Mr. Nasserden moved the third reading of the bill.

He said: Mr. Speaker, may I thank hon. members for their courtesy and kindness.

Motion agreed to and bill read the third time and passed.

The Acting Speaker (Mr. Rinfret): Pursuant to the order made by the house this sitting stands suspended until eight o'clock.

SITTING SUSPENDED

At 6.09 p.m. the sitting was suspended.

SITTING RESUMED

The house resumed at 8 p.m.

BUDGETARY PROPOSALS

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, this being St. Andrew's day, and being a Scot, I did not observe one of the customs of the Minister of Finance, who is supposed to buy a new pair of shoes when presenting the budget. Being a Scot, and this being the second budget I have presented this year, I am wearing the same shoes that I wore when I presented the budget on June 1.

Mr. Starr: The minister cannot afford a new pair of shoes.

Mr. Sharp: Mr. Speaker. The purpose of this statement is to present to the house the fiscal measures which the government considers necessary at this time to achieve three urgent, and closely related objectives: first, to restrain the inflationary increases in prices, costs and the cost-of-living that are undermining our prosperity; second, to ease the disturbing strains in the capital market that threaten our continued economic growth; and third, to meet in a non-inflationary way the costs of continuing public programs essential to social security and long-run national development.

I might recall that in my speech introducing the budget of June 1st, which is still before the committee of ways and means, I noted that our budget policy was to assist in the transition from the rapid economic expansion of recent years to a steady growth in employment and production at levels near capacity. Our budget was therefore intended to exert a moderate sustaining force upon the economy. It provided for a deficit of about $300 million in terms of our national economic accounts, excluding operations of the Canada Pension Plan. Tax reductions proposed in that budget were designed to contribute to a decrease in certain key prices, particularly those of machinery and equipment in order to improve industrial efficiency, and in those of drugs, to relieve the group of consumers in the country most deserving of such assistance.

The budget involved over-all net cash requirements for the current fiscal year of $1,590 million, to be financed by borrowing and by the reduction of our cash balances. These high financial requirements were due not only to the deficit in our budget accounts, which was forecast at $740 million, but also to a large volume of government loans and investments, particularly for house building. The housing loans were intended to bring and did bring a recovery in house building from the low levels to which it fell last year as a result of the severe competition for funds from other borrowers.

On October 4th I made a second statement in the budget debate. In it I said that the outlook for production and employment this year was much as expected at the beginning of June. There were, however, two major problems. The first was the continued high rates of increase in costs of production and in prices. These increases were much too high. The second problem was the very disturbed state of the capital markets, where high and rising interest rates continued to prevail in Canada, as in other major western countries, despite a substantial rate of expansion in the money supply. I said that the expectation by investors of continued inflation was contributing to this extraordinary condition of the capital markets. We had to find some way of bringing the inflationary movement under control. This would require the exercise of restraint on increases in prices, wages, other money incomes such as rent and dividends, and government expenditures. I noted that the government, in preparing next year's expenditure estimates, was making an early and extraordinary effort to limit the growth in its spending programs and its demands on the capital markets.

On the 10th of this month I announced in the house that our budgetary expenditure programs for next year would be held to

$10,300 million. This would be apart from medicare which would be financed by new revenue raised for the purpose, and the writing off of the Expo deficit in our accounts which does not represent any new disbursement. By this action, by the reductions in our lending programs, and by some tax measures, we would hold our overall net cash requirements and our consequent demands on the capital market in the next fiscal year to less than $750 million, apart from unforeseen requirements for our foreign exchange reserves.

I stated then, Mr. Speaker, that these various measures would be a part of an integrated program to check the inflation of prices and costs occurring in Canada and to reduce the excessive pressures upon our capital markets. Tonight it is my duty to carry forward the program by reporting more fully on our situation and on the government's intentions, and to propose those tax measures we consider necessary.

Economic Situation

• (8:10 p.m.)

[*Translation*]

First, I will note briefly the economic situation and prospects, though these are not substantially different to what they were when I spoke in October.

During 1967 there has been a deceleration in the rapid economic expansion which took place in the last few years. Our gross national product has nevertheless continued to expand, and for this year I expect the increase will turn out to be approximately 7 per cent. In terms of volume, however, the increase will be less than half of this, as prices have continued to increase at excessive rates. The expenditures of consumers, supported as they are by rising wages and salaries, are at a high and increasing level. The expenditures of governments and municipalities on goods and services continue to rise this year although not as rapidly as heretofore. In the first half of 1967, exports reached a record level, although in recent months they have been declining, both in the case of wheat and, to a lesser degree, in the total excluding wheat. This has of course reflected to some extent the slowdown in expansion in the United States and overseas as well as the special circumstances of the wheat market. For the year as a whole, however, exports will reach the target set by the Minister of Trade and Commerce (Mr. Winters). Business capital expenditures have also been declining in recent months, both on construction and on machinery and equipment.

