Mr. CHEVRIER: Yes.

Section agreed to.

Sections 8, 9 and 10 agreed to.

On section 11—Exemptions by minister.

Mr. GIBSON (Comox-Alberni): We are going so rapidly that we cannot even read the sections.

Section agreed to on division.

Sections 12 to 16 inclusive agreed to.

On section 17—Repeal.

Mr. GIBSON (Comox-Alberni): We are putting through this bill and I do not think anyone has the foggiest idea of what it is. It is going through and that is all.

Section agreed to.

On section 18—Certificate of discharge.

Mr. GIBSON (Comox-Alberni): I should like to speak on this section although I have not read it. I shall read it for the edification of hon. members of the committee. It reads:

18. Subsection one of section one hundred and eighty-two of the said act is repealed and the following substituted therefor:

182. (1) The master shall sign and give to a seaman discharged from his ship, either on his discharge or on payment of his wages, a certificate of his discharge in a continuous discharge book in a form approved by the minister, or any form approved by the proper authority in that part of His Majesty's dominions in which the ship is registered specifying the period of his service and the time and place of his discharge, but not containing any statement as to his wages or the quality of his work unless requested by the seaman.

Progress reported.

At six o'clock the house took recess.

After Recess

The house resumed at eight o'clock.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. DOUGLAS ABBOTT (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, in the budget speech last year I was able to say that the circumstances of the time were much more favourable than in any of the immediately preceding years. This year I can again report, so far as Canada is concerned, an unprecedented rate of economic activity and a new record of progress in our government accounts. But no minister of finance can survey world events of the last twelve months without thinking more in terms of problems and difficulties than of progress and achievement. From the time of Stalingrad and El Alamein until last year the western world had seen its fortunes improve year after year, first in war and then in reconstruction. Last year brought a check to this advance and for many countries a series of troubles and misfortunes. As between nations, strife and bickering increased and once more the threat to political security became a real one. There is still cause for optimism, both in regard to the great political issues and in economic and financial affairs, but it must be an optimism tempered with a realistic appreciation of the formidable difficulties that must be overcome if we are to achieve peace and prosperity for the world and for Canada.

It has clearly been this international background that has exerted the dominant influence on our own affairs during the past year. Of its political aspects I need not speak tonight. They have been on the tongues and in the hearts of us all in the last year and we have recently had in this house a masterly exposition of their bearing upon Canada's external relations by my colleague, the Secretary of State for External Affairs. In the economic field, adverse weather in western Europe of an extreme surpassing the records of centuries, following upon the losses and destruction of war, greatly intensified troubles of a more persistent nature. Britain tried without success to re-establish the convertibility of the pound and to forgo discrimination in her import controls. One country after another was forced to reduce consumption and restrict imports in order to conserve rapidly dwindling exchange resources. This gathering crisis in international finance and trade led not only to the recasting of reconstruction plans on less ambitious lines but also to an intensive re-examination of the economic position and prospects of Europe and ultimately to the formulation and enactment of the Marshall plan, or, as it is now called the European recovery program. The enactment of this large-scale, well-thought-out, great-hearted approach to the restoration of international economic health represents, in my opinion, a triumph not only for the individual statesmen who conceived and moulded it but also for the United States congress which rose to this occasion as it has risen to other great emergencies.

The impact on Canada of the developing financial difficulties of countries in western Europe and elsewhere was reflected in our own exchange difficulties. We faced limitation on our sales abroad for currency which we could use in the United States, and we had to sell too much of our production on credit. Meanwhile, because of our high level of economic activity and prosperity, our imports were going up by leaps and bounds, both in quantity and in cost. The surplus in our current transactions with other countries dwindled and threatened to disappear. Our sales on credit continued in many cases because of commitments already made. The consequences, of course, are now all too familiar to this house. Our exchange reserves were reduced to dangerously low levels. We were forced to impose distasteful restrictions on our imports of both consumer goods and capital goods. We found it prudent to arrange for a credit from the Export-Import bank of Washington. We have tried to restrict our domestic consumption, particularly of relatively less necessary articles which have a high United States dollar content. We have taken other positive measures to increase our exports. In these and other ways we have endeavoured to re-create that surplus in our balance of payments which must be the basis for any re-establishment of our international position.

From our point of view, the operation of the European recovery program will be of real importance. It will be important, first, in its effects in strengthening those countries which have been and will in future remain essential markets for our products and, secondly, in making it possible for us to sell our exports to these countries now for United States dollars which we can use to pay for our own imports from the United States. These are clearly great advantages, but I wish to emphasize that the program will not in itself solve our exchange problem. It should help to assure us much larger cash markets for our exports than would otherwise be available but we must make the goods available for export by increasing production, by being sparing in the use of imports and by holding our domestic consumption in reasonable check. We must re-create and make as large as possible the current account surplus to which I have referred. The magnitude of that surplus will determine two things: first, the extent to which we can replenish our exchange reserves and, second, the extent to which we can continue to play our part in providing assistance to the European nations which must be put back on their feet.

Clearly our own exchange difficulties will severely limit our capacity to provide such assistance, but I think it would be the desire of this house and of the Canadian people to continue to play our part in this field to the extent of our capacity. Our exchange reserves are still abnormally low. At the end of March they were $607 million, of which $50 million represented drawings upon the Export-Import bank loan. At the end of April they were $668 million, including $80 million drawings upon the loan. These totals, however, reflected not only the use of that loan but also the effect of certain transactions of a special or non-recurring character. Nevertheless, making due allowances for any abnormal factors on both the favourable and unfavourable sides, I think we have a right to be gratified with the first six months' operations of the emergency program we put into effect last fall. We have stopped the abrupt decline in our exchange reserves and have started to rebuild them; we have reduced our imports from hard currency areas and obtained an increasing proportion of our needed supplies from other sources, and we have had an encouraging increase in our exports to the dollar area as well as to the world as a whole. But our cash reserves must still be increased substantially before we can regard our exchange position as satisfactory. We can neither be too hasty in relaxing the irritating controls we have had to impose nor too optimistic in appraising our capacity to give further assistance to world recovery.

Our domestic economy has continued to boom, despite the international shocks that we have received and despite the inroads we have made during the last three years into our backlog of demands accumulated during the war. The pace of economic activity has been such as to strain our resources. Shortage of labour in certain sectors of the economy has been acute, and despite the substantial expansion of our industrial capacity the shortages of certain categories of materials and/or products have been by no means eliminated. Our national production has increased but only moderately so on an over-all basis when account is taken of the effect of adverse weather on crop production last year. In any case, once full employment is reached as it was last year, any expansion in total output is bound to be limited and gradual. Our gross national production in 1947 exceeded $13 billion, up by 13 per cent over the previous year, but most of this increase was due to the rise in prices and wage rates.

When one examines the figures of national income, production and expenditure in 1947, which are set forth in the white paper serving as an appendix to this budget—and I hope its improved form will prove more helpful to hon. members—it is notable that in 1947 expenditures by governments on goods and services were reduced, despite the increase in prices. This reduction, which was confined to expenditures of the dominion government, arose, of course, from the virtual disappearance over the past year of our purely war and demobilization activities. The largest total increase in dollar expenditures in 1947 over previous years was by consumers, but the proportionate increase was small and when allowance is made for changes in prices, the increase in the volume of consumption was in fact on only a moderate scale.

The most striking feature of the national expenditure last year and now is the high level of capital expenditure on new construction, industrial plant and equipment, public utility projects and residential housing. It is this, together with the high level of domestic consumption and of exports, which is keeping us so fully employed and, indeed, straining our economic capacity. It is also one of the main forces behind our huge volume of imports. The very large increase in these expenditures between 1946 and 1947, both in dollars and in real terms, brought the totals up to levels far beyond anything ever before experienced or expected. A survey of intentions, recently made by the department of reconstruction, shows that further substantial increases in such expenditures are anticipated for 1948, but these increases are largely accounted for by higher costs. There is some evidence here and there of industrial expenditures being restricted now or deferred because of higher costs, but the backlog, particularly of utility expenditures and housing demands, is very large and it seems unlikely that there will be any serious falling-off in this strategic item of national expenditure despite a wholly understandable reluctance on the part of business to pay present high costs. This government has, of course, been deliberately restricting its own expenditures on construction and equipment during the last two years, partly because of the high cost of such work under current conditions but more fundamentally because of its desire to keep excessive national expenditure within bounds and to defer wherever possible the construction of useful projects until the time when private expenditure will be lower and additional government work will help to maintain employment and income.

