been bombed out, although for a time they met in an ordinary subway station, although they met under actual bombing, they never chose to abandon the supremacy of parliament or the rule of law.

It may well be that those who examine events from the distant and objective view of history will recall that at a time when London was under the heaviest bombing the British House of Commons sat for two days and discussed the freedom of men then held on the Isle of Man. London could be bombed, buildings could be destroyed, but the rule of law and the supremacy of parliament must be preserved at every expense. That may well be regarded as the most important thing because it stands before us today as an example that we should follow when conditions not only do not justify any argument for the abandonment of the supreme authority of this parliament, but demand an insistence upon the rule of law and respect of our federal system under our constitution.

We are in committee; members can ask questions and can express their views, but once again I urge the government—and I urge them in all earnestness—to reconsider their course, to remember that they have not put before us a single reason why it would be necessary to resort to the War Measures Act if this act were not passed. In fact everything that has been said shows that it would not be necessary to resort to the War Measures Act unless we were under the immediate threat of war and had difficulty in transportation and communication. That would be the only justification.

I also urge the government in all earnestness to recall that they have not shown us any reason why they need these wide powers. They have referred to the fact that last year they used the act so little that we need not be concerned about it. If they needed the act so little last year, why do they need these wide powers today?

Every argument put forward by the Minister of Justice is an argument which should, on reflection, impress upon the government the desirability of coming to this house and saying: We have listened to the arguments put forward; we do believe there is reason for the concern expressed; we do not accept these arguments as criticism of individuals now in office, but we have been impressed with the fact that any law now passed may affect those who will be called upon to assume responsibility at some future time, and we do not think we should pass on powers of this kind to another government because we sometimes have not indicated our confidence in others to do things as well as we do them.

Those who now argue that they have complete confidence in this government, if they still believe that Canada is a democracy and that the people of Canada are free to decide what government they will have, should be the ones to impress upon the government that consistent with the opinions they have expressed they should not pass on such wide powers because they might not be convinced that another government would be so all-wise, so omniscient as some of them seem to believe this government is.

I know some hon. members do not feel that we should be discussing this legislation at the length at which it has been discussed. That is what members of other parliaments have contended from time to time in the past. Without reflecting upon the motives of a single member of this government or of this house, it should be decided that it is not consistent with our federal parliamentary democratic system that at any time when parliament can easily be called together there should be handed to a government the power to declare by order in council that the rights of parliament or of provincial legislatures can be suspended in the way that can be done under this act.

Progress reported.

At six o'clock the house took recess.

AFTER RECESS

The house resumed at eight o'clock.

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, last year I began the practice of tabling the budget white paper the day before the presentation of the budget speech. I believe that this procedure met with general approval, and I have followed the same policy this year. I hope that the house as in other years will give unanimous consent to having the white paper printed as part of today's *Hansard*.

With the common consent of all groups in this house the work of this session has been planned so as to begin and conclude our deliberations six or eight weeks ahead of the usual times, so that adjournment can take place well in advance of the date appointed by Her Majesty for her coronation. Consequently it has been necessary to bring down the budget nearly two months before the customary date. Hon. members will appreciate that this makes it difficult to obtain complete information for the year under review. Many of the figures given in the white paper are of necessity the best current estimates and will be subject to change as later information becomes available.

I have again transferred to the white paper the greater part of the general economic review which forms an essential introduction to the budget. Accordingly I shall confine myself this evening to a brief summary of the main features of recent economic developments and of the outlook for the future. Before doing so, however, I hope the house will allow me to pay a brief tribute to the late Dr. W. Clifford Clark.

Under our system of parliamentary government deputy ministers occupy a position which is difficult to explain to those who are not familiar with the actual operation of our political and administrative system. They carry heavy administrative responsibilities, but they are charged with no political responsibility. In the Department of Finance, however, it is particularly difficult wholly to separate administration and public policy. The Minister of Finance accepts full responsibility for all decisions of policy, but the deputy minister must concern himself with an extraordinarily wide and varied range of policy questions, because almost all such questions sooner or later involve revenue or expenditure. The deputy minister has a constant duty to advise, suggest, warn and point out the short and the long-run implications of alternative policies. At the same time the final decisions are not in his hands and he must be ready to carry out and administer whatever decisions are reached.

Dr. Clark for more than twenty years was a great deputy minister. He was always forthright and vigorous in his presentation of the relevant considerations and the implications of whatever matter was under discussion. He was always completely loyal in carrying out whatever decisions were reached. His capacity for work and his tireless devotion to duty were extraordinary. At the same time he was a quiet and unassuming man, who shunned all personal publicity. His personal and intellectual integrity was of the highest order, his appreciation of the public interest and his love of Canada were intense. His technical skill in matters of financial administration held the admiration of all who knew him, not least among them those in other countries who had occasion to consult or negotiate with him. His sudden and unexpected death was a great shock to me and has been a severe personal loss to his many friends in this house. The people of Canada owe him a greater measure of gratitude than they realize. He has left a lasting imprint on the quality of public service in Canada, and his life and work will remain an inspiration to those who follow.

ECONOMIC TRENDS

Turning now to recent economic developments and the outlook for the future, 1952 has been in most respects a successful year in world affairs. The nations of the free world are in a stronger position than they were a year ago to protect themselves against aggression. The North Atlantic community has achieved an important increase in its defensive strength. Our production lines have begun to turn out in substantial quantity the modern military equipment we need. The defence construction program in western Europe and on this continent is well under way. In Korea, Malaya and Indo-China aggressive communist forces are being held in check. While much remains to be done and we cannot relax our efforts the accomplishments of the past year and the continued development of close co-operation among our allies have provided a more enduring basis for peace and security.

In the economic sphere, there has been a noteworthy reduction in inflationary pressures in many parts of the world. Prices over a wide area have stopped rising and the prices of many of the raw materials, which rose so steeply after the outbreak of the war in Korea, have receded to more normal levels.

There has been a growing recognition of the close relationship between internal financial stability and the balance of payments. The success of many countries in damping down excessive demand internally has brought about a significant improvement in the world exchange situation during the past year. At the end of 1951 the central reserves of the sterling area were falling rapidly, and most sterling countries were running substantial deficits. By the last half of 1952 the reserves were again rising, and at the commonwealth economic conference which the Prime Minister and I attended some two months ago, the representatives of the other commonwealth countries were able to report substantial progress toward their objective of a better balance in their external accounts. These improvements make possible a renewed effort to remove the barriers and restrictions which continue to hamper world trade.

While 1952 saw an abatement of world inflationary pressures and brought some improvement in world trade, international economic relations today are far from satisfactory. Since the war tariffs have been reduced by many countries, but quantitative restrictions, discrimination and inconvertibility of currencies still persist over a wide area.

These continuing difficulties can no longer be ascribed primarily to wartime losses of productive facilities. The efforts of the people of Europe and elsewhere, with the assistance given by North America, have been successful in making good much of the damage caused by the war, and production in most countries is now greater than ever before. By 1950 it appeared that the post-war inflation had about run its course. However, the outbreak of hostilities in Korea caused world prices again to surge upward and brought intensified inflationary pressures and renewed difficulties in trade and payments.

This setback is being overcome but many of the underlying problems remain unsolved. The greater economic stability and the better balance of trade achieved in 1952 now give the nations of the free world a new opportunity to move forward.

The major instruments for international economic co-operation which were drawn up immediately after the war, namely the Bretton Woods agreement and the general agreement on tariffs and trade, envisaged that convertibility of currencies and multilateral trade would have been restored over a large part of the world by now. These agreements have constituted a valuable means of international co-operation and we need constantly to examine the manner in which they can best be used to facilitate a more rapid attainment of our objectives. Moreover, the bindings of tariff items under the general agreement on tariffs and trade, which were last extended by negotiations held at Torquay in 1950, will run out at the end of this year and further negotiations on a wide scale will be necessary to continue them in effect on a firm basis. These are some of the major tasks for the coming year. It is clear that the time has come for new initiatives.

The commonwealth economic conference which was held in London in December made a significant beginning. The conference decided—

—that a more positive policy can now be adopted, both by the commonwealth countries themselves and in concert with other friendly countries, to promote expansion of world production and trade.

The commonwealth countries stated that it is their aim—

—to secure international agreement on the adoption of policies by creditor and debtor countries which will restore balance in the world economy on the lines of "trade not aid" and will by progressive stages and within reasonable time, create an effective multilateral trade and payments system covering the widest possible area.

