member for Edmonton West (Mr. Lambert) and I really picked up my ears once or twice. I thought he was beginning to sound dangerously like a socialist, but he soon veered away from that approach. I do not have much hope of converting him in the time that remains before seven o'clock, but I do wish to say that he did point out the wide ranging implications involved in the bill before us. He indicated it is a subject matter that should be of real concern to members in all parts of the house, and one that should not be rushed through lightly.

As I listened to the bill being introduced it occurred to me that in this, our centennial year, one might say that the last decades of our first century have been characterized in this parliament by many debates on the question of pipe lines. A historian in the future may be inclined to compare the end of our first century with the debates at the beginning of that century, which revolved around the development of railway transportation in Canada. As suggested by the hon. member for Edmonton West and the hon. member for Vancouver Quadra (Mr. Deachman), this is an indication that in a country of our large size the question of transportation, what its form should be, and under what auspices it should be built and managed, is one of the most fundamental that can be debated in the Canadian parliament.

The hon. member for Vancouver Quadra indicated that he was substituting for the hon. member for Vancouver-Burrard (Mr. Basford), and I would like to join in the passing reference he made to the hon. member's absence, and in extending good wishes to him. The hon. member is now out in beautiful British Columbia, and before leaving informed me that he would be spending part of his time on beautiful Vancouver Island.

Mr. Deachman: I wonder, in the remaining seconds before seven o'clock, whether the hon. member would be disposed to send this bill to the committee on transport and communications, as a wedding gift to the hon. member for Vancouver-Burrard?

Mr. Barnett: That is a very interesting suggestion but I think the hon. member for Vancouver Quadra used up those remaining seconds by his question. May I call it seven o'clock?

Mr. Speaker: It being seven o'clock the hour appointed for the consideration of private members business has now expired. It being seven o'clock I do now leave the chair.

At seven 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. Mitchell Sharp (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, through the courtesy of the Parliamentary Librarian I spent a few hours today browsing through the first budget speech presented to the House of Commons almost 100 years ago by Hon. John Rose, minister of finance. It gave me some consolation and encouragement to observe that Mr. Rose took a full afternoon and part of the evening to deliver his speech dealing with revenues and expenditures of less than $20 million, and that from time to time when he expressed his fear of wearying the house he was met with cries of "no, no". I promise not to repeat that performance this evening. I hope nevertheless for the same indulgence from hon. members.

Mr. Rose was an eloquent speaker and, on the occasion of this centennial budget, I should like to recall a few sentences from this first budget after confederation.

In viewing the facts—

Mr. Rose said:

—I think they point, under the blessing of a good Providence, to a certain and prosperous future before us. If we work together in harmony, if we endeavour to cement the Union, if we develop the varied and rich resources of the several provinces, we have the elements within us to build up a prosperous and powerful community. In Lower Canada we have a people frugal, industrious, and attached to the soil—not a nomadic, but a steady, contented people, well adapted for manufacturing pursuits; while in the West we have immense agricultural, and in the East equally important maritime resources. I am not an enthusiast, but I say that although we have a rigorous climate and many difficulties to combat, we have correspondingly hardy, energetic and thrifty population, and in the extent and variety of our resources we have as certain a promise of a good future as any country ever before enjoyed.

Some hon. Members: Hear, hear.

Mr. Sharp: Some of the members of the house are cheering, just as the members cheered in 1868. Then Mr. Rose said, as all subsequent ministers of finance have said and as all future ministers of finance will say:

Now, Sir, I would not wish it to be supposed that, in calling attention to these indications of the future prosperity of the country, I am desirous that we should rush into undue expenditure. On the contrary, I say that we ought to be most careful in our outlay, and consider well every shilling we expend.

To which there were loud cheers on that day.

I trust that whatever government may be in power, the people will demand at its hands a thrifty and economical administration of public affairs. I claim that we who now occupy these benches have shown a desire to follow that course.

I repeat that claim. Finally, may I be permitted one more quotation from this budget speech of a century ago which caught my fancy:

Anyone who looks at the population of this Dominion—of Nova Scotia, New Brunswick, Quebec and Ontario—must see that while they differ in very important characteristics, they agree in this, that they are not extravagant or ostentatious in their habits, they are hardy, persevering, industrious and energetic, and possess all the qualities fitted for developing the resources of a new country. Though our wealth may not increase as rapidly as in some other climes, we spend little in ostentation and extravagance.

Then came this memorable sentence:

Reproduction is steadier and more continuous.

There is no indication as to whether that particular statement was met with enthusiasm or otherwise. I now turn to the budget of 1967, our centennial year.

• (8:10 p.m.)

Mr. Speaker, The past 18 months have been eventful ones in our fiscal affairs—a budget and a mini-budget, three bills to amend the Income Tax Act, one to amend the tax provisions of the Old Age Security Act, two to amend the sales tax, two temporary restraints on business capital investment, the commencement of the Canada Pension Plan which had major fiscal effects, several reviews of government expenditure policy, a major debate on inflation last September and a long series of hearings by a Joint Committee into the increases in consumer prices.

Fiscal Flexibility

This experience indicates that we can achieve flexibility in the content and timing of our tax measures and other instruments of fiscal policy. Now that Parliament is normally sitting more or less continuously throughout the year and is modernizing its procedures, it can act promptly enough to enact the measures necessary to implement a flexible fiscal policy without having to delegate extraordinary stand-by powers to the government, as has sometimes been suggested. We need not try by action in our annual budgets to anticipate economic possibilities during the ensuing twelve months that could be dealt with later when more was known about them.

Federal-Provincial Relations

In this past 18 months there have also been major developments in our fiscal and economic relations with the provinces. In the Tax Structure Committee we had important discussions on the fiscal arrangements which should be developed in the future between the federal and provincial governments. These arrangements have a significant effect both upon the use of tax fields by the two levels of government, and upon the expenditure programs of federal, provincial and municipal governments. On behalf of the federal government I proposed that we should seek through our fiscal arrangements to define more clearly the respective responsibilities of the two levels of government, with the objective of strengthening within their respective jurisdictions, the roles of both the federal and provincial governments. I suggested a new and comprehensive approach to the equalization of provincial revenues. This new equalization plan was incorporated in a major revision in the Federal-Provincial Fiscal Arrangements Act which Parliament approved in March of this year. With equalization payments rising automatically as provincial revenue requirements increase, the poorer provinces as well as the richer ones will now be in a better position to finance their growing responsibilities through provincial rather than federal tax measures. In the discussions we have recognized that the harmonization of federal and provincial priorities, both in respect of revenues and expenditures, should be the product of regular and comprehensive federal-provincial discussions, not just meetings every five years confined to tax sharing negotiations.