To most of us, the rise in prices has been the immediate pressing fact of our economic life. There is no need to go into statistics and details here. The main index figures are set forth in the white paper. Our prices have gone up quite substantially in the past fifteen months. They are now closer to American levels than previously, but they still lag behind in terms of the total increase over pre-war figures. In most countries prices have continued to advance substantially and the upward surge of our prices has been part of a worldwide movement exerting its influence on us through imports and exports. In Canada, moreover, the process of removing subsidies and price ceilings has now been nearly completed, leaving prices free to adjust themselves to cost and market conditions once again. For these and other reasons, Canadian prices have moved up much more closely in line with world prices for imports and exports, an adjustment that we had to face at some stage and which has been made much easier by the return of our dollar to parity with the United States dollar. These adjustments have accounted for a substantial part of the increase in our prices since the last budget. However, part of this increase is also due to the fact that the aggregate volume of expenditure in Canada is pressing upon our limited supplies of resources and manpower. As consumers, we are bidding eagerly for a limited supply of goods, throwing into the auction not only most of our current incomes but also part of our past savings and additional funds obtained by instalment credit. As producers, we are spending a record-breaking volume of funds in the construction, repair and equipment of industrial plants, commercial establishments, public utilities and housing, bidding against each other for a highly limited supply of construction labour and materials. An inevitable result of this endeavour to do too much too quickly is the persistent upward pressure on the price level. Whether undue advantage is being taken of this condition of eager demand and short supply and whether there are other factors in the situation are questions which have been under prolonged investigation by a special committee of this house.

The policy of the government has been to return to a free price system and to moderate the inevitable increases in prices at this time by whatever fiscal and other methods are possible under such a system. Neither this government nor this parliament has either the political mandate or the constitutional power to maintain indefinitely in peacetime a strait-jacket of controls over prices, production and distribution. Our whole economy has been organized to operate on a price basis through private incentives and private initiatives, not by centralized direction. I believe that the great majority of Canadians want it to work that way, want it to work by free and open competition and not by government direction on the one hand nor on the other hand by direction of the irresponsible power of monopolies, cartels and other organized groups.

It would have been more comfortable had we been able to return to a free price system under general conditions of stability, balanced production and abundant imports. Fate did not afford us that opportunity. We cannot now retain over-all controls and subsidies in the hope that conditions will soon return to normal. We have consequently removed controls on all but a very few items where shortages are so acute that no reasonable increase in price could either correct them, on the one hand, or bring about a better distribution on the other. We have, of course, been forced, against our will, into emergency control of imports and of a few prices where import restrictions have produced temporary shortages, but this exceptional necessity does not alter or vitiate the basic policy which I have described.

Apart from residual measures of price control and the operation of the Combines Investigation Act, the government has actively countered inflationary pressure by its budgetary and financial policies. It has also done what a government could do to meet inflationary pressure by the most fundamental method, that is, by stimulating increased production to satisfy excessive demands.

Our budget policy has been clear and explicit. We have striven to bring expenditures down and to keep them down. War activities have been curtailed as rapidly as possible. Economy has been observed in the expenditures we have had to make. We have deferred wherever possible expenditures on construction, new equipment and new projects in general. Some we have had to undertake because of the urgency of the need or, as in the case of expanded research facilities, because of the value of the returns we expect to get in the future; but the government and the treasury have been tough in approving expenditures, particularly for new projects, for equipment and for construction. We have been more restrictive than would probably be wise in normal times, and more restrictive, I believe, than private industry has been.

On the taxation side, our policy has been to reduce our taxes where they were impeding work and production, but otherwise to keep them as high as is reasonably practicable in the circumstances, in order to produce a surplus that could be used to make the loans and investments we are required to make and to reduce the huge debt that we necessarily accumulated during the war. Some tax reductions have been made, of course, to encourage the expansion of production, and some because the burden of income tax on individuals which had to be imposed in wartime was greater than that which could reasonably be borne in peacetime, however urgent the financial or economic necessity. At the termination of our wartime tax agreements with the provinces, we were obligated to reduce our rate of corporation tax, and consideration for the revenue requirements of the provinces led us also to give up some of our wartime taxes. By and large, however, the taxation aspects of our budget policy, as well as the expenditure aspects, have been primarily directed to countering the inflationary pressures threatening Canada in recent years.

The results of our budgetary policy are evident in the figures. Our total expenditures of all kinds were reduced from $5,136 million in 1945-46 to $2,634 million in 1946-47, and there was a further substantial reduction last year to a total of $2,199 million. Our revenues, on the other hand, declined only from $3,013 million in 1945-46 to $3,007 million in 1946-47, and the further decline last year was very moderate, considering the substantial reductions in tax rates, because the total for the year was no less than $2,869 million. From this it is evident that we had a surplus of revenue over expenditure, in the accounting sense, of $670 million in 1947-48, following one of $373 million in 1946-47. This surplus—considerably larger than our largest pre-war total budget and large enough to gladden the heart of any minister of finance—would not be justified as good policy were it not for the need to check inflationary forces at this time and to redeem our debt as quickly as we can under circumstances as favourable as they have been. There will never be a better time to reduce the burden of our national debt. We can do it now without hardship and thereby get ourselves in better position to bear the extra burdens we may have to assume when our national income becomes less buoyant or other untoward developments occur.

In order to judge the effects of our budget policy upon the income and expenditure of the nation, we must make a number of adjustments and take into account our loans and investments, our borrowings and repayments. First, we must correct our surplus of revenue over expenditure for those items included on both sides of the accounts that are essentially bookkeeping entries and not actual payments; for example, the amount set aside in the reserve for loss on realization of our active assets, which is shown as an expenditure but which does not represent any actual payment of cash. These adjustments change our accounting surplus of $670 million to a cash surplus of

$727 million. Then we must add the cash we have received from sources other than revenue, mainly repayments of debts and amounts received in annuity and pension funds. Adding these items to our cash surplus brings our total up to $1,181 million. The largest item of this nature is the repayment by the foreign exchange control board of $220 million of advances formerly made by the government to enable it to acquire exchange reserves, and which are repaid with the Canadian dollars obtained when these reserves are liquidated. Normally we do not make public the amount of our reserves or such figures as these until much more time has passed, because this would assist and encourage speculation. However, because parliament required full and up-to-date information in order to deal intelligently with the emergency exchange measures, I made information currently available during the last few months. I have therefore brought the information up to date but I propose to revert hereafter to our normal policy.

A moment ago I spoke of the total of our cash surplus plus the amounts of cash received from loan repayments and increases in certain funds as amounting to $1,181 million. This amount together with our cash balances on hand at the beginning of the year represented the total cash funds available to the government during the year, after taking care of the year's budgetary expenditures. A substantial portion of these funds was used to make loans and investments which gave rise to income and expenditures in Canada and which cannot, therefore, be considered as anti-inflationary. The principal items of this character were our loans to the United Kingdom and other countries for use in purchasing Canadian exports, which amounted in all to $499 million. Less important items having the same effect were portions of the advances for the Veterans Land Act and to crown companies, and the payments made out of the deposit account which we held for UNRRA. It is difficult to draw an exact line, but it would appear that the total of these payments likely to give rise to income or directly to expenditure on goods and services would be less than $600 million. The remainder of this large cash fund—over a billion dollars, in fact—was used not for current expenditure nor for loans and investments but to reduce outstanding government debt in the hands of the public and the banks.

The ways in which this was effected are worth noting. The largest part of the total, approximately $536 million, was used to redeem government securities. This was in addition to those redemptions financed by the issue of new securities. A further small amount of funds was made available in a similar but indirect way to lend money to the Canadian National Railways to enable them to redeem their securities. Still another portion of these funds accomplished the same purpose in being paid over for purchases of our own securities before their maturity. This was done in the operation of the securities investment account, which is the account used for the investment in our own obligations of surplus funds on hand. Last year our security holdings on this account increased by $410 million, nearly as much as our net redemption of debt. These securities may be held as temporary investments of surplus cash balances or until the securities mature or are cancelled but their purchase for purposes of this account has the same economic effect as the retirement of debt.

The fiscal policy and action which I have described have been accompanied by a cessation of the wartime increase in the monetary supply and a tightening in the field of credit. The cash reserves of the chartered banks were slightly lower in 1947 than they had been in 1946—when they had reached their peak. The supply of active money—as indicated more accurately than before by the new statistical series recently compiled by the Bank of Canada—reached its peak in October, 1946, at just over $4 billion and has remained during the past year at a level slightly below that figure. Any increase which has taken place in the total Canadian deposits of the chartered banks since October, 1946, has been in the inactive savings deposits held by the public primarily as investment of their savings. It was possible to have this stability in our active money supply because the government was able to reduce its outstanding securities held by the banking system and so largely offset the effect of the substantial increase which took place in chartered banks' loans and non-government investments. I will not endeavour here to go into the details; the important features for 1947 have been explained and emphasized by the governor of the Bank of Canada in his last annual report.