If this beginning is to lead to concrete results, there must be close and continuing co-operation between the important trading nations. No lasting solution can be found, of course, without the active and adequate participation of the United States. Early in March the foreign secretary and the chancellor of the exchequer of the United Kingdom will visit Washington to begin exploratory discussions on a collective approach to trade and currency problems. It is to be hoped that this initiative will lead to constructive action. Canada has participated fully in the commonwealth discussions which have led up to this new approach. I need hardly add that we are prepared to play our full part in any common efforts which are designed to achieve a prosperous and expanding world trade.

We here in Canada over the past decade have experienced a period of growth and prosperity unrivalled in our history. As a nation, we have become accustomed annually to breaking new records in production, foreign trade, investment, employment and income. Each year our people set their sights a little higher; we expect almost as a matter of course that we will do better than we did the year before.

Even against such a background of prosperous growth, 1952 stands out as a remarkable year. Last year I based my budget on the expectation that gross national production would rise to $\$22\frac{1}{2}$ billion. Actually our gross national output reached $23 billion, an increase of more than 7 per cent in value over 1951. With prices relatively stable, most of this increase was brought about by a greater volume of production. The record wheat crop was an important factor in this increase, but many other industries also achieved substantial gains.

It is necessary to point out that the aggregates of total production in 1951 and 1952 obscure some rather significant changes during both of these years. Production was at a high level in the first part of 1951 but fell off noticeably towards the end. The year 1952 started out from these lower levels, but business picked up very early in the year and a remarkably steady expansion in production took place during the remainder of the year.

The increased output represents an impressive rise in the productivity of the Canadian economy. While the improvement resulting from the record wheat crop may be regarded as largely fortuitous, our people as a whole are beginning to reap the benefits of the enormous investments in new plant, equipment and development that have been made since the war. I might add that the record grain crop could scarcely have been harvested had it not been for the heavy post-war investment by our farming community in labour-saving machinery.

The total of salaries and wages earned by Canadian workers during 1952 rose by 12 per cent, an increase which is considerably larger than the rise in gross national output. For example, the average weekly earnings of labour in nine leading industries were $54.13 in 1952, an increase of $4.52 over 1951.

While production, employment and wages rose in 1952 to the highest levels in our history, it is gratifying to note that prices have not followed a similar rising course. The index of wholesale prices fell by nearly 7 per cent during the year; the index of consumer prices declined by 2 per cent. We have been able to expand our production and income without any apparent renewal of inflation. The strength of our dollar in foreign exchange markets, the fall in world prices of many of the commodities which we import and the general restraint in our monetary and fiscal policy have all contributed to this stability in our general price level.

The rise in labour income, combined with the downward trend of prices, meant that in 1952 most Canadians experienced a substantial improvement in real income. We have had periods of rapid growth before, and periods when our production has risen as sharply as in 1952, but it is difficult to recall a time when we have been able to carry out such a degree of expansion and at the same time maintain a stable price level. 1952 can be justly described as a year of prosperity without inflation.

The stability of prices and the abatement of inflationary pressure made it possible to remove during the year some of the more direct anti-inflationary measures which had been introduced after Korea. Last May the consumer credit regulations were lifted. That same month the Bank of Canada expressed the view to the chartered banks that the special restrictions on bank credit which had been in effect for the previous fifteen months could be removed. Towards the end of the year it was also possible to announce that the deferred depreciation provisions in the Income Tax Act would not apply to property acquired after December 31, 1952. It will be recalled that these regulations were adopted in the 1951 budget as a financial deterrent to expenditure on capital expansion of a less essential nature. It was hoped by this to reduce the competitive bidding up of prices of scarce materials which were required for more essential purposes. The improvement in the supply situation during 1952, particularly in respect of steel, made the regulations no longer necessary.

The containment of inflation and the stability of the general price level in 1952 have been to me a particular source of gratification. Since I became Minister of Finance nearly seven years ago, I have been faced with many economic and financial problems, but none more serious nor more persistent than that of inflation. It would be foolish indeed for me to predict that this problem has been permanently solved. Our experience in 1952 has shown, however, that those who argued in 1950 that we were in for a siege of indefinite inflation have been just as wrong as the pessimists who since the end of the war have been persistently predicting a new depression.

The annual presentation of the budget is a time for national stocktaking, and I think it is desirable before looking at the prospects ahead to examine some of the basic forces which are operating in the economy. We have had high and rising levels of employment, real income has been increasing steadily, the level of production is at an all-time high. The question we have to consider is whether the dynamic forces which have brought this about are likely to continue.

It is difficult to analyse briefly all the factors which affect the level of economic activity. There are four principal forces that provide the basic demand for a country's output of goods and services. These are the expenditures by individual consumers, the investment in new capital goods, the foreign demand for the country's products, and the combined expenditures of governments on goods and services. Needless to say these groups are interdependent; the level of consumers' expenditures, for example, will depend in part upon the level of income, which is in turn related to the over-all demand for goods.

Possibly the most buoyant element on the demand side in 1952 was the sharp rise in consumption expenditures which began in the early spring. Retail sales in the second quarter of the year were more than 25 per cent above those in the first quarter, and nearly 10 per cent above the same period in 1951. This rate of increase was maintained through the remainder of the year. It is evident that the rise in consumer buying was due to a number of favourable circumstances. In part it represented a reaction from the falling off in sales late in 1951 and early in 1952. The decline in prices and the removal of the credit restrictions also contributed to the pick-up in purchases. Probably most important of all was the steady rise in consumer income throughout the year.

In spite of the very significant rise in consumer spending and retail credit outstanding, there was little apparent change in the pattern of net personal saving as compared with the previous year. In 1951 the net personal saving of Canadians amounted to nearly $1,250 million, or almost 8 per cent of disposable personal incomes. In 1952 it increased to about $1,300 million or 7½ per cent of total disposable incomes. It is noteworthy that the rise in consumer expenditures was financed primarily out of the increased incomes. The rate of personal saving has been maintained and compares most favourably with that of any other country and with previous periods in our history.

Investment in new productive facilities continued unabated through 1952. Natural resource development of a long-range character was again a striking feature. The Kitimat aluminum and Quebec-Labrador iron ore projects were brought closer to completion. New oil pipe lines were being constructed and successful exploration for oil and gas continued at a high rate. It is gratifying that the new discoveries of the past year, including the recent promising finds in New Brunswick, have extended developmental activity to an increasingly wider area of our country. New investment in our manufacturing industry was greater than in any previous year.

While investment in capital goods, equipment, and resource development was higher in 1952 than in 1951, the investment in additional inventories was substantially reduced. The rise in inventories in 1951, amounting to more than $1½ billion, absorbed a large portion of the total increase in national production for that year. The increase in inventories in 1952, however, is estimated to be under $200 million so that almost all of the increase in national production was available for other purposes, including the increased requirements for defence and higher expenditures by consumers.

The use of productive resources for defence was considerably greater in 1952 than in the previous year due to the fact that the production lines for major items such as aircraft, ammunition and electronics were getting into volume production. Except for defence, and purchases in connection with the support of farm prices, there has been virtually no increase in the physical volume of goods and services devoted to the requirements of the federal government.

In 1952 Canada's foreign trade again broke all previous records both in volume and value. Exports were 10 per cent higher in value than in 1951, and about 12 per cent greater in physical volume. Total imports in 1952 were slightly lower in value than in 1951, owing to a fall of about 12 per cent in the average prices of imports, thus offsetting a similar increase in quantity. In fact, during the past year we experienced a significant improvement in our terms of trade, or the ratio between the prices of the goods we export and the prices of the goods we import. While the prices we pay for our imports declined, the prices of our exports were largely maintained. Taking due account of non-merchandise transactions we had a current account deficit in our balance of payments for 1951 amounting to $524 million. In 1952 we had a surplus of $150 million. The improvement in the terms of trade and the strength of the Canadian dollar were factors of considerable importance in the economy during the past year. These two factors contributed materially to the improvement in our balance of payments and also to the general stability of the price level and the rise in real incomes.

A noteworthy feature of our foreign trade in the past year was the attainment of a wider distribution of markets. Exports to the United States were maintained at the 1951 level, in spite of the embargo on our cattle and meat exports which prevailed through most of the year. A somewhat larger proportion of our exports than last year went to the sterling area. Sales to the United Kingdom increased by about $100 million. However, our exports to all other overseas countries, including Latin America and continental Europe, increased by more than $200 million or over 25 per cent during the past year. Our sales to the world outside the United States and the commonwealth made up nearly one-fourth of our total exports, equal to the highest proportion in our history. For example, exports to Latin America, recently visited by my colleague the Minister of Trade and Commerce (Mr. Howe), amounted to $272 million in 1952, more than double our exports to that area in 1949.