The result of these recent changes in the sustaining forces in the economy has been a slowing down in the rate of growth of production, a slight downturn in total employment, and a rise last month in unemployment. The economy has ceased to be under the serious strain it experienced last year, and has developed a small amount of spare capacity.

These developments, however, have not put a check on prices and costs; the excessive rates of increase in wages and in other costs continue unabated. The consumer price index has declined fractionally during the past two months, chiefly because food prices fell as they normally do at this season. Still, the underlying movement remains strongly upward. Excluding food, the consumer price index is up by 4½ per cent over a year ago. Costs have been rising rapidly and profits have been squeezed. Our most comprehensive measure of prices—the price component of the gross national product—showed an increase in the second quarter of this year of 5 per cent over the second quarter of 1966.

Canada is now finding it harder to achieve price stability and full employment at the same time than earlier thinking had led us to suppose. Even with unemployment at levels we do not regard as satisfactory, prices and wages are rising too rapidly. They are rising more rapidly than those in the United States, more rapidly than those in most other western industrialized countries. No group in Canada can afford this erosion of our international competitive position.

Moreover, and even more important, the expectation that prices and costs will continue to rise is creating an inflationary psychology which is having serious effects on both the capital market and the labour market. In the labour market this psychology is leading to continued demands for wage increases that are clearly far in excess of any prospective increase in productivity, and therefore clearly inflationary. Increases in major wage settlements negotiated in Canada over the first nine months of this year are reported by the Department of Labour to have averaged 8.7 per cent a year over the life of the agreements. A roughly comparable average for the United States is 4.4 per cent per year. In the capital market the same psychology is leading to an unwillingness to lend money for long terms on bonds and mortgages except at very high interest rates.

Both the labour and the capital markets must work efficiently if we are to continue to be prosperous and to develop our economy.

In particular we are a nation which must save and invest about one-fifth of our total national output each year, mainly through the medium of the capital market. In addition we expect to obtain a net annual inflow of capital of nearly a billion dollars or more. We run our economy on the basis of such expectations, and this continued flow of savings and investment is essential to the productive employment of our growing labour force. It is vital therefore that our capital market continue to work effectively and in a proper relationship to the central capital market of the world, which is in the United States.

[*English*]

An hon. Member: And now a little gimmick for St. Andrew's day for the Scots.

Mr. Sharp: I should like to say to the hon. member that this is one of the groups which has made an enormous contribution to this country, even rivalling that made by the two founding races. Indeed, I sometimes wonder whether one of the founding peoples was not the Scots.

An hon. Member: Where are the Scots on the front bench?

Mr. Sharp:

Economic Prospects

Looking ahead, in 1968 a somewhat greater increase in production than this year in real terms and a somewhat smaller increase in prices is indicated. This appraisal anticipates a revival in economic activity in the United States and a continuation of growth in production in Europe and Japan, all important markets for us. Consequently, I expect to see a resumption in the growth of our exports. We can certainly expect a continuing increase in the expenditures of Canadian consumers, probably at a greater rate than this year. Housing expenditures can be expected to rise next year. Mortgage funds should be more readily available as a result of the more flexible interest rates on insured mortgages as well as a reduction in the competition for funds and the entry of the banks into the market this year. Already, as hon. members know, there has been a very substantial increase. On the other hand, it appears to me that capital expenditures by business will not increase next year, bearing in mind the effects of increased costs and some uncertainties regarding market conditions. This is borne out by the preliminary impressions I have heard of the investment intentions of large businesses. As I have previously emphasized, this is an area where expansion rather than restraint is now required.

Taking these various changes together, I would expect total production and incomes to increase moderately next year and employment to increase from the current level about in proportion to the growth of our labour force. We expect to see a better performance in overall productivity, partly as a consequence of better training and deployment of our labour force and partly because there is usually an increase in productivity at this stage of the business cycle. We must recognize, however, that we now have an economy where many businesses and many consumers have large liquid resources at their disposal which they can decide to spend on short notice should there be a change in the prevailing psychology.

• (8:20 p.m.)