Members of this house and others will also have noted that the government and the Bank of Canada permitted market forces to bring about some increase in the yield on government securities during the past few months. This increase in interest rates at this time is not expected to have any great effect in restraining the high level of capital expenditure that is going on under present circumstances and which is contributing towards an inflationary situation in Canada, but such effect as it may have will be in the right direction. However, I do not believe that any reasonable increase in interest rates would act as a serious brake upon business expenditures under the circumstances of today nor would it serve effectively to persuade consumers to spend less and save more of their income.

Perhaps I might amplify this statement. Looking at the supply side of the market for funds, I cannot attach great importance to the influence of interest rates on the volume of savings by the general public. It is difficult to believe that the mass of small savers are likely to reduce their living expenditures under current conditions, merely because they can obtain a higher interest rate on the money they would save. It is possible, of course, that higher rates would induce the public to increase its purchases of government bonds but this would not be anti-inflationary unless they were doing so by increasing their current savings. Otherwise it would simply represent a switch from idle savings deposits to bonds and have no national economic effect.

Analysis of the demand side of the market leads me to the conclusion that no reasonable increase in interest rates is likely to affect materially the action of the industrial borrower. In that field demand is so intense that it would take a really substantial change in interest rates to dampen his enthusiasm and make him defer his capital project. But a rise in rates sufficient to produce these results would cause so drastic a fall in the prices of bonds and such chaotic conditions that I doubt whether any responsible person would recommend it as a deliberate policy. What we need is a slowing down, not a sudden cessation, of the capital development which has been taking place at a pace which has been straining our resources.

Without any further discussion of the economic background, I propose now to note briefly the main points concerning our expenditures and revenues in the past year and then to consider what the prospects are for this new fiscal year and what policies and measures should be adopted.

As is now the custom, detailed information concerning our expenditures, revenues, assets, liabilities and main financial operations for the last fiscal year are included in the white paper constituting an appendix to the budget, and I would suggest that hon. members and others examine this at their leisure—if the use of that term is applicable to hon. members of this house. The figures are, of course, preliminary, as it takes some time to close the accounts for an organization as vast and varied as the government of Canada.

As I have already stated, our total expenditures amounted during the fiscal year 1947-48 to $2,199 million and our total revenues to $2,869 million, leaving us with a surplus now estimated at $670 million. This is, of course, a large surplus—in absolute terms and in relation to the magnitude of our revenues and expenditures. It is larger than we anticipated last year, because our revenues turned out to be very much higher than we expected. Our revenues are sensitive to increases in prices and incomes and in expenditure on less essential or luxury goods and they increase more than in proportion to the rise in incomes and prices at times such as these. In forecasting our revenues at the time of the last budget, we had, of course, assumed a rise in prices and incomes, but we had to be reasonably conservative in doing so. Any minister of finance, should and would, I think, tend to err on the safe side. Our forecast proved to be much too conservative; prices, wages, profits and expenditures, all increased much more than we had anticipated. As a consequence, our revenues from the sales tax, the personal income tax, and the taxes on corporate profits were all substantially higher than we had counted on in the budget. The same was true of customs revenue, because both the volume and the prices of imports were much higher than we had expected a year ago. It was also true of special receipts and credits.

I have already explained the important role which this large surplus has had in helping to hold in check the inflationary forces which have threatened us in the past year. It is these very forces, and the extent to which they have prevailed, that have caused the surplus to be as large as it is. Had we not geared our tax system to produce such a surplus in these conditions, prices would have risen more rapidly than they actually did.

Expenditures have turned out to be slightly higher than I forecast a year ago, but mainly because I have come to the conclusion that this year the amount to be added to our reserve for possible losses on ultimate realization of our active assets should be $75 million rather than the amount of $25 million, provided each year for the previous seven years. This will be sufficient roughly to offset the charges which have been made to this reserve during the past two years and will restore the reserve to a level which I believe will be more in keeping with the magnitude of our assets and the proportion of them which consists of loans to overseas countries.

Apart from this item, our budget forecast of total expenditure turned out to be very close to the mark. Total expenditures, excluding the $75 million appropriation to the general reserve, amounted to $2,124 million against a budget forecast of $2,100 million. Expenditures in many cases were affected by the rise of prices and incomes, just as revenues were—for example, the higher general level of wages and salaries required higher levels of civil service salaries, and the cost of both materials and construction considerably exceeded the levels upon which the estimates were based. On the other hand, expenditures were held in check in certain cases by the difficulty in getting labour, materials and even contractors for construction projects.

As compared with the previous year, the chief features in our expenditures last year were the great reductions in the war and demobilization expenditures of national defence, and in expenditures on termination and liquidation of war contracts, on cost of living subsidies and on veterans' benefits. There were, on the other hand, increases in payments to the provinces and in expenditures on health and welfare, public works and transport facilities. The details are set forth clearly in the white paper and the salient points are summarized in the text of that document, so I will not take the time of the house to recapitulate them here. It might, however, be appropriate to make the comment that last year's expenditures still included fairly substantial items—particularly on subsidies, foreign relief, veterans' benefits, and housing—that are essentially temporary, post-war reconversion requirements which should largely disappear in time, though they may, of course, be replaced by other items.

In discussing the effect of last year's cash surplus upon the economic situation, I have already spoken of the main features of our disbursements by way of loans, advances and investments, and I will not endeavour to repeat any of the comments here. The details are set forth in the white paper. Our borrowing operations during the last fiscal year were not such as to call for much in the way of special comment. I have referred already to the short-term loan, arranged with the Export-Import bank of Washington, about which I gave details earlier this session in the debate on our emergency exchange legislation. The only securities sold to the general public during the year were Canada savings bonds which were on sale throughout the year, a new and second series being offered in October last. Gross sales during the fiscal year were $309 million. Leadership on the part of employers was of great importance, and more employers than ever expressed the belief that it was in their interest to assist in the carrying out of a successful canvass of employees. During and since the intensive sales period, reports from many employers have testified to the value of the special features of the Canada savings bond and of the payroll savings plan in promoting satisfactory employee relations, stability in family resources and continuity of purchasing power. The net amount of Canada savings bonds outstanding rose from $483 million at March 31, 1947, to $655 million at March 31, 1948.

Figures of our total funded debt and its composition as of March 31 last are given in the appendix, and I need not weary you with that detail here nor, I think, with figures of our debt redemptions during the year. Our net debt, of course, declined during the year by the amount of our surplus, and this reduced the total as of March 31 to $12,378 million. Although this represents a decline of $1,043 million from the peak of two years ago, it is still a very high figure and a reminder of the need we face to manage our revenues and expenditures in such a way as to throw off the maximum practicable surpluses under such prosperous conditions as we enjoy today.

The average interest payable on our funded debt outstanding as of this date was 2·66 per cent, compared with 2·65 per cent a year earlier.

FORECAST FOR 1948-49 BEFORE TAX CHANGES

The total expenditures provided for in the main estimates this year are approximately $1,985 million. Actual expenditures under individual votes normally fall at least a little short of the estimates, because the vote itself is the outside limit rather than the best forecast of probable expenditures. This year, however, with increased prices and salaries, with the development of post-war departmental programs, and with better recruiting results in the armed services, I would not expect the margin between votes and expenditures to be as great as last year, particularly as the treasury board restricted severely the introduction of new projects or of expanded programs in screening the estimates. There will also be substantial supplementary estimates later this year, though I do not expect quite such large supplementary estimates and further supplementary estimates this year as we had last year. The major increases to be covered by supplementary estimates that are now known are additional amounts for veterans allowances and disability pensions and for freight assistance on feed grains beyond July 31. There is a considerable variety of smaller items to be covered as well. In addition, there are some new or increased statutory expenditures, including, for example, the gold mining assistance payments and certain health grants announced last week. Allowing for the same provision as last year for our general reserve against losses on the ultimate realization of active assets, and apart from any expenditure arising from new developments in policy, I would estimate that our total expenditures in this new fiscal year will be very close to those of last year, notwithstanding the increase in prices. I am, therefore, putting down a forecast of $2,175 million.