The improvement in our balance of payments contributed to the strength shown in the Canadian dollar during the year. From a position of approximate parity with the United States dollar in the first two months of the year, the Canadian dollar rose to a premium of about 4 per cent in September, and then fell off slightly to a premium of about 3 per cent at the end of the year.

The other major factor in the exchange market was the movement of capital across our borders. The inflow of capital for direct investment in oil and mineral development and for the building of new industries was maintained. The inflow derived from the placing of new issues of Canadian securities in the United States, less the retirements of existing issues, was also substantial, although somewhat below the 1951 level. At the same time there was a large outflow of other forms of capital from Canada induced in part by the premium on the Canadian dollar. The outflow resulted mainly from the sales by non-residents of outstanding Canadian securities, and from the shifts in commercial accounts and balances. Taking all capital movements together, long-term and short-term, we were a net exporter of capital in 1952. In effect the total savings inside the country, taken as a whole, were more than equivalent to the expenditures on our entire domestic investment program.

The combined result of our current account surplus and the net outflow of capital is reflected in the movement in our exchange reserves, which rose by $81 million over the year to a level of $1,860 million at December 31, 1952. As I have stated before, our policy has been to allow the exchange rate to be determined by the normal play of economic forces without official intervention, except to ensure orderly conditions in the foreign exchange market. No attempt is made to reverse persistent trends, but only to smooth out excessive short-run fluctuations.

Although the over-all picture of the Canadian economy in 1952 was highly favourable, the past year was not without its problems and difficulties. The outbreak of foot-and-mouth disease and the ensuing embargo on cattle and meat exports to the United States seriously disrupted the livestock industry. The government took measures to relieve the effects of this disaster by compensation payments and by purchases of meat under the Agricultural Prices Support Act. In addition special arrangements were made for the shipment of Canadian meat to the United Kingdom in exchange for New Zealand meat which was diverted to the United States. The thorough measures which were taken to stamp out the disease have been successful and it is expected that the normal market outlets will shortly be re-established.

In the early part of the year some of our industries were affected by a falling-off in demand for their products, notably textiles and consumers' durable goods. However, the pick-up in domestic business and a more buoyant export demand brought about a significant improvement in the position of most of these industries in the latter half of the year, which has since been maintained.

I now wish to turn to the outlook for 1953. If we look first to the prospective level of

[Mr. Abbott.]

capital investment, present indications are that expenditures on the expansion of industry and the development of resources will continue at a high level. The level of activity in the construction industry generally will be affected favourably by the removal of the regulations regarding deferred depreciation, and by the rise in the number of housing starts which is indicated.

The demand for our exports depends upon business conditions and circumstances in other countries, particularly in the United States. It is, consequently, difficult to forecast, but well-informed opinion seems agreed on a continuing high level of activity in the United States for the near future which should sustain demand for our products in that important market. In respect of overseas countries our main exports consist primarily of essential goods and materials which should continue to be in a favourable competitive position.

The general increase in consumer expenditures which took place during 1952 has been sustained during the early part of this year. This increase appears to have been based primarily on a substantial rise in real personal incomes. With labour and other incomes at present running well above the 1952 average, there is strong ground for expecting a continued high level of consumer demand in 1953.

Translating these prospects into monetary terms, I think that we can look forward with some confidence to a gross national product in 1953 greater than the $23 billion achieved in 1952. I based my last budget on an anticipated increase in physical output of 4 or possibly 5 per cent. The record grain crop pushed the actual increase up to around 6 per cent. This is the third successive year in which the expansion in volume of total production was of the order of 6 per cent. In the three years since the beginning of 1950, the total output of our economy has increased by nearly 20 per cent. In trying to assess the prospective increase in production in 1953 we can get some guide from the index of industrial production which for the last quarter of 1952 was from 5 to 6 per cent above the average for the year as a whole. If industrial activity continues at about this rate through 1953, total non-agricultural production would be substantially higher than in 1952. On the other hand, we cannot assume another record grain crop. If we make the usual assumption of an average crop, total agricultural production would be lower than it was in 1952.

Taking all these factors into account I am basing my budget on the expectation that gross national product in 1953 will be in the neighbourhood of $24 billion, an increase of about 4 per cent. I expect this increase will consist very largely of an expansion in the physical output of goods and services since prices are now below the average for 1952. My estimate assumes, of course, that we will not experience extensive crop failures nor serious industrial work stoppages.

GOVERNMENT ACCOUNTS, 1952-53

I turn now to a brief review of the government accounts for the year which will end six weeks hence. These are set out in the usual comprehensive detail in the white paper tabled yesterday. As explained there, it is not possible at this date to estimate our year-end position with the usual degree of accuracy. At the time we had to go to press we had final figures to the end of December only, preliminary figures for January, but only forecasts for February, March and the March supplementaries.

The over-all results can be briefly stated. Our total budgetary revenues are expected to amount to $4,375 million, our expenditures $4,327 million and our surplus $48 million.

Our total tax revenues will be $4,010 million which is $31 million greater than I had forecast a year ago, and this amount, roughly the equivalent of our additional tax receipts this year arising out of the Ontario tax rental agreement, differed from the forecast by only three-quarters of 1 per cent. Non-tax revenues and special receipts and credits were $64 million greater than my forecast. $45 million, or nearly three-quarters of this excess, has arisen by our taking into revenue this year one-half of our balance in the provincial corporation tax suspense account. This suspense account is still subject to considerable adjustments as final tax assessments on corporations are completed during the coming year, but I have felt it right to bring half the amount into revenue this year, and bring all or most of the remainder into revenue next year.

Our expenditures this year will be $4,327 million, which is $57 million or about 1¼ per cent more than I had forecast. Two large items have come into our expenditures this year for which I could make no provision in the forecast which I made in the budget a year ago. One is the payment of $123 million to Ontario under the tax rental agreement signed in October. The other is the $42 million which is our estimate of losses which should be taken into this year's accounts in connection with our price support policy for beef and pork which in turn was a result of the difficulties ensuing from the outbreak of foot-and-mouth disease last spring. But for these two items our expenditures would have been about $110 million less than my forecast, which in turn is largely the result of the defence program having been unable to get delivery of all the equipment and material expected.

The surplus of $48 million represents just about 1 per cent of our total revenues. In other words we came about as close to a virtual balance of revenue and expenditure as is possible in dealing with the magnitudes reflected in our budget. I should, of course, remind the house that neither our revenues nor our expenditures include the payments into and out of the old age security fund.

I am not going into much greater detail of our expenditures and revenues. These, so far as they are available, are fully disclosed in the white paper. The increase in expenditure, compared with the previous year, is $594 million, but if we have regard to the change in the treatment of our interest payments from a cash to an accrual basis, the proper comparable figure is about $680 million. In round figures national defence expenditures increased $490 million, subsidies and tax rental payments to the provinces increased $210 million, the service of the debt $20 million, family allowances and veterans' benefits $40 million, and agricultural prices support expenditures $40 million. These major items total $800 million of increased expenditure.

On the other hand the new old age security system has relieved the budget of $110 million, there is a decrease of $70 million in our special contribution to the civil service superannuation fund, and the disappearance of the deficit for the Canadian National Railways has saved us about $15 million. These major reductions add up to $195 million.

This means that all other government expenditures for all other purposes have increased $75 million during the year. These increases have been due chiefly to higher salary and wage scales and higher costs of materials and construction, some increases in services supplied and further increases in our projects of scientific and resource development.

The government has not relaxed its efforts toward maximum economy and efficiency in all government operations. There is and there always will be room for further improvement, and we shall continue to press our efforts in this direction. We are, for example, this year inaugurating a suggestion awards plan in the civil service which we are confident will, over the course of time, result in many major and minor improvements in efficiency of operation and will contribute to still further improvement in the morale and esprit de corps of the public service.

On the revenue side tax receipts are $350 million higher than a year ago and total revenues are up about $400 million. The principal increases, in round figures, are personal income taxes up $210 million, or 22 per cent, corporate income taxes up $100 million, or 9 per cent, commodity taxes up $40 million, and special receipts and credits up $40 million. Of our total revenues 58 per cent have come from direct taxes, 34 per cent from indirect taxes and 8 per cent from non-tax sources.

As usual I want to say a word about our over-all cash position. Apart from and outside the budget we have had to find the very large sum of $625 million for a variety of loans, investments and advances. These are all set out in detail in the white paper. The large items are $125 million to the Canadian National Railways, $65 million for agricultural price support inventories, $75 million to Central Mortgage and Housing Corporation, $50 million to the exchange fund, $35 million to the defence production revolving fund and $100 million to the old age security fund.

