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as an ally, but I suggest he should paraphrase what the newspaper said. If in attempting to advance his argument he is going to make a review of the press on that particular point, then contradictory articles will be introduced and we will have an argument between two members who are quoting newspapers one against the other. Argument in this house should be as between members and not as between newspapers despite the fact that newspapermen, as the hon. member has said, are not ordinary people.

Mr. Hamilton (Notre Dame de Grace): In view of the hour, will you call it six o'clock?

Mr. Speaker: As it is six o'clock we will adjourn, because we go into ways and means at eight o'clock and it might be preferred that the hon. member adjourn the debate now.

Mr. Hamilton (Notre Dame de Grace): I shall adjourn the debate.

On motion of Mr. Hamilton (Notre Dame de Grace) the debate was adjourned.

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. W. E. Harris (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: Before I proceed with my remarks, Mr. Speaker, I think I ought to draw attention to the fact that it was 81 years ago this week that the first Liberal finance minister presented his first budget. Since Sir Richard Cartwright there has been a long succession of distinguished predecessors of mine: Fielding, Robb, Dunning, Iisley and my immediate predecessor, Mr. Abbott.

Mr. Rowe: There have been some others.

Mr. Harris: My hon. friends opposite have their traditions also. They have had distinguished gentlemen in this portfolio. I mention only a few: Tilley, Tupper, Foster and, more recently, Sir Thomas White. At this point I should like to pay my respects to the memory of Sir Thomas White who was, as everyone knows, the finance minister in the first world war. He has just recently passed from us full of years and honours which were richly deserved for the service he gave to his country.

[Mr. Speaker.]

In presenting the ninety-first budget since confederation, Mr. Speaker, I have followed the practice of the last few years in placing before hon. members a white paper which contains the facts and the figures with respect to the accounts of the past year. With this white paper before you it will not be necessary for me to go into any great detail about the accounts for the time being. However, I wish to make a general survey of the economic conditions of the country and of the accounts of last year. In doing so I crave the indulgence of hon. members, who may recall that on occasion I have expressed certain views about the length of speeches in the House of Commons, because I am now obliged to break the rule that I have heretofore tried to observe.

THE INTERNATIONAL POSITION

I should like to begin with a short review of the international scene as it affects our budgetary problems.

On the political side, 1954 was a year of constructive achievement, although our hopes of realizing a permanent and stable peace continued to be disappointed. In Europe there was some easing of tensions as further improvement was made in the political and military strength of the Atlantic alliance. Hostilities in Indo-China were brought to an end and a number of countries in south and southeast Asia made additional progress in their program of economic development. Despite these improvements, however, the world situation, particularly in the Far East, remains troubled and uneasy, and it is abundantly clear that the free world cannot yet afford to relax its efforts to build up their defences.

We must therefore continue to expect substantial expenditures for this purpose.

In economic matters abroad, 1954 was in most respects a good year. In the United States, economic activity, after receding from the peak level of 1953, began to turn up in the last quarter of the year and has continued to improve since that time. This progressive improvement in the United States has been a very heartening development, not only to us but to all friendly countries.

Another encouraging feature of the past year has been the continued expansion in production in most overseas countries of the free world, particularly the United Kingdom and western Europe. As post-war shortages have been overcome, most of the controls and restrictions which distort production and hinder basic adjustments have been abandoned. This has undoubtedly helped to bring

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about the improvement which has occurred both in productive investment and in living standards.

There has been a welcome easing of restrictions on international trade and payments. The United Kingdom has continued to give a constructive lead on these matters by relaxing quotas and licensing requirements, reducing discriminations against dollar imports, easing exchange restrictions and reopening commodity markets.

There is still, of course, a long way to go before the goal of full convertibility and truly liberal trade arrangements is attained. A number of countries still face formidable inflationary problems and balance of payments difficulties, and some succeed in balancing their external accounts only with the help of large amounts of United States off-shore purchases and other forms of aid. However, substantial inroads have been made on entrenched restrictions and there is growing recognition that domestic inflationary pressures must be contained if international balance is to be achieved and maintained. In this connection, it is encouraging that the recent set-back in the steady progress made by the United Kingdom during the last few years in rebuilding her international reserves has not been dealt with by imposing new restrictions, but in other, and better, ways.

In helping countries to restore stability in the post-war years, to expand production and to increase their international trade, no nation has played a more constructive role than the United States. As every member of this house is aware, the success that has already been recorded is due largely to generous and farsighted American policies. In the past twelve months, however, while there was no basic change in American policies, there was a disappointing lack of progress toward actual reductions in trade barriers and there were disconcerting signs of a revival of protectionist feeling in response to the increase in competitive conditions.

I should remind the house that the United States administration has resisted proposals which, in our opinion, would not advance the cause of friendly and mutually advantageous trade. This resistance we welcome. On the other hand, it must be confessed that the resistance has not been uniformly successful. We all have our difficulties and it is not always possible to achieve ideal solutions. But it must be recognized that actions taken or even implied by the government of the United States may weaken support for liberal commercial policies and may impose upon those of us who are firm supporters of such policies a greater burden in defending them in our own countries. One country

cannot attempt to get the maximum benefit at the cost of the minimum adjustments without creating a desire in other countries to achieve the same result. There must be a reasonable give and take in any durable trade relationships, whether under the GATT or under any other system.

It is of the utmost importance for the future of international economic co-operation that the United States should continue to give positive direction and leadership in reducing barriers to the free flow of world trade.

We in Canada will continue to play our part in any further steps that are taken to promote these objectives. As one of the world's great trading nations, it is clearly in our interest to encourage overseas countries to earn dollars in order that they may be able to buy our exports, which are the source of over one-fifth of our income. If we are to maintain our standard of living and use our resources and skills to best advantage, we must be prepared to permit other nations to do the same. Markets everywhere are becoming more competitive, but as an important exporting nation we must continue to look very carefully at all proposals involving government protection and aid. The effects of the higher costs resulting from artificial assistance in one form or another would have to be borne by the Canadian consumer in the form of higher taxes and higher prices and, even more important, by the Canadian producer for export in the form of lost markets overseas and lost employment here.

We should be particularly careful about impeding imports from countries whose trading position was impaired by the war, countries which are now dismantling their discriminatory restrictions against our exports and which can be expected to buy still more from us as long as we do not prevent them from earning the dollars with which to do so. With such considerations as these in mind, the government has studied the recent report of the tariff board relating to our tariff on British woollens. We have decided that even though sections of our own industry are experiencing difficulties it would not be wise to increase the tariff. While the relatively low level of our present rates may have contributed to the difficulties of certain sections of the industry, there are, as the report emphasizes, many other factors at work, including changes both of consumer preference and of technology. It seems clear that no change in the tariff, such as was proposed to the board by the industry as a minimum requirement, would solve the basic problems that currently beset the Canadian woollen and worsted manufacturer.

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Our trade relations with most of the outside world continue to be governed by the general agreement on tariffs and trade. This agreement, I believe, serves our interests far better than a series of separate individual trade agreements with all the other contracting parties and it is, of course, infinitely better for us than the chaotic trade warfare that might take place if there were no trade agreements at all. The articles of the general agreement were the subject of close scrutiny during a long conference this winter in Geneva and a number of amendments were provisionally agreed upon there.