While it is not possible or appropriate at this stage to make any allowance for major developments in policy not yet decided upon by the government, I feel we cannot afford to overlook the possibility that developing events in the international field may sooner or later make it necessary to increase our expenditures on national defence. The main essentials of the international situation and of the defence problem are already publicly known. As yet, the situation, despite its threatening appearance, has not led the government to believe that an immediate expansion in our defence activities now is necessary. Events are marching swiftly, however, and we must be prepared to change our program on short notice. While we would not be justified in forecasting higher expenditures this year on this basis, I think we must bear these circumstances in mind later in considering our tax policy.

I turn now to the revenue side of our accounts. Assuming no change in existing tax laws, we now estimate that our revenues in this fiscal year will amount to $2,724 million. In making this forecast, we assume some small further increases in wages and other incomes and some prices, a small increase in our national production, normal crops, and no serious industrial disputes or other setbacks to production and income. These are, I would say, conservatively optimistic forecasts. Prices, wages and profits may increase much more if inflationary forces prevail. Good crops would increase our real production and our revenues above what I have assumed and forecast. On the other hand, serious difficulties in our export markets, poor crops, prolonged stoppages of production or an abrupt decline in capital expenditures of Canadian business might reduce incomes and our tax base and make our estimates appear too optimistic. We have made these forecasts carefully, fully conscious that our last year's estimates proved unduly conservative. We believe them to be fair and honest figures, given the assumptions I have made.

With the consent of the house, I shall place on *Hansard* at this point a summary table showing the forecast for this fiscal year of revenues from each main source, compared with the actual receipts last year.

Forecast of Revenues

	Forecast Fiscal year 1948-49	Actual Fiscal year 1947-48 (Preliminary)
	(Millions of	Dollars)
Customs duties	250	293
Excise duties	200	197
Sales tax (net)	395	372
Other excise taxes	270	268
Income tax		
Personal	675	660
Corporate	520	364
Excess profits tax	60	227
Interest and dividends, etc.	38	36
Succession duties	32	31
Miscellaneous	4	4
Total tax revenue	2,444	2,452
Non-tax revenue	190	178
Total ordinary revenue	2,634	2.630
Special receipts and credits	90	239
Grand total revenue	2,724	2,869

It will be noted from this table that we anticipate in general relatively little change in the aggregate receipts from taxes, $2,444 million against $2,452 million, but substantial changes in the receipts from individual sources of revenue. Excise duties are expected to remain stable at about $200 million. Customs duties last year reflected the abnormal level of imports particularly in the months just prior to the imposition of our import restrictions. As a result of these restrictions and of lowering of tariffs under the Geneva agreements, customs duties this year are being estimated at $250 million against $293 million last year. Taking into account the partially offsetting effects of higher prices, the loss of certain excise taxes and new or increased taxes, we estimate that the total yield of excise taxes, including the sales tax will exceed that of last year by $25 million. In the case of personal income taxes we estimate a moderate increase, the effect of increasing incomes not being fully offset by the fact that the reductions in rates made in last year's budget will be effective for the full year. We are also estimating that there will only be a modest decrease in the combined yield of corporation and excess profits taxes; the excess profits tax ceased to apply to profits earned after January 1, 1948, but the consequent decline in this tax should be largely offset by the rising yield of the ordinary corporation tax due to increased earnings.

In regard to non-tax revenue, I anticipate a moderate increase due to the increasing return on investments and some increase in post office receipts. However, special receipts and credits, which include receipts from sales of war assets, refunds of previous years' expenditures, and various items previously of a bookkeeping nature, are expected to decline from $239 million last year to approximately $90 million during the current year.

With anticipated expenditures of $2,175 million and revenues of $2,724 million, it would appear likely that in the absence of any tax changes we should have a budgetary surplus of $549 million in the current fiscal year. However before coming to the tax changes which I shall recommend, I wish to refer to certain additional transactions in our government accounts which are extremely important from the economic standpoint and important also in appraising the significance of this prospective surplus.

The surplus is in terms of expenditures in the accounting sense and does not include our loans, advances and investments which, in fact, require disbursement in cash as much as do expenditures, have in many cases similar economic effects and differ only in giving rise to an asset or claim which we show on our books. I have already noted some of the important items in this category in speaking of our operations last year. It is not possible to forecast these items for the new year in detail nor with great accuracy, but I think I can safely predict that we shall have some fairly substantial items of this character this year, as we did last year. Provision is made in the estimates already tabled for loans and investments of approximately $51 million, of which $50 million is for various purposes under the Soldier Settlement and Veterans Land Acts and approximately $1 million for the construction expenditures of the national harbours board. We must also anticipate some loans to the Canadian National Railways and other government corporations and enterprises, although at the present time I am unable to forecast the magnitude of these.

The important items in the last few years have been those relating to the financing of exports. In this current fiscal year, we shall not have such large loans to overseas countries as we did last year, but we shall have some. I should expect that, taking into account what we know about our prospective balance of payments for the current fiscal year, we shall have to use an important part of our budget surplus to finance the excess of our exports of goods and services over our import of goods and services. This will include the Canadian dollars which we must find to finance exports to foreign countries on credit and to buy United States dollars from Canadian exporters which we must add to our reserves or use to pay our debts abroad. This use of Canadian dollars to finance current international payments adds to incomes and national expenditures and should be deducted from our surplus in appraising the real effect of government operations on the inflationary situation. We should deduct in a similar way that part of our domestic loans and investments which will be used on capital expenditures or for other spending purposes.

Moreover, a substantial portion of our redemption of debt this coming year will take the form of the repayment of refundable taxes, and we must expect that a large proportion of this particular type of debt repayment will give rise to current expenditures and cannot be reckoned anti-inflationary. The law requires us to repay before the end of this fiscal year the refundable portion of the taxes on the income of 1943, which we have estimated at $150 million for personal income taxes and $67 million for excess profits taxes. In addition, the government has decided that in view of the increasing difficulty of tracing the movement of taxpayers and identifying them, and in order to save the heavy expenses of a double issue of cheques to over one million recipients, the refundable tax that was collected on that part of the personal income of 1944 that was subject to such tax, will be repaid at the same time as the refundable tax on 1943 incomes. This will mean an additional refund of $80 million or a total for the two years combined of approximately $230 million. That part of these refundable taxes and of our loans and investments that will be used to finance expenditures will account for a large part of our surplus and only the remainder will have an important anti-inflationary effect. Consequently, it is upon this remaining portion that we should concentrate in considering our budget policy.

BUDGET POLICY

From the information I have given, it is clear that if our budget problem were simply and solely to find enough revenue this year to meet our expenditures, defined in the narrow accounting sense, we could afford to reduce taxes by a substantial amount. But that is not our budget problem, and if we approached our affairs in such a shortsighted manner, we would betray the responsibility which the people of Canada have entrusted to us.

In the first place, we must look further into the future than this year. Quite apart from any effort to influence the economic situation, which I will consider later, we must bear in mind that times are exceptionally good at present, economically and financially, and it would not be prudent to rely on such conditions continuing indefinitely. We should now be preparing for times when markets and employment are not so favourable—or at least when we will have to spend money to support them and to meet other expenditures that turn up when business turns down. Our surpluses now are temporary surpluses and will quickly disappear when we have more difficulty in selling our goods abroad and less capital expenditure by business in Canada. We should, therefore, be putting away what we can now for a rainy day. In our case, we put it away by paying off debt.

Secondly, we face today very great uncertainties in international affairs and, as I said, we may be confronted at any time on short notice with a large increase in expenditures on national defence. As long as that remains a possibility, we should have some considerable margin of safety in our revenues to take care of such an increase in our expenditures; otherwise, we would have to add to the other disturbing effects of an expanded defence program the complications of sudden inflationary expenditures or sudden increases in taxes. A substantial surplus will help to keep our powder dry.

Thirdly, this government and this parliament must accept a considerable measure of responsibility for influencing and, indeed, directing economic trends in so far as that can be done within the framework of our political and economic principles. Were we only a small municipality, unable to influence the mighty economic forces determining the prosperity of our citizens, it would still be wise for us to look further ahead than this year and to put something by at present. But for those charged with responsibility of directing the affairs of the nation as a whole, the case is very much stronger. What we do will affect the fortunes of our citizens and their cost of living. If we diverted our prospective surplus into a reduction of taxes now, it would add hundreds of millions of dollars a year to the already intense demands of Canadians for goods and services—but it would add nothing to the volume of Canadian goods and services available for sale. People would try to buy more, but there would not be more to buy, unless the effort to get it resulted in more imports that we cannot afford and which we would have to shut out somehow or other. Prices would be sure to rise. Some people would profit, but others would lose out to the higher cost of living. The apparent benefits of tax reduction would prove to be a mirage except to those strong or fortunate groups which can profit more than they suffer by higher prices.