To meet this cash requirement for $625 million outside the budget we have had available about $450 million from non-budgetary sources. The most significant items are receipts of $65 million from repayment of loans, and of $170 million in accumulations in various pension and annuity accounts. Full details will be found in the white paper.

To sum up, our non-budgetary receipts were $178 million less than our non-budgetary outlays. We have our budget surplus to apply against this, leaving a remaining cash requirement of $130 million. To meet this cash requirement we have increased our funded debt on balance $141 million, which means we will end up the year with $11 million more cash on hand than we had at the beginning.

This leads me to our operations in the field of the public debt. Again I am using round figures; the exact amounts are detailed in the white paper. During the year our gross liabilities increased by $275 million, our net active assets increased by $325 million, which means that our net debt declined by about $50 million which is, of course, the amount of our surplus. During the year we issued new securities in the very large amount of $3,330 million and we paid off old securities in the amount of $3,190 million, or as I said a moment ago we had a net increase of $140 million in our funded debt.

[Mr. Abbott.]

Our net debt still stands at a high figure in absolute terms but thanks to the reductions we have been able to make during the past 7 years and thanks to the rapid increase in our national productivity it now represents a much more tolerable burden than at the close of the war. I should like with the permission of the house to insert here in the record a short table showing our net debt at the end of each year since 1939, and also showing it in per capita terms and as a percentage of our annual gross national product.

Table I

Net debt of Canada, 1939-1953

As at March 31	Net Debt (In millions of $)	Net Debt Per Capita	Net Debt as a Percentage of Gross National Product
1939	$ 3,153	$ 280	60·2
1940	3,271	287	57·3
1941	3,649	317	53·1
1942	4,045	347	47·5
1943	6,183	524	58·7
1944	8,740	732	78·2
1945	11,298	936	94·5
1946	13,421	1,092	113·3
1947	13,048	1,040	108·5
1948	12,372	965	89·9
1949	11,776	899	75·4
1950	11,645	849	70·7
1951	11,433	816	62·8
1952	11,185	775	52·1
1953	11,137	752	48·5

I commend this table to the attention of hon. members who will see that while our total net debt has declined by 17 per cent since 1946, the per capita debt has fallen from $1,092 to $752 or 31 per cent. In 1939 our net debt was equal to 60 per cent of our gross national product for that year, in 1946 it was 113 per cent of our gross national product, and it now stands at only 48 per cent. To put it in more realistic terms, our 1939 debt represented 31 weeks of the nation's output, in 1946 it was about 60 weeks, but today's debt could be covered by the product of 25 weeks' work. The real burden of our debt has been considerably more than halved over the past 7 years.

As hon. members know, interest rates have risen over the past two years and that has had its reflection in the average interest rate paid on the total funded debt. Two years ago this average was 2·60 per cent, last year it was 2·67 per cent, and this year it will average 2·76 per cent.

FORECAST OF REVENUE AND EXPENDITURE FOR 1953-54

So much for last year. I turn now to my forecast of revenue and expenditure for the year that will begin on April 1 next.

I said earlier this evening that I expect our present level of prosperity to continue throughout this calendar year and I expect a continuation of about the present rate of industrial and general economic expansion. I came to the conclusion that, assuming average crops, we can look forward to a 4 per cent growth in total national output. On these assumptions I expect that our present tax structure would bring in total revenues in the coming year amounting to $4,710 million. I should like to ask, Mr. Speaker, for unanimous consent to insert in *Hansard* at this point the usual table showing the constituents of this total.

Table II

Forecast of Tax Revenues
(Before tax changes)

	Fiscal Year 1953-54 (Forecast)	Fiscal Year 1952-53 (Actual Preliminary)
	(millions of dollars)	
Personal income tax	1,350·0	1,187·7
Non-resident income tax	55·0	54·0
Corporation income tax ..	1,325·0	1,231·1
Succession duties	40·0	38·0
Customs import duties ..	395·0	379·0
Excise duties	280·0	257·0
Sales tax	590·0	568·0
Other excise taxes	300·0	284·0
Miscellaneous taxes	10·0	11·5
Total tax revenues..	4,345·0	4,010·3
Non-tax revenues	290·0	283·8
Total ordinary revenues	4,635·0	4,294·1
Special receipts and credits	75·0	80·5
Total budgetary revenues	4,710·0	4,374·6
Old Age Security Taxes:		
2 per cent sales tax ..	148·0	142·0
2 per cent individual income tax	82·0	45·2
2 per cent corporation income tax	50·0	36·9
	280·0	224·1

On the expenditure side I have already tabled the main estimates which total $4,405 million of budgetary expenditure. These estimates have been prepared with the greatest possible care, but there will be, as always, the inevitable supplementaries. There are likely to be some further losses in respect of government holdings of beef and pork which will not have been sold before the end of this fiscal year, and I would think it prudent at the end of the year to set aside some further modest reserve against our active assets. On the other hand there is certain to be some lapsing of authorized expenditure, though with the increasing care with which the estimates are compiled and screened this is not likely to be as great as we have experienced in some earlier years. All in all, I have come to the conclusion that our total expenditure next year will be about $4,450 million.

With prospective revenues of $4,710 million and expenditures of $4,450 million our present tax structure would yield a budget surplus of $260 million in the coming year.

Before going on to discuss our tax policy, I should inform the house of our probable position on non-budgetary account in the coming year. Apart from and outside the budget we shall have to find cash for loans, investments and advances. The largest items here are likely to be loans to the Canadian National Railways and to Central Mortgage and Housing Corporation, and I expect the revenues in the old age security fund will still fall short of payments, although by a smaller amount than this year. On the other hand, there will again be non-budgetary receipts mainly from loan repayments and from the various pension and annuity accounts. It is not feasible to estimate what changes, if any, there may be in the exchange fund and in the year-end amount of cheques outstanding and other float items. Apart from this, it would appear that our net non-budgetary requirements, excluding funded debt transactions, may be about the same as in the current year, that is of the order of $175 million.

TAX POLICY AND TAX CHANGES

With the economic outlook and the budget prospects as I have just stated them, I have had to decide what tax policy for the coming year best fits these circumstances.

Mr. Graydon: Special circumstances.

Mr. Abbott: Two years ago, when it became clear that our own interests required us to assume an important role in a collective program for ensuring international security, we approached the financial problem with vigour and determination. We had to frame a policy, severe though it might be, which would carry us through this difficult period, and it was bound to affect the everyday lives and fortunes of all of us. This has been done. The result is that a large part of the productive resources of the country, instead of being available to turn out goods and services for immediate enjoyment and use, has been used to meet the threat of aggression. I think no one who knows the facts, either in this country or elsewhere, will accuse this government of having shirked the task of imposing the taxes necessary to pay for our major undertakings in the field of defence. We have insisted on balancing our accounts. To have done less would have been both imprudent and dangerous. The tax measures adopted in the fall of 1950 and in the spring of 1951 were designed to build a revenue structure which would support the added burden of the defence program, and they have done so.

A year ago, upon re-examining this revenue structure it seemed desirable to remove certain anomalies in the income tax structure and to give some relief where needed in the special excise tax structure. In doing this we had to forgo revenue which on a full year basis would have amounted to about $146 million. Fortunately there was leeway enough to enable this to be done and still anticipate a balanced budget. As it turned out the results for the year, as I stated a few minutes ago, were very close to the estimates made a year ago, our tax revenues being within three-quarters of 1 per cent of our forecast.

For the coming year I propose to follow this same policy of budgeting for a balance. This means, from the figures I gave a few moments ago, that something close to $250 million can now be devoted to tax relief. That this can be done in spite of the estimated increase in the coming year of about 3 per cent in total expenditures is, I think, a great tribute to the Canadian people.

In a very real sense this surplus for tax reduction is the direct result of increased production, efficiency and plain hard work on the part of a united Canadian people. Here is a real social dividend, not one that has been conjured up out of thin air, but one that has been well and truly earned by our people. Greater productivity, increased efficiency and a willingness to work hard and vigorously for good wages, salaries and profits —these are the things that power our country today and make possible this surplus for tax relief.

INCOME TAX CHANGES

With about $250 million available for tax relief it seemed desirable that a substantial portion of this should be applied to easing the strain of the personal income tax. Income tax rates if too high can do harm in many directions. Tax laws should avoid placing too great a penalty on successful effort. Every reasonable incentive should be given to people to work hard, move to better-paid jobs, take risks and expand their businesses without keeping one eye continually on the tax-gatherer. This is particularly important in a growing and expanding country such as ours where there is so much to be accomplished.