These new fiscal arrangements include important fiscal transfers relating to education. Federal personal and corporate income taxes have been abated in order to make it easier for the provinces to increase their taxes by a corresponding amount for the support of higher education. These tax transfers in combination with the adjustment grants and special equalization grants that Parliament has authorized will ensure that the total fiscal transfer to the provincial treasuries will equal at least 50 per cent of the operating cost of post-secondary education, broadly defined. This new measure, which replaces the former system of assistance to universities and other post-secondary educational institutions, is a most important step in strengthening financial support to higher education, without impairing in any way whatever the authority and responsibility of the provincial governments and legislatures in respect of education. This increased support for higher education commenced at the same time as our technical and vocational construction grants were being phased out and our contributions under other technical and vocational training programs were being replaced by the new post-secondary education arrangements and our new adult training program. Because of this, the full extent of the financial burden that Parliament has undertaken in these new arrangements has not been entirely understood. I estimate that by our action in regard to post-secondary education and manpower training, after allowing for the phasing out of vocational training grants, Parliament will be providing in one way or another an additional $300 million this year as compared with last year for these essential purposes.

It became evident during last year's federal-provincial meetings that Canadian governments collectively, responding to the needs and demands of Canadians generally, have been expanding their activities to the point where each level of authority is most reluctant to impose the higher taxes necessary to achieve the objectives we have set for ourselves. Last October some quantitative expression was given to these combined requirements in the projections of public expenditures and revenues prepared for the federal-provincial Tax Structure Committee. Summary figures which were published show that provincial and municipal expenditures together might be expected to grow over the five years from last year until 1971 at a rate of about 8½ per cent a year. Federal expenditures, as programmed in early 1966, would grow about 6½ per cent per annum. Since that time both the federal and the provincial governments have undertaken some new expenditure programs. For example, in our, case the Guaranteed Income Supplement for old age pensioners will add to the total that was projected. Subsequent additions, however, have not changed the general trends revealed in the Tax Structure Committee projections.

The rate of growth in revenues, at the tax rates current last year, was projected at about 7½ per cent a year both for the federal and for the provincial and municipal governments combined, under the economic conditions which were then assumed. Federal tax rates were raised moderately in December after this study was finished and some provincial tax rates have been raised this spring, but these do not substantially change the trends shown in the study. Confronted with our common need for increased revenues, and the house will observe that expenditures are projected to grow faster than revenues from existing taxes, it is natural that we and the provinces will find it hard to agree on the use of the different tax fields.

Royal Commission on Taxation

Since our major discussions with the provinces we have received and begun studying the report of the Royal Commission on Taxation. We have found it a thoughtful, radical and stimulating report, but one that bristles with both technical and policy problems and, need I add, political problems. It proposes major reforms in our income tax, including the incorporation into a comprehensive tax base of many receipts now exempt from tax or taxed under other statutes such as the Estate Tax Act.

The Commission, which I might add was appointed by the government which preceded us in office, and I have no criticism of this because I do believe that our tax system does urgently need reviewing, recommends to us a broad policy which places first emphasis upon equity, pursued with greater seriousness and logic than ever before. It would combine equity with the greatest possible degree of economic neutrality in tax law in order to give the market and the private sector of the economy maximum freedom to make its decisions free from any distorting influence by the tax system. The Commission would have us rely mainly on expenditure programs to implement those policies where we seek by financial means to attain specific economic purposes such as the stimulation of research or other particular form of activity, such as mining.

There is one aspect of the Commission's report that deserves more public discussion than I have yet observed. It is that the comprehensive personal income tax proposed by the Commission must, according to the Commission itself, be used with restraint. As suggested by the Commission, this particular tax would produce revenues that were much less than half of the total public revenues required by all levels of government in Canada.

Consequently this would leave governments to continue to rely upon other tax instruments, at all levels, federal, provincial and municipal, to raise the majority of the revenues required. It is evident, therefore, that there is no easy answer either to the problems of taxation or to the federal-provincial issues with which we must deal.

Tax Reform Schedule

I have already announced that the government is not proposing to reach decisions on the main features of the reform of our tax system until others have had an opportunity to study the Royal Commission report and comment upon it. I have emphasized, however, that we cannot leave too long an interval for such study and comment.

I believe we can properly aim at a white paper late this year in which the government's main proposals can be expressed clearly without all the details of a bill. We would also plan to produce a draft bill to illustrate how the government's proposals could be enacted. I would welcome Parliamentary discussion of these. After receiving the views of Honourable Members and others, we would review our draft bill and then bring forward the legislation that we would propose Parliament enact. Obviously, our reforms will require considerable time and effort on the part both of the government and of Parliament during 1968. I do not expect that this revision of the income tax will be part of the budget procedure itself but a separate series of steps.

• (8:20 p.m.)

I have already invited taxpayers to comment in writing by the end of September on the major recommendations of the Royal Commission. I have already indicated elsewhere the list of major matters upon which I have invited comment and I shall not take the time of the house now to repeat them.

On these matters, which are the central core of the report of the Royal Commission, I will welcome of course hearing the views of hon. members of this house and of the other place, as well as views from taxpayers, experts and associations of one kind or another. From those outside Parliament, I would prefer to receive views and suggestions in writing in the first instance.

In speaking of our tax reform program, I have referred only to the income tax. The Royal Commission's proposals about the sales tax involve many less complications and we shall not need as much advance work on them. I am therefore not inviting comments on them at this early stage.

The need to take time for proper study and discussion of the report before reaching decisions on it will inevitably leave some uncertainty for taxpayers who are making future plans. Some such uncertainty cannot be avoided once the report is published. This is a reason for pressing ahead as quickly as we reasonably and properly can but it is not a justification for haste or for not taking into account what people wish to express upon a matter that concerns them so deeply. On May 11th I endeavoured to remove some of the uncertainty concerning the possible timing of any termination of the inducement offered in the present law for the opening of new mines, should the government decide that the Commission's recommendations on this matter be accepted. This is the principal subject on which the present Act contains a major inducement about which uncertainty arises because of the Commission's report. I cannot undertake to offer assurances about all the various changes that might be made without anticipating decisions that the government has not yet reached and prejudicing the proper consideration of the subject.

Kennedy Round Tariff Changes

It is not only in tax policy that major changes have been in progress. For nearly four years representatives of the government have been engaged in the greatest series of trade and tariff negotiations ever undertaken. As is well known, these negotiations of the Kennedy Round have now been concluded successfully and the broad agreements reached are being worked out in detail. By agreement among all the negotiating countries the results will be made public about the 1st of July. I regret that I cannot indicate to the House at this time the important conclusions reached in these negotiations nor lay before you the tariff resolutions that will be necessary to implement some of the undertakings that Canada has made in order to secure concessions from others. It is my intention that we should keep the tariff resolutions which I am introducing tonight before the Committee of Ways and Means until after the announcement of the results of the negotiations, when we will make a full presentation to hon. members of the results both in our tariff and in foreign tariffs and introduce in the committee the further tariff resolutions needed to implement those changes that Canada has offered to make. It will also be necessary before mid-1968 to amend the provisions of the Customs Tariff that govern the application of anti-dumping duties, which will be done after we have heard the views of those concerned, and I have invited publicly the views of all those who will be affected because there will be an interval before the time of the publication of the international convention and the necessity for us to implement it in our own legislation by the middle of 1968.