The current international situation is one in which there are potential dangers for Canada, in view of our considerable dependence both on world trade and on international capital markets. Never before I believe have the central capital markets of the world been in such a disturbed condition for so long a time. There has been widespread uneasiness about the position of the major international currencies which has now been relieved by the successful revaluation of sterling and by the manifest strength of the United States dollar and other major currencies in the face of speculation during the past ten days. Many countries are experiencing real difficulties in bringing their government finances into line with current necessities and in curbing the inflationary tendencies that exist so widely in the Western world. We cannot isolate ourselves from international price pressures, particularly from the United States, but we must do what we can to contain the inflationary pressures operating in Canada. In the current international circumstances, our policies must reflect the need for strong action to protect our underlying position and for flexibility in adapting to changing circumstances.

Controlling Growth in Government Expenditures

It is against this broad economic background that we must decide upon our programs and measures. First, we must consider our public expenditures. Our program will be before the house in detail in a few months in the form of the main estimates, but in the meantime the government is having to make the basic decisions which will be reflected there, along with those expenditures arising out of statutes. It is essential that the house and the public recognize the nature and severity of the problem that confronts us and the need to cope with it.

Since this government took office it has been putting into place, as it stated it would, the major reforms required to complete Canada's social security system. On our recommendation, parliament has also authorized a substantial increase in the contributions to what is now Canada's first priority, higher education. This was done both in the form of expenditures and in the form of a special fiscal transfer to the provinces for this purpose. We have deliberately transferred to the provincial governments additional resources so that they and their municipalities could provide the rapidly expanding services required of them. We have pressed forward with measures to promote scientific research, industrial development, and the improvement of those areas in the country which have suffered from slower growth and lower incomes than elsewhere.

We made no secret of the fact—and the house was aware—that all these reforms would involve substantial increases in public expenditures. Indeed, we were urged to go even further. I made it quite clear last year and this year that the requirements of a growing and developing Canada in which these economic and social reforms were proceeding would involve increased claims by governments and their agencies on the national output. Even so, I pointed out the growth in the public sector of our economy was not going to be so rapid as to require more than a portion of the growth in the national output as a whole, although it would and did involve higher tax rates.

Let me illustrate. In the last fiscal year our total federal government expenditure on the comprehensive basis used in the national economic accounts amounted to $9,846 million, which was 16.8 per cent of the gross national product. Five years before, in 1961-62, when the party opposite was in office, it was 19.2 per cent of the gross national product, and five years before that again, in 1956-57, the total was $5,126 million, which was 16.4 per cent of the gross national product. Thus it will be seen that although our expenditures over the same decade had increased by 92 per cent, they were about the same share of the gross national product as they were ten years ago, and a smaller share than they were five years ago. Moreover, during this period we reduced our tax rates in favour of the provinces, as I mentioned a moment ago. In addition, parliament has during this period enacted the Canada Pension Plan which is not reflected in these figures. It is a separate, fully contributory, funded plan in which at this early stage the contributions far exceed the payments and produce a large investment fund which is placed at the disposal of the provincial governments to help them meet their capital requirements. Now let me look at the expenditures of provincial governments and municipalities.

The expenditures of provincial governments and municipalities have been rising much more rapidly over this past decade than those of the federal government. Again using the figures as produced for the national economic accounts, provincial and municipal expenditures together show a total in the last fiscal year of $10,942 million, which was 18.6 per cent of the gross national product. Five years before that, in 1961-62, they were 16.3 per cent of the gross national product, and five years before that again, in 1956-57, they were $3,474 million, which was 11.1 per cent of the gross national product. In other words, in contrast with federal government expenditures which have maintained a constant proportion over the last ten years, provincial and municipal expenditures between them have risen from 11.1 per cent to 18.6 per cent of the gross national product. The average annual growth rate over this period of provincial plus municipal expenditures has been 12.1 per cent as compared with the average growth rate in federal expenditures of 6.7 per cent. I should add here that the federal expenditures I have given include contributions to the provinces and municipalities which would have to be eliminated before one added the figures to get a total, since the provincial and municipal figures include expenditures made from monies received from federal sources.

While it will be noted that these rates of increase of provincial and municipal expenditures have been substantially greater than our own, I am not criticizing the provinces in any way for this. It is well known that many of the increasing demands for public facilities and public services arising from the rapid growth of our population, our labour force, and our economy generally, as well as from the shift of population from the rural to the urban areas, fall upon provincial governments and their municipalities. This is a fact of life which must be taken into account in evaluating the rate of increase in government expenditures as a whole.