Two years ago the house will recall the income tax was increased by means of a 20 per cent surcharge which I stated at that time was a temporary measure. Last year in discarding the surcharge device and in revising the rate structure about two-thirds of the full weight of this surcharge was built into the new schedule of rates. It is now proposed to drop this remaining portion of the surcharge entirely. This proposal will be given effect to simply by repealing the present rates and re-enacting the 1950 rate schedule upon which the 20 per cent surcharge was originally imposed. The effect of this change will be that the average taxpayer will have his personal income tax reduced after July 1 by a little more than 11 per cent. This reduction, of course, does not apply to the old age security tax which stands unchanged.

Because we are on the pay-as-you-go system the present rate of the withholding from wages and salaries will have to remain in force for several months before changes can be introduced; accordingly the change-over giving effect to the tax reduction will, as usual, be made in the middle of the year. From July 1 onward the income tax deducted from the wages and salaries will be reduced for the average taxpayer by about 11 per cent.

Since the reduced rates will have been in force for only six months in this calendar year the average individual's tax bill for the year as a whole will reflect, of course, only one-half the full reduction. The full rate of reduction, however, will, as I said, be reflected from July on. It is estimated that on a full year basis this change will cost in revenue about $155 million, and for the coming fiscal year about $87 million.

With the consent of the house I am placing on *Hansard* the usual tables showing the income tax payable

(1) for the calendar year 1952;

(2) for the calendar year 1953 if no changes were made;

(3) for the calendar year 1953 with the new rates in force;

(4) for a full twelve month period after the new rates are in force.

TABLE III

Effect of Proposed Income Tax Changes

Single Taxpayer

Income	Tax paid for 1952	1953 tax at existing rates before proposed change	Tax for 1953 (6 months at present rates and 6 months new rates)	Tax in full year at new rates
$	$	$	$	$
1,000	...	...	...	...
1,200	35	34	32	30
1,500	88	85	80	75
1,800	140	136	128	120
2,000	175	170	160	150
2,250	225	218	205	193
2,500	274	265	250	235
2,750	323	313	295	278
3,000	372	360	340	320
3,500	484	470	443	415
4,000	596	580	545	510
5,000	820	800	750	700
7,500	1,487	1,450	1,360	1,270
10,000	2,301	2,250	2,105	1,960
20,000	6,951	6,750	6,355	5,960
30,000	12,371	11,950	11,305	10,660
50,000	25,195	24,354	23,084	21,814
75,000	42,965	41,554	39,409	37,264
100,000	61,960	60,004	56,859	53,714
200,000	145,880	141,404	133,909	126,414
400,000	327,570	318,344	300,729	283,114

NOTE (1) The old age security tax of 1 per cent of taxable income (maximum tax $30) in 1952 and 2 per cent of taxable income (maximum tax $60) in 1953 is payable in addition to above amounts.

(2) In calculating the above taxes it has been assumed that where incomes are in excess of $30,000, that part of income which is in excess of $30,000 is from investments, but no account has been taken of the tax credit for dividends from Canadian corporations.

TABLE IV

Effect of Proposed Income Tax Changes

Married Taxpayer—No Dependents

Income	Tax paid for 1952	1953 tax at existing rates before proposed change	Tax for 1953 (6 months at present rates and 6 months at new rates)	Tax in full year at new rates
$	$	$	$	$
2,000	....	....	....	....
2,250	44	43	40	38
2,500	88	85	80	75
2,750	132	128	120	113
3,000	175	170	160	150
3,500	274	265	250	235
4,000	372	360	340	320
5,000	596	580	545	510
7,500	1,206	1,175	1,103	1,030
10,000	1,946	1,900	1,780	1,660
20,000	6,431	6,250	5,880	5,510
30,000	11,796	11,400	10,780	10,160
50,000	24,565	23,754	22,509	21,264
75,000	42,280	40,904	38,784	36,664
100,000	61,220	59,304	56,184	53,064
200,000	145,060	140,604	133,159	125,714
400,000	326,690	317,484	299,924	282,364

NOTE (1) The old age security tax of 1 per cent of taxable income (maximum tax $30) in 1952 and 2 per cent of taxable income (maximum tax $60) in 1953 is payable in addition to above amounts.

(2) In calculating the above taxes it has been assumed that where incomes are in excess of $30,000, that part of income which is in excess of $30,000 is from investments, but no account has been taken of the tax credit for dividends from Canadian corporations.

TABLE V

Effect of Proposed Income Tax Changes

Married Taxpayer—with Two Children Eligible for Family Allowances

Income	Tax Paid for 1952	1953 tax at existing rates before proposed change	Tax for 1953 (6 months at present rates and 6 months at new rates)	Tax in full year at new rates
$	$	$	$	$
2,300	.....	.....	.....	.....
2,400	18	17	16	15
2,500	35	34	32	30
2,750	79	77	72	68
3,000	123	119	112	105
3,500	215	208	196	184
4,000	313	303	286	269
5,000	529	514	484	453
7,500	1,129	1,100	1,032	964
10,000	1,854	1,810	1,696	1,582
20,000	6,275	6,100	5,738	5,375
30,000	11,624	11,235	10,623	10,010
50,000	24,376	23,574	22,337	21,099
75,000	42,075	40,709	38,597	36,484
100,000	60,998	59,094	55,982	52,869
200,000	144,814	140,364	132,934	125,504
400,000	326,426	317,226	299,683	282,139

NOTE (1) The old age security tax of 1 per cent of taxable income (maximum tax $30) in 1952 and 2 per cent of taxable income (maximum tax $60) in 1953 is payable in addition to above amounts.

(2) The above figures show the actual income tax liability of a taxpayer with family allowance children but in order to arrive at his true net position the amount of family allowances received for his children must be offset against his tax liability.

(3) In calculating the above taxes it has been assumed that where incomes are in excess of $30,000, that part of the income which is in excess of $30,000 is from investments, but no account has been taken of the tax credit for dividends from Canadian corporations.

For some years I have expressed concern over the high level of taxes on corporate profits. It seemed appropriate, therefore, that part of the amount available for tax abatement should be applied in this direction. At present the tax, excluding the old age security tax of 2 per cent, takes 20 per cent from the first $10,000 of profit, and 50 per cent from the excess over $10,000. In the first place it is now proposed to increase from $10,000 to $20,000 the bracket to which the low rate applies. This, it seems to me, is a useful way to give relief to relatively small businesses which generally have to do their financing out of their own earnings.

While by far the greater part of our corporation tax revenue comes from large corporations, the small corporations are by far the most numerous. All corporations, of course, both large and small, will be affected by this widening of the low tax bracket. It is estimated that as a result of increasing the $10,000 figure to $20,000 fewer than 30 per cent of our corporate taxpayers will in future be paying the standard rate of tax or, stated another way, about 70 per cent of corporate taxpayers will pay not more than the low rate on all their profits.

My second recommendation in this field is for a moderate reduction in tax rates. I propose reducing the standard rate of corporation tax from the present 50 per cent rate to 47 per cent, and to apply an 18 per cent rate instead of the present 20 per cent rate to the first bracket which, as I have said, will in future be $20,000. As a result of these two changes the new rate structure applying to profits earned on and after January 1, 1953, will be 18 per cent, plus 2 per cent old age security tax, on the first $20,000, and 47 per cent plus 2 per cent on profits in excess of $20,000. It is estimated that as a result of these changes in the corporate tax structure the revenue loss for a full year will be about $120 million, and for the coming fiscal year about $85 million.

In 1949 provision was made in the Income Tax Act for a credit against personal income tax of 10 per cent of the dividends received from Canadian tax-paying corporations. At that time I said this was a first step in dealing with the situation under our present tax structure where, after taxing corporate profits at a very high rate, the individual is required to pay at graduated rates on the dividends paid out of corporate profits. I now propose a second step of the same length and in the same direction. That is to say, for dividends received in the calendar year 1953 and thereafter the tax credit will be increased from 10 per cent to 20 per cent. Canada is fortunate these days in being able to attract enterprising foreign capital. This is desirable and we welcome it. At the same time it would seem to be a good thing if Canadians were encouraged, where they can safely do so, to join in a wider participation of equity ownership in the expanding industrial wealth of our country. This dividend credit of 20 per cent should, I think, be of considerable assistance in encouraging our people to increase their stake in Canada's future. On a full year basis this addition to the tax credit is estimated to cost $20 million in revenue, and $12 million for the coming fiscal year.

