the act? How much of the butter that has been purchased is not up to the grade that it was when it was put in storage?

Mr. Gardiner: We will get all that for you.

Mr. Charlton: Will the minister say he will answer those questions?

Mr. Gardiner: Yes, I will.

Section agreed to.

Bill reported, read the third time and passed.

At six o'clock the house took recess.

AFTER RECESS

The house resumed at eight o'clock.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Douglas Abbott (Minister of Finance): Mr. Speaker, as I indicated last week, I hope I may have unanimous consent to move that the house go into committee of ways and means to consider certain resolutions, and that the hour for private bills be deferred until the completion of what I have to say and the customary brief remarks of my hon. friend the financial critic of the opposition.

Mr. Drew: I do not wish to raise any question about the procedure, Mr. Speaker, but I suggest that the position simply be that by consent the minister proceed at this time.

Mr. Abbott: I am in the hands of the house, Mr. Speaker. I move:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

In proposing this annual motion and in opening my budget for the year upon which we are about to enter I begin as is customary by reporting to the house on the general economic situation in which we are operating, and upon the economic prospects for the coming year.

The three years 1946, 1947 and 1948 were years of active and expanding business and employment in almost every part of the world. The work of physical, social and economic reconstruction not only created very high levels of employment and activity, but placed severe strains upon the available resources of manpower, equipment and materials in almost every country. These determined efforts to do so much in so short a time resulted in widespread shortages of various kinds and in open or suppressed inflation of varying degrees of intensity.

The year 1949 saw a considerable change in this balance of demand upon resources, and the improvements in output and in organization have lessened some, though not all of the economic difficulties with which the world is faced. In looking through the figures published by the United Nations I find that in those countries of Europe for which information is available the volume of production increased about 10 per cent during 1949, and that output as a whole is nearly 20 per cent above 1937. In Canada industrial output in 1949 was about two per cent above 1948, but more than 70 per cent above the 1937 level. In passing, I may add that Canada's increase in production over pre-war levels is greater than that recorded for any other country.

These improvements in production have had their effect on price levels and inflationary pressures. The December 1949 price levels in most countries of western Europe were less than five per cent above December 1948. It should be added that conditions of suppressed inflation continue to be a danger in some countries, and in most countries the effects of the September devaluations had not been fully reflected in their price levels by the end of December. Canadian wholesale price levels at the turn of the year were about two per cent below a year ago.

These increases in production have also resulted in a considerable improvement in the balance of payments position of western Europe as a whole. Over the past three years the current account deficits of ERP countries have been reduced from $7½ billion to just under $4 billion, and their trading deficit with the dollar areas has been reduced from about $7 billion to $3·8 billion. This improvement in their total deficit has been the result of a five per cent increase in total imports and a 40 per cent increase in total exports, though in respect of the dollar areas the deficit has been reduced by a drop of one-third in imports and an increase of one-quarter in exports. Reductions in imports by European countries were made possible by their improvements in home production and hence their reduced need for the abnormal volume of imports which was essential just after the war, but are also the result of deliberate administrative measures designed to keep their imports within the dollar resources that are available to them.

Hon. members will realize, of course, that while these improvements are very considerable, Europe still has a difficult road to traverse before viability at a tolerable level can be reached. Hon. members will also realize that, while we stand to benefit very substantially in the longer run by the restoration of a sound balance in world trade, in the shorter run we shall have posed to us in Canada a number of difficult problems, and the adjustments that we may be required to make in our economy will not always be easy or entirely painless.

Canadian economic activity is heavily influenced by conditions throughout the world, but it is particularly influenced by economic conditions and prospects in the United States.

Economic activity in that country experienced a moderate setback during the spring and early summer of 1949, but recovered during the second half of the year. The decline in United States industrial production during the first half of the year amounted to about 16 per cent, and the later recovery regained about half of this lost ground. While we can never escape the effects of sustained changes in United States business conditions, it is evidence of the current strength of the Canadian economy that we were so little affected by the United States recession. Taking 1949 as a whole, United States industrial production declined about eight per cent and Canadian output advanced about two per cent.

I turn now to a general review of our external trade.