In appraising the situation this year, and taking into account our various commitments including medicare, the government decided it would have to impose much more severe limits on the growth of expenditure than have applied for many years in the past. This restraint is necessary if we are to check the inflationary influences in the economy, reduce our demands upon the capital market, and minimize the increase in taxes. Consequently we decided, as I stated earlier this month, that we would hold the increase in our budgetary expenditures, apart from medicare and the writing off of the Expo deficit, to some 4½ per cent, a rate of increase much smaller than in the three previous years. Once this has been achieved and medicare has also been put into effect, then I believe the future growth in our public expenditures can be held to a level which can be met from the increasing revenues resulting from a growing economy without inflationary consequences. There will be many important programs to be pressed forward by the federal government, particularly in the fields of manpower training, research and economic development, but I think they will not involve the rapid, massive increase in expenditures that we have seen in this past decade on the health and social security programs.

To make this transition we must this coming year make a downward adjustment in our spending programs—apart from medicare—from the rapid rates of increase that we have had recently to more sustainable rates of growth, just as we have been endeavoring in the past 18 months to adjust our rates of economic expansion. This will not be easy. To some it may appear at first blush that the ceiling on budgetary expenditures next year of $10,300 million—which allows an increase in the neighbourhood of $400 million over the revised forecast of this year's expenditure—is not a difficult one to meet. Indeed, I have seen comments like this in the press, that submit we are not setting ourselves a very difficult target. In fact it means that over large areas of the government's operations we will be wielding the axe.

• (8:30 p.m.)

Let me illustrate. We make a large number of substantial transfer payments to the provinces and municipalities, such as equalization payments, hospital insurance, aid for education and the Canada assistance social welfare plan, most of which increase automatically under statute or agreement with the provinces. We have in addition (apart from old age security which is financed separately) major programs consisting of transfer payments to persons, including family and youth allowances, veterans' pensions, and adult training allowances. All of these are also mainly fixed by population factors and by statute. Finally, there are the public debt charges which will inevitably rise if we assume that interest rates will remain at present levels. Taken together, these expenditures require unavoidable expenditure increases of something over half of the total increase of about $400 million to which we are holding.

When expenditures in these categories are deducted from the total forecast for this year, it leaves about $5,640 million of other expenditures which can increase only 3.3 per cent within the ceiling set for next year—a margin which will largely be required to meet the increased costs of higher pay rates and prices.

In the face of these unavoidable increases in our payments to provinces, in payments to individuals under statutory programs, and in public debt charges, and the increase in pay and prices, it is clear that our other expenditure programs as a whole, under our normal budgetary control, will have to be restrained severely next year. The reductions must be large enough to make way for a number of new things that we will have to undertake, such as the program in Cape Breton. I am thinking about the Cape Breton Development Corporation, the Atlantic Development Board expenditures, and so on. Consequently we are going to have to cut back or cut out a number of things that we have been doing. Some programs that we have been carrying on for years will be dropped, some major construction projects will be postponed, some subsidies will be reduced, some expansion of programs—including some the government has promised—will be held back. In planning our programs we are taking account of the greater unemployment in the Eastern areas of Canada and the fact that expenditures there are less likely to be inflationary than they are in Canada generally.

My colleague the President of the Treasury Board, who is in charge of this expenditure control program, will speak in the budget debate next week and give the house some of the detailed decisions on these cuts. I expect he will deal with the plans for restraining the growth of the public service, about which many people have expressed concern. I would make only one point about that to keep the subject in perspective. It is that the size of the federal Public Service has for the past 15 years—whether there were ceilings on or off—remained very close to one per cent of the population of Canada and for the past half dozen years has been declining as a percentage of the Canadian labour force.

I have seen suggestions, and probably will hear some suggestions that we should be cutting back government expenditures. I am sure I have the support of the Leader of the Opposition (Mr. Stanfield) in saying that this is unrealistic, because I have here a report of an interview with the Leader of the Opposition which appears in the most recent issue of *Executive* Magazine, in which he says:

> I think anybody who suggests that you can cut down on government spending or offer a substantial reduction in taxes isn't being very realistic. But any government can control the rate of the increase in expenditure.

Some hon. Members: Hear, hear.

An hon. Member: That is the point.

Mr. Sharp: The Leader of the Opposition can try to convince us that our rate increase is too high, but all he was able to do was increase the last increase, and his last increase was much greater than ours.

Government Lending Programs

Our problem in regard to the demands we make on the capital market arises, as I have indicated, not only from our spending programs but also to a large extent from our lending programs. In the current fiscal year for example, we are lending from the treasury to the Central Mortgage and Housing Corporation for housing and related purposes a net amount of $608 million, after taking into account repayments we receive. We are lending to the Farm Credit Corporation for farm mortgages a net amount of $167 million. We are advancing to the Veterans Loan Board for housing and farm credit purposes $60 million. The size of these lending programs will have to be restricted. I am confident we can do this without serious economic effects, when account is taken of the better flow of mortgage funds we can now expect the capital market to provide.