These negotiations were under the personal direction of my colleague the Minister of Trade and Commerce (Mr. Howe), and I am sure we all agree that there is no one better qualified to conduct such negotiations on behalf of Canada. He has reported to the house that the revised GATT is greatly to be preferred to no agreement at all, and that it will continue to be in Canada's interest to adhere to it. In this connection I can now announce that we propose to join with others in the general rebinding of tariff schedules as from July 1 of this year.

DOMESTIC ECONOMIC CONDITIONS

I turn now to our own domestic circumstances and prospects. It is not an easy matter to generalize about the course of economic events last year, or about the probable trend for the immediate future.

In the fall of 1953 it began to be apparent that the year by year expansion of the Canadian economy which has been so conspicuous a feature of our post-war development was slowing down. Nevertheless it was felt at that time, and the record of 1954 shows that this belief was well founded, that the basic strength of our economy was not in question.

There were some people who feared a major economic downswing. This fear was based, I suppose, on the thought that the decline in production which was then taking place would inevitably spread from one industry to another by a sort of contagion of falling confidence exerting its adverse influences on wider and wider circles of the economy. In fact, no such contagion or acceleration of the forces making for weakness occurred.

By and large, the principal declines in the Canadian economy have stemmed from the small western grain crop, reductions in business spending on new machinery and equipment, and lower purchases by consumers of the more durable kinds of goods. All these reductions were from levels which had been unusually high by any standard of comparison. The lower expenditure on capital equipment and consumer durables was largely, but

not wholly, offset by new records of production in our lumber, pulp and paper, mineral and petroleum industries. The net result was that our gross national product in 1954, estimated at \$24 billion, was 2 per cent, or \$400 million, below 1953.

In dollar terms the sharp decline in the grain crop was equal to the total decline in the gross national product, and in addition its effects permeated all other sectors of the economy. For example, loans under the Farm Improvement Loans Act, which are a good indicator of farm equipment sales, fell from \$98 million in 1953 to \$62 million in 1954. Retail sales on the prairies in the last half of 1954 were 7 per cent below the same period of 1953 while in the rest of the country they were slightly higher. The small western harvest thus contributed both directly and indirectly to our lower gross national product. Apart from the three prairie provinces, however, agriculture had a good year, and farm cash income was moderately higher than in 1953.

On the industrial side, it is necessary to remind ourselves that unevenness in the rate of growth, as well as adjustments within industries, are more characteristic of an expanding economy such as ours than of a mature or static economy. In recent years we have become so accustomed to big improvements in production that even a minor reversal of the trend is apt to cause more concern than the situation warrants. In a real sense, of course, such changes are partly the result of the very rapid expansion of earlier years, as well as the result of a changing external situation.

As I said a moment ago, the principal declines in the industrial sector were in capital equipment and consumer durables, and these, in turn, were reflected in reduced activity in the primary iron and steel industry. The output of metals and minerals, however, continued to grow, supported by strong markets at home and abroad. The output of oil and other petroleum products increased at an impressive rate, giving more employment and enabling us to reduce our dependence on external supplies. 1954 was also a record year for lumber, woodpulp and newsprint. Employment in trade, in finance and in other service industries also continued to grow. The improvement in this last group of industries is not featured in the headlines, but it employs about one-third of the total labour force of Canada.

Perhaps the principal sustaining factor behind the demand for goods and services in 1954 was consumer expenditures. The increase was from \$15,100 million to nearly

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\$15,600 million, or slightly more than 3 per cent. The continued confidence of consumers in their economic future is important since their decisions to spend or not to spend can spell the difference between expansion and contraction for many of our industries, and, of course, for the economy as a whole.

I should note at this point the important role played by our federal welfare and income maintenance policies. During the past year almost \$1,200 million was paid out in veterans benefits, family allowances, pensions or assistance to the old, the disabled and the blind, and in unemployment benefits.

In 1954 more than 100,000 families decided to build or acquire new housing accommodation, involving an increase of 10 per cent in the number of housing starts during the year. The new provisions of the National Housing Act helped them to finance their plans. Of course this increase in consumer expenditures and in housing starts was supported by the growth in population and by an increase in the total of personal incomes, largely in wages and salaries.

The increase during 1954 of 405,000 in our population is especially worth noting. It is as if we had added one new Vancouver or 20 new Guelphs to our country. It may be that some small part of this increase in population had its reflection in our total unemployment; but I am certain that if we had not had this increase—both native born and immigrant—we would have had relatively less employment and been a poorer country.

Defence spending also remained high throughout 1954 although there was a decrease of about 8 per cent compared with the previous year. However, an increase in the non-defence expenditures of the federal, provincial and municipal governments almost exactly offset the defence decline in the total demand for goods and services.

New capital investment in plant and equipment continued at a high level and, if we include housing also, constituted nearly 20 per cent of the total national product. However, for the first time in the post-war period there was a small decline in total new investment, amounting to about \$300 million or about 6 per cent. Investment in new plant and equipment declined by nearly \$400 million, but the amount of new housing construction increased by about \$100 million. I shall revert to this question of capital investment a little later.

Exports continued to support a high level of production and to give encouragement to plans for the further expansion of many of our primary industries. The experience of 1954 confirms the view that Canada has the

potentialities for producing efficiently and cheaply a larger output of many of the basic commodities which the world needs. Although total exports were some 5 per cent below the level of the previous year the decline in the sales of wheat and flour is largely responsible for this change. Moreover, the past four months have seen an encouraging reversal in the trend of our total export sales. In these four months exports have been \$107 million, or 8½ per cent, above the figures for the same four months a year ago. Wheat and flour exports have improved; pulp and paper were up 10 per cent; non-ferrous metals 25 per cent; lumber 40 per cent; and chemical products 50 per cent.

Imports fell by a little more than exports so that the small deficit on merchandise trade in 1953 was replaced by a small surplus last year. Taking the non-merchandise transactions into account as well, there was a deficit in Canada's international transactions on current account of \$427 million, or about \$12 million less than last year.

Large amounts of foreign capital, chiefly from the United States but also in good volume from British and European sources, continued to be invested in Canada in 1954. Direct investment inflows were down somewhat on the year, and new issues by Canadians on United States security markets fell quite noticeably after the first quarter of 1954. On the other hand, non-resident purchases of outstanding Canadian shares were distinctly higher.

Net capital movements, on balance, were more than sufficient to cover the current account deficit. Official reserves of gold and U.S. dollars rose during 1954 by \$124 million to \$1,942 million. The rate of exchange of the Canadian dollar was, on the average, slightly higher in 1954 than in the preceding year. As hon. members are aware, the Canadian dollar rate has declined again in recent months.

There has been no change in the policy of the government to allow the rate of exchange to be determined by the sum total of the forces operating in the exchange market, including of course the influence of fiscal and monetary conditions. The resources of the exchange fund are not used to reverse persistent trends but only to contribute to orderly conditions by limiting excessive short-run movements in either direction which might otherwise occur.

No appraisal of the economic situation could avoid some reference to the revival of international competition. So far as the basic industries are concerned, most of our producers have proved quite capable of maintaining and even increasing their markets at

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home and abroad. However, some of the secondary manufacturing industries have lost ground in export and domestic markets to their competitors. I mention this to illustrate the point that the difficulties which some industries are facing today are not the result of any general decline of demand, but of a new situation applicable to the industries concerned and in large measure capable of correction by those industries. Clearly these are situations which cannot be corrected by government. What is needed is resourceful efforts by management and labour to meet that competition by reduction in real costs and the improvement of quality and efficiency—all of which I firmly believe Canadian management and labour can provide.