Exports from Canada to all countries have been sustained at a high level throughout 1949. From a post-war low of about $2,300 million at the end of 1946 exports increased steadily and rapidly until the annual rate reached $3,000 million toward the end of 1948. During the first eight months of 1949 there continued to be an upward trend and the peak twelve-month figure of $3,120 million was reached in August. Since that month there has been some falling off and the exports for the twelve months ended February 28, 1950, were just under the $3 billion mark.

There have, however, been some significant changes in the direction of our exports, and having regard to our exchange problem, these changes have been in a satisfactory direction. Exports to the United States, which reached a post-war low of just under $900 million in 1946, climbed slowly through 1947 but very rapidly during 1948 to reach $1½ billion at the end of that year. They have remained at this level, with only minor fluctuations, for the past fifteen months.

This remarkable increase of $600 million in our exports to the United States in three years has been spread over all our principal industries, but the chief contributors to the increase have been farm and livestock products, wood and paper products, farm machinery and equipment, and non-ferrous metals.

Exports to the United Kingdom were at an annual rate of $600 million at the end of 1946; they climbed to $780 million early in 1948; dropped back to $650 million early in 1949; then recovered to about $700 million, and have been fluctuating narrowly about that figure for the past eight months. There has been more variability in the pattern of our exports to the United Kingdom. We have sold them more grains and more base metals, but they have bought less animal products and less timber.

Exports to all other countries increased from $800 million late in 1946 to about $1 billion at the end of 1947. Since then they have declined in an irregular pattern and are now at a rate of about $750 million a year.

Taking the last two years as a whole, a fall in overseas exports of about $300 million has been more than offset by an increase of $500 million in our exports to the United States.

On the import side, it would be agreed, I think, by all groups in this house that Canada should welcome increased imports from our overseas customers. But such an increase, to be of a lasting nature, must be based upon supplying goods which we need and like at prices which are competitive with the supplies available to us from our own producers or from other countries. Ever since the war, and more recently as a part of our policy of meeting our own dollar problem, we have taken special measures to help our overseas suppliers to surmount the transitional difficulties of the post-war period; but we cannot continue these indefinitely, nor should we convert temporary devices into permanent policies. It continues, however, to be our policy to encourage as large an increase as possible in our overseas imports, within the framework of our international obligations.

As the house knows, imports into Canada increased rapidly from the $1½ billion figure in 1946 to $2½ billion at the end of 1947. This increase of a billion dollars in imports was in part a reflection of world-wide price increases, in part a filling of the accumulated shortages of the war years, and in part the purchase of materials and equipment for incorporation in our heavy post-war capital investments. Largely as a result of our emergency import controls, imports were held at the $2½ billion level throughout 1948, and as these controls were relaxed the rate of import climbed slowly during 1949 to about $2¾ billion. There has been little change in the rate of import during the past six months, and such change as is discernible has been slightly downward.

As a result of our emergency import controls our imports from the United States during 1948 were held to a level about $200 million below 1947. With the progressive relaxation of these controls our annual rate of United States imports has come back to within $25 million of their earlier peak. Much of this increase has been in the field of capital goods and equipment which have been a necessary part of the continued capital investment program of Canadian industry.

Frankly we have been a little disappointed in the apparent inability of overseas countries to resume their traditional share of our import market during the past year. Late in 1946 our overseas imports were about $500 million; they rose steadily to $860 million early in 1949, but from that point they have been drifting downward and are now at about $800 million. If our overseas friends could get back their traditional share of our import market, they would be earning an additional $200 million a year with which to balance and eventually expand their consumption of Canadian products.

It is still too early for the world to have witnessed the full effect of the world-wide realignment of exchange rates which occurred last September. The immediate arithmetical implications of these currency devaluations, so far as we are concerned, were to raise the cost of our imports from the United States by 10 per cent, to reduce to the United States the cost of our exports by 9 per cent, to reduce the cost of our imports from most other countries by 24 per cent, and to raise the cost of our exports to most other countries by 31 per cent. At the same time United States exports would cost most other countries 44 per cent more, and relative prices between most of these other countries would be unchanged.