The basis of Canada's participation in the Kennedy Round was described in some detail by my predecessor who is now the President of the Privy Council in his budget speech on March 16, 1964. He explained that Canada would be offering to exchange tariff concessions of equivalent value rather than offering uniform percentage cuts across the board. He then outlined the following four basic considerations that would govern our participation: first, the principle of reciprocity in trade terms; second, the need to promote through these negotiations the balanced growth of the Canadian economy particularly through seeking new export markets for our secondary industries; third, the need to achieve a reasonable balance of concessions given and concessions gained for the various sectors and regions of the Canadian economy; fourth, the need to avoid the kind of tariff bargain that might worsen our balance of payments. I can now say without hesitation that all these basic considerations have been satisfied. This will be readily apparent when we are able to publish the results.

Economic Review

[*Translation*]

I turn now to a consideration of the economic situation and its implications for the budget.

At the time I was preparing my budget last year it appeared that 1966 would be, as indeed it turned out to be, a year in which restraint was necessary—first monetary restraint, then fiscal restraint, and self-restraint on the part of those making demands upon the economy.

Some fiscal restraint occurred early in the year with the commencement of the payment of contributions to the Canada Pension Plan and Quebec Pension Plans. These were very substantial payments, amounting to nearly three quarters of a billion dollars a year. The funds were loaned to the provincial governments and their agencies. The fiscal restraint involved in the commencement of these contributions had been taken into account by my predecessor in his budget in April 1965 although, as he made evident, it was necessary also to take into account the effect that such funds would have upon spending by the provinces or their agencies. In the event, it may be noted the total net new issues of provincial and provincially guaranteed securities, in Canadian dollars, in 1966 increased by more than the total amount made available for investment in them in these two pension plans.

No doubt there would have been a substantial increase in such borrowing without the inception of the pension plan contributions, but the restraining influence of these contributions upon the economy would appear in retrospect to have been substantially offset by the greater disbursements of borrowed funds by provinces and their agencies.

A second element of fiscal policy last year was the efforts made to restrain the growth in public expenditures. This applied primarily to construction programs, since the strain of excessive demand upon the construction industry was particularly evident in the latter part of 1965 and the early part of 1966. Some success was achieved in deferring construction expenditure, though of course it was limited in many cases by the need to continue major projects already under way including the large complex of projects associated with Expo and the Centennial. Other public expenditures, particularly transfer payments to individuals under our social security programs, increased substantially. There were also substantial increases in public payrolls arising from the rapid rise in wage rates which confronted public employers as well as others.

• (8:30 p.m.)

[*English*]

The 1966 Budget

At the time of the budget last March it was evident that further fiscal restraint would be necessary. Two temporary measures were introduced directly affecting business capital expenditures, for which the usual winter survey indicated a quite substantial further rise was in prospect. One of these measures was a temporary reduction in capital cost allowances on new investments, to extend for a period of 18 months unless changed, and a second was a refundable tax on the "cash profits" of businesses. With the same purpose, it was proposed that advance provision be made for the removal of the sales tax on production machinery and equipment in two steps on April 1st, 1967 and April 1st, 1968, offering a further inducement to defer capital expenditures.

It was also evident in March last year that some mild restraint should be imposed on the rising level of consumer expenditure. For that purpose the special tax cut which had been introduced in 1965 as an expansionary measure was reversed as of July 1st, with modifications to lighten the load on those with the lowest incomes.

I forecast that these various actions taken would reduce moderately the excessive rates of increase in the demands upon the economy in 1966. In concluding my budget statement I said:

"Our situation calls for some restraint in expansion; it does not call for deflation. As a nation we should ease up our foot on the gas pedal, not slam on the brakes. We want growth, but sustained growth, not erratic fluctuations. The keynote of this budget is moderation. This is what is needed today if we are to guide our economy towards successive years of expansion and continued prosperity."

These are the words I used in the budget of a year ago.

By September the force of the expansion was in fact beginning to moderate but we were all concerned over the inflationary tendencies that had become so widespread in the first half of that year, as well as with the growing number of serious labour disputes and with the large wage increases being made. In reviewing the situation in the house on September 8th, I announced on behalf of the government the deferral of some planned increases in expenditures and a continuation of restriction on our capital expenditure programs. These announcements, and the obvious concern shown by parliament over inflationary tendencies at that time, and the helpful response in certain quarters to the situation and to the appeal of the government, all contributed I think to cooling down the overheated condition of the economy.

By December the economic situation had improved, the rate of expansion in demand had clearly moderated and it did not appear necessary to introduce further measures of fiscal restraint. In the mini-budget on December 19th measures were introduced to increase revenue only by enough to counteract the effects then anticipated on our fiscal position and on the economy of the expenditures being authorized for the guaranteed income supplement. This was intended to preserve

[Mr. Sharp.]

the position of delicate balance which the economy appeared to have achieved.

The Easing of Restraints

During the first ten weeks of 1967 it became evident that the rapid rise of business capital expenditures had slackened off and that we could and should remove the restraint provided by the refundable tax on business profits. On March 10th I announced the government's intention to introduce legislation to terminate the collection of this tax at the end of that month. Shortly thereafter on March 22nd, for the same reason, we took action to terminate at the end of March the period during which new capital expenditures would incur reduced rates of capital cost allowances.

During this past winter and spring, as the excessive demands on our economy moderated, it has been possible to encourage an easing of monetary and credit conditions and to permit a more rapid growth in the supply of money and in bank lending. This was in accordance with the views I expressed in the House last September. Long-term interest rates however have as usual been substantially influenced by rates in the United States and by the need to maintain a flow of long-term Canadian borrowings from the U.S. capital market. I am glad to take this opportunity to record my full support for the management and policy of the Bank of Canada during the recent period of difficult and rapidly changing conditions in our money and capital markets.

During the winter the government relaxed the special restraint that it had been imposing since August, 1965 on its own capital expenditure programs. The result of this change has not been visible as yet in any large increase in our planned construction expenditures this year, but I would expect that it will give rise to a larger increase next year.

Broad Economic Objectives

In our general economic policies over these last few years the government has had as its broad objectives those which have been set forth by the Economic Council as being indicated in the terms of reference given the Council by Parliament. These are, as defined by the Economic Council itself:

—full employment
—a high rate of economic growth
—reasonable stability of prices

—a viable balance of payments, and

—an equitable distribution of rising incomes.

In retrospect it is clear that during last year we have attained some of these goals but not all. In particular our unemployment rate, which had been nearly 8 per cent in early 1961, when the long period of expansion started, had been reduced to about 3½ per cent for the country as a whole, and to 2½ per cent in Ontario and to 2.1 per cent in the Prairie provinces. Our rate of growth in the working force, and in capital, was high—but not in productivity. Our balance of payments was viable, thanks to a continued large inflow of capital obtained despite the problems in the U.S. capital markets. On the other hand, we had much too rapid an increase in costs of production and prices. The rates of growth in business investment and public expenditures were clearly abnormal and could not go on.

There were, of course, special influences at work during 1965 and 1966 which undoubtedly contributed to the excessive rises in prices and wages though it is hard to appraise their importance. The increase in food prices was due in considerable part to temporary shortages in the supply of meats. The regional distribution of our unemployment, and limitations on the skill and mobility of our labour force, of course had something to do with the rapid rise in wage rates. Some of the rapid changes reflected the efforts of workers in some areas of the country to catch up in wage rates with those who had been getting more. The extension of collective bargaining to new categories of workers—some of whom had suffered from relatively depressed salaries—had something to do with it. There were many institutional and historical factors at work in addition to the economic forces revealed in the labour market statistics.