During the past year or so there has been considerable discussion in this house and elsewhere regarding the income tax deduction for medical expenses. At present the law recognizes unusual medical expenses, that is, expenses in excess of 4 per cent of the taxpayer's income. The government has been urged to consider removing this 4 per cent floor and, in effect, to allow a deduction for usual as well as for unusual medical expenses. As the house knows, I have given very careful consideration to this widely-supported proposal. Quite recently in speaking on the resolution dealing with this subject, sponsored by the hon. member for Winnipeg North Centre (Mr. Knowles), I gave my reasons for not being able to recommend complete removal of the 4 per cent floor. I shall not repeat these reasons now. At that time, however, I promised to look further into the question of the level of the floor and to consider whether some lowering of it might be justified. My colleague, the Minister of National Health and Welfare (Mr. Martin), has also considered this matter and has carefully reviewed the latest statistical data in this field. From this review he concludes that while the broad field of medical expenses as commonly understood may on the average be at least 4 per cent of income—it is 5 per cent in the United States—it would appear that the range of medical expenses which would qualify for inclusion in the deduction under the Income Tax Act would not on the average exceed 3 per cent of income. On the basis of this further consideration of the data it is now proposed that the 4 per cent floor in the present law be lowered to 3 per cent with effect this year. This move is estimated to cost about $10 million on a full year basis.

There are quite a number of other income tax matters which deserve mention. For example, it is proposed in future to allow parents to claim a deduction for dependent children attending university even though the children are over 21 years of age. The figure of $600 now prescribed as the upper limit of income which a dependent may earn and still be regarded as a dependent will be increased to $750. Expense allowances for elected municipal officials will be made deductible for income tax purposes if they conform with the limits established in respect of the allowances for federal and provincial elected members, that is, they will qualify to the extent that they do not exceed one-half the amount payable by way of salary, indemnity and other remuneration. Special provision will be made to alleviate the tax on refunds paid out as a result of reorganizations of pension plans. This will apply, of course, in the case of the Canadian National Railways pension plan reorganization which has been of interest to many hon. members.

During the past year certain other features of the income tax have given rise to considerable concern. The subjects are quite technical and, accordingly, they are not appropriate for full elaboration in the budget speech but I should like to comment briefly on some of them. For example, the income tax appeal board in a number of cases involving the sale of tickets for goods or services to be delivered or performed in the future have dismissed appeals against assessments which disallowed claims for certain so-called reserves. In the meantime this general question has been given careful study, and while I cannot here go into all the details I can say that I believe a proper solution has been found for most of the problems of this sort.

The taxation of interest on bonds sold between the dates on which interest is payable has caused some concern in the financial world and various briefs from national organizations have urged consideration of this problem. Amendments will be made which I think will take care of this problem satisfactorily.

Numerous complaints have been received in past months from persons who have incurred considerable tax liability through the acquisition by certain companies of their outstanding preferred shares. Under the law this premium over the par value paid in the purchase price is taxable income to the seller. It has been established that on selling these shares people were not aware of the fact that the issuing company was the actual purchaser of the shares. In order, therefore, to make sure that the law has not operated unfairly in these circumstances it is proposed to repeal, effective January 1, 1949, this provision which places a tax on the shareholder when a company acquires its shares at a premium other than upon redemption after notice. At the same time an amendment will provide that the amount of the premium paid by the company to shareholders upon acquisition during the period covered by the retroactive repeal of this tax on the shareholder will not be allowed as a deduction by the company in computing undistributed income on hand. Where notice is given by a company of the redemption of an outstanding issue the shareholders ordinarily can be expected to govern themselves accordingly.

For the future it is proposed also to repeal the tax on premium received upon redemption of preferred shares. I shall be recommending that henceforth any company paying a premium on redemption or acquisition of preferred shares must charge such premium paid against its tax-paid undistributed income on hand or, alternatively, pay a tax of 20 per cent on the amount of premium so paid to shareholders.

Other recommendations in the income tax field will include the extension for an additional year of the allowances now granted for mineral and petroleum expenses, including the special provision for deep-test wells. Also, an additional year will be added to the period within which, upon coming into production, new mines will be given a three-year exemption.

In addition to the renewal of these allowances there are two new provisions which will be recommended and which, I think, deserve mention here. The first of these is that mining companies be allowed a deduction in respect of oil or gas exploration expenses. This, I think, is a sensible proposition having regard to the similarities in these two fields of natural resource development. For the future, therefore, these two groups will be combined for purposes of the allowances in respect of exploration expenses. It is hoped that the result of this amendment will be greater participation by Canadian capital in the oil and gas industry.

The other proposal in this field is to include among deductible expenses the so-called bonus payments for leases which turn out to have been unproductive. The deduction will be allowed in the year of abandonment of the lease in respect of which the bonus was paid. This provision should considerably improve the competitive position among companies bidding for oil leases in our western provinces.

The income tax amending bill will as usual contain numerous technical changes of which mention cannot be made here. To a large extent these changes follow upon representations from responsible organizations and they are important in keeping our law up to date and as fair as possible.

I shall be proposing no amendments this year to the Dominion Succession Duty Act.

FEDERAL-PROVINCIAL RELATIONS

I should now like to say something about the general problem of federal-provincial financial relations, because the budget speech has traditionally been the occasion for reviewing broadly the main problems in the field of financing the services of government.

All federal states are inevitably faced with some conflict of jurisdiction between different levels of government. Just as inevitably the problem, in an ever-changing world, is bound to be a recurring one. No solution can ever be more than temporary. In view of the fundamental changes in the situation facing all levels of government in Canada which have taken place over the past few decades it is not surprising that federal-provincial relations should have thrust up new problems. The wonder is that our confederation instead of breaking down under the strains has gained strength and stability from decade to decade.

May I illustrate what I mean by reviewing the situation confronting the federal government today. The budget I am presenting this evening—a peacetime budget mind you—calls for the collecting and spending of some \$4¾ billion. Of the main items making up this total, over \$2 billion is needed for defence. Interest on the national debt, which can be almost entirely ascribed to past wars, amounts to about \$450 million. These two items taken together add up to more than \$2½ billion. Together they can be regarded as the price for international security.

The general field of what might be called welfare expenditure absorbs about another billion dollars. This amount can be described as the current bill for social security. Thus, out of total federal expenditures of \$4¾ billion, \$3½ billion, or nearly three-quarters of the total goes towards maintaining either international security or social security. If now we look back to federal budgets of, say, 25 years ago these two items which today absorb \$3½ billion, or nearly three-quarters of our total expenditure, were scarcely in the picture at all, or were small according to present-day standards.

If the federal budget of today consisted only of the sort of expenditure which, under the prevailing ideas of only a few short years ago, was regarded as all that was necessary or proper for the federal government to undertake, I could come very close to balancing my budget if I had only at my disposal the traditional nineteenth century sources of the federal government revenue which were liquor, tobacco and customs duties. In such a situation I could probably with safety recommend the complete repeal of all federal income taxes on individuals and corporations. The general sales tax of 10 per cent, and the 15 per cent excise taxes, along with succession duties, could all be wiped out. These fields of taxation then could all be left to the provinces. Under these conditions there would, I think, be no very difficult problems in the field of federal-provincial financial relations.

If the federal government did not have to tax to obtain \$3½ billion for defence, welfare and war debts, the tax fields would certainly not be so crowded. There would, I think, be ample room for the provinces, certainly for the more wealthy ones. I am not so sure, however, that even this would enable all provinces to finance their requirements independently of the federal treasury.

I do not believe the majority of the people in any province of Canada would favour discontinuing the present billion dollar nation-wide program of welfare expenditure. Nor do I believe that in any province the majority of the people would have had the federal government do otherwise than embark, in common with other countries, upon a defence program of the present proportions against communist aggression. If I am right in this belief, then it seems to me that the federal government should scarcely be blamed if the expansion of provincial taxation has become more difficult. Of course the extent of federal taxes does make substantial tax increases by provincial governments more difficult. No royal commission is needed to discover this truth. I have good reason to know the sort of problems which provincial ministers of finance have to face, and I think they know that they have my sympathy.

But no group of men at Ottawa is responsible for this problem. It finds its origin in the will of the majority of the people of the ten provinces which, of course, is Canada. No one in Ottawa has any liking for centralization as a principle or objective. No one wishes to deprive provincial governments of their rights or to take over their responsibilities. No one has any desire to aggravate the already difficult problems facing provincial governments which, in common with the federal government, have to meet the rising demands for government expenditure in a democratic country.