Another demand upon our funds is Air Canada. It is having to expand rapidly its fleet of aircraft and its various ground installations in order to meet the growing traffic demands on it. The Minister of Transport and I recognize that it will be necessary to exercise restraint on what the government lends to Air Canada in future years, requiring that company to seek sources of capital funds other than the government. On the other hand, two of our large lending programs will come to an end in 1968, that for Expo and that for the Municipal Development and Loan Board, and we can expect some recoveries in future of what we have lent under both these categories.

To sum up, Mr. Speaker, the government is applying rigorous restraints on its spending and lending as part of our program to check the inflation of prices and costs, to reduce excessive pressures in our capital markets, and to minimize increase in taxes.

Budgetary Outlook and Policy

Given the situation I have described, we have come to the conclusion that some increases in taxes are essential in order to meet our growing expenditures even under the restraints we have imposed, and to reduce our over-all cash requirements to what we can reasonably expect to finance in the market. Our large cash balances of last April were down to rock bottom at the beginning of this month. Fortunately the Canada savings bond campaign has succeeded in raising a substantial amount of new cash during November, despite the very adverse circumstances under which it had to be carried on. I wish to take this opportunity to express my admiration and gratitude to those who have organized and carried out this campaign this year. We will need to come frequently to the market in the next sixteen months, both for refunding and for cash. We face an unusually large maturity of savings bonds in 1968, and will consider making an offer to holders of these bonds to convert them into a new issue of savings bonds in advance of their maturity on November 1st. I feel we must ensure that our over-all cash requirements, apart from the effects of unforeseen changes in our exchange reserves, should be kept well within our $750 million limit for 1968-69.

To attain this objective is going to require the virtual elimination of our budgetary deficit next year. This is because, even after the reductions proposed in our lending program, our net non-budgetary requirements next year will be large, including as they should some repayment of the 1966 refundable tax on corporate cash flows. In addition it is important to build up our cash balances from the low levels they are likely to be at in March 1968.

Our budgetary expenditures in the current fiscal year—this year—are now expected to be about $9,900 million. Our revenues, before taking into account tax changes I am proposing tonight, are likely to amount to about $9,070 million. Although these figures are different from my June budget forecast, I intend that our tax and expenditure measures will hold the budgetary deficit as close as possible to what was planned at that time. It now appears that our over-all cash requirements for the year as a whole—apart from the refunding of our debt and on the basis of the current level of our exchange reserves —will be about what I expected in the budget speech of June.

Outlook for 1968-69

The best preliminary forecast I can make of the yield next fiscal year of our revenues under our current tax laws—which of course at this early date is more uncertain than is usual in normal springtime budgets, is about $9,700 million. With our expenditures at the level of $10,300 million where we have decided to hold them, apart from medicare and Expo, our budget deficit would be $600 million. I believe we can and should aim to eliminate most of this deficit.

The fiscal restraints that are essential now may limit somewhat the increase in our production next year but such a limitation now is far better than a serious recession later. If we cannot, as individuals and organizations, exercise the restraint that is now called for in price, cost and wage increases then there is no alternative but a collective fiscal restraint exercised by parliament. This is a case where the proverbial ounce of prevention now is far preferable to a pound of cure later. When the government and parliament have taken the action we should to hold our expenditures in check and to meet our expenditure requirements by tax revenues, then we should, as I said in October, support such action by a determined campaign to achieve by voluntary co-operation a large reduction in the unacceptably high rate at which prices and costs are increasing, including wage settlements.

• (8:40 p.m.)

We must bring to an end the present round of inflationary price and cost increases, and move to a situation in which all Canadians can work and buy and bargain and invest in the expectation that their money over the years will maintain its real value. To the extent that we can mobilize public opinion effectively in support of this objective, and against the actions of those who clearly exploit their market power to obtain inflationary increases, then we can have a higher level of employment, production and incomes along with price stability. This would be, in the words of the Leader of the Opposition, "a more civilized way to control inflation". I think that we can do it. The government is planning to organize a temporary program of this kind—after we have done our part here in parliament to restrain our spending and to impose the taxes necessary to finance, in a non-inflationary way, the expenditures which we in this house have judged to deserve the priority that is implied in our approval of them. When these measures have been approved I would then propose, with several of my colleagues, to initiate discussions with leaders of labour, of management, and other main elements of the economy, as to the manner in which we could most effectively organize this program of restraint.

The Tax Reform Program

Before putting forward my revenue proposals I think it is desirable to say what I can now about our plans in regard to the tax reform program on which we have been working and about the reactions we have received to the report of the Royal Commission on Taxation.