Demands, Prices and Productivity

Whatever the complex causes, it is evident that we in Canada had not learned to pace ourselves; too many Canadians were anxious to exploit the situation quickly—to get while the getting was good—and in doing so they overloaded the economy with excessive demands. Higher prices were the result. We Canadians have not taken to heart the obvious point that increases in our incomes must be founded upon increases in our productivity if we are to avoid self defeating and inflationary efforts to profit at one-another's expense. In 1966 our productivity in industry and trade increased very little, apart from the phenomenal grain crop and consequently there was little indeed to support an increase of the magnitude that occurred in average money incomes.

As time goes on we can expect to improve the skill and mobility of our labour force, the state of our technology, the efficiency of our management and the competitiveness of our industry. Such improvements should enable us to increase our productivity and get more real return for our work. In addition these improvements should enable the economy to operate with a lower proportion of unemployment without running into inflationary and unstable conditions, and thus should enable us to achieve the 3 per cent unemployment rate which the Economic Council proposed several years ago as a goal for 1970. If this is to come about, our immediate objective must be to combine growth with stability.

The Economic Prospect

In the light of this review of our recent experience let me now try to assess our position and prospects.

The current employment situation is reasonably satisfactory. Our labour force continues to grow rapidly. The overall rate of unemployment, seasonally adjusted, was 3.9 per cent last month. Production has of course increased over last year, but reflects the disappointingly small increase in productivity. Moreover, we cannot count on crops this year as good as the bumper crops of last year.

Our current account balance of payments is showing an improvement over last year, both in merchandise trade and in invisibles. Our export performance this year has again been gratifying. The rise in imports has been relatively moderate. We expect to receive very much more than usual from our tourist trade this year because of Expo and the Centennial. So far this year we are managing to finance our current account deficit in what is for us the normal way, by large scale long-term borrowing and by direct investment of foreign capital in businesses in Canada. Our arrangements with the United States concerning the balance of payments are working smoothly. We still have a larger current account deficit than I would regard as desirable as a long term objective. At present, however, this current account deficit and the related inflow of capital are powerful aids in meeting the large capital expenditures being made in Canada. Without them we would require a much higher volume of domestic savings.

I expect the demand both for exports and for consumer goods to continue fairly strong during 1967, though not at the same rate of increase as last year, especially in consumers' demands for durable goods. The rate of increase in government expenditures on goods and services has been slowing down, though social security payments are expanding more rapidly.

We are all aware of the survey that shows that capital expenditures planned by businesses are down slightly this year, particularly when account is taken of higher costs, whereas in past years such expenditures were increasing very rapidly. The removal of the temporary restraints imposed last year may well lead to some upward revision in such plans.

Outlook for Housing

House building is a key element in this year's situation. It was the chief victim of the boom in capital expenditures in 1965 and '66. The demands of business and governments for savings for other purposes left a shortage of funds available for housing. The continued growth in savings this year, a relatively small growth in business capital spending and a smaller requirement to finance increased inventories, taken together, should leave more funds available for mortgage financing.

The government is taking action to ensure that substantial funds are made available to finance housing. The capital budget of our Central Mortgage and Housing Corporation, tabled in January provides for disbursements of $788 million to finance housing in various forms, including direct mortgage lending program this spring of twenty thousand units, to ensure a revival of activity after last year's recession in house building. In the financial requirements for this year to which I shall refer later, I am including for housing finance, and for farm mortgage finance taken together, an amount that is equal to more than half the large total net borrowing of provinces and their agencies last year. This is a vivid illustration of our very substantial efforts in this field, and of the burden that this places upon government in raising funds.

• (8:40 p.m.)

I feel confident that the increase of funds and resources available for housing this year will bring an increasing volume of building this summer and fall. I share the view of my colleague the Minister of Labour that we should reach this year a total of 160,000 housing starts.

[Mr. Sharp.]

Pressures on Prices

The most unsatisfactory aspect of the 1967 situation in Canada, as in many other countries, is the continuing upward movements in costs and prices. Consumer prices for all categories, other than for foods, continue to advance at a troublesome rate. It is possible to recognize many special influences from month to month and allow for them, and to recognize as well that the price index does not fully take into account improvements in the quality of the goods and services sold. Nevertheless when all allowance is made for such factors, the rate of increase of consumer prices is more than we can tolerate on a continuing basis. The increase that has taken place in food prices over the past two years reflects overseas needs and North American affluence pressing against North American resources. In other sectors, price increases are too often the result of demands for increased incomes and profits by those with strong market or bargaining power, or attempts by others to keep up with the leaders.

It is evident from the decline in profits that in general costs of production have been rising more rapidly than prices. Costs of many things purchased by business have increased —materials, components, capital equipment and buildings. Some of these are imports and reflect increased world prices, others are domestic products. The statistics of hourly earnings in such broad industrial groups as manufacturing and construction show a large increase over the past year, and are reflected in labour costs per unit of output in manufacturing. New wage settlements resulting from collective bargaining this year show increases as large as those of last year. Most of the increases now occurring in wage and salary rates, including executive salaries are substantially in excess of the general increases in productivity that have been taking place. They clearly imply that further increases in prices are likely to occur.

Short-term Prospects

Taking all the various factors into account, before allowing for any tax changes, I would expect a total increase in our gross national product this year less than the abnormally high increase last year. We expect to see this accompanied by a more moderate increase in employment than we had in the tight labour market of last year. When the expected large growth in the labour force is taken into account we could see a modest temporary increase in unemployment. I would also expect a somewhat smaller increase in prices than last year, with some further squeeze on profits.

I venture to present these implications, unpalatable as they may be, because they are essential to an understanding of the uncomfortable short-term position that confronts us during the period of transition following the very rapid rate of expansion of the last several years.

Longer-term Prospects

Let me now look beyond 1967. I would expect to see a greater increase in our gross national product in 1968 than this year. The increase in housing expenditures should be greater, and so should the increase in business capital expenditures. Government expenditures on goods and services will probably continue to rise, particularly at the provincial and municipal level. While we cannot count on the good fortune we have recently enjoyed in respect of grain crops, I would think our exports will respond to the upturn that is now widely expected in the United States later this year, as well as to the improved trade opportunities arising from the new trade agreements. Forecasting beyond the current year is chancy of course and a country so dependent on international trade and finance as Canada must always recognize its position is riskier than those of more self-contained economies. Taking account of the uncertainties I think we can reasonably expect a more buoyant economy next year, with declining unemployment.

In the two or three following years we can expect a further substantial growth in the labour force, as the large numbers born during the post-war bulge in the birth rate continue to move into the labour force. The proportion of married women wishing to take jobs may also be expected to increase further. Our immigration policy will lead to further growth in the working force. We can expect our labour force to be better trained and more mobile. We shall have the manpower base for substantial growth.

There should be a growing rate of family formation, and a continuing migration within Canada. These will mean an increasing demand for housing and social capital. There should also be growing demands for durable consumer goods and for the industrial production and investment to support the expanding requirements of Canadian consumers.