The government at Ottawa over the past 20 years has done its utmost to find fair and reasonable solutions from time to time over this period when, because of desperate conditions or swiftly changing events, the old workable pattern of federal-provincial relations has become so obviously inadequate.

In the late 1930's the federal government appointed the Rowell-Sirois commission to make an exhaustive study of all aspects of federal-provincial relations. This commission made a very thorough and penetrating study and its recommendations were far-reaching. They were found to be not acceptable to the provinces. Perhaps some on re-examining these proposals today would conclude that they were too drastic and did call for a surrender of some provincial jurisdiction.

The rejection of the Rowell-Sirois recommendations of course left the federal minister of finance, the Right Hon. J. L. Ilsley, under the necessity during the desperate days of the early 1940's of speedily improvising some workable compromise for the war period. The good faith of the provinces and their willingness to co-operate in helping to find a proper solution was reflected in their acceptance of the plan embodying the wartime tax agreements.

After the war the problem was still there and the federal government put forward on its own account a comprehensive plan to take up where the wartime tax agreements left off. This plan was also unacceptable to the provinces. Again, it is possible to argue that this post-war plan attempted too much, too quickly. Undoubtedly it did propose a far-reaching overhaul of the status quo not only in revenue fields but in the expenditure pattern as well.

Again Mr. Ilsley had to devise some temporary workable arrangement for the post-war era.

As the house knows, his proposals took the form of optional agreements relating solely to taxes, known popularly as tax rental agreements. The virtue of this approach was that it was not dependent for success on the unanimous acceptance by all provinces. A cardinal principle in the offer was that no pressure, direct or indirect, should be placed on any province to accept an agreement. This has been a fundamental position in the federal government's attitude ever since.

In the present tax rental agreements, an undertaking is given that upon expiry of the agreement the federal government will allow a credit against its corporate income tax equal to 7 per cent of the profits earned by companies in that province. This, of course, is to enable any province to re-impose its own tax up to this 7 per cent level without penalty to corporations in that province. I now propose to increase the 5 per cent tax credit at present being allowed in our Income Tax Act in respect of profits in any province which has not entered into an agreement to this same level of 7 per cent. The general effect of this will be to place corporations in Quebec, which is without a tax rental agreement, on the same basis as those operating in other provinces in respect of the burden of corporate income tax. The loss of revenue to the federal treasury in a full year will be approximately $17 million.

The federal government has, I think, demonstrated its desire to avoid, wherever possible, encroaching upon tax fields used by the provinces. After the war, for instance, we abandoned the taxes on gasoline, amusements, parimutuels, and electric power because the provinces were depending upon the use of these taxes. I propose to make a further move of this sort and repeal the federal tax on the transfer of securities, a tax which is also imposed on a parallel basis by the two central provinces.

This will mean a loss of revenue to the federal treasury of some $3 million per annum.

One does not have to study for very long the problem of overlapping tax jurisdictions to realize there is no easy answer. A re-allocation of tax sources between the two levels of government does not seem to be a workable solution. This approach might be helpful if the various tax sources were of equal value to all provinces which, of course, they are not. Accordingly, in giving up tax sources sufficient for the needs of the wealthier provinces, the less well-off provinces would be left without enough to meet their requirements.

Some students of this problem have been attracted by the idea of straight fiscal need subsidies to less well-off provinces as a supplement to some undertakings or arrangements regarding the use of certain tax fields. This double-barrelled system would, I think, imply the unanimous acceptance by all provinces before it could be adopted. This might never be possible. As a matter of fact, I am by no means sure if I were a provincial minister of finance that I would agree to such an arrangement. I am afraid I would find something repugnant in the idea that an outside body—a board, council or commission—would be investigating provincial affairs and determining the size of the fiscal needs for a particular period which amount in turn would be the measure of the federal grant.

In the United States, where they have the same problem to an acute degree, the question of federal-state relations has for many years been the subject of much painstaking study but nothing by way of a general solution has been achieved. In the absence of any over-all plan, the majority of the states levy personal income taxes, corporation taxes and retail sales taxes. It is estimated, for example, that about 60 per cent of the tax revenue of the states is obtained from retail sales taxes. Those who are at times critical of the Canadian situation might do well to examine the situation which obtains south of the line.

After reviewing what other countries have accomplished, I must say that I think we have done reasonably well in Canada in working out a common-sense method of accommodating federal-provincial financial relations to the major upheavals of the past few decades.

Certain aspects of the tax rental agreements may, perhaps, cause some mild concern to the purely logical mind. The pattern for these agreements is found in no treatise or text book. No royal commission produced the formulae. The provisions of these agreements have been hammered out on the anvil of hard experience. Our approach has been essentially a pragmatic one and our solution is one which does lend itself to the practical realities of the situation in which it must operate.

Mr. Speaker, I am afraid that I may have imposed on the patience and good nature of the house in commenting at such length on this subject. It is an important one, however. It has deep implications for our existence as a federal state. Our national unity must always be built on a foundation which gives practical effect to the constitutional distribution of sovereign powers and administrative responsibilities between the central and the provincial authorities.

I hope that the statement which I have made will have been of some value in clarifying the issues, establishing the facts and in revealing the sincerity of the federal government's desire to work amicably toward reasonable solutions in this field of our relations with provincial governments.

CUSTOMS TARIFF

The budget resolutions relating to the customs tariff which I am tabling contain proposals respecting certain tariff items where reductions in duty are desirable. In a number of cases I am proposing changes in wording and classification which would remove uncertainties, anomalies, and administrative difficulties which have arisen. No increases in duty are proposed.

Reductions in duty are proposed on particular items which enter into the costs of production of our primary industries. I am proposing to add some additional items to the already extensive list of equipment and materials which enter duty free for use in agriculture. Reductions are proposed on two important categories of equipment used in the fishing industry, namely gasoline engines and wire rope. In the case of the mining industry the proposals include reductions on certain specialized equipment.

I am proposing to widen somewhat the existing classifications under which universities, schools and public hospitals may bring in scientific and medical apparatus free of duty. It is proposed also to extend the existing classification which grants free entry to certain articles used for religious purposes. Finally, the customs tariff resolutions contain a proposal for the establishment of a new item under which personal and household goods acquired abroad by members of the Canadian armed forces may be entered free upon their return to Canada under certain conditions which are specified.

COMMODITY TAXES

I now turn to the field of commodity taxes. With some regret I have come to the conclusion that I cannot this year recommend any change in either the general sales tax rate or in the special excise tax rate. Broadly speaking I believe we have achieved in this country a pretty sensible balance in our tax structure between direct and indirect taxes. I am aware, of course, how acceptable it would be if substantial tax reductions could be made in the field of commodity taxes, but it is quite clear that the moderate leeway at my disposal this year will not permit this to be done.

While the general rate structure in these fields must be maintained, a few important changes can be accommodated without too great loss of revenue. A further reduction in the levy on cigarettes seems desirable. It is clear that following the reduction made last year there was a quite definite increase in cigarette sales which, from the point of view of the revenue collector, is very encouraging. Smuggling, I regret to say, is still a difficult problem. I have accordingly decided to recommend that the excise duty, and correspondingly the customs duty, on cigarettes be reduced by $2.00 per thousand which, for a package of twenty cigarettes, means four cents off. Not knowing in advance what effect this further cut will have on the volume of consumption, or the amount of smuggling, it is impossible to estimate what the revenue loss from this move will be. A fair estimate is that it will not be more than $17 million.

It is proposed to repeal the stamp tax on cheques, money orders and other instruments. This tax is definitely of the nuisance variety and I am sure that only the Minister of Finance, who has to forgo about $12 million of revenue, will mourn its passing.

Another amendment, and one in which I am quite happy to join in acclaiming, will repeal the sales tax on books. I have been impressed with the breadth and sincerity of the representations for this action, and I have been convinced that it would be in the public interest to forgo the modest amount of revenue now received from this source. Concurrently with this repeal of the sales tax on books the tax will likewise be withdrawn from materials used in the production of magazines, books and newspapers. This will eliminate the difficult task we have had to wrestle with in recent years of drawing a clear and acceptable line between newspapers and magazines.

Materials used in the manufacture of the list of foods now included in the schedule of exemptions will be freed from sales tax. Similarly a group of items which along with the so-called "consumable materials" are expended in the process of production will be exempt from sales tax.

All these changes in the sales tax will result in a loss of revenue of about $8 million. As usual it will be provided that all the above commodity tax changes will be effective from midnight tonight. In accordance with standard practice my colleague the Minister of National Revenue (Mr. McCann) has asked me to give notice that no claims for refunds arising out of tax reductions in respect of goods on which tax has been paid will be entertained.