In the first place it must be recognized that our tax reform program must be undertaken under circumstances quite different to those contemplated in the terms of reference of the royal commission and its work. The commission was designing a system to yield a revenue comporable to that of 1964. Clearly we will need a tax system in 1969 and subsequently which will produce more revenues that that of 1964—even after allowing for the growth in our economy since then, and the consequent increase in prices and incomes and in our federal revenues.

Mr. Woolliams: What growth?

Mr. Sharp: Somebody said "What growth". I do not think there has ever been a period in our history when there has ever been such growth. There has never been a greater rise in the real economy, and there has never been a greater rise in employment than during this period.

An hon. Member: There has been a tremendous growth in taxes and unemployment.

Mr. Sharp: On the other hand we can and will take account of the arguments the commission made regarding the relative incidence of the tax on various income and other groups.

In accordance with our invitation to all Canadians to send us their views concerning the commission's report we have received many hundreds of briefs and letters on the subject. Many individuals and groups have talked to me, and to the Minister of National Revenue, and to other ministers and officials about the report and its proposals. I wish to express our appreciation to all the individuals, businesses, trade unions and associations who have given us their views on this difficult and controversial subject.

I have been particularly impressed that four points have played a central rôle in the public discussion of the report, and in the submissions made to the government. The first is the sweeping extent of the changes recommended by the commission, and the difficulty of predicting the effects that sudden changes of this magnitude would have on the economy and ultimately on the position of various taxpayers. We have encountered this difficulty ourselves. The second point is that the commissioners have suggested for Canada a tax system quite different from that of other countries, and in particular quite different from that of the United States with whom we have an integrated capital market. This could give rise to economic difficulties, as well as to technical problems in drafting an effective law. The third point is somewhat related to the second, although it has connotations in other areas as well. It is that Canada will need to generate and invest a large volume of savings over the next decade in order to carry out the economic growth and development we want, and we shall need to attract substantial amounts of foreign capital to supplement our own savings. Many people feel the commission did not give adequate weight to this consideration in deciding on its recommendations, and I am inclined to agree. The final point is a widespread concern over the regional impact of the commissioners' proposals, particularly those related to the mining and petroleum industries.

Many of the briefs which we have received contain suggestions for modification of the commission's proposals, or alternatives to the commission's proposals. We are now studying these suggestions, in addition to completing our own work on tax reform and the report of the commission.

The government believes that substantial reform is necessary if its revenues are to be raised as fairly as possible and with a minimum of interference with the proper development and functioning of the Canadian economy. I believe that the report of the royal commission will turn out to have been of great value to the government, to parliament and the people of Canada in helping us all to recognize the deficiencies in our present tax system and to devise sensible ways to reform the system.

However, the work we have done within the government, as well as the analyses we have received from others, leads us to the conclusion that while the reforms we will place before parliament and the public in the form of a White Paper and ultimately in draft legislation will undoubtedly be influenced by the monumental report of the royal commission, they will be more in the nature of reforms of the existing tax structure rather than the adoption of a radically different approach. They will not necessarily be limited to items which the commission has recommended.

In the meantime our current tax proposals must of course be made in a form that relates to our present laws.

Personal Income Surtax

I come now to my tax proposals. My first proposal relates to the personal income tax. I am asking the house to approve a special surtax of 5 per cent of the amount of the basic tax assessed on an individual in excess of $100. This surtax will take effect January 1st and would remain I expect until we have completed the transition to a slower rate of growth of expenditures or until economic and financial conditions call for a change in our fiscal policy.

This change will be made in such a manner as not to affect provincial revenues. As was done in 1965, I propose that the maximum change in tax resulting from this amendment be limited to $600. The surtax is so defined that it will not apply to single persons with incomes of less than $2,000 a year nor to a married man with two children having an income of less than $3,600. The increase in tax for a married man with two children and a typical income of, say, $100 a week would be 23 cents a week. I would ask permission at this point to insert in *Hansard* tables to illustrate the effects of this change upon taxpayers with incomes of various sizes.

Mr. Speaker: Is it agreed that the tables referred to by the hon. minister be inserted in *Hansard?*

Some hon. Members: Agreed.

[*The tables referred to above are as follows:*]

TABLE 1

To Illustrate the Proposed Surtax on Personal Income Tax

Single taxpayer—no dependants

Income	Present tax (a)	Proposed surtax
$	$	$
2,000	115	—
2,500	202	3
3,000	292	7
3,500	394	11
4,000	499	15
4,500	612	20
5,000	727	25
7,000	1,244	46
10,000	2,060	87
15,000	3,850	177
20,000	6,045	286
25,000	8,295	399
50,000	21,185	600

(a) This is the combined federal and provincial income tax, including the old age security tax, in all provinces except Quebec, Manitoba and Saskatchewan. The taxpayer is assumed to take the optional standard deduction of $100 in lieu of deductions for medical expenses and charitable donations.