Canadian production and employment last year was, of course, adversely influenced by the recession in the United States. Our economic relations with that country are too significant for Canada to remain unaffected when the American economy is going through a period of readjustment. Fortunately, those conditions are beginning to disappear.

In the United States the new year got off to a good start and I note that there is a widespread belief in that country that the present expansion of production will continue. This is already reflected in our exports to the United States. The continuation of prosperous conditions in western Europe and in commonwealth countries, together with better prices for many of the industrial raw materials which count so heavily in our exports to these areas, supports the belief that total exports will continue to expand in the year ahead.

The second important ingredient of further expansion exists in the program for the construction of new capital facilities. The present intentions of individuals, business and governments in this respect were summarized in a white paper tabled by my colleague the Minister of Trade and Commerce, a few weeks ago, which indicates a 6 per cent increase in 1955 over 1954. Quite apart from the extension of capital facilities in the industrial and commercial sectors of the economy it is to be observed that new investment for the development of natural resources is going on apace, despite the completion of some of the more spectacular developments which have captured our imagination in recent years.

There should also be an increase in construction activity in the season now beginning. Indeed, it is clear to all of us that alongside the pushing back of the physical frontiers of our country there is also taking place an expansion of urban facilities which is simultaneously making Canada a land of large cities. This trend toward metropolitan

development creates special problems of its own, but it is undoubtedly expanding the demands upon the products of industry and for the employment of our people.

Our fiscal and monetary policies will continue to be directed towards the encouragement of enterprise, investment and employment. I shall speak of fiscal policy in a moment. As for monetary policy, it has been definitely expansionist in character. Through 1954 the cash reserves of the chartered banks were more than sufficient to enable them to meet the demand for loans. The banks were therefore in a position to purchase government securities in the market on a substantial scale and thus add to the money holdings of the public. This and other influences brought about a considerable reduction of interest rates in Canada and rising security prices, which have made it easier to finance capital and other expenditures by borrowing or by converting securities into cash. I may add that interest rates in Canada have declined somewhat since the beginning of 1955 while rates were tending to rise in the United States and elsewhere.

Government expenditures will continue to provide a substantial support to production and employment in the year ahead. Total expenditures on defence will not differ much from last year. The construction of the St. Lawrence seaway and power development will require large expenditures this year, and will stimulate production in other industries. In addition, of course, the so-called "built-in" supports to production and employment through government payments of pensions, family allowances and other welfare payments will continue to expand in line with the growth in population. Provincial and municipal expenditures are expected to increase. It is also reasonable to assume a normal grain crop this year, with a resultant stimulus to purchasing power in rural areas.

These estimates of future demand, imperfect and rough as they must be, confirm my feeling of confidence for the coming year. They indicate an active year for production, which will be reflected in increased incomes and employment, and a further increase in consumer demand can be confidently anticipated. All in all, then, I feel justified in counting upon an increase in the total national product in 1955 of something better than a normal rate of growth. Assuming normal crops, and if no unforeseen adverse events occur, I would expect our gross national production in 1955 to exceed 1954 by 5 or 6 per cent; that is, it should reach \$25½ billion or perhaps just a bit more, and on that figure I shall base my revenue forecasts.

GOVERNMENT ACCOUNTS, 1954-55

I turn now to a brief survey of the government accounts for the fiscal year which ended last week. These are set out in considerable detail in the white paper. I should, of course, remind hon. members that our books of account will not be finally closed and audited for some time, and that the figures which I use tonight are subject to revision.

Subject to these qualifications, the results for the year can be stated briefly. Our total budgetary revenues were about \$4,107 million, our expenditures about \$4,255 million and the deficit for the year was about \$148 million.

Revenues at \$4,107 million were about \$360 million or 8 per cent less than the forecast of a year ago and about \$290 million less than we collected in 1953-54. Customs, sales, and excise duties and taxes, and non-tax revenues have all fallen slightly short of expectations. However, corporation income tax collections which were \$190 million less than expected and personal income tax receipts which were \$60 million less than expected were the two principal factors contributing to the over-all shortfall. Corporate profits were substantially lower than had been expected at the time of the last budget.

In his budget speech last year my predecessor projected a scale of expenditures and revenues that almost exactly balanced. He made it clear, however, that his projection was based upon two assumptions—normal crops and an early resumption of our normal rate of industrial expansion. He said explicitly that if these conditions did not materialize there would be a deficit of 2 or 3 per cent. Well, as hon. members know, we had a poor wheat crop, the poorest in 17 years, and the resumption of a normal rate of industrial expansion has been slower than we had hoped. As a consequence we have a deficit equal to 3½ per cent of our expenditures.

Expenditures last year amounted to \$4,255 million. This was \$205 million or 4½ per cent less than forecast and \$95 million less than the total spent in the previous year. Expenditures for defence amounted to \$1,700 million. Although this was \$160 million or 8 per cent less than in 1953-54, it still constituted 40 per cent of the total budgetary outlay. Civil or non-defence expenditures amounted to about \$2½ billion. About \$775 million or 30 per cent of this was for family allowances and other health, welfare and social security services, and veterans' benefits. In addition, we paid out about \$350 million from the old age security fund. Interest and other charges for servicing the public debt amounted to over \$500 million or 20 per cent of the total,

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and subsidies and tax rental payments to provinces were \$360 million or 15 per cent. In brief, two-thirds of all our civil expenditures were for welfare and social security services, public debt charges, and provincial subsidy and tax rental payments.

As usual, in addition to these expenditures for government services which are included in the budgetary accounts, we made substantial loans and advances and provided large sums for a variety of other authorized and essential purposes. I should like to say a word about these non-budgetary transactions and their effect on our cash position.

During the fiscal year non-budgetary disbursements amounted to \$290 million. To meet them, \$490 million was available from non-budgetary sources of which \$205 million came from the various annuity, insurance and pension accounts which the government holds and administers, and \$220 million from the repayment of loans and advances.

After taking into account the budgetary deficit of \$148 million and the net balance of \$200 million available from non-budgetary transactions, some \$50 million was available for debt reduction. By using this amount and by drawing down about \$150 million of the large cash balances we held at the beginning of the year, the funded debt in the hands of the public was reduced during the year by \$200 million.

The government's public debt operations during the past year have again included the redemption or refinancing of a large volume of bonds. The redemption of the third and fourth victory loans, amounting to \$2,000 million, involved the two largest refunding operations in our history. Net sales of Canada savings bond series 9 amounted to \$767 million, and represented the largest net increase in savings bond holdings by the Canadian public in any year since this type of security was introduced nine years ago. During the year there was a net increase in the amount of treasury bills outstanding of \$240 million reflecting the government's desire to develop a more active Canadian market for short-term securities. Apart from the refunding of treasury bills which matured periodically, the total of new securities issued was \$4,610 million and we redeemed matured or called securities and acquired others for our sinking fund and securities investments accounts to a total of \$4,810 million. In consequence, as I have pointed out, we were able to reduce our unmatured funded debt outstanding in the hands of the public by \$200 million.