There will be a number of other minor amendments included in the bill amending the Excise Tax Act but these need not detain us here.

There is one further subject on which I have important changes to announce. The government has been seeking a fair and effective source of revenue for the national system of television broadcasting being developed by the Canadian Broadcasting Corporation in accordance with the general policy that was announced by the Prime Minister (Mr. St. Laurent). The government's policy is to have the cost of the national television service paid, as far as that is practicable, by those who benefit from such service. It also wishes the C.B.C. to have a direct source of revenue, on which it can budget over a period, and not to be dependent upon annual appropriations to finance its operations. We wish to emphasize that it is a separate corporate body, under the general control of parliament but not a part of the government.

Television operations have just recently commenced and their development has been financed by loans specifically authorized in the estimates. It is now expected that, in addition to commercial television revenues, the C.B.C. will require about $6 million in the next fiscal year to meet operating costs of television, including interest on loans. This requirement will increase over the next few years, perhaps to about $10 million. Some part of these needs during the development period may properly be met from loans, and paid from future revenues, but we should start now with a plan to provide adequate revenues over the long run.

It is therefore proposed that the Canadian Broadcasting Act should be amended to provide that the corporation should in future receive from month to month the amount of revenue yielded by the present 15 per cent special excise tax on television sets and the picture tubes for such sets, and on such parts and accessories for television sets as are taxable under the excise act. In this way those who buy sets, or the replacement tubes for them, will be providing the basic revenue necessary for C.B.C. television services. In order to make this plan effective, it will be necessary to revise the regulations to provide that tourists returning to Canada may not include as baggage eligible for free entry television sets or the picture tubes for use in them.

Having decided upon this plan in regard to television, we have now come to the conclusion that a similar transfer of the 15 per cent special excise tax revenue can and should be made to assist in financing radio broadcasting, in place of the present licence fee. Although the continuation of this fee had been recommended by the Massey commission, experience has convinced us that it is uneconomical to collect such a small individual fee from such a high proportion of Canadian families, if any satisfactory alternative is open. We believe that payment to the C.B.C. of the amount of revenue received from the 15 per cent special excise tax on radio sets and the taxable parts and accessories for them does provide a satisfactory alternative, at least for the next few years until the present statutory grant for radio broadcasting is reviewed at the end of its five-year term. Consequently we are proposing that the broadcasting act should provide for this transfer of revenue, as well as that for television, and that the order in council under the Radio Act setting the present licence fees of $2.50 should be revoked with effect from April 1.

Mr. Fraser: It should never have been put on.

Mr. Abbott: Don't you like this, Gordon?

I estimate that the amount of revenue to be received by the C.B.C. under these arrangements will be approximately $12 million in the next fiscal year, the amount in respect of radio probably exceeding somewhat that for television. The public will be relieved of paying something over $6 million in radio licence fees, this next fiscal year, and our expenditure in collecting such fees, anticipated at $700,000 in the estimates, will be saved.

SUMMARY OF TAX CHANGES

I am now in a position to summarize the total effect of all these tax changes on the balancing of the budget, and I ask leave of the house, Mr. Speaker, to insert in *Hansard* at this point the usual summary tables.

Table VI

Effect on Revenue of Proposed Tax Changes

	Reduction in Full Year	Reduction in Fiscal Year 1953-54
	(in millions of dollars)	
Personal income tax:		
Reduction in rate schedules	155	87
Reduction in lower limit for medical expenses ...	10	1
Increased credit for dividends	20	12
Corporation income tax:		
Reduction in rates	84	60
Increased bracket to which the lower rate applies	35	25
Increased credit for profits earned in provinces not covered by a tax-rental agreement	17	12
Excise duty:		
Reduction on cigarettes...	15	15
Excise taxes:		
Repeal of stamp tax on cheques, etc.	12	12
Repeal of security transfer tax	3	3
Repeal of sales tax on various items	8	8
Loss of sales tax revenue as result of lowering excise duty on cigarettes	2	2
	361	237

TABLE VII

Revised Forecast of Revenues for Fiscal Year 1953-54 taking Account of Tax Changes

—	Forecast of revenue from existing taxes	Decrease in revenue from budget proposals	Revised Forecast of revenue for 1953–54
	(in millions of dollars)		
Personal income tax............	1,350	100	1,250
Non-resident income tax............	55	....	55
Corporation income tax............	1,325	97	1,228
Succession duties............	40	....	40
Customs import duties............	395	....	395
Excise duties............	280	15	265
Sales tax............	590	10	580
Other excise taxes............	300	15	285
Miscellaneous taxes............	10	....	10
Total tax revenues............	4,345	237	4,108
Non-tax revenues............	290	....	290
Total ordinary revenues............	4,635	237	4,398
Special receipts and credits............	75	....	75
Total budgetary revenues............	4,710	237	4,473
Old Age Security Taxes:			
2% sales tax............	148	2	146
2% individual income tax............	82	....	82
2% corporation income tax............	50	....	50
	280	2	278

[Mr. Abbott.]

The net reductions in taxes which I have proposed amount to $237 million in this fiscal year, and to $361 million in a full fiscal year. Radio licence fees have never been treated as part of our tax revenue, but including the dropping of this item the full saving to the public in the coming fiscal year will be about $243 million.

Of the tax reductions in the coming year $100 million is on the personal income tax, $97 million is on the corporate income tax and $40 million is on commodities.

In a full year the reduction in the personal income tax will be $185 million, in the corporate income tax $136 million and in the commodity field $40 million.

My revised forecast shows revenues at $4,473 million. My forecast of expenditures will, however, have to be increased to $4,462 million to take account of the proposed transfer to the C.B.C. On this basis the forecast surplus is $11 million. As was the case last year, this is, of course, budgeting in fact for an even balance.

That, Mr. Speaker, concludes the presentation of my budget. This is the eighth budget which I have had the honour to bring down. The years covered by these budgets have been remarkable years. They have had their difficulties—serious difficulties—yet they have been years of sustained progress unmatched in our previous history. These achievements have been the collective achievements of the Canadian people—rapidly growing in numbers—who have been busy about their own affairs, working, developing and exploring, saving and investing in the future. The task of government in these times has been to promote a healthy climate for sound development, to promote a climate in which both wealth and welfare can flourish, in which we can all enjoy the highest combination of freedom and security in both social and national terms.

The record of this Liberal government in the past four years is one of which we can all be proud. We have expanded and improved our earlier programs of social welfare and we have introduced a sound system of universal old age security. We have provided large financial assistance to improved health services in every province. By our expansion of scientific services and technical surveys we have been steadily rolling back our frontiers. In reply to threats of external aggression we have played a significant role in developing an effective system of regional collective security and we have financed our proper share of its cost. We have balanced our budgets and reduced our public debt. The threatening surge of inflation has been halted, and indeed has been reversed. We have enormously improved, even if we have not wholly solved, the complicated relationships of federal-provincial finance, and we have done this in a growing atmosphere of good will and of mutual respect and understanding.

The outbreak of aggression in Korea compelled us for a while to reverse the steady march of tax reductions, but within 18 months we were able to resume our course. A year ago taxes were reduced by $146 million a year. This evening I have proposed further reductions totalling $361 million a year. This makes the very substantial total of $507 million of tax reduction in two years, and means that we have been able to withdraw two-thirds of the additional tax burden imposed in September, 1950, and April, 1951, and still carry our proper share of the costs of collective defence.

This is a record of which I am frankly proud. It is a record of which we can all be proud, but those of us who have consistently supported the policies on which it has been based are perhaps entitled to a special sense of satisfaction.

Mr. Speaker, I shall now table the resolutions which I will move when the house is in committee.

THE INCOME TAX ACT

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

1. That for the 1954 and subsequent taxation years the graduated rates of tax at present applicable to income of individuals be reduced by substituting therefor the following graduated rates of tax:

(a) 15 per cent of the amount taxable if the amount taxable does not exceed $1,000,

(b) $150 plus 17 per cent of the amount by which the amount taxable exceeds $1,000 if the amount taxable exceeds $1,000 and does not exceed $2,000,

(c) $320 plus 19 per cent of the amount by which the amount taxable exceeds $2,000 if the amount taxable exceeds $2,000 and does not exceed $4,000,

(d) $700 plus 22 per cent of the amount by which the amount taxable exceeds $4,000 if the amount taxable exceeds $4,000 and does not exceed $6,000,

(e) $1,140 plus 26 per cent of the amount by which the amount taxable exceeds $6,000 if the amount taxable exceeds $6,000 and does not exceed $8,000,