Changes in price relationships of this magnitude naturally set in motion all over the world a stream of price adjustments that is still going on. Some basic commodities traded in relatively free international markets, such as the base metals, were adjusted almost immediately to the United States dollar price; many other prices have moved much more slowly, and some hardly at all. The general effect, however, has been to reduce very considerably the wide international price disparities which had been developing at an alarming rate during the three preceding years.

The effect on Canadian trade has already been noticeable and is in a satisfactory direction. Notwithstanding the relaxation of many of our import controls, our imports from the United States have been declining for the past four months, and our exports have been increasing. In the four months November to February inclusive, our exports to the United States increased by nearly $60 million as compared with the same months a year ago, and our imports declined by about $25 million. That is, for these four months an adverse balance of trade of nearly $100 million a year ago has been reduced to an adverse balance of only $15 million.

In the same four months our exports to the United Kingdom declined by $20 million, and our imports from the United Kingdom were down by $3 million. Our overseas exports as a whole, however, were down by more than $100 million in these four months, and our overseas imports down by $12 million.

In a world where so many other factors are changing, one cannot isolate the effects of currency changes in any precise way, but I think that those which took place last fall should play a beneficial role in helping to correct the unbalance in the trading relationships between North America and the rest of the world. I should emphasize, however, that currency changes alone and of themselves are no cure for basic problems of maladjustment. They can do little more than give time in which the more fundamental measures can be put to work. However, so far as Canada is concerned, it already seems clear that the action we took in September last has, under the conditions presently prevailing, improved our trading position.

As the house is aware, exports of gold are not included in our merchandise trade figures. Gold production, however, has recently been showing a steady and welcome increase each year, due to the combined stimulus of an improved supply of suitable labour, the emergency assistance payments and more recently the devaluation of the Canadian dollar. Last year total production amounted to $148 million and most of that served to increase our exchange reserves.

Apart from merchandise trade and gold production, there are of course several other factors which enter into our international balance of payments on current and capital account, including tourist expenditures here and abroad, interest and dividend payments and receipts, freight charges and earnings, and various types of capital inflow and outflow. It is the combined effect of all these factors which account for the net change in our reserves of gold and United States dollars during the course of a year. I do not wish to anticipate the report of the foreign exchange control board for 1949, which will be available in the very near future and will contain a detailed analysis of our balance of payments during the past year and of the factors accounting for the change in our reserve position. All I need say here is that our surplus on international current account according to preliminary estimates amounted to about $193 million in 1949, a decline from the $450 million surplus reported in 1948; and that in the capital account the features of note were total advances of $120 million to the United Kingdom under the 1946 loan and a fairly substantial inflow of capital from the United States for direct investment, chiefly in connection with oil developments in western Canada. The end result of both current and capital transactions was a net increase of $119 million in our exchange reserves, bringing them to a total of $1,117·1 million on December 31 last, as I reported early in January.

This represents a very substantial increase from the low point of $461 million to which they had fallen in December, 1947,—a point so far below a safe margin that we had to secure approval from parliament for special emergency powers to control imports. These special measures were effective, and by the end of 1948 our reserves had recovered to $998 million. In the light of this improvement we were able to make extensive relaxations in our import restrictions, one result of which was that our rate of accumulation of reserves in 1949 was more moderate. However, with the improvement of $119 million that did occur, I was able to announce early in February two further groups of relaxations to take effect April 1 and July 1 respectively. When these are in effect I estimate that we will have covered about half the road toward complete removal of the emergency import controls.

In the meantime our reserves have shown a further substantial increase. I shall be publishing the March 31 reserve figure sometime next week, but as we are now so close to the end of the month, I think I should depart from our usual practice of reporting the size of our reserves only after the end of each quarter and advise the house that at the close of business on Saturday last they had reached the figure of $1,204·2 million. This represents an increase during the present quarter of about $87 million. I should add, however, that a considerable part of the recent increase is accounted for by a rise in Canadian balances held by other governments. To the extent that these balances are abnormally high and will be subsequently reduced it means that some of our exports in coming months will be paid for out of these balances and will not bring in new receipts of exchange. To this extent our reserves at their current level include the proceeds of some future earnings which have in effect been received in advance. Moreover, the second quarter of the year is the season for heavy transfers of earnings on United States investments in Canada. Hon. members who have studied our monthly reserve figures will recall that last year our reserves dropped by $90 million during April and May. Unless some unforeseen developments occur, I expect that our reserves may show a similar decline during the next two or three months. However, I would not, of course, venture to make any prediction in respect to the probable net change in our reserves for the new fiscal year as a whole.