Interest rates declined during the year. Early in 1954, long-term government of Canada bonds were selling to yield about 3.75 per cent. During the past two months the

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rate has been under 3·20. Treasury bill rates also declined. A year ago the rate on three-month bills was around 1.60 per cent. Currently this rate is about 1.15 per cent. The average rate of interest on the government's entire funded debt was 2.86 per cent a year ago. Now it stands at 2.74.

FEDERAL-PROVINCIAL RELATIONS

Federal-provincial relations are currently a matter of particular interest and concern. They are one of the most important problems facing us as a nation today. I do not propose at this time to review them in detail, or to suggest any revisions or alternatives to our present arrangements. We will be meeting with the provincial representatives later this month, preliminary to a full federal-provincial fiscal conference later in the year. We, on our part, will be coming to these meetings with open minds, and I do not wish to prejudge the issues and the problems we shall then be discussing.

Government in a federal state is an extremely complex matter, and in no field is this truer than in federal-provincial financial relations. Various provincial spokesmen have from time to time expressed views on these questions. Some have proposed larger payments by the federal government to the provinces; others have asked that the federal government take on additional responsibilities, or contribute substantially to their cost. Some have pressed for a return to what they believe to be the original intentions of the framers of our constitution; others have advocated a formal reallocation of financial powers and responsibilities.

I find it difficult to envisage any re-allocation of taxing powers or more precise definition of sources of revenue that is likely to meet all future contingencies. If that is the case, there is much to be said for medium-term agreements, freely entered into, and subject to renewal or reconsideration at regular intervals. I think we are more likely to reach sensible and acceptable solutions in that way.

No one, so far as I know, has ever claimed that the tax rental approach has been satisfactory in all respects; but it would be most unwise to undervalue the many advantages the country has gained from it. These agreements have been a unique and interesting experience in intergovernmental co-operation and the disagreements that have occurred from time to time should not lead us to overlook the substantial benefits that

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have accrued to the provincial governments and to the people of Canada through this co-operation.

In considering our future course of action we can hope and expect that the expansion of our economy will continue to provide a tax potential sufficient for all levels of government. I suggest that we should seek a scheme of federal-provincial fiscal arrangements that will provide the total revenues required with the greatest degree of equity and efficiency; that will impose as little duplication and confusion as possible on the common body of taxpayers; that will spend the revenues so acquired so as to afford the greatest measure of public service; and at the same time will fully preserve provincial autonomy as provided in our constitution. Our success in achieving the best possible blend of these will be the test of our collective statesmanship.

I have not considered it necessary at this time to refer in any detail to the solution reached in the matter of the credits for personal income tax levied by the province of Quebec. This was explained to this house by the Prime Minister on January 17 last. I need only say that no other province has indicated a desire to withdraw from its agreement in favour of terms similar to those made available to Quebec. Among the resolutions I shall be tabling this evening will be those giving effect to the arrangements announced by the Prime Minister last January.

May I say by way of interpolation that I am quite sure nearly all Canadians are extremely pleased that the present Prime Minister (Mr. St. Laurent) will be presiding over the conference with the provincial premiers.

TAX POLICY

I come now to the question of what should be the basic principles governing our tax policy this year.

I am sure that all will agree that when employment and incomes are high, and the economy expanding at a normally healthy rate, we should fully balance our budget, with a modest amount for the reduction of debt.

I think there will also be general agreement that, under boom conditions when abnormal demands are putting undue strain on our resources and inflationary pressures are building up, fiscal policy should play its part, along with other appropriate policies, in placing some restraint on such boom conditions. Conversely, when the rate of economic advance slackens, and the economy

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as a whole is not fully employed, a moderate budgetary deficit should be no cause for alarm.

Let me add at once that I do not think that fiscal policy is the only means of promoting economic stability and expansion. Fiscal policy is just one of several means to that end. Monetary policy, trade policy and policies relating to resource development and basic income maintenance are equally important, and in certain contexts may have considerably greater influence. The important thing is that all the useful tools and weapons at the disposal of the government should be used and directed toward that fundamental objective of all economic policy—the steady expansion of the wealth and welfare, the employment and incomes, of the Canadian people. Nor would I want to leave the impression that governments alone bear these responsibilities. The healthy expansion of the Canadian economy is everybody's business.

Fiscal policy, however, is one of several important means of promoting the expansion of wealth and welfare. I propose to recommend to the house a tax policy and a tax structure that would produce a balanced budget under conditions which represent a high level of output and employment.

There are various ways of describing what we mean by high levels of employment and incomes, and various ways of estimating what revenues a certain tax structure will produce from a given level of activity. This is not a simple exercise, but I shall put it in simple terms without adding all the qualifications—the “ifs” and “buts”—which perhaps ought to accompany it.

1953 was a good year, in fact the best we have ever had. The gross national product in that year was \$24.4 billion. Our available labour force, our managerial and technical skills, and our stock of capital equipment should grow and improve. Consequently our capacity to produce goods and services should normally expand. Had we had this expansion during the past year our gross national product in 1954 would have been a bit over \$25 billion. Actually it was only \$24 billion.

If it were possible to pick up this slack and at the same time add a normal rate of growth, we would have a gross national product in 1955 of a little more than \$26 billion. I propose, therefore, to recommend a tax structure which, as closely as I can estimate, would produce a balanced budget if we had a gross national product of about \$26 billion.

As I said a moment ago, it is not a simple matter to forecast revenues under changing economic conditions. Our tax structure as a whole is progressive, that is, our tax yields tend to rise more rapidly and fall more rapidly than the national income as a whole. How rapidly our revenues rise or fall depends largely on the shifts in the various elements that make up the total national income.

After analysing all the relevant considerations, I have concluded that our present tax structure would produce revenues close to \$4,550 million if we had a gross national product of \$26 billion. I have already said that I do not expect that we shall average so high a rate for 1955 as a whole, but I am hopeful that we shall reach that rate before the end of our fiscal year. For the purpose of forecasting our actual revenues I shall assume, as I said earlier, a realized gross national product of \$25½ billion in this calendar year, and on that basis our federal revenues will be about \$4,350 million.

If I may have unanimous consent I would like to place in *Hansard* at this point a table showing my estimate of our revenues for the year just closed and of the revenues that would be received in the coming year if no changes in taxation were made.

Mr. Speaker: Has the minister unanimous consent to place this on the record?

Some hon. Members: Agreed.

Mr. Harris: The table follows:

| | TABLE I | |
|---------------------------------|---|---------------------|
| | Revenues before Tax Changes (in millions of dollars) | |
| | Preliminary 1954-55 | Forecast 1955-56 |
| Personal income tax | \$1,176 | \$1,235 |
| Non-resident income tax | 61 | 65 |
| Corporation income tax | 1,008 | 1,085 |
| Succession duties | 42 | 45 |
| Customs duties | 393 | 410 |
| Excise duties | 227 | 238 |
| Sales tax | 576 | 600 |
| Other excise taxes | 254 | 265 |
| Miscellaneous taxes | 16 | 17 |
| Total tax revenues | 3,753 | 3,960 |
| Non-tax revenues and credits .. | 354 | 390 |
| | \$4,107 | \$4,350 |

The main estimates of expenditure have already been tabled in the amount of \$4,360 million. The government has continued its efforts toward maximum economy and efficiency in government operations. With the co-operation of all my colleagues it has been possible this year to achieve a reduction in

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the main estimates—the first in seven years. Decreases from last year are shown for ten departments. The reduction in estimates has been achieved after providing for the automatic increase in social security payments arising from the growth of our population. In order to help maintain employment, there has been no curtailment in the planned program of useful and necessary public works. Indeed, if we include loans to government agencies, there is provision for a substantial increase in expenditures on public works during the present year. Also there is provision for the normal expansion of government services designed to promote the expansion of our economy. For this purpose, increases have been proposed in the outlays on research, on services which encourage the development of resources, and on the administration and development of our northern areas.