There is another aspect to it. As a nation we are struggling now to live within our means so far as foreign exchange is concerned, and to get enough reserves to enable us to be masters of our own affairs and not dependent on what we can earn from month to month or on help from others. In this emergency we are having to use restrictive government controls that most of us dislike and that are alien to our whole way of doing business. We want to get rid of them as soon as we can. If we do not, they will not only stay but spread into other fields. To get rid of these controls, we must build up an export surplus—we must try to export more or import less, or both. We cannot do that if we are trying at the same time to increase substantially our purchases of goods and services in Canada—because we are already producing and selling practically all that our resources of labour and material make possible. Therefore, it would not be sensible to make any general reduction in our taxes now and thereby increase the amount that people and businesses can spend on goods and services. To slash our taxes now would fasten controls more securely on our national life.

I believe that all parties in this parliament and most Canadians share the view that the national budget is no longer merely a matter of the government accounts that should be balanced every twelve months on some financial rule of thumb. We view the national budget now as an integral part of the nation's business, influenced by and having an influence upon the state of employment, income and prices. I think we would all agree that in times of widespread unemployment and insufficient demand for goods and services our expenditures should be increased in order to support employment and incomes, and that they could and should exceed our revenues under such conditions. Now we are at the opposite extreme and we should follow the opposite course. We should deliberately budget, as a matter of policy, for substantial surpluses in times like these. Only that way can we hold inflationary forces in check. Only that way, over the course of many years, can we make up at least in part for the deficits we shall have in less favourable years and prevent an indefinite spiralling up of our national debt, already at a very high level as the sequel to two wars. Now is the time to lay the foundation for employment budgets in future, while fighting inflation at present.

Some friends have suggested to me, seeing this surplus in prospect, that I should adopt the device of burying part of it in some sort of reserve for future expenditure on national defence, national development, or social security. Such an arrangement, they say, would make the surplus less visible and less of a temptation to those who, for one reason or another, feel that taxes should be reduced or expenditures increased, notwithstanding the wisdom of acting otherwise. This could be done. We could announce, with appropriate fanfare, the creation of a national development fund or a national welfare fund —and put into it several hundreds of millions of this year's revenues and provide that the fund was to be used under some specified circumstances in the future. This would, of course, be simply bookkeeping; it would alter nothing in reality; it would simply complicate a situation that is more easily understood as it is now. Bookkeeping funds for meeting future liabilities have their place —but only, I think, for meeting contractual liabilities incurred now to be paid in the future, like insurance or pension or annuity liabilities. As a means for transferring revenues from one year to meet expenditures in another they are unnecessary, if parliament and the public can appreciate the relatively simple reasons for budgeting for surpluses in good years and for deficits in poor years. I believe the simple and straightforward presentation of the budget problem is the best one, and that hon. members of this house and others outside will support the policy I propose on its merits without the support of artificial devices.

The arguments of general policy are reinforced by specific circumstances applying to the important types of tax. In the case of the personal income tax, we have already had three substantial reductions since the end of the war, and ours, I believe, is now, by and large or for the majority of people, the lowest income tax in the English-speaking world, with the highest exemptions. It has been reduced to levels which, under present circumstances, offer no serious impediment to work or initiative—at least, none that could be removed by any further reasonable reduction. Its details have been improved—and we will continue to improve them. Its administration has been greatly strengthened and, as the larger staff overtakes accumulated arrears, it will continue to gain in efficiency, smoothness and fairness.

[Mr. Abbott.]

In the case of corporations our tax, together with provincial tax, is substantial but slightly lower than that in the United States, and corporations in both countries are thriving at present, to say the least. There appears no need to reduce our corporation tax either on grounds of incentive or to release more corporate profits for capital expenditures or for dividends. In this field, too, there have in recent years been considerable improvements in detail that make the tax more equitable and less burdensome in special and unusual cases.

In the field of commodity taxes, we have still retained in many cases the higher rates introduced during the war, as well as the basic rate of sales tax adopted before the war. We have dropped, of course, the war exchange tax, because it was discriminatory and because it was adding substantially to costs of production. We have also removed our sales tax from equipment and machinery, used in production, to help keep costs down and improve our competitive position. We have reduced our tariffs as a part of a deliberate plan to encourage and develop trade. We have relinquished the important field of gasoline taxes wholly to the provinces. We have repealed the tax on sugar and lowered the duties on tea and coffee to help keep the price down. We have repealed the sales tax on the domestic use of electricity. We have made other more specific changes to meet specific problems or for special reasons. But we have not reduced the heavy wartime taxes on tobacco, liquor and other beverages or the taxes on a wide range of those less essential goods or services considered proper means of raising the additional revenue required for war and reconversion needs. The present circumstances are not appropriate for far-reaching reductions in these indirect taxes. Demands are so excessive in relation to supply that we cannot rely upon competition or other market forces to ensure that the consumer would get the benefit of any general or widespread reductions we might make. Producers or distributors are in a favourable position to gain whatever the treasury gives up, and they could probably find plausible reasons for doing so, notwithstanding the high levels of profits at present.

In regard to possible reductions in the income tax, there is another consideration which I feel I should explain at greater length, and that is the comparison between our levels of income tax and those in the United States—a comparison which appears to be regarded as one of considerable importance. I must confess that I am repeatedly surprised that from this comparison conclusions are almost always drawn unfavourable to Canada, despite very strong evidence to the contrary.

In order to set forth the facts as clearly as possible, I would like now with the consent of the house to place on *Hansard* tables comparing the Canadian and American taxes at various levels of income:

Comparison of Personal Income Tax in Canada and United States for 1948

These comparisons are made up on the following assumptions

Canadian Tax

1. No allowance made for medical expenses, pension contributions, charitable donations, or other deductions. Taxpayers claiming such deductions would pay less tax than shown.

2. All income over $30,000 assumed to be investment income and subject to additional 4 per cent tax.

3. Family allowances for children taken into account as being in lieu of income tax relief for children.

United States Tax

1. Deduction of 10 per cent of income up to a maximum of $1,000 claimable by every taxpayer in lieu of deductions for medical expenses, charitable donations, state taxes, etc.

2. All taxpayers assumed to take full advantage of the provision for splitting incomes between husband and wife.

3. New York State income tax included in calculation.

Single Taxpayer—No Dependents

Income	Canadian Tax	U.S.A. Tax including State Tax	Amount by which Canadian tax exceeds U.S.A. Tax
700	..	5	..
800	5	20	..
900	16	35	..
1,000	29	50	..
1,100	44	65	..
1,200	61	81	..
1,300	80	97	..
1,400	100	113	..
1,500	120	129	..
1,800	180	177	3
2,000	220	209	11
2,250	270	249	21
2,500	320	290	30
2,750	370	332	38
3,000	420	376	44
3,500	520	471	49
4,000	620	566	54
5,000	835	760	75
7,500	1,465	1,342	123
10,000	2,253	2,034	219
20,000	6,515	6,250	265
25,000	9,015	8,918	97
30,000	11,728	11,762	..
50,000	23,456	23,893	..
75,000	39,418	41,025	..
100,000	56,631	59,697	..
200,000	133,056	140,310	..