As is customary on these occasions, I shall table at the conclusion of my remarks and ask to have printed as an appendix to today's *Hansard* the usual white paper which puts into convenient form all the more important economic and financial statistics. Accompanying these tables will be found brief explanatory notes and comments. It is not my intention to burden the house by reciting many of these facts and figures. I shall try only to give a broad and general picture. I do, however, urge hon. members to study the white paper carefully.

The latest estimate published by the dominion bureau of statistics over the week end shows Canadian farm cash income in 1949 to have been almost identical with the all-time record reached in 1948, which in turn was twenty-five per cent above 1947. Lower returns on dairy products, poultry products and furs were offset by increased returns on grains and livestock. Earlier estimates of net farm income for 1949, which are given in the white paper, show a moderate decline from 1948. The production of the fisheries was well maintained. Despite export marketing difficulties for some types of fish, returns to fishermen in 1949 were satisfactory, domestic demand being particularly good throughout the year. In those lines of production where our farmers and fishermen rely primarily on overseas markets the outlook for 1950 is less certain, but I would like to remind hon. members that our markets on this side of the Atlantic have increased greatly in recent years, and can, I think, be still further developed, especially for high quality products.

Employment in Canada has continued at a high level. The trend of industrial employment continued upward during 1949 until August or September; since then it has been moderately downward. The latest available figures for industrial employment, which are for January, show a decline of one per cent from a year ago. This, however, is a general average, and conceals a number of divergent trends in the components of the general index. For example, employment in logging and in the agricultural implement industry is down much more than the average; but in mining, in construction work, and in the trade and service occupations it is considerably higher than a year ago.

Total labour income, in spite of the one per cent fall in employment, has continued to increase, and its monthly rate at the end of the year was about five per cent above the same months a year earlier. Average weekly wages rose about three per cent during the year, while the cost of living advanced barely one per cent.

While the decline in employment as a whole has been small, the increase in unemploym nt has been greater, due, of course, to the fact that the total labour force continues to grow. The outlook for 1950 seems to be that the volume of employment will increase moderately, but it is possible that it may not catch up with growth in total labour supply.

Total unemployment, even at its seasonal peak, has not been large, judged by normal and usual conditions in this country. It has, however, been uneven in its regional incidence.

The largest single element in the past winter's unemployment has been the sharp decline in woods operations associated with the policy of the principal pulp and paper companies in reducing their heavy pulpwood inventories. Other pools of unemployment have been created by decline of particular export markets.

The marketing prospects for our pulp and paper industry appear to be good, and if these are maintained I would expect the woods operations next winter to be at a normal level. We shall continue to give all the help we can in finding markets for such other commodities as may from time to time find their markets upset.

I want to make it clear, however, that the central government cannot and should not attempt to assume responsibility for all these regional problems. In my mind the proper role of the central government in our federal state is fourfold. First, through its fiscal and g neral policies it should endeavour to create a favourable climate for healthy economic expansion and development. Second, it should have careful regard in planning its own operations for the best timing and the best placing of its capital and developmental expenditures. Third, it should recognize a special responsibility for the promotion and development of our basic primary industries and other industries of a national significance. Fourth, it should be ready to co-operate actively with provincial governments, and through the provincial governments with municipalities, in meeting regional problems that threaten nation-wide economic repercussions.

There have been times in the past when differences of view between the federal and provincial governments have received a kind of publicity which has led the general public to overlook, or at least to underestimate, the very large amount of practical day-to-day co-operation between the two levels of government. There is a great deal of this working together, and we are ready, in all appropriate circumstances, to extend this friendly collaboration.

With particular reference to the current situation I should remind the house that in preparing our estimates for construction projects we have deliberately been severe in cutting down requests for new construction, because in most parts of Canada building labour is fully employed on private projects. But where we have evidence that building labour will be available we have applied less severe tests to departmental requests for new construction.