We have sought to reduce expenditures through economies in administration and overhead. In the coming year there will be substantial savings in interest charges resulting from refinancing of loans at lower interest rates. Additional steps have been taken to ensure proper economy in the use of staff in government departments. Administrative procedures are constantly being reviewed in order to eliminate waste and to increase efficiency. There will be no relaxation in these efforts. The more successful we are in the exercise of economy and efficiency in operating costs, the more possible it will be to provide necessary services and to undertake constructive projects which promote the growth and prosperity of our economy.

There will, of course, be the usual supplementaries. On the other hand, there will be the usual lapsings and underspending in many of the 500 separate items in the estimates. After a careful study of all these factors, I have reached the conclusion that a fair estimate of our actual spending during the coming year is \$4,300 million. Thus on the basis of the accounting methods we have been using in the past I would expect a surplus of about \$50 million at the present rates of taxation.

At this point, however, I should like to report on the operations of the old age security fund. Hon. members will recall that parliament set up this system and this fund in 1951, and it came into operation in stages during 1952. The revenue of the fund comes from a 2 per cent sales tax, a 2 per cent corporation income tax, and a 2 per cent personal income tax with a maximum individual payment of \$60.

[Mr. Harris.]

The amount and the disposition of the annual deficit of this fund are shown in the following table which I ask leave to place upon *Hansard*.

Mr. Speaker: Agreed?

Some hon. Members: Agreed.

Mr. Harris: The table follows:

| Fiscal Years | Receipts | Payments | Deficit | Disposition of Deficit |
|--------------|----------|----------|---------|-------------------------------------|
| 1951-52 | \$26 | \$76 | \$50 | Charged to current expenditure |
| 1952-53 | 214 | 323 | 99 | Written off to active asset reserve |
| 1953-54 | 293 | 339 | 46 | Carried as a temporary loan |
| 1954-55* | 291 | 353 | 62 | Carried as a temporary loan |

*Preliminary—final figures not available until final closing of the 1954-55 accounts.

The deficit in the fund for the year just closed is about \$62 million and during the coming year I expect that it will be about the same.

We have now had three full years of experience with the operations of this fund, and I think we should now take steps to close out the deficit each year. I propose, therefore, to ask the authority of parliament to wipe out the temporary loan for the year 1953-54 by charging it to current expenditure in the year 1954-55. Similarly I shall ask parliament in the June supplementaries, when the exact deficit for 1954-55 is known, to charge the past year's deficit to this year's expenditure.

When this is done it will have the effect of increasing our budgetary deficit for the year just ended by \$46 million; that is, instead of the \$148 million I reported earlier, and also referred to in the white paper, the adjusted deficit will be \$194 million. It will have the further effect of adjusting the current year's estimated expenditure from the \$4,300 million I mentioned a moment ago to \$4,362 million.

Having forecast the revenues, before any tax changes, at \$4,350 million, and the expenditures at \$4,362 million, I would face a deficit of \$12 million this year. If, however, employment, incomes and business activity were at the desirable level—that is, such as to yield a gross national product of about \$26 billion—our present tax structure would be generating a substantial surplus. I think in these circumstances it is good sense to anticipate this situation and make some moderate tax reductions now.

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Apart from and outside the budget, we shall as usual be called upon to make a number of authorized loans and advances for which we must find cash. The Canadian National Railways capital requirements are financed initially by advances from the government. In 1955 these may amount to \$150 million. Loans to the St. Lawrence seaway authority will be about \$50 million and another \$40 or \$50 million will probably be required for advances to Central Mortgage and Housing Corporation. In addition cash will be needed for other crown corporations and departmental working capital accounts, for loans to veterans and other authorized purposes. Moreover, I should expect that there will be substantial net disbursements from the defence equipment replacement account.

On the other hand, we shall have cash coming in from the repayment of various loans and advances and from various annuity, insurance and pension accounts which the government administers. Changes during the year in the exchange fund cannot be accurately forecast. However, all in all I should expect that apart from our funded debt and exchange fund operations and the net requirements of the Canadian National Railways, the non-budgetary accounts will be approximately in balance.

TAX AND TARIFF CHANGES

I turn now to specific tax proposals. The burden of our present taxes is, I believe, distributed pretty fairly and sensibly. My problem, therefore, is to spread such reductions as I am able to recommend as fairly as possible. However, in addition to wanting to be as fair as possible, it is desirable that the reductions be made where they will be helpful in encouraging business activity and promoting employment.

CORPORATION INCOME TAXES

It is well known that a great part of our post-war industrial development has been financed out of corporate earnings which have been retained to expand production and create more jobs. Our present rate of tax on corporate profits is very high. The standard rate takes away nearly half the earnings of business enterprise. I share my predecessor's view that in the interests of the future of Canada—and that means all of us—the rate should be lowered as circumstances permit. Sound and prudent government policies with respect to business enterprise encourage the growth and expansion of the whole country.

In the light of these considerations I propose to reduce the standard corporate rate from the present 49 per cent level to 47 per cent, effective January 1, 1955. On an annual basis this will reduce revenue by about \$43 million and the revenue loss for this fiscal year will be about \$28 million.

PERSONAL INCOME TAX

The personal income tax is our largest source of revenue. It is also a progressive tax, broadly based, and directly touches more than 3,800,000 individual taxpayers. It is a tax where changes in rates—up or down—are quickly reflected in the current stream of personal incomes. It is in this direction that I propose to apply the greater part of the relief available this year.

I am recommending a new schedule of rates which will reduce the tax payable by 12 to 13 per cent for 85 per cent of our taxpayers. The method by which this result will be reached is to reduce the rates of tax payable on each bracket of income by two percentage points. The maximum reduction in the tax payable will be 13.3 per cent. Every married taxpayer with an income up to about \$5,000 will get at least a 12 per cent reduction. The rate of reduction beyond this point drops off gradually until it reaches 2.3 per cent at the highest income levels.

These changes, as is our regular practice, will be effective July 1, 1955. This means that for the great majority of taxpayers their tax reductions at the source will be reduced by 12 or 13 per cent commencing with their July pay cheques. For the calendar year 1955 the reduction in total tax payable will, of course, be just half that which I have mentioned, because every taxpayer will have paid during the first six months at the old rate, and the last six months at the new.

This reduction in personal income taxes will be confined to the regular income tax as calculated under the graduated schedule of rates and will not apply to that part of income tax levied under the Old Age Security Act nor to the special 4 per cent tax on investment income. The cost to the treasury of this abatement will be \$128 million in a full year, or \$85 million in this fiscal year.