In international trade Canada will have new opportunities because of the results of the important trade agreements which are now being completed in Geneva. There will also be increased competition in our international trade. Our industry and our labour will have to compete vigorously with their counterparts in the United States and overseas. Costs will be important. The opportunities for trade, for production, for employment and for investment will be there—but we must seek them and hold them, not merely demand them.

In regard to future business investment it is encouraging to note that we do not appear now to have accumulated any general excess capacity. Canadian industry as a whole appears to require a stock of fixed capital equal in value to about 2½ times the value of its annual production. To keep this capital stock modernized and growing at a rate in line with the growth in output appears to require on average that about 15 per cent of our GNP be spent on business capital investment. The proportion of GNP used for this purpose rose as high as 17¾ per cent in 1957, fell to about 12½ per cent in 1962, and rose in 1966 to 16½ per cent, which was probably an unsustainably high rate. Business investment has probably receded from that rate now, but it should be sustainable at around the 15 per cent level in the next few years if we manage our affairs properly. Business investment can and should remain the principal dynamic factor in our economy, in addition to exports.

A very large market for housing is certainly in prospect for the next few years. The growth and movement of the population will ensure this. But the costs of houses, and to a lesser extent of apartments, have been rising. So has the cost of serviced land, particularly in metropolitan areas. The heavy reliance on real estate taxation to finance local government and much of education is also adding to the cost of owning houses.

I expect to see a growth in housing construction over the next few years, but we cannot expect to see it rise to satisfactory levels nor to see it result in the most desirable pattern of urban development until there is better planning, better control and better financing of urban development generally in Canada. That is one of the chief reasons why in the speech from the throne the government has proposed that a special study of urban development be undertaken in co-operation with the provincial governments.

In the field of government the Canadian people can be expected to want and demand increasing public facilities and services requiring expenditures by all levels of government. The problems of course will be to finance these expenditures, to determine priorities among them, and priorities between these government expenditures and business and consumer expenditures, in order that the total of all expenditures in the Canadian economy can be kept in balance with our ability to produce.

When one reflects upon these prospects for the next few years, I am sure the house will agree with me when I say that I believe our main problem is not likely to be maintaining a sufficiently high level of demand, as it was during the late '50's and early '60's. Instead I see two more difficult problems. The first is to achieve a better rate of growth in our productivity—which has been too low in recent years. The second is to restore some stability to our prices and costs of production. The problems are, of course, inter-related, and their solution is essential to the maintenance of a high level of employment.

• (8:50 p.m.)

Programs for Productivity

We are now pressing ahead vigorously with measures to improve our productivity.

Firstly, we are, at all levels of government, giving first priority to the education of our young people—both basic education and vocational, technical and professional education. In view of the high growth rate of the age groups from about 15 to 25 this priority for education is putting a very heavy burden on public expenditure. It is a good investment for the future but we should understand, and most of all members of parliament should understand, that it diminishes the immediate return that we can get as individuals in higher living standards now.

Secondly, we are now working urgently on a major program of training and retraining of adults in our labour force. Last year the government accepted this as a federal responsibility and decided to deal vigorously with it. Success in it will improve both the opportunities for work and the productivity of our work in future. To promote labour mobility we have now a realistic system of relocation grants and arrangements for workers, operated by a manpower service which is being expanded and improved, as it must be if such a system is to be effective.

Thirdly, we are devoting more men and money to scientific and technical research and development, particularly in industry, in a wide range of programs designed to make our industry and our economy generally more productive. Both the federal government and the provincial governments are making better regional plans and offering better assistance to get industry to locate where it can utilize available labour which would otherwise be unemployed or poorly employed.

These major positive measures will improve our productivity as time goes on and also permit us to aim at progressively higher rates of employment without inflation. They will permit us to grow faster and further.

We are also planning to improve the opportunities for those now working in less productive industries and occupations. We are through ARDA and related programs promoting the radical improvement of the economies and societies of rural areas where productivity has been deplorably low. In other rural areas our regular farm credit programs and other farm programs are assisting and promoting the consolidation and improvement of farms so that our farmers can continue to improve their productivity and thus share constructively in our rising living standards. In the Atlantic provinces much is being done to improve the basic facilities for a productive economy and much success attained in enabling new industries to establish there. In Cape Breton special efforts are being made to re-orient and develop the economy on constructive lines to accompany the gradual phasing out of the unproductive coal mining operations.

Our trade and tariff policies will also help over time to promote the more productive and diminish the less productive units in industry. To help achieve this purpose it is our intention, should any industries be seriously affected by the trade agreements emerging from the Kennedy Round, to make available to them suitable measures to assist in making the necessary adjustments.

Essentially however productivity is not something that the government can achieve. It is a task for all of us. It is particularly a job for management and labour. It must be sought in all industries—those that are already productive as well as those that have lagged. Higher productivity should be sought not only where it can readily be measured, as in manufacturing industries, but also in many of the service industries and government where it cannot be measured. It is the real results in which we are interested. It is this and almost this alone which will enable Canadians to get higher living standards.

Prices and Costs

The chief obstacle I see to our attaining stable growth in the next few years is the danger of excessive increases in prices and costs. Our record in the past two years in this respect has deteriorated. Between April 1965 and this April the consumers price index has gone up by 7.3 per cent—and the rate has been accelerating recently for categories other than food. Wages and salaries have been rising at rates several times the overall increase in our productivity per man. Unit labour costs in manufacturing have increased by nearly 6 per cent over the most recent twelve months for which I have figures. Personal income per capita, which includes all kinds of income whether from wages, profits or government payments, has gone up by 17.6 per cent in the two years following the last quarter of 1964. This is the broadest indication of the upward movement in incomes, as compared to prices.

If unchecked, such increases in costs and prices must lead to increasing inequity and dissension in the country and to a worsening of our competitive position vis-à-vis the United States. This would impose a serious restraint on the growth of Canadian industry and frustrate our efforts to maintain a steady rate of expansion in the jobs available for our growing labour force.

These price and cost increases arise in part from the pressure of excessive demand on the economy or on important sectors of it. This has diminished somewhat in the past twelve months and should be noticeably less in 1967 as a whole than in 1966. We should and I believe we can manage our economy to avoid excessive demand pressures that must result in price increases.

But the trouble also arises from the exercise of market power by business and collective bargaining power by unions. We are all familiar with many examples of this in the past two years. It is more difficult to deal with this source of the inflationary tendency in our economy. Its roots are deep in the nature of our free society. Most of us are better organized and more active in promoting our own particular interests than we are in safeguarding the public interest—the good of all of us collectively.

Several times during the past year I have urged restraint upon those able to exercise market or bargaining power, asking that they take account of the public interest and do not take unreasonable advantage of the opportunities that our prosperous conditions have provided to so many now. I do so again here and now. Only by some care and restraint on a wide scale this year can we slow down the rate of increase in costs and prices. If we all endeavour to exploit the full measure of our bargaining power in the present situation we can certainly harm one another. Some will gain but others must lose.

We in Parliament have just undertaken to put collective bargaining into effect in our own public service. We have recognized and accepted the responsibilities which that involves for the government as an employer. We also have responsibilities to the taxpayers, on whom the costs will fall, as well as responsibilities in managing the economy as a whole. In the light of all these obligations the government and the representatives of its employees should strive to acheve settlements that are consistent with a pattern of settlements in the business sector which the economy can reasonably sustain.