Married taxpayer—No children

Income	Canadian tax	U.S.A. tax including state tax	Amount by which Canadian tax exceeds U.S.A. tax
$	$	$	$
1,400	..	10	..
1,500	..	25	..
1,600	10	40	..
1,700	22	55	..
1,800	36	70	..
2,000	70	100	..
2,250	120	137	..
2,500	170	174	..
2,750	220	212	8
3,000	270	251	19
3,500	370	332	38
4,000	470	412	58
5,000	670	578	92
7,500	1,260	1,048	212
10,000	1,990	1,556	434
20,000	6,140	4,512	1,628
30,000	11,315	8,366	2,949
50,000	23,043	18,078	4,965
75,000	38,968	32,245	6,723
100,000	56,143	47,841	8,302
200,000	132,493	119,429	13,064

Married Taxpayer—Two Children of Family Allowance Age

Income	Canadian tax	Net position of Canadian taxpayer after receiving average family allowance payments	U.S.A. tax including State tax	Amount by which Canadian net tax position exceeds U.S.A. tax
$	$	$	$	$
1,800	10	+ 134	....	....
1,900	22	+ 122	....	....
2,000	36	+ 108	....	....
2,250	80	+ 64	....	....
2,500	130	+ 14	....	....
2,750	180	36	12	24
3,000	230	86	50	36
3,500	330	186	125	61
4,000	430	286	203	83
5,000	630	486	364	122
7,500	1,208	1,064	797	267
10,000	1,930	1,786	1,299	487
20,000	6,040	5,896	4,120	1,776
30,000	11,205	11,061	7,878	3,183
50,000	22,933	22,789	17,439	5,350
75,000	38,848	38,704	31,544	7,160
100,000	56,013	55,869	47,068	8,801
200,000	132,343	132,199	118,502	13,697

The figures which are included in this table for the United States give full effect to the recent reductions enacted by congress, including the option of splitting the income of married persons between husband and wife. They take account, too, of the standard deduction of 10 per cent of income in lieu of other deductions, which I understand is claimed by 85 per cent to 90 per cent of American taxpayers. On the other hand, the Canadian figures represent the maximum possible tax that would be paid in Canada, with no deductions counted for contributions to charity or pension funds, and no deductions for medical expenses. They are based as well on the assumption that all income in excess of $30,000 is investment income, subject to the additional 4 per cent tax. In the case of taxpayers with children, the receipt of family allowances is taken into account in the comparison, since these are clearly understood to be in lieu of additional income tax exemption for persons subject to income tax. The United States, of course, has no corresponding allowances. The American figures include taxes payable in New York state as typical of the taxes now levied by more than half the states. Any lack of comparability in these figures is such as to make the Canadian tax appear high by comparison.

Despite the common conception of lower taxes in the United States, it is clear from this table that at many points the Canadian tax is lower. Indeed, taking into account the number of taxpayers at various income levels, I am able to make what is to me the striking statement that three out of every four Canadians would pay more income tax on their present income if they lived in the United States rather than in Canada. As these tables show, it is mainly in the fairly well-to-do class of married taxpayers that American taxes are appreciably lower, and that result is now achieved principally by the unique feature, recently adopted in the United States, of allowing the splitting of income between husband and wife for tax purposes—a feature which was extended to the whole of that country when there appeared no other means of achieving equity as between those states where this privilege existed through local laws and those states where it did not. Were this provision not a part of the American law, there would be only a moderate difference in the amount of tax payable, even at these high levels of income for married persons. I know it will be difficult to dissipate the general misconception that seems to prevail regarding the respective levels of personal income tax in the two countries, but I venture to think that any thoughtful person who takes the trouble to examine the figures carefully will conclude that most statements made in this connection, if not entirely wrong, are at least considerably exaggerated.

[Mr. Abbott.]

TAX PROPOSALS

After considering all these matters, I have come to the conclusion that the budget this year should contain no general tax changes. There are a number of specific changes which should be made to improve our tax system and which I think can be made for that purpose, without seriously worsening the inflationary danger or seriously offending against the principles which we should follow in general. These I shall now propose and explain. They will involve reductions in taxes of types and in places where reductions will be most helpful. But they are to be regarded as exceptions rather than the rule. The general policy for this year should be to use our surplus to reduce our debt and thereby to fight inflation in the manner most suited to our type of government and our way of life.

In the field of personal income taxes, I am proposing one change of significance which will, I believe, be accepted with commendation on all sides of the house. Having in mind the large number of elderly people living on small fixed incomes, and out of consideration for the particular trials and increased expenditures that usually come with advancing years, I am proposing that an additional exemption of $500 be granted to a taxpayer of sixty-five years of age or over. Many of these elderly people living on small pensions or other forms of fixed income with no opportunity to participate in the increased wages, salaries or profits enjoyed by other sections of the community, are particularly hard hit by the higher costs of living which present boom conditions have brought about. This group of our citizens is entitled, I think, to special consideration at this time. This special exemption follows a precedent established both in England and in the United States, and its effect in Canada will be that no taxpayer of sixty-five or over will pay tax until his income exceeds $1,250 if he is single, or $2,000 if he is married. This change will apply for 1948 and will cost about $5 million in revenue for a full year.

In order to encourage the continued search for new sources of minerals, oil and gas in the interest of developing our natural resources and conserving United States dollars, I am also proposing to extend for another year the allowances and tax credits now granted the mining, oil and gas industries in respect of exploration and off-property drilling expenses.

It is also proposed to increase the penalty rates applying to unpaid taxes from the present 4 per cent and 7 per cent to 6 per cent and 8 per cent respectively. These higher penalties will provide an additional spur to the payment of the proper amount of tax on the due date and contribute to greater equity as between individual taxpayers. At the same time, I feel that it will also be appropriate to make provision for the payment of interest by the government on taxes overpaid by the taxpayer. I am therefore proposing that interest of 2 per cent per annum be paid where the amount of overpayment is $5,000 or less, and one-half of 1 per cent on the excess over $5,000.

Some hon. MEMBERS: Oh, oh.

Mr. ABBOTT: I do not wish to encourage the lending of money to the government at high rates of interest, and the rate of two per cent is the rate which was paid on compulsory savings.

As hon. members and the public at large will recall, I introduced at the 1947 session of parliament a revision of the Income War Tax Act which has become known generally among those interested as Bill 454. It will be remembered that this bill received only first reading at that time, and was allowed to stand over for study by members of parliament, lawyers, accountants, businessmen and taxpayers generally throughout the country in order that we might have the advantage of the broadest possible consideration of this important measure. I may say that the opportunity thus afforded to study the bill has resulted in a very thorough examination of its provisions and the various individuals and organizations which have submitted briefs are to be congratulated on the constructive nature of their suggestions. These have been of great assistance to myself and the officials engaged in redrafting the bill.

In keeping with the intention I announced last year, I plan to reintroduce the revised bill as soon as the budget resolutions have been disposed of in the expectation that the new measure will be enacted this year. However, because its final passage may not come until towards the middle of the year, I am now proposing that its effective date be postponed until the beginning of 1949, rather than have it apply retroactively to the beginning of the present year, as I had earlier planned to recommend. Anticipating the adoption of this proposal by parliament, I will introduce some minor amendments to the present Income War Tax Act applicable to 1948 which will anticipate certain features of the new bill that it is felt desirable should be brought into effect for the present year. These amendments are of relatively minor importance and will be dealt with fully when we are discusing the 1948 amendments to the Income War Tax Act.

In the field of commodity taxes, I have felt it necessary to frame my proposals in the light of the government's general fiscal program, and am, therefore, not proposing any sweeping or drastic reductions in tax rates. I have considered, however, whether anything might be done by way of a direct contribution toward reducing the cost of living at one of those points where it has been felt most acutely, that is, in the cost of food, and where it would create little additional inflationary pressure. As a positive step in this direction I have decided to propose to parliament that substantially all of the items of food not now exempt from the sales tax be put on the exempt list from tomorrow onward. As I have said before in this house, most of the standard food items such as bread, butter, milk, cheese, eggs, salt, sugar, fresh fruit and vegetables, and fresh meats are now exempt from sales tax, and the items taxable at the present time are comprised largely of canned, packaged, processed or otherwise prepared foods. Under the proposed change practically all the items in this latter group will be exempt from tax. In general the new exemptions will include fruits and vegetables, whether canned, frozen or dehydrated, including jams, jellies and marmalade; fruit and vegetable juices; prepared meats and poultry, whether canned, smoked, cooked, frozen or dried; canned soups; canned fish; prepared cereal breakfast foods excluding beverages; biscuits and cookies; yeast and ready mixed flour preparations; spaghetti and macaroni and one or two other items of lesser importance. The revenue loss involved in granting these exemptions will be of the order of $20 million in a whole year.

It is my hope that the removal of the 8 per cent tax from this long list of items will result in a reduction in prices as soon as the reductions can be passed along to consumers. I appreciate that this tax is imposed at the point of manufacture or wholesale distribution, and has already been paid, therefore, on goods now in stock in retailers' hands. At the same time, I wish to make the position clear that there will be no refunds or credits of tax to manufacturers or wholesalers in cases where they accept the return of goods previously delivered in respect of which taxes are repealed by this budget.

Again having in mind the needs of the average household, I am proposing that the 25 per cent retail purchase tax be lifted tomorrow from silver-plated knives, forks and spoons and from alarm clocks of a retail value of $10 or less. This change will remove from the scope of the retail sales tax items of common use in the home. I am also proposing as a measure of alleviation to the blind that Braille watches be exempt from the tax. The revenue reduction involved in these changes will amount to about $600,000 for a full year.