With consent I should like to place on *Hansard* at this point the usual tables showing the tax payable at various income levels for the calendar year 1954, the calendar year 1955, and on a full year basis.

Mr. Speaker: Is it agreed that the minister has consent?

Some hon. Members: Agreed.

Mr. Harris: The tables are as follows:

TABLE III

EFFECT OF THE PROPOSED PERSONAL INCOME TAX CHANGES
SINGLE TAXPAYER

| Income | Tax paid for 1954 | Tax for 1955 (6 months at present rates and 6 months at new rates) | Tax in full year at new rates | % reduction in full year |
|--------------|-------------------|--|-------------------------------|--------------------------|
| \$ | \$ | \$ | \$ | % |
| 1,000..... | — | — | — | — |
| 1,500..... | 75 | 70 | 65 | 13.3 |
| 2,000..... | 150 | 140 | 130 | 13.3 |
| 2,500..... | 235 | 220 | 205 | 12.8 |
| 3,000..... | 320 | 300 | 280 | 12.5 |
| 3,500..... | 415 | 390 | 365 | 12.0 |
| 4,000..... | 510 | 480 | 450 | 11.8 |
| 5,000..... | 700 | 660 | 620 | 11.4 |
| 7,500..... | 1,270 | 1,205 | 1,140 | 10.2 |
| 10,000..... | 1,960 | 1,870 | 1,780 | 9.2 |
| 15,000..... | 3,760 | 3,620 | 3,480 | 7.4 |
| 20,000..... | 5,960 | 5,770 | 5,580 | 6.4 |
| 30,000..... | 10,660 | 10,370 | 10,080 | 5.4 |
| 50,000..... | 21,814 | 21,324 | 20,834 | 4.5 |
| 75,000..... | 37,264 | 36,524 | 35,784 | 4.0 |
| 100,000..... | 53,714 | 52,724 | 51,734 | 3.7 |
| 200,000..... | 126,414 | 124,424 | 122,434 | 3.1 |
| 400,000..... | 283,114 | 279,124 | 275,134 | 2.8 |

NOTES:

- (1) The old age security tax of 2 per cent of taxable income (maximum tax \$60) is payable in addition to the 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 THE PROPOSED PERSONAL INCOME TAX CHANGES
MARRIED TAXPAYER—NO DEPENDENTS

| Income | Tax paid for 1954 | Tax for 1955 (6 months at present rates and 6 months at new rates) | Tax in full year at new rates | % reduction in full year |
|--------------|-------------------|--|-------------------------------|--------------------------|
| \$ | \$ | \$ | \$ | % |
| 2,000..... | — | — | — | — |
| 2,500..... | 75 | 70 | 65 | 13.3 |
| 3,000..... | 150 | 140 | 130 | 13.3 |
| 3,500..... | 235 | 220 | 205 | 12.8 |
| 4,000..... | 320 | 300 | 280 | 12.5 |
| 5,000..... | 510 | 480 | 450 | 11.8 |
| 7,500..... | 1,030 | 975 | 920 | 10.7 |
| 10,000..... | 1,660 | 1,580 | 1,500 | 9.6 |
| 15,000..... | 3,360 | 3,230 | 3,100 | 7.7 |
| 20,000..... | 5,510 | 5,330 | 5,150 | 6.5 |
| 30,000..... | 10,160 | 9,880 | 9,600 | 5.5 |
| 50,000..... | 21,264 | 20,784 | 20,304 | 4.5 |
| 75,000..... | 36,664 | 35,934 | 35,204 | 4.0 |
| 100,000..... | 53,064 | 52,084 | 51,104 | 3.7 |
| 200,000..... | 125,714 | 123,734 | 121,754 | 3.2 |
| 400,000..... | 282,364 | 278,384 | 274,404 | 2.8 |

NOTES:

- (1) The old age security tax of 2 per cent of taxable income (maximum tax \$60) is payable in addition to the 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 THE PROPOSED PERSONAL INCOME TAX CHANGES
MARRIED TAXPAYER—WITH TWO CHILDREN ELIGIBLE FOR FAMILY ALLOWANCES

| Income | Tax paid for 1954 | Tax for 1955 (6 months at present rates and 6 months at new rates) | Tax in full year at new rates | % reduction in full year |
|--------------|-------------------|--|-------------------------------|--------------------------|
| \$ | \$ | \$ | \$ | % |
| 2,300..... | — | — | — | — |
| 2,500..... | 30 | 28 | 26 | 13.3 |
| 3,000..... | 105 | 98 | 91 | 13.3 |
| 3,500..... | 184 | 172 | 160 | 13.0 |
| 4,000..... | 269 | 252 | 235 | 12.6 |
| 5,000..... | 453 | 426 | 399 | 11.9 |
| 7,500..... | 964 | 912 | 860 | 10.8 |
| 10,000..... | 1,582 | 1,505 | 1,428 | 9.7 |
| 15,000..... | 3,240 | 3,113 | 2,986 | 7.8 |
| 20,000..... | 5,375 | 5,198 | 5,021 | 6.6 |
| 30,000..... | 10,010 | 9,733 | 9,456 | 5.5 |
| 50,000..... | 21,099 | 20,622 | 20,145 | 4.5 |
| 75,000..... | 36,484 | 35,757 | 35,030 | 4.0 |
| 100,000..... | 52,869 | 51,892 | 50,915 | 3.7 |
| 200,000..... | 125,504 | 123,527 | 121,550 | 3.2 |
| 400,000..... | 282,139 | 278,162 | 274,185 | 2.8 |

NOTES:

- (1) The old age security tax of 2 per cent of taxable income (maximum tax \$60) is payable in addition to the 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.

There are a number of minor changes in the field of income tax that need to be made. Many of these will be found in the resolutions. I perhaps might explain some of them.

Our Income Tax Act imposes a special tax of 4 per cent on investment income. Profits from carrying on business are, of course, earned income and not subject to this tax. In the case of rental incomes derived from the ownership and management of real estate it has been found impossible to draw a consistent line defining the "carrying on of a business". I am proposing, therefore, that income in the form of rentals from real estate be excluded from the base to which the special 4 per cent tax on investment income applies. The revenue loss will be about \$700,000 in a full year, and about \$300,000 in this fiscal year.

An amendment will be introduced to allow as a business expense the costs incidental to borrowing money and issuing shares. This deduction will cover such items as professional fees, printing costs, and the like, but

will not include bond discount or commissions on the sale of securities.

The amending bill will make provision for a tax on companies which in future pay dividends out of "designated" surplus to non-resident persons or to tax-exempt persons where control of the corporation has been acquired since December 31, 1954. The rate of tax on such companies will be 15 per cent and it will be computed by reference to the amount of dividends paid to the person controlling it.

For fiscal periods ending in 1956 and thereafter, income in the form of rentals in excess of 10 per cent of gross income will disqualify a company from the status of "non-resident owned investment corporation". Likewise, the receipt of income from operating ships or aircraft will debar a company from the status of "foreign business corporation".

Commencing tomorrow, payments for timber cut in Canada made to non-resident

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persons will be subject to our regular 15 per cent tax. This will close a gap in the existing law.