The amendments to the Unemployment Insurance Act recently enacted will not only relieve distress but will sustain purchasing power, and thus the general level of business activity, in many of the regions where difficulties were encountered this winter.

The consensus of informed views about the outlook for 1950 is that employment, output and price levels in both Canada and the United States will show no great change from 1949. The balance of probabilities for Canada indicates a moderate increase in the domestic and United States demand for our products, offset in part by a reduction in overseas demands, with prices tending slightly downward, and employment slightly upward.

A minister of finance must always remind the house that forecasts of this nature are beset with uncertainties. But under our parliamentary system, where both programs of expenditure and programs of revenue must be presented and approved in advance for a specified twelve months period, such estimates of the future have to be made. To some extent our expenditures, and to a much greater extent our revenues, will fluctuate with expanding or contracting business activity and with rising or falling prices.

However difficult, forecasts must be made. My forecast and my fiscal program for 1950-51 are based on the expectation of sustained high levels of production and employment, and can be summed up simply in an estimate that the gross national product, which is in fact the economic tax base, will be about one or two per cent higher in 1950 than in 1949.

GOVERNMENT ACCOUNTS: 1949-50

In turning to review our revenue and expenditure for the fiscal year now closing and to forecast revenue and expenditure for next year, may I again call the attention of non. members to the detailed accounts provided in the white paper to which I have referred.

A year ago I forecast for the current fiscal year expenditure of $2,390 million and revenue, after tax changes, of $2,477 million, leaving a prospective surplus of $87 million. In re-introducing the budget measures on October 20 last I revised the expenditure figure to $2,460 million, including in it in this case the Newfoundland debt we had taken over, and I revised upwards the forecast of revenue, setting it at $2,545 million, after taking into account the small additional tax changes then proposed. This left practically unchanged my earlier forecast of the budgetary surplus. We have not yet reached the end of our year, and on the expenditure side in particular it is always difficult to estimate the payments to be made during the closing weeks. It now appears, however, that actual expenditures for the year will be about $2,438 million—about one per cent less than our last forecast—and revenue about $2,549 million—just a shade more than our October estimate. On this basis our budgetary surplus should be about $111 million. It is possible, however, that the actual out-turn when all the accounts are closed may differ slightly from this, but not by very much. In operations of the magnitude and complexity of the government's financial activities, an error amounting to only about one per cent of our expenditure appears to me to reflect exceedingly accurate estimating.

On the revenue side, the notable feature is still the remarkable buoyancy in our direct taxes, notwithstanding the successive reductions in rates that have been made. Direct taxes accounted for half our total revenue, and a large part of the indirect taxes that provide forty per cent of our revenue is levied upon things the purchase of which is usually some evidence of ability, as well as willingness, to pay.

Our non-tax revenue continues high. The post office is paying its way, when we include the wartime increase made in letter rates, and I hope that we can continue to cover the growing cost of postal services by charges for them. It supplies some free services to other departments, of course, and service of some kinds below estimated cost, but on the other hand the post office is not charged for its office accommodation nor for certain services such as those of our accounting and disbursing officers. In due course I would hope we can arrange that it will be charged with all proper expenses of its operations, that it will charge other departments for mail services, and that it will be able to show a modest surplus on a commercial basis of accounting.

We have continued this year to benefit from some abnormal post-war special receipts and credits, though now on a relatively modest scale, the total of this category being about $60 million. The chief components of this figure are $18 million from the sale of surplus crown assets, $16 million recovered on war contract settlements, and about $9 million in payments by European governments in settlement for supplies provided by the military authorities to the civil populations at the end of the war. We can still expect some receipts next year under these headings, but on a diminishing scale.

On the expenditure side, the most notable features have been the increased expenditures for social security on the one hand and national security on the other. The increase in social security—chiefly family allowances and old age pensions—was about $62 million; and the increase in national defence and defence research was $110 million. Newfoundland, too, added materially to our expenditures—as was evident from the $55 million provided in special supplementary estimates to extend our services to Newfoundland, and a non-recurring charge of $62 million to cover the assumption of the major portion of the former Newfoundland debt. There was another large non-recurring item in our expenditures represented by the net charge to our premium, discount and exchange account resulting from the revaluation of currencies and representing the decreased Canadian dollar value of our sterling obligations, the increased Canadian dollar value of our United States dollar obligations, and the increased Canadian dollar value of our holdings of gold and United States dollar balances.