Hon. members will recall that a year ago the dominion government withdrew its gasoline tax on the ground that this field was one that had been traditionally occupied by provincial governments and had been entered by the dominion under the emergency conditions of wartime. It will be recalled, too, that on several occasions it has been represented to the federal government by provincial governments that the dominion should also withdraw from the other fields in which the provinces have been normally regarded as having a particular interest. These included principally the dominion tax on the consumption of electricity, which was withdrawn last November, and the dominion tax on amusements and pari-mutuel bets. In regard to these latter two fields I am proposing that the dominion taxes cease to be imposed from tomorrow onward. This amendment will apply to the 20 per cent tax on admissions to theatres and the like, the 25 per cent tax on expenditures in other places of entertainment and the 5 per cent tax on pari-mutuel bets. Our revenue will be reduced by an estimated amount of $23,500,000 a year as a result of dropping these taxes. May I be permitted here to express the hope that in these cases where the dominion government removes taxes of this kind and withdraws from the field, the taxpayers of Canada will receive the benefit of such action and that, so far as possible, provincial taxing authorities will refrain from stepping in?

In another field I am proposing that the 3 per cent excise tax on imports from general tariff countries be repealed. The tax in its present form is a vestige of a levy first imposed in 1932 which applied originally to imports from all countries. Its scope of application has been gradually narrowed until at the present time it serves only as a needless encumbrance to trade with a relatively limited number of countries. The revenue from this source last year was about $2,100,000.

Several other miscellaneous changes of a minor character are also proposed. The tax of sixty cents a gallon on spirits used in making vinegar will be removed. This tax was intended to encourage the production of cider vinegar but I understand has not had this effect, and at the present time only increases the consumer cost of a food item in widespread use. A minor change will be made in the tax on matches by adding an extra bracket in the rate schedule to apply to books or packages containing a very small number of matches. As a result of representations I have received from religious and educational leaders to the effect that the 25 per cent tax imposed on 16-millimetre projectors for films and slides is discouraging the further use of such projectors in schools, churches and other institutions, the tax will be removed from 16-millimetre projectors. Wheel chairs for the use of invalids will be exempt from the sales tax, and other minor amendments affecting hay binders and presses and rope used by fishermen will also be made in the sales tax.

Turning to a field somewhat removed from that just discussed, I wish to outline two significant changes that I will propose in the field of succession duties. The house will recall that the dominion entered this field for the first time in 1941. We entered it not as a temporary wartime measure but as a permanent step in a direction which we felt might eventually lead to a national uniform system of death duties. This end was further promoted by the withdrawal of the death duties imposed by the seven provinces which entered into the dominion-provincial tax rental agreements. It is, therefore, a fact that the measure of relief I am about to propose is possible to a large extent because of the assurance I have that as a result of the provincial agreements it will be fully effective in at least seven of the provinces.

The measure that I have particularly in mind in this connection is that whereas in the past the smallest size of estate subject to dominion duty has been $5,000, I am proposing that no estate of a person dying on or after January 1 of this year will be subject to duty unless it exceeds $50,000. In effect, this means that the dominion government is withdrawing completely from the field of succession duties as this affects the smaller estates. The significance of this change will be realized when it is considered that about 90 per cent of the estates of deceased persons in Canada will henceforth be completely free of dominion duties. This relief will result in a great saving in the administrative burden of handling a great volume of small estates, will expedite the settlement of the affairs of many deceased persons and, above all, will relieve the beneficiaries of these small estates of any dominion duty on the bequests they receive. It is estimated in this connection that at the present time in a full year the revenue loss involved in this change will be in the neighbourhood of $5 million.

I am suggesting another change as a measure of encouragement to charitable bequests. Whereas, under the present law, up to one-half of an estate may be left for charitable or educational purposes exempt from succession duty, in the future this limit will be removed and any amount of the estate may be given to charity free of succession duty. This measure has been urged on me for some time by religious and educational leaders, and in a society where our great public institutions still depend to a large extent on private support I feel that a measure of this sort is justified in the general public interest.

There will also be several other minor changes of a technical character in the succession duties act of which the principal will be to define the basis of share situs in the case of companies as the place of incorporation of the company, the basis now generally adopted in our succession duty treaties with other countries.

All these amendments to the Dominion Succession Duty Act will be effective as from the first of this calendar year.

TARIFF PROPOSALS

When I presented the budget last year, I referred to the tariff negotiations which were then taking place at Geneva under the sponsorship of the economic and social council of the united nations. These negotiations were successfully concluded in October. The results are embodied in the general agreement on tariffs and trade which was made public on November 18. The successful outcome of these negotiations has been a most encouraging development in the international efforts that have been undertaken since the end of the war to establish better economic relations between nations. This general agreement is the most comprehensive international agreement ever concluded for the reduction of barriers to trade, having regard both to the volume of world trade affected and to the scope of the undertakings. The reductions and concessions in tariffs which each of the twenty-three participating countries and separate customs territories represented at Geneva agreed to grant one another apply to approximately one-half of total world imports.

At the conclusion of the Geneva conference, eight of the participating countries, including the United States, the United Kingdom and Canada, agreed to make these reductions effective provisionally as from January 1, 1948. Since that date, four additional countries either have brought their concessions into provisional effect or have indicated their agreement to do so in the near future. Consequently, Canada is at present receiving the benefits of the Geneva reductions on a very large part of her total export trade. Similarly, Canada has granted the Geneva concessions in the Canadian tariff to the other signatories since the beginning of the year.

The Canadian concessions were extended provisionally by order in council under the authority granted to the governor in council in the Customs Act. The Canadian concessions negotiated at Geneva will be brought into effect finally, and the general agreement will be ratified, only after the approval of parliament has been secured. The agreement was submitted to parliament at the opening of this session, and is now before the standing committee on banking and commerce where it is being examined in detail. The further legislation necessary for the implementation of the agreement will not be proposed until after the committee's report has been received.

The budget resolutions concerning tariffs and customs which I am introducing at this time are confined to two matters. It is proposed to make a number of adjustments in the existing tariff to bring it into line with present needs and conditions. It is further proposed to make a number of changes designed to facilitate the importation from the United Kingdom of important supplies which we need in Canada and in respect to which the United Kingdom has been experiencing particular difficulties in her efforts to re-establish her pre-war position in this market

The adjustments in the tariff which I am proposing are all downward adjustments. No increases are proposed. Some of the reductions are designed to take account of technological changes which have occurred in the last few years; some would effect reductions in costs of production; some would remove complexities and facilitate administration, and a number would embody reductions already made by order in council in response to immediate circumstances that have arisen from time to time. In general, the changes proposed would effect some reductions in costs of operation in a number of important industries including the mining industry, the building industry, and in certain parts of the dairy products industry.

Among the resolutions which I am introducing tonight, there is a proposal to suspend temporarily the British preferential duties on cotton and rayon piece goods. As hon. members know, the United Kingdom has for many years supplied an important part of our requirements of these commodities. During the war, the United Kingdom was unable to keep her place in our market. Since the end of hostilities, continued efforts have been made to restore the production and exports of this great staple of British trade. However, the shipments which the United Kingdom has been able to make to Canada have not increased as rapidly as we had hoped both from the standpoint of what our consumers need and from the standpoint of our desire to reduce the large gap in our balance of payments with that country. At present, British exporters of cotton and rayon piece goods are encountering difficulties in their efforts to expand sales to Canada because their laid-down prices in this country, after payment of duty, are higher than our converters and consumers can afford to pay. The proposal to suspend the duties temporarily would help to reduce the obstacle arising out of the price situation.

We have received assurances from the United Kingdom that the reduction in landed prices made possible by any removal of duties would be passed on to Canadian buyers. We have been assured also that the United Kingdom government will take all possible steps to see that the target which has been set for shipment to Canada of 80 million yards of cotton piece goods in 1948 will be met. With these assurances, the suspension of duties should make it possible for Canadian consumers to obtain essential supplies of cotton and rayon piece goods at lower prices and in substantially larger quantities than would otherwise have been the case.

I am therefore proposing that the British preferential duties on cotton and rayon piece goods be suspended until June 30, 1949. There will be an opportunity to review this whole matter on the basis of the results achieved before that date. In accordance with our commitments in the Geneva agreement, under which preferential margins may not be widened, the proposal to suspend the British preferential rates on cotton and rayon piece goods includes a reduction in the most-favoured-nation rates on these items by the same amount until June 30, 1949. However, the imports of cotton and rayon piece goods from scheduled countries are limited by the quota under the Emergency Exchange Conservation Act.