Our tax laws contain special incentive provisions for the oil, gas and mining industries. It has been the policy in the past few years to review these provisions each year and annually to grant an extension of them. There are certain advantages in this procedure but, on the other hand, it carries with it some uncertainty for the future. In the past few months I have been giving considerable thought to the operation of these incentives and to the importance of these two industries to the future of Canada. I believe these special tax provisions have clearly established their value in promoting expansion and I now propose to make them a permanent part of our law. There is one minor exception to the general statement I have made. The tax credits which are specially authorized under orders in council for deep test wells will not be continued beyond the present year.

In addition to the income tax changes which I have just mentioned the amending bill will contain numerous changes of a technical nature and less general in their application.

Now just a word about succession duties. The budget speech of last year indicated the intention of the government to undertake a complete revision of the act and invited representations regarding it. Useful briefs and comments have been received and the work of drafting and shaping a new structure is under way. The task has proved to be somewhat more difficult and time-consuming than was anticipated. The new bill will not be ready for introduction at the present session, but I hope it will be ready next year. In the meantime the present law will stand unchanged.

CUSTOMS TARIFF

The resolutions which I am placing before the house tonight contain a number of tariff changes; for the most part, however, these changes are of a familiar character. Many of them are essentially formal; but they serve to bring the wording of individual tariff items into line with changing trade practices and changing technology. Others make permanent certain temporary reductions in our tariffs on materials imported for use in Canadian manufacturing, reductions that were originally introduced by order in council in past years on a trial basis. Still others provide for new tariff reductions.

None of the proposed tariff changes affects items producing a substantial amount of revenue, and the aggregate effect of all the

changes on revenues will not be significant. Nevertheless a number of the changes are of some general interest.

One of these relates to Canadians returning from abroad. Recently the tariff board ruled that returning Canadians are not entitled to bring in their personal and household goods as settlers' effects, and therefore some new provision has to be made for them. I am sure we do not want to put obstacles in the path of Canadians who, after working or studying abroad, decide to come home. Accordingly I propose to extend to all returning Canadians facilities similar to those at present available to members of the armed forces and government employees who have been posted abroad for more than one year.

In our effort to keep the tariff abreast of technical changes we have substantially rewritten two groups of items, one covering sugar syrups and molasses and the other covering aircraft parts. In the former field, apart from one deliberate reduction, no changes are intended from the rates in effect over past years. In the latter field there are a number of reductions.

A number of the reductions will benefit farmers, directly or indirectly. They include reduction or elimination of tariffs on brooders for farm animals, certain components of feedstuffs, sweet potato seedlings, poultry eviscerating equipment, and others.

Several items will be of interest to the fishing industry, in particular the elimination of duty on fishing vessels over 100 feet in length and the reduction of duty on fish meal plant and fish cooking equipment.

Two items in tonight's resolutions stem from reports of the tariff board. Some years ago the board reviewed the whole plastics schedule and recommended a series of adjustments in rates which parliament adopted in 1952. Naturally there have been changes since that time in the rapidly developing plastics industry. Some of these changes were in fact forecast in 1952, and I have recently received a supplementary report which my predecessor requested from the board on polyethylene and its products. This report recommends a change from free entry to a rate of 10 per cent for polyethylene resins, together with some consequential adjustments on manufactures of polyethylene. After considering this report I have decided to recommend a rate of 7½ per cent together with appropriate consequential adjustments. In addition, the duty on phenol-aldehyde resins is changed from free entry to 7½ per cent, except when used for the manufacture of plywood. The new rate is in line with those established in 1952.

This evening I am tabling two tariff board reports. One, which I have just mentioned, relates to polyethylene, and the decision to accept its recommendations in large measure is embodied in tonight's resolutions. The other, relating to ethylene glycol, recommends an increase in a rate bound under GATT. If it is decided to accept this recommendation, it will be necessary to renegotiate the rate under the provisions of GATT; otherwise the GATT countries affected might withdraw tariff concessions of value to our exporters. It may be necessary to introduce this item, and possibly one or two others, into the resolutions as an amendment at the time they are in committee.

It is my intention to continue the practice of my predecessors in referring individual tariff rates or sections of the tariff to the tariff board from time to time. This is one of the ways, and a very important way, of keeping our tariff abreast of technical and industrial change, and the newly revised GATT will allow us a little more flexibility than the old. However, I should like to emphasize that I am not implying any general change in our present commercial policy.

I am at present planning to refer to the tariff board two sections of the tariff that have become out of date: a section covering chemicals, and a section covering primary iron and steel products. The former section is, perhaps, the more urgently in need of review, because the chemical industry has been changing and developing so rapidly; but the primary iron and steel schedule was worked out many years ago and badly needs overhauling. I am also planning to refer to the tariff board the item covering potatoes. There have been many representations made to the government on this commodity. I am aware of the varied regional and seasonal aspects of this problem, and I believe the tariff board is the appropriate body to study and report upon it.

SALES AND EXCISE TAXES

Turning now to the field of domestic commodity taxes, I should say at once that I am not making any change in the general sales tax. I am proposing, however, a few additions to the schedule of exemptions. These include, among others, materials to be used exclusively in the manufacture or production of feeds for poultry, cattle and other livestock and fur-bearing animals; creosote oil and other wood preservatives when used exclusively in the treatment of timber; poles or lumber; perforated bituminous fibre pipe for drainage purposes not exceeding 4 inches in diameter; floor tile and wall paper. It is estimated that

the cost of allowing sales tax exemption on these items will be about \$1 million annually.

No changes will be made this year in the special class of taxes on liquor, beer, wines, cigarettes and tobacco products.

This leaves for consideration the so-called special excise taxes.

A few of these items bear a rate of 15 per cent. This higher rate still applies to automobiles and to radios and T.V. sets. In the case of radios and T.V. sets hon. members will recall that this tax replaces the former annual licence fee on all receiving sets.

In the case of automobiles, however, I think the rate should now be brought down to 10 per cent. Effective tomorrow, therefore, the rate of excise tax on automobiles will be reduced by five percentage points. It is estimated that on a full year's basis this reduction will cost the treasury \$27 million and in the current fiscal year \$26 million.

At the present the 10 per cent excise tax applies to tires and tubes; not merely to automobile tires but also to those used for trucks, buses, and aircraft. In these latter cases the special tax applies to items which enter into the cost of carrying on certain kinds of business. I have decided to repeal completely the excise tax on all tires and tubes regardless of their use. The revenue loss will be \$8.5 million in a full year and \$8 million in this fiscal year.

My colleague the Minister of National Revenue (Mr. McCann) has asked me to give notice that in accordance with standard practice no claims for refunds arising out of tax reductions in respect of goods on which tax has been paid will be entertained.

Before leaving this subject of sales and excise taxes I want to say that my colleague, the Minister of National Revenue, and I are concerned about the present statutory provisions with respect to the base on which the tax rate applies. The problem arises when manufacturers sell to customers at different levels in the marketing process. This and several related questions need careful examination. In view of the nature of the particular problems involved it seems desirable to seek some advice from persons outside the government service. We propose, therefore, to invite a small committee, including experienced persons in the business world, to study these technical problems with us and to make recommendations.

May I say at this point, Mr. Speaker, what I think all hon. members know, that the Minister of Finance imposes and receives taxes. It is the duty of the Minister of National Revenue and his department to collect them.

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I should like to express my thanks to him and to his officials for the efficient and impartial manner in which this duty is discharged.

