons is not sufficient to maintain reserves of oil adequate to meet anticipated demands.

After careful consideration of all the circumstances I am putting before the house three new proposals:

1. That individuals be granted the right to charge petroleum preproduction expenses against income earned from oil and gas production;

2. That all companies including those not normally engaged in petroleum or in mining

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be granted the right to charge petroleum preproduction expenses against income earned from oil and gas production; and

3. That expenditures involved in the acquisition after April 10 of rights to explore or drill for oil or gas or to extract oil or gas be deductible under section 83A of the Income Tax Act along with other drilling and exploration expenses and proceeds from sales of such rights be taken into income by all taxpayers including individuals.

When these amendments have been implemented oil companies will be in a position to deduct without limit of time, in computing income, all of their preproduction expenses including the costs of acquiring rights, the costs of exploration and the costs of drilling. In addition, they will continue to enjoy the benefits of depletion calculated at 33½ per cent of income. To the extent of the income earned in the oil and gas industry, individuals and companies outside the industry will henceforth be allowed full access to the special tax benefits associated with oil and gas.

As with the other proposed incentive measures the effect of these amendments upon revenue will be dependant upon the extent to which they are used by taxpayers. In a full year the revenue loss may be \$15 million. The loss of revenues in 1962-63 will be about \$7 million.

Iron Ore

In 1960 when the additional 15 per cent tax was imposed on income earned in Canada by branches of non-resident corporations it was decided to exempt certain classes of companies from the tax. These exemptions granted recognition to the fact that companies sometimes have no real alternative to the branch office form of organization when operating abroad. I am now proposing that non-resident companies whose principal business is mining iron ore be added to the group of companies which are excluded from this special tax. It has been found that such enterprises which require tremendous amounts of capital normally involve joint participation by Canadian interests and foreign users of iron ore. This kind of venture does not readily lend itself to the formation of a subsidiary company in Canada and logically it should be included in the group of companies which are relieved of this tax.

Logging Tax

At the dominion-provincial conference of February 23-24, 1961, the Prime Minister referred to heavier taxation borne by corporations engaged in the forest industries as a result of the fact that successive fiscal

arrangements entered into by Canada and the provinces since 1947 have permitted the provinces to impose a tax on logging profits which is deductible as an expense in computing federal income tax. The Prime Minister stated:

During the period covered by the current agreements, companies engaged in the forest industries in British Columbia and Ontario have borne a considerably higher burden of tax rates than other industries. This is because of the combined effect of federal income taxes and provincial logging taxes... It is proposed that... the federal government and the provinces in question should seek agreement by which each will make a concession in the interest of resolving this problem.

The Prime Minister made a more specific statement on this matter in his letter of June 16, 1961, to the provincial premiers in which he made the following generous proposal:

Subject to reaching agreement on this matter of the definition of logging income, the federal government is prepared as a means of relieving the tax burden on the forest industry to offer a tax credit equal to two thirds of the logging tax up to a maximum rate of 10 per cent, provided the province gives a tax credit equal to the remaining one third of such logging tax.

With a view to reaching agreement on this matter in order that any new arrangement might apply to the 1962 taxation year, I wrote on January 4 to the treasurer of Ontario, the minister of finance of British Columbia, who is also the premier of the province, and to the presidents of the Ontario Forest Industries Association, the Council of Forest Industries of British Columbia, and the Canadian Lumbermen's Association proposing that technical discussions be held in Ottawa at an early date. However, owing to the position taken by British Columbia it was not possible to choose a date for the proposed meeting which was satisfactory to all the parties concerned.