Finally, among the resolutions pertaining to tariff and customs matters, I am including a proposal which would enable the governor in council to relieve certain goods or classes of goods from special dumping duty. Under this proposal such relief could be granted in cases where the governor in council determines that the importation of the goods is necessary to meet essential requirements in Canada or could be used to advantage in Canada without causing hardship to Canadian producers. In view of continuing scarcities, it is clearly desirable that it be possible to grant relief from dumping duty in such circumstances.

It is estimated that these reductions in tariff duties will result in a reduction in revenue of some twelve to fourteen million dollars in the current year.

CONCLUSION

It is estimated that, taken altogether, the tax changes and tariff reductions which I have proposed will reduce our revenues in a full year by over $70 million and in the remainder of this fiscal year by something over $60 million. Deducting this latter figure from my forecast of revenues before tax changes will leave us with anticipated revenues for the current year of approximately $2,664 million. On this basis the anticipated budgetary surplus for the year will be reduced to $489 million. We shall have of course additional receipts of cash from repayments of loans and from the accumulation of annuity, pension and insurance funds, but these, it is believed, will be substantially less than last year, because we are not likely to be receiving repayments from the foreign exchange control board nor nearly as large a repayment of the United Kingdom

1942 loan. When we have made the loans and investments which the year's operations will require and have paid back the refundable taxes for 1943 and 1944 which of course is a form of debt retirement, we shall find that our remaining cash surplus will not in fact be a large one. Moreover, we could not allow our budgetary surplus to be reduced much further without running the risk that the sum total of the government's financial operations this year might have an inflationary, rather than anti-inflationary, effect.

It may be of interest to note that if we followed the budgetary practices of the United States government, under which they include on the one side all receipts except borrowings, and on the other side all disbursements except redemption of debt, we should have a small surplus in this coming year. The practices that we follow are better, I believe, in that they present a truer accounting picture of our different types of transactions and show more clearly the changes in our net debt and assets, but the American practice has certain advantages in times like these when it is desirable to take an over-all view of the government's financial operations in deciding what is the proper budget policy from the point of view of the effects upon the national economy.

A substantial portion of the requirements for this year which I have described arise directly out of the war; this is true of a portion of our expenditures, particularly on veterans benefits, housing and subsidies. It is also true of some of our loans and investments, and, of course, the refundable taxes arose from wartime operations and will be mostly repaid by the end of this year. If no new types of expenditure are undertaken, and if economic conditions remain favourable, we can expect a decline in our requirements in future years, but even in such circumstances we could not expect a drastic decline. The effects of two world wars on our public debt cannot be escaped, however severely we may economize. The wars have also left us a heritage of pension bills. The new international situation and the dangers of total war have brought us continuing high costs for national defence. But these are not the only factors. The activities and scope of government in Canada have been extended by popular consent and, indeed, by popular demand. Parliament and the government have a wider responsibility than before the war, particularly in the field of economic affairs. Our expenditures inevitably reflect this extension. Social security is an expensive undertaking, and we have moved substantially into this field since before the war and are now spending hundreds of millions of dollars each year upon it. We are already undertaking much more in national development, trade promotion and the support of prices of primary products. All political parties and the public generally take it for granted now that governments must bear some responsibility for maintaining employment when large-scale unemployment threatens. That is bound to be a very expensive responsibility if economic circumstances outside of Canada become adverse.

With these wider responsibilities already assumed and in contemplation, with the public demand there is today for additional government responsibilities and expenditures in many fields, we must anticipate large budgets in future, and we cannot lightly reduce taxation in any field. Those who advocate increased expenditure should bear in mind the weight of our budgetary problems in the future. There is no inexhaustible source of revenue that we can tap. There are limits to what we can spend without raising additional revenues, if we are to prevent inflation and the hidden burdens which is imposes. I wish to appeal particularly to hon. members at this time to bear thoughtfully in mind our future budgetary problems when considering new proposals for government activity, social security, or other expenditures. In the world of today we must be prepared to undertake much that is new, much that is daring, much that is big. We must also be prepared, however, to pay the price, and it is in our budgets that that price is brought home to us.

I think we can well take pride in the prudent, responsible and effective way in which the financial and economic affairs of this country have been managed both during the war and since the war has ended. I hope I am not one given to overstatement, but I doubt whether any nation in the world has a better record in this field.

Canadians I think are realists. We do not expect to get something for nothing. We know that things have their price. We are proud of the advances which we have been able to make in the field of social security, and in assuring to our people a better and a fuller life. We know that to attain these great purposes, we must frame our policies and direct our efforts towards achieving and maintaining a high and expanding level of employment and income. That is what we have done, and that is what we are continuing to do. The record speaks for itself. Canada today enjoys a level of employment, prosperity and national income, and a standard of living and of real social security never achieved before in the history of our country. That that is so, Mr. Speaker, is due in large measure to the wisdom, the vision, and the supreme qualities of statesmanship possessed by a man who for more than twenty years of the last quarter century has been the head of the government of our country, the present Prime Minister of Canada (Mr. Mackenzie King).

I want to table now the budget resolutions.

INCOME WAR TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Income War Tax Act and to provide:

1. That, in addition to other deductions, a deduction from income for the 1948 taxation year of $500 be allowed to an individual who has attained the age of 65 years prior to the end of the year;

2. That, for the 1948 taxation year, interest be allowed at the rate of 2 per cent per annum on overpayments of tax to the extent of $5,000 and ½ per cent per annum on overpayments in excess of $5,000 (no interest less than $1 to be payable); and that the rates payable on overdue taxes be increased from 4 per cent and 7 per cent to 6 per cent and 8 per cent, respectively;

3. That special deductions from income or taxes be allowed to taxpayers engaged in exploring or drilling for natural gas, oil or minerals in respect of expenses incurred in 1949 operations on the same basis as the deductions allowed in respect of 1948 operations;

4. That, for the 1948 taxation year, no expenses in respect of the earning of wages or salary may be deducted except where a taxpayer is an employee of a person whose principal business is transport and his duties require him to be absent from his home regularly, in which case expenses for board and lodging may be deducted, and where a taxpayer is employed to sell property or negotiate contracts, is required to pay his own expenses and performs his duties away from his employer's place of business, in which case expenses may be deducted from commissions or other fees; and

5. That the 15 per cent income tax on non-resident persons be extended to apply to patronage dividends paid on or after May 19, 1948.

DOMINION SUCCESSION DUTY ACT

Resolved, that it is expedient to introduce a measure to amend the Dominion Succession Duty Act and to provide, effective with respect to any succession upon the death of a person on or after January 1, 1948:

1. That the general exemption of estates not over $5,000 be extended to estates not over $50,000;

2. That the limit on exemptions for gifts to charitable organizations of 50 per cent be removed; and

3. That for the purposes of the act, shares of companies incorporated in Canada shall be deemed to be situated in Canada.

THE EXCISE TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Excise Tax Act and to provide, effective on and after May 19, 1948:

1. That the sales tax on the following list of articles be repealed:

(a) shortening; soups; rice; yeast; yogurt; barley; split peas; peanut butter; biscuits, cookies and similar articles; pastry, cake, biscuit and similar mixes; cereal breakfast foods not including beverages; foods prepared and sold exclusively for feeding infants; fruit, canned, frozen, dried or evaporated; fruit juices which consist of at least ninety-five per cent of pure juice of the fruit; jams, jellies, marmalades and preserves; corn syrup, table syrups and molasses; meats and poultry, cooked, canned, frozen, smoked or dried; canned fish; spaghetti, macaroni and vermicelli; vegetables, canned, frozen or dehydrated, but not including pickles, relishes, catsup, sauces, olives, and similar goods; vegetable juices; and

(b) hay presses and complete parts thereof; auxiliary internal combustion engines incorporated into agricultural implements or agricultural machinery, and complete parts thereof; crushed stone or crushed gravel; articles imported by or for public museums, public libraries, universities, colleges or schools, and which are to be placed in such institutions as exhibits; wheel chairs and complete parts thereof specially designed for the use of invalids;

2. That the excise tax on the price of admission to places of amusement be repealed:

3. That the excise tax on charges made in places of entertainment be repealed;

4. That the excise tax on bets on horse racing be repealed;

5. That the retail purchase tax on watches specially designed for use of the blind, alarm clocks selling to the user at not more than ten dollars each, and plated table knives, forks and spoons, be repealed;

6. That the special excise tax of three per cent on goods imported into Canada from general tariff countries be repealed;

7. That the rates of excise tax on matches be amended to provide for a proportionate rate of tax on packages of smaller sizes; and

8. That the excise tax of 25 per cent be repealed on 16 mm projectors for slides, films or pictures, and that the tax be extended to