TABLE 2

To Illustrate the Proposed Surtax on Personal Income Tax

Married taxpayer—no dependants

Income	Present tax (a)	Proposed surtax
$	$	$
3,000	115	—
3,500	202	3
4,000	292	7
4,500	394	11
5,000	499	15
7,000	984	35
10,000	1,764	72
15,000	3,450	157
20,000	5,595	264
25,000	7,845	376
50,000	20,635	600

(a) This is the combined federal and provincial income tax, including the old age security tax, in all provinces except Quebec, Manitoba and Saskatchewan. The taxpayer is assumed to take the optional standard deduction of $100 in lieu of deductions for medical expenses and charitable donations.

TABLE 3

To Illustrate the Proposed Surtax on Personal Income Tax

Married taxpayer—two children eligible for family allowances

Income	Present tax (a)	Proposed surtax
$	$	$
3,500	102	—
4,000	184	3
4,500	274	6
5,000	373	10
7,000	828	29
10,000	1,608	64
15,000	3,210	145
20,000	5,325	250
25,000	7,575	363
50,000	20,305	600

(a) This is the combined federal and provincial income tax, including the old age security tax, in all provinces except Quebec, Manitoba and Saskatchewan. The taxpayer is assumed to take the optional standard deduction of $100 in lieu of deductions for medical expenses and charitable donations.

Mr. Sharp: For the information of hon. members who are listening to me now I might give a typical example, taking a current taxpayer with two family allowance children. The increase in the tax for a man with a $5,000 annual income is $10 per year; with a $7,000 annual income, $29 per year; with a $10,000 annual income, $64 per year, and with a $15,000 annual income, $145 per year. This gives an index of the incidence of this tax.

My officials estimate that this surtax will increase our revenues in the fiscal year 1968-69 by $185 million: the effect on the current year will be to increase our revenues by approximately $25 million.

Liquor and Tobacco

My second proposal is to increase the taxes on liquor and tobacco. The effect of the proposed changes would be generally to raise the weight of the federal tax on spirits, beer, wine, cigarettes, cigars and tobacco by approximately 10 per cent, effective immediately. This would be implemented by a number of measures.

The Budget—Mr. Sharp

The rate of excise duty on spirits distilled in Canada would be increased by $1.25 per proof gallon. For most spirits this would mean an increase from $13.00 to $14.25. The excise duty on beer would increase from 38 cents per gallon to 42 cents per gallon. It will also be necessary to provide increases of the same amounts in the tariff on imported liquors and beer.

A special excise tax would be applied to wines, both imported and domestic. The rate would be 2½ cents per gallon on wines containing not more than 7 per cent of alcohol, and 5 cents per gallon on wines containing more than 7 per cent of alcohol.

On tobacco and tobacco products we levy both excise duties and excise taxes. We propose to use the excise taxes to obtain the increase necessary. The rate of excise tax on cigarettes would be increased to 3 cents on each five cigarettes from the present 2½ cents, that on manufactured tobacco to 90 cents a pound from 80 cents, and that on cigars to 17½ per cent from 15 per cent.

In all, it is estimated that these changes on liquor and tobacco will increase our revenues in fiscal 1968-69 by approximately $95 million, and in the current year by approximately $20 million.

• (8:50 p.m.)

Corporation Tax

My third proposal concerns the corporation tax. It is designed to give us a substantial increase in our receipts next year, without adding in future to the costs of production or distribution of Canadian business. It will be of substantial help to our cash position at a time when that is necessary, and will constitute a measure of continuing reform designed to produce greater equity as between corporations and other taxpayers.

Corporations presently begin the payment of their tax in the fifth month of the taxation year to which it relates and complete these payments four months after the end of the year. This timetable of payments which was advanced in 1963 and 1964 still contrasts with that of individuals who have income tax deducted from their wages each pay day. We have decided to reduce further the difference between corporations and individuals.

In future, corporations will be required to make their first instalment payment in the third month of their taxation year and complete their payments on account of their estimated tax by the second month following the year.

[Mr. Sharp.]

Mr. Lambert: That is all windfall.

Mr. Sharp: Since some companies may have difficulty determining their actual tax liability within two months of the end of the year, they will be permitted to make a final payment adjusting their estimate of tax to their actual liability at the end of the third month following the year. The change will not affect the date for filing corporation tax returns, which will remain six months after the end of the year.