Notwithstanding the fact that it has been impossible to hold the proposed discussions and to reach complete agreement on the concessions to be made by the two levels of government, I propose to remove discrimination in the taxation of logging income so far as the federal government is concerned. In order to accomplish this objective I am recommending to parliament that the Income Tax Act be amended so that a federal tax credit will be allowed equal to two thirds of a provincial logging tax up to a maximum rate of tax of 10 per cent on the basis of the existing definition of logging income, that is, the definition contained in the 1957 tax rental agreements. This action will go a long way toward removing the existing tax discrimination of forest industry corporations irrespective of any action which the provinces may take. Moreover, if the provinces imposing a logging tax supplement our tax credit with a

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credit of their own equal to one third of the logging tax, as it is to be hoped they will, the discrimination will be removed completely. The reason for proposing that the federal government should bear two thirds of the full tax credit is that the federal income tax is approximately twice as large as the provincial income tax and logging tax combined in provinces which now impose a tax on income from logging. This proposal constitutes a unique concession inasmuch as no other provincial tax is allowed as a tax credit under the Income Tax Act.

It is estimated that this concession may reduce revenues by \$3 million net in a full year and \$1½ million in 1962-63.

University Grants

Commencing in the year 1962-63 federal grants to universities will be increased by one third, that is from \$1.50 per capita for the population of each province to \$2.00 per capita. Before 1960 these grants were paid to the National Conference of Canadian Universities (later succeeded by the Canadian Universities Foundation) for distribution to the universities of each province in proportion to student enrolment. However, in 1960 this government introduced legislation to provide an alternative arrangement for a province wishing to administer its own grants. This was done to meet the long standing difficulty with respect to university grants in the province of Quebec. Under section 9A of the Federal-Provincial Tax-Sharing Arrangements Act it is provided that a province may be prescribed if it has not entered into a tax rental agreement with Canada under which it agrees to refrain from levying corporation income taxes and if satisfactory arrangements exist in that province for the payment of university grants of at least \$1.50 per capita in addition to grants to universities made as part of the ordinary expenditure of the province. In a province thus prescribed an additional abatement of 1 per cent in the rate of corporation income tax was provided under Section 40 of the Income Tax Act for taxation years 1960 and 1961.

In order that there should be equity in treatment as between provinces section 9A also provided that where the value of the additional abatement of 1 per cent in the rate of corporation income tax in a prescribed province was less than \$1.50 per capita an additional payment would be made to the province to bring it to that level and where it exceeded \$1.50 per capita the excess would be recovered from the province. The Prime Minister has received assurance that the government of the province of Quebec desires a continuation of the alternative arrangements for the payment of university grants. Accordingly provision will be made to continue this [Mr. Fleming (Eglinton).]

additional abatement of 1 per cent in the rate of corporation tax in a prescribed province.

In addition, it is necessary to provide for the increase in the level of university grants from \$1.50 to \$2.00 per capita. This will be done by amendment to the Federal-Provincial Fiscal Arrangements Act which it is proposed to introduce subsequently.

SUMMARY

I can now summarize the net budgetary cost of all the proposed tax changes. The major reductions in revenues will occur in personal and corporation income taxes. The benefits to individuals will amount to about \$30 million in this fiscal year and about \$40 million in a full year. Of these amounts \$4 million in this fiscal year and \$5 million in a full year will be reductions in contributions to the old age security fund, and the remainders will be reductions in budgetary revenues. The business incentives will cost about \$22 million in 1962-63 and \$88 million in a full year. The sales tax reductions will amount to about \$2 million. Total benefits resulting from these tax changes will be about \$54 million in this fiscal year and \$130 million on a full year basis.

I should like to place in *Hansard* at this point the revised table of revenues for the fiscal year ending March 31, 1963.

Mr. Speaker: Has the hon. minister leave?

Some hon. Members: Agreed.

[*Editor's note: The table above referred to is as follows:*]

TABLE 8

Estimated budgetary revenues, 1962-63

(millions of dollars)

Personal Income Tax	\$1,784
Corporation Income Tax	1,168
Non-Resident Tax	120
Estate Tax	90
Customs Duties	550
Sales Tax	813
Other Duties and Taxes	630
	—
Total Taxes	5,155
Non-tax revenues	625
	—
Total revenues	5,780

Mr. Fleming (Eglinton): Total budgetary revenues in 1962-63 will thus be reduced to an estimated \$5,780 million, and since expenditures are expected to be \$6,525 million our estimated budgetary deficit will be about \$745 million. Any forecast covering a full year ahead is, of course, subject to some degree of uncertainty and a deviation

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of as little as 1 per cent in either revenues or expenditures can mean a difference of \$60 million.