From time to time during the past year I have spoken about the possibility of Canada adopting some sort of incomes policy or of guideposts for wage and price increases. Other countries have made attempts in this area, with varying degrees of severity and various degrees of success—or failure. Like the Governor of the Bank of Canada I would see great value in some means to support fiscal and monetary policies by mobilizing the force of public opinion behind non-inflationary behaviour on the part of those who are in a position to exercise strong market power. Like the Economic Council, however, I recognize the great difficulty of doing this in Canada by formal action that would find its expression in quantitative guideposts or specific patterns of behaviour. As I said last September eighth in the House, an effective policy of this kind would require active cooperation between federal and provincial authorities and a willingness in the business world as well as in unions and the ranks of labour to follow a central lead that commands a wide consensus of agreement and respect. Clearly we do not now have these necessary conditions.

Mr. R. A. Bell (Carleton): Mr. Speaker, I rise on a point of order, though in a most kindly way, in an endeavour to assist the minister to make his speech. The minister is delivering his speech with the greatest rapidity and it is difficult for those in the chamber and galleries to follow what he is saying. If the minister could reduce his speed by about 20 per cent only, I am sure his speech would be greatly improved. Let me say that in interrupting the minister, and I hope that this fact is appreciated, I did so with the kindest of sentiments.

Mr. Sharp: I thank the hon. gentleman and I shall do as he asks. I was very conscious of the length of my speech and hoped that I should get through it in good time. I thought the argument I was making was familiar to hon. members and that it was being followed closely and carefully.

Mr. Douglas: Hear, hear.

Mr. Sharp: I shall endeavour to observe the hon. gentleman's words.

As I said last September in the house, an effective policy of this kind would require effective cooperation between federal and provincial authorities and a willingness in the business world as well as in unions and the ranks of labour to follow a central lead that commands a wide consensus of agreement and respect. Clearly we do not now have these necessary conditions.

Although guideposts, as such, may not be practicable for Canada now, I intend to continue to state what the facts indicate to be possible and what they show to be illusory. I believe that by this means we can develop a better and more widespread understanding of what is physically possible so that public opinion can be mobilized in opposition to actions of a clearly inflationary nature. Such an opinion can help persuade management, labour and government to follow practices that will lead to a dampening down of the upward sweep in consumer prices that has been taking place in the past twelve months. This budget statement and the other economic statements that may follow from time to time should serve at least as contributions to the discussion of our possibilities and limitations, that will help develop not only more understanding but some form of that consensus so necessary for success.

• (9:00 p.m.)

Government Accounts

Mr. Speaker, I should at this point note briefly the government's accounts for the past fiscal year.

Budgetary revenues for 1966-67 are estimated to have been $8,366 million, which is an increase of just over $100 million from the revised forecast of my supplementary budget last December 19th. Budgetary expenditures amounted to an estimated $8,794 million compared with the December forecast of $8,580 million. The deficit on this traditional public accounts basis was $428 million, as against the forecast of $320 million in the mini-budget.

In terms of the national economic accounts there was a surplus of some $141 million on government operations for 1966-67 compared with 576 million the previous year.

Our total cash requirements for the last fiscal year, taking account of non-budgetary transactions, were $719 million of which $711 million was obtained from the increase in our unmatured debt outstanding and the remaining $8 million from reducing our bank balances.

The Budgetary Outlook

Our present tax laws, given the economic prospects I have outlined, should produce budgetary revenues of about $9,000 million in the current fiscal year 1967-68. If the House agrees I would include in *Hansard* at this point, for easy reference, a table showing these forecast revenues by major categories and also the old age security revenues.

Some hon. Members: Agreed.

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

TABLE I

BUDGETARY AND OLD AGE SECURITY FUND REVENUES

—	1966–67 Preliminary	1967–68 Before Tax Changes
	($ million)	($ million)
Budgetary Revenues		
Personal income tax	2,472	2,815
Corporation income tax	1,593	1,570
Non-resident withholding tax	204	190
Estate tax	101	110
Customs duties	777	815
Sales tax	1,513	1,695
Other duties and taxes	776	835
Total taxes	7,436	8,030
Non-tax revenues	930	970
Total budgetary revenues	8,366	9,000
Old Age Security Revenues		
Personal income tax	576	785
Corporation income tax	150	161
Sales tax	560	597
Total old age security revenues	1,286	1,543

Mr. Sharp: Our revenues calculated on the basis used by the statisticians for our national economic accounts may be expected to total about $10,990 million. Details are given in tables showing our revenues and expenditures on this basis. I would ask permission that these tables appear in *Hansard*, following the ways and means resolutions, as has been usual in recent years.

Some hon. Members: Agreed.

Mr. Sharp: Forecasting expenditures this year I find more difficult than forecasting our revenues, because we have so many new programs whose cost is difficult to estimate until we have more experience with them. For example, I have just been advised last week that our new program for adult training will cost $50 million more this year than the amounts requested in the Estimates. It will be noted in the white paper that our accounts for last year—1966-67—show a substantially larger total expenditure than was forecast in the budget, while revenues turned out to be within one per cent of the forecast. In forecasting this year, I have tried to take into account this experience, as well as the enthusiasm and persistence of my colleagues and other hon. members in support of worthy but expensive ideas.

I am putting the forecast total of our budgetary expenditures this year at $9,700 million. On the national economic accounts basis they would be $11,220 million. These figures, taken with the revenue forecasts, imply a deficit on our budgetary accounts, before tax changes, of $700 million, and on the national economic accounts basis a deficit of $230 million. None of these figures takes into account the revenues from the Canada Pension Plan, to be invested in provincial securities, which we forecast at about $640 million.

Overall Financial Requirements

In addition to our budgetary accounts of revenue and expenditures we must take note of many transactions which change our recorded assets and liabilities, when determining our total financial requirements. The largest of these other requirements for cash arise from the loans, investments and advances that we make to government corporate agencies to enable them to carry out their operations, including notably the large mortgage lending by the Central Montgage and Housing Corporation and the Farm Credit Corporation. There are also loans we make to others including both domestic programs and aid to underdeveloped countries. The total net requirements for these loans and investments this year I forecast at about $1550 million. Offsetting these are net cash receipts of about $620 million from government employee pension funds, annuities sold, insurance, etc., and from the surplus building up, for the present, in the Old Age Security fund, and miscellaneous net receipts of about $110 million.

Taking these and various other smaller transactions into account, but without trying to forecast requirements for the exchange fund arising from the future balance of international payments, I estimate our total requirements for cash—to be met from public debt operations or by reduction of our bank balances—at $1520 million, compared with $719 million in the past fiscal year. Our balances of Canadian cash at March 31st were $796 million, including $188 million arising from the refundable corporation tax, which have been segregated in our accounts but which I now intend to treat like any other part of our balances pending their repayment. That net repayment this year will amount to $52 million, over and above the other requirements I have mentioned.