SUMMARY AND CONCLUSION

I am now in a position to summarize my over-all budgetary position for the coming year. The total tax reductions I have proposed will reduce the revenue by about \$207 million in a full year, and the actual revenues in this fiscal year by approximately \$148 million. If I may have consent I shall insert here in *Hansard* the following table of expected annual revenues.

Mr. Speaker: Is it agreed?

Some hon. Members: Agreed.

Mr. Harris: The table is as follows:

1955-56 Revenues Before and After Tax Changes
(in millions of dollars)

| | Before | Reduction | After |
|-------------------------------|----------------|--------------|----------------|
| Personal income tax | \$1,235 | \$85 | \$1,150 |
| Non-resident tax | 65 | - | 65 |
| Corporation income tax .. | 1,085 | 28 | 1,057 |
| Succession duties | 45 | - | 45 |
| Customs duties | 410 | - | 410 |
| Excise duties | 238 | - | 238 |
| Sales tax | 600 | 1 | 599 |
| Other excise taxes | 265 | 34 | 231 |
| Other taxes | 17 | - | 17 |
| Total tax revenue | 3,960 | 148 | 3,812 |
| Non-tax revenue | 390 | - | 390 |
| Total | \$4,350 | \$148 | \$4,202 |

It will be seen that I estimate the total revenue to be \$4,202 million. Since I have forecast expenditures, including the past year's deficit in the old age security fund, at \$4,362 million, I shall expect a budgetary deficit this year of \$160 million, as compared with the adjusted deficit for last year of \$194 million.

But in line with my earlier analysis, as we reach a level of economic activity represented by a gross national product of \$26 billion, I would expect our revenues, after making these tax changes, to be flowing in at an annual rate of about \$4,350 million. Under these conditions our deficit in the old age security fund would be declining, and I would therefore expect our flow of total revenue and expenditure to be in very close balance.

I have one further matter I should like to mention.

I referred earlier in my speech to existing policies which are promoting steady economic expansion.

I have referred to monetary and trade policies and I have naturally dealt at some length with fiscal policy. I have also mentioned our policies relating to basic income

maintenance and social security, unemployment insurance, family allowances, old age security, pensions to veterans, the disabled and the blind, agricultural and fisheries price supports.

I should like to say something more about the longer-run questions of economic expansion. The long-term economic outlook for Canada is extremely bright. It has changed tremendously in the past 25 or 30 years, and it will continue to change. The world we live in has changed too, and that process will go on.

To meet these changes, as a federal government we are spending many scores of millions of dollars on research, surveys and development, and we have been steadily increasing our expenditure in these directions year by year. The provinces are doing a good deal along these lines also. Several of them have research councils and industrial development councils, and recently I have been greatly interested to learn something of the regional development council set up co-operatively in the Atlantic provinces. I think we all agree that this money and these efforts have been paying us dividends and will continue to do so.

None of us has any doubts as to our great future, or of our capacity greatly to expand our population and our standards of living. I suppose that all of us in the house have, from time to time, made speeches about our great opportunities and our shining future. I think the time has come to spend a little time, thought and money on carefully documenting the reality underlying these after-dinner speeches.

The government intends, therefore, to appoint a royal commission with instructions to look ahead and examine carefully our future economic prospects. The sort of study we have in mind would include probable developments both in our productive capacities and in our external markets. It would include an examination of our population growth in both its regional and age distribution aspects. It would assemble information and speculate thoughtfully about the magnitude and nature of our future requirements for the great varieties of physical amenities which contribute to a steadily rising level of well-being. I am sure our provincial and municipal governments, our businessmen and producers, management and workers, would like to have comprehensive and carefully documented analyses of our various potentialities.

All Canadians will agree that a clear understanding of these matters is a first step in developing wise and practical policies.

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Wise and practical policies are founded on knowledge, inspiration and courage. The Canadian people have always demonstrated that they have inspiration and courage. I suggest we improve our knowledge that we may not fail to take full and proper advantage of the heritage with which Providence has so richly endowed this nation.

What would emerge from the work of such a royal commission? Not a detailed blueprint of the Canadian economy 30 years hence; that would be impossible. Nor a long series of detailed policy recommendations—governments cannot abdicate their functions to royal commissions.

I think the work of this royal commission will do several things. It will focus public attention, here and abroad, in a rather specific and detailed way, on our prospects. It will gather together the considerable amount of material already in existence, but scattered in many different places, that throws light on these prospects. It will also promote and stimulate studies to fill the many gaps in essential factual material. It will sharpen our understanding of some of the problems we face, and will provide useful guides to governments and businessmen, and to leaders in all walks of life, in making plans and policies for the future.

This will be no short-run undertaking. The commission will probably take many months to complete its report. But in the light of such a report on our economic prospects, and the further and continuing studies it will inspire, we shall all of us be better able to review our current policies, revise or modify those which may have served us well in the past, but may not be so well adapted to the coming decades, and press forward those which seem likely best to serve our future.

That, Mr. Speaker, completes the contents of my budget for 1955. The financial policies of this government, I dare say, over the past two decades have won the respect and admiration of our friends in other countries and, if I can count, sir, seem to have met with the approval of our people at home.

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 1956 and subsequent taxation years each of the graduated rates of tax at present applicable to individuals be reduced by two percentage points, and that for the 1955 taxation year each of the graduated rates of tax at present applicable to individuals be reduced by one percentage point.

2. That with respect to income of corporations earned on and after January 1, 1955, the 47 per cent rate of tax on income in excess of \$20,000 be reduced to 45 per cent.

3. That for the 1954 taxation year an individual may deduct from the tax otherwise payable by him the amount of tax on income paid to the government of any province in which he resided, was employed or carried on business, not exceeding 10 per cent of the tax otherwise payable by him.

4. That for the 1955 and 1956 taxation years an individual who resided, was employed or carried on business in a province in which a tax on income was payable to the government of the province may deduct from the tax otherwise payable by him to Canada that proportion of 10 per cent of his tax otherwise payable that his income for the period during which he resided in the province or his income earned in the province is of his whole income.

5. That for the 1955 and subsequent taxation years rental income from real property shall not be included in income to which the additional 4 per cent tax on investment income applies.

6. That the right of an investment company at present to elect as regards its taxable status be repealed and that for the 1955 and subsequent taxation years an investment company be subject to a tax of 20 per cent on its taxable income.

7. That expenses incurred in the 1955 and subsequent taxation years by a taxpayer in the course of issuing or selling shares of its capital stock or in the course of borrowing money used in the taxpayer's business (other than amounts in respect of commissions, bonus payments or discounts) be allowed as a deduction in computing the income of the taxpayer.

8. That for the 1955 and subsequent taxation years proceeds of a sale or realization of inventory or accounts receivable of a taxpayer upon or after selling or ceasing to carry on a business be included in computing income, but that the taxpayer be given the option of paying tax in respect thereof at his average rate of tax for the three taxation years immediately preceding the year in which he sold or ceased to carry on the business.

9. That a corporation resident in Canada that pays a dividend out of its designated surplus to a non-resident corporation or a person exempt from tax, by whom the payer corporation was controlled, be subject to a tax of 15 per cent computed by reference to the amount of the dividend, where control of the payer corporation was acquired after December 31, 1954.

10. That for the 1956 and subsequent taxation years a corporation more than 10 per cent