Our non-budgetary cash requirements during this year, excluding as has always been done in the past any increases or decreases in the exchange fund account, appear likely to be about \$295 million. Our non-budgetary cash receipts will be about \$280 million, and our net loans, investments and advances will be about \$575 million. The main components of our non-budgetary cash outlays are \$230 million for Central Mortgage and Housing Corporation, \$80 million for financing export credits, \$68 million of advances to the old age security fund and \$60 million to the Farm Credit Corporation. Loans to the Canadian National Railways, which include the capital requirements of Trans-Canada Air Lines, will amount to only \$20 million.

Statistically, our net cash requirements for 1962-63, including both budgetary and non-budgetary accounts, will be about \$1,040 million; but as I said in the early part of my speech this evening, while our net cash requirements in 1961-62 turned out to be \$479 million, the net increase in outstanding bond issues during the past year was \$857 million. Consequently our cash balances at the end of the fiscal year were about \$400 million greater than on March 31, 1961 and stood at \$762 million. Subject to unpredictable changes in our exchange fund, the use of surplus cash balances now held will reduce our borrowing requirements in 1962-63 to a level below those of 1961-62.

CONCLUSION

Mr. Speaker, it is with grateful satisfaction that we survey in Canada today the unchallengeable evidences of rising prosperity, increased employment, greater opportunities and rapid economic expansion.

Mr. Speaker, it is with grateful satisfaction that we survey in Canada today the unchallengeable evidences of rising prosperity, increased employment, greater opportunities and rapid economic expansion. Many new records have attested to the strength and extent of our economic growth. Policies and programs set out in previous budgets have contributed effectively to these striking achievements.

Many new records have attested to the strength and extent of our economic growth. Policies and programs set out in previous budgets have contributed effectively to these striking achievements.

But we must not be complacent. We must not rest. This budget is designed to continue and to extend those policies which have contributed so much to dynamic growth in Canadian economy and to the creation of 200,000 new jobs in Canada in the last year. It is also designed to stimulate Canadian enterprise to new effort and new peaks of achievement. It offers tangible incentives to Canadian producers to seek out more markets, to take more risks, to breast the keen competition of the trading world with new confidence and resolve, and with the highest standard of efficiency. It summons all members of the great Canadian family to work together in the spirit of partnership for the attainment of national goals beneficial to all. It asks all to face realistically the challenges of our national and international responsibilities. It calls for effort, confidence and achievement in keeping with our resources, our high position in the free world, and the incomparable destiny of the Canadian nation.

RESOLUTIONS

INCOME TAX ACT

Resolved that it is expedient to introduce a measure to amend the Income Tax Act and to provide among other things:

(1) That for the 1962 and subsequent taxation years the amount deductible in computing taxable income in respect of a child qualified for family allowance be increased to \$300 and the amount deductible in respect of other dependants be increased to \$550 each.

(2) That with respect to income earned after March 31, 1962 a corporation whose principal business is manufacturing or processing (not including a corporation whose principal business is shipbuilding, mining, logging or the operation of oil or gas wells) be allowed to deduct from its tax otherwise payable an amount equal to 50 per cent of the tax on the first \$50,000 of its taxable income attributable to increased sales and an amount equal to 25 per cent of the tax on the remainder of its taxable income so attributable.

(3) That with respect to its first taxation year ending after April 10, 1962 and the next succeeding four taxation years a corporation be permitted to deduct in computing income 150 per cent of the amount by which expenditures of a current and capital nature on scientific research in Canada incurred by it in the year exceed expenditures of a current and capital nature on scientific research in Canada incurred by it in its last taxation year ending on or before April 10, 1962.

(4) That for the 1962 to 1966 taxation years both inclusive the deduction from tax allowed to corporations in respect of taxable income earned in a province be increased from 9