We may with prudence use some of these high cash balances to meet our requirements during the year. However, it is evident that we face a major task in borrowing cash this year. In the fiscal year to date our net sale of market issues including Treasury Bills amounts to $245 million and I hope to make further progress in this area during the summer. We shall probably be able to sell about $100 million of non-marketable issues to the Unemployment Insurance Fund. We shall sell Canada Savings Bonds vigorously again this year as they enable us to reach sources of saving that few other borrowers are able to attract on such a scale. Because the total flow of savings in the economy has remained high, I am confident that the Canadian government's large requirements in this fiscal year will be met successfully.

Budget Policy and Tax Changes

The economic conditions and budget position which I have outlined for this year pose an important and difficult problem in fiscal policy for us. The pressure of demands upon the economy has relaxed moderately since last year, and it appears that the expansion of production this year may not carry the economy to what had formerly been regarded as its full potential capacity. On the other hand, the problem of abnormal price and cost increases remains with us. It is important that these inflationary forces be checked in the interests of long-term growth and stability.

The economy is in a state of approximate balance during a period of readjustment, cooling off somewhat from the overheated condition of last year.

The modest prospective deficit in the federal budget in terms of our national economic accounts will be a moderate sustaining force this year. Our lending operations are a more important force both in sustaining activity, notably in house building, and in setting the stage for further improvement next year and subsequently.

Consequently, our prospective budgetary and borrowing position is a necessary and desirable one this year. It will be a constructive element in the economy. Moreover, I believe that we can safely and properly make some tax changes for the purpose of reducing prices and costs, which I will set forth in a moment, even though they reduce modestly our prospective tax revenues.

Given this background and policy I would expect to see a gross national product for Canada this year higher than last year's by between 6½ and 7 per cent—say 6¾ per cent, which I have used in estimating our revenues. The increase could be more, but if so it would probably be accompanied by a further undesirable increase in prices. In the light of my earlier remarks I believe we cannot expect the price element in the increase of the gross national product to be less than 3 per cent. Should prices and the gross national product rise more than I have assumed, there would be some automatic increase in our revenues, with a stabilizing effect. I would emphasize that the forecasting problem this year, like the policy problem, is more than usually difficult because of the process of readjustment we are going through.

Some persons, including some in this house, might well prefer that we should have reached the present position, in the budget and in the economy, with a lower level both of expenditures and taxes. This is a consistent position in economic terms, but it is not consistent with the views of this parliament, either of the opposition or of this government, as to the importance of our public expenditure programs. In any event this alternative is not open to us tonight.

• (9:10 p.m.)

In these circumstances, and in accordance with this general policy, I am proposing tonight a few reductions in sales taxes and tariffs which together with major tariff changes to be announced in July, should help to reduce costs and prices, and promote efficiency. The modest increases in aggregate demand that result from these changes will be of a size and nature that will help in sustaining production in this year of transition without adding to the general pressures upon prices and costs.

After reviewing the various requests and suggestions I have received for changes of detail in the income tax, pending the major reform scheduled for next year, I have decided not to propose any amendments to the Income Tax Act in this Budget. This should be welcome to a Parliament that has already dealt with many income tax matters in the past year and must look forward to much important and difficult work on the Income Tax in 1968.

As a result the tax changes being proposed are relatively simple and will I believe be generally welcome and beneficial.

Drugs

The first change I am proposing is the removal of the sales tax on drugs as part of a major government attack on high drug prices. The purpose is to benefit the consumer, particularly the unfortunate consumer who has to pay large amounts for medicine for himself or his family. The Special Committee of the House on Drug Costs and Prices has made a comprehensive report in which this step is recommended along with others. My colleagues who have particular responsibilities relating to drugs will be announcing shortly the government's policy relating to some of the other recommendations of the Committee. The removal of the sales tax must be part of an effective program to reduce drug prices, which requires competition within the industry in Canada and from abroad.

I am accepting the Committee's recommendation that action be taken to confine the application of dumping duties to drugs of a kind made in Canada, rather than to those of a class or kind made in Canada. The necessary Order in Council has been made today under the authority of Section 6 of the Customs Tariff. This change will narrow considerably the scope of application of the dumping duty and should encourage greater price competition.

It is not necessary now in my view to ask the Tariff Board to review the tariff structure in drugs as the Committee recommended. I have had my department do so already and I am proposing in the Tariff Resolutions tabled tonight a new schedule of rates to go into effect immediately. These proposals have been taken into account in our negotiations in Geneva, but our chief objective in making the changes is to benefit the Canadian consumer.

With regard to the sale tax, I am proposing an exemption of a general character covering all drugs, whether prescribed or not, or whether for human or animal use. I considered the narrower exemption covering only prescribed drugs which the Committee recommended but this is difficult to define for a manufacturers' tax unless one lists the particular drugs to which it applies, presumably those saleable only by prescription. This would omit many common drugs that are extensively used and the government therefore favours the broader, more understandable exemption.

A serious problem arises in regard to the timing of the sales tax exemption for drugs, and its relation to the inventories of wholesalers and retailers acquired before the exemption. It is quite impractical to refund the tax that has been paid on such goods in stock, and it would be contrary to our general practice. It is most desirable that the reduction in the cost represented by the tax should be passed on to the consumer as soon as possible after it occurs. It is also desirable that the trade should be aware of the related changes in policy. I am therefore proposing that the sales tax exemption should take effect three months from now, on September 1st. Consumers should not expect the removal of the sales tax to be fully reflected in drug prices before that time.

The loss in revenue resulting from the sales tax exemption for drugs, as proposed, is estimated at $22 million per year—and perhaps half that figure for the current fiscal year. Three quarters of the reduction is in budgetary revenue, and one quarter in the Old Age Security Tax.

These changes in the sales tax, the tariff and the dumping duties taken together, along with the proposals to be announced by my colleagues, should bring about increased competition in the sale of drugs in Canada and in due course savings to the consumer greater than the amount of sales tax removed.

Production Machinery

[*Translation*]

My second major tax change relates to production machinery and apparatus. When we proposed that 6 percentage points of sales tax apply to production machinery and apparatus until next April 1st, we wished to induce the postponement of some capital expenditures.

In the present economic circumstances we no longer wish to restrain capital expenditures and I am proposing that this remaining 6 per cent tax be removed immediately. This action will provide an additional benefit in reducing somewhat the costs of production in future arising from the acquisition of such machinery and equipment this year, thereby enabling Canadian producers to compete more effectively in future with producers outside of Canada.

I estimate this change will reduce revenues by about $60 million in this fiscal year, half of it in budgetary revenues and half of it in receipts of the Old Age Security fund.

I have considered numerous suggestions that I should remove the special excise taxes applicable to television sets, radios, phonographs, electronic tubes, jewelry and certain other goods. I have decided to consider these in connection with our program for tax reform but not to act on them at this time. I see no economic or social reasons that would justify the fairly substantial loss of the revenue this year and we would only be able to replace the revenue in the context of more general changes.

I have also received suggestions that the tax should be removed from television sets capable of receiving Ultra High Frequency telecasts, as a means of promoting the sale of such sets and thereby encouraging the use of many more television broadcasting channels. While I am sympathetic to the purpose for which this suggestion is made, I think it can better be achieved in another way.

• (9:20 p.m.)

[*English*]

Tariffs

I would like to mention three of the tariff changes I am proposing this evening.