The corporations will make the transition to this payment schedule by increasing their first ten payments for their next taxation year beginning after tonight. Under the present law these payments would each be one-twelfth of the estimated tax for the year; during the year of transition they will each be one-tenth of that amount.

We estimate that this change will increase the cash receipts of the government by approximately $290 million in the fiscal year 1968-69, of which $240 million will be non-recurrent budgetary revenues and $25 million will be old age security revenues.

Mr. Bell (Carleton): That is just a phony.

Mr. Sharp: The remainder will be credited to the provincial tax collection account from which payments are made to the provinces under our tax collection agreements. There will be an additional $50 million of receipts in fiscal 1969-70.

Special Refundable Tax

Hon. members will recall that in 1966, as a measure to restrain the boom in capital expenditures then in progress, we introduced a refundable tax on cash profits. Under the law, the payments must be refunded with interest not later than 36 months after they were due, or after they were received if they were late. They could be repaid as much as 18 months earlier if the government so decided. Consequently the amount collected—some $230 million in all—must be repaid some time between today and June, 1970. Clearly it would be difficult to make repayment in in the next few months, but I believe we should not put off the repayment entirely until the last possible date for that would add seriously to the burdens to be faced during the 1969-70 fiscal year. I believe the measure I have proposed in regard to corporation taxes will provide us with enough cash receipts to permit us to repay a substantial amount of the refundable tax during 1968-69.

We now propose to begin the refunding process in June of 1968, refunding then the payments received before June 30, 1966. Every second month thereafter we will refund one month's receipts; in August 1968 we will refund payments received in July, 1966; in October, 1968, receipts of August 1966, and so on until February, 1970. The final payments will be made in May of 1970 refunding amounts received in May 1967, as the law requires, and late payments.

In order to reduce administrative costs, we should refund with our first payments in June the total amount received from those corporations whose aggregate refundable tax did not exceed $1,000. We will be asking parliament for authority to do this.

This program would require payments of approximately $105 million, including interest, during fiscal 1968-69. During the following fiscal year it is estimated that the payments will be $139 million—leaving a few million to be paid in May 1970. These payments are not budgetary expenditures, but repayments of debt.

Conclusion

Mr. Speaker, the substantial proposals which I have put forward would increase our revenues in the current fiscal year by some $45 million and, together with the reductions in expenditures to be announced, will hold our budgetary deficit this year close to that forecast in the budget of June 1. It will hold our estimated over-all cash requirements for the current year—apart from any changes in our foreign exchange reserves after today—to about $1,550 million. This will leave us with a substantial amount to borrow from now until the 1st of April, but I regard that as manageable.

Mr. Bell (Carleton): What amount?

Mr. Sharp: I shall be glad to answer a question in that context later. I should like to conclude my speech.

For next year the changes proposed will add about $520 million to our budgetary revenues—including the large non-recurrent revenue arising from the change in the timing of payments by corporations. This will bring our estimated revenues for next year up to within about $80 million of the level to which we intend to hold our expenditures, apart from medicare and the Expo write-off. These tax changes will also increase our cash receipts during the fiscal year 1968-69 by approximately $570 million. It should enable us to hold our over-all cash requirements, including the repayment of the refundable tax, well under the ceiling of $750 million I announced on November 10.

Six months ago, in presenting the main budget, I said: "There is no one-shot economic nostrum guaranteed to keep us healthy through the coming year". That budget of June 1 marked a stage in the continuing process of economic adjustment, in the process of managing our prosperity. So do the measures I have placed before you tonight, made necessary by the persistence of inflationary increases in prices and costs, both in Canada and abroad, that threaten to erode the foundations of our prosperity.

The federal government cannot by itself control inflation. What this government can do and is determined to do—with the support of parliament—is to keep its own finances in order, take action to steady the economy and give leadership to the other governments in Canada and to the country at large. This task is difficult and involves some tough decisions. But, as I remarked earlier, an ounce of prevention now is far preferable to a pound of cure later.

Income Tax Act Resolution

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

1. That for the 1968 and subsequent taxation years, in addition to the income tax otherwise payable by an individual under the Income Tax Act, a special surtax be payable equal to the lesser of

(a) 5 per cent of the amount of the basic tax as determined under section 33 of that Act in excess of $100, or

(b) $600.

2. That for the taxation years commencing after November, 1968, a corporation shall during the 12 months period ending two months after the close of each taxation year, pay to the Receiver General of Canada

(a) on or before the last day of each of the 12 months in that period, an amount equal to one-twelfth of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,

(b) on or before the last day of the month ending three months after the close of each taxation year the remainder of the tax payable on its taxable income for the year at the rate for the year