The first relates to the tariff item which provides duty free entry for "internal combustion tractors". The proposed amendment is designed to restore the scope of this item to what it was prior to a declaration of the Tariff Board last September. When this item was first introduced into the Tariff there was little doubt as to the meaning of the term "tractor". However, over the years, advances in technology and changes in design brought about a gradual evolution of various kinds of self-propelled machines such as front-end loaders, dozers and log skidders.

Faced with the growing difficulty of drawing a distinction between tractors and other machines, the Department of National Revenue asked the Tariff Board to clarify the legal position and state what criteria should govern the classification of goods under the tractor item as opposed to other tariff items. The Tariff Board on September 20, 1966, made a declaration in which it set forth a number of criteria. These criteria brought within the scope of the item a number of classes of machines which had not previously been admitted duty free under the Most-Favoured-Nation Tariff, namely front-end loaders or tractor shovels, tractor dozers, log skidders and log loaders.

The Board made it clear it was ruling on the legal meaning of the tariff item and pointed out that in making such a legal ruling it could not take into account the effects on Canadian production.

The proposed amendment to the item will exclude from it the integrated self-propelled special purpose machines I have mentioned, and for greater certainty, a number of others that are not now being admitted under this tariff item. Production facilities for many of these machines had been established in Canada over the years, on the understanding that the equipment was properly dutiable under the machinery items in the Tariff. Tractor dozers, log skidders and log loaders will revert to the tariff classification that prevailed before the Tariff Board decision. I propose that the duty on integrated front-end loaders or tractor shovels be 15 per cent most favoured nation instead of 22½ per cent. For this purpose I shall recommend a new tariff item. Farm tractors and other tractors will of course remain duty-free.

To explain the second tariff change I should recall that there has been a prohibition on the importation of margarine and similar substitutes for butter for many years. This rigid prohibition has been a source of hardship to people who suffer from certain allergies and have been denied access to special kinds of margarine not made in Canada.

I have had many letters and I am sure many members of the house have had similar representations.

I am proposing that the Governor in Council be given power to make exemptions from this prohibition by regulation in special cases.

The third proposed tariff change relates to the automotive program. There is now a tariff provision for a 99 per cent drawback of the duty payable on machinery and certain apparatus and precision instruments of a class or kind not made in Canada when used in the manufacture of motor vehicles and vehicle parts. This provision is being broadened and is also being extended to cover manufacturers of motor vehicle accessories. This should be of particular benefit to the smaller Canadian firms producing automobile accessories.

Apart from those arising out of the Kennedy round which I will be introducing, the other tariff changes I am proposing either continue existing provisions for a further period or are of a relieving nature.

The tariff resolutions I am putting forward tonight would involve a small reduction in customs revenue but this should be fully offset by the increase in customs revenue to be expected as a result of the increased imports of production machinery resulting from the removal of the remaining portion of the sales tax on it. Customs revenues will of course be affected by the tariff changes resulting from the Kennedy Round agreements but these will not go into effect immediately and the revenue changes will occur only in the last months of the fiscal year. I have decided it would be unwise and unnecessary to try to anticipate them here.

Adjusted Budgetary Outlook

The tax changes I have proposed would reduce our budgetary revenues by an estimated $40 million in all this current fiscal year, and increase our forecast deficit by that amount—to $740 million. They will also reduce our Old Age Security fund revenues an estimated $33 million. This will leave a deficit of revenues, in our national economic accounts of about $300 million. Our overall cash requirements will also be increased by $73 million—to about $1590 million in all. If the House agrees Mr. Speaker, I would include in *Hansard* at this point a table showing forecast revenues before and after tax changes.

Some hon. Members: Agreed.

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

TABLE II

1967–68 BUDGETARY AND OLD AGE SECURITY FUND REVENUES

—	Before Tax Changes	After Tax Changes
	($ million)	($ million)
Budgetary Revenues		
Personal income tax	2,815	2,815
Corporation income tax	1,570	1,570
Non-resident withholding tax	190	190
Estate tax	110	110
Customs duties	815	815
Sales tax	1,695	1,655
Other duties and taxes	835	835
Total taxes	8,030	7,990
Non-tax revenues	970	970
Total budgetary revenues	9,000	8,960
Old Age Security Revenues		
Personal income tax	785	785
Corporation income tax	161	161
Sales tax	597	564
Total old age security revenues	1,543	1,510

Mr. Sharp:

Conclusion

Mr. Speaker, this is a budget for further progress, both in terms of our economic well-being and in terms of our continuing effort to pace our prosperity.

This year, just as in 1966, there is no one-shot economic nostrum guaranteed to keep us healthy through the coming year. During the past 18 months our flexible approach was the most effective approach possible. This budget should be seen as a further stage in the continuing process of economic adjustment.

The decision against an increase in income tax rates is a positive step allowing our budget to exert the degree of support our economy requires this year. Meanwhile we have launched a major program to bring down drug prices. We have gained in the Kennedy Round tariff agreements a further measure to add to the wide array of programs by which we are seeking to modernize our economic structure and increase our productivity. We must continue to pursue vigorously these long-range reforms. At the same time our immediate goal is clear: to achieve a steady, balanced economic advance, avoiding the reefs of inflation and other economic dangers that could wreck our hopes for continued growth.

RESOLUTIONS

EXCISE TAX ACT RESOLUTION

That it is expedient to introduce a measure to amend the Excise Tax Act and to provide among other things:

1. That effective June 2, 1967, all goods listed in Schedule V to the said Act be exempt from sales tax.

2. That effective September 1, 1967, any material, substance, mixture, compound or preparation, of whatever composition or in whatever form, including materials for use exclusively in the manufacture thereof, sold or represented for use in the diagnosis, treatment, mitigation or prevention of a disease, disorder, abnormal physical state, or the symptoms thereof, in humans or animals, or for restoring, correcting or modifying organic functions in humans or animals be exempt from sales tax but that this exemption shall not apply to cosmetics or confectionery products.

3. That effective June 2, 1967, goods enumerated in tariff item 48100-1, namely "specially constructed boot or appliance made to order for a person having a crippled or deformed foot or ankle", and in tariff item 48105-1, namely "individual pairs of boots or shoes for defective or abnormal feet, when purchased on the written order of a registered medical practitioner", and articles and materials for use exclusively in the manufacture thereof be exempt from sales tax.

4. That effective June 2, 1967, artificial breathing apparatuses purchased or leased on the written order of a registered medical practitioner by an individual afflicted by a respiratory disorder for his own use be exempt from sales tax.

5. That effective June 2, 1967, plans, drawings, related specifications and substitutes therefor, and reproductions of the foregoing sold to or imported by manufacturers or producers for use by them directly in the manufacture or production of goods be exempt from sales tax.

6. That where materials for use exclusively in the construction of residences for students have been purchased by or on behalf of a company wholly-owned and controlled by Her Majesty in right of a province and established for the sole purpose of providing residences for students of universities or other similar educational institutions, the Minister of National Revenue may, upon application by the company made in such form as the Minister prescribes within two years from the time of the purchase of the materials, pay to the company an amount equal to the tax imposed by Part VI of the said Act that has been paid in respect thereof.