Offsetting these major increases in expenditures that I have noted were a number of reductions in those items which arose out of the war, notably certain types of non-continuing payments to veterans, payments of subsidies of various kinds, and various administrative costs for temporary post-war organizations.

In addition to these major changes in our expenditures this year as compared with previous years, there was a wide variety of minor increases representing, on the one hand, higher costs due to the rise in salary, wage and price levels, and, on the other, expansion in various government services. I will not attempt at this stage to comment in any detail upon these, but the combined effect of these factors can be noted in the detailed statements of expenditures given in the white paper.

As usual, I should call the attention of the house not only to our budgetary surplus but also to the non-cash items in our revenue and expenditure and to the non-income or extra-budgetary receipts and disbursements, apart from security transactions, that must be taken into account in order to appraise our over-all cash position. In the past year we have had more than the usual amount of budgetary charges which did not involve cash expenditures, and consequently when we adjust our budgetary surplus for purely accounting items—such as the assumption of the Newfoundland debt, the revaluation of our assets and liabilities which are expressed in other currencies and the addition to our general reserve against active assets—we find that we have a cash surplus of $287 million as compared with the budgetary surplus of $111 million. To this we should add other receipts that do not constitute revenue, such as the increases in the trust accounts for the payment of annuities and pensions, and the increases in various other accounts on our books that we cannot treat as revenue. We must also take into account the repayments of loans and advances that have previously been made. These various receipts have added another $200 million to our cash. On the other hand, we must take into account heavy disbursements this year that do not appear on our books as expenditures. The largest of these has been the advances to the foreign exchange control board to acquire gold or United States dollars, which have amounted to $160 million. We have also disbursed $104 million in loans to the United Kingdom and other governments abroad, after taking into account repayments that we have received from such governments on other loans. We have also made substantial loans to the Central Mortgage and Housing Corporation and under the Veterans Land Act for housing and settlement purposes. Adding these and various small additional items of a similar character, we get a total of cash disbursements other than budgetary expenditures of $420 million. This leaves a cash surplus of $67 million, apart from security transactions. This year the net sales of securities out of our securities investment account, the account through which we employ our surplus cash balances, have totalled $430 million. Adding this to the $67 million cash surplus that I have just mentioned, we have a total of $497 million available to reduce outstanding public debt. Actually we used $486 million for this purpose, the remaining $11 million being our estimated increase in cash balances at the end of the year.

FINANCING OPERATIONS

In my budget address of October 20 last I outlined most of the major transactions in what has been a notable record of financing during the present fiscal year, and here I need only finish that outline and summarize the results for the year as a whole.

At that time I referred to the campaign just beginning for the sale of the fourth series of Canada savings bonds. That campaign proved highly successful; to date approximately one million buyers have purchased a total of $304 million of this fourth series. I wish again to pay my tribute to the splendid work which has been done both by voluntary and professional workers in promoting the sale of these bonds.

On March 1 this year three separate transactions took place. An issue of $550 million of ¾ per cent six months treasury notes was sold at par to the Bank of Canada to refund a similar issue maturing on that date. On the same date a $325 million issue sold in 1948 and held very largely by the banking system became due and was refunded by an issue of $325 million 3-year 1½ per cent bonds sold at 99·30 to yield 1·74 per cent per annum. Also on March 1 a new issue of $100 million of six months deposit certificates bearing interest at ¾ of one per cent per annum was sold to the chartered banks at par.

The results of our financial operations and of certain other factors on our funded debt for the fiscal year as a whole may be summarized as follows:

1. Our funded debt payable in sterling increased during the year by a net amount of $52·6 million as a result of the assumption of certain Newfoundland sterling indebtedness in accordance with the terms of union offset in part by the effect of the revaluation of sterling.

2. Our direct funded debt payable in United States funds increased by $100 million because of the sale of a new issue in New York to retire C.N.R. and national harbours board obligations which were guaranteed by the government of Canada—a flotation incidentally, which, as hon. members will recall, set a new record for Canada's credit in the United States market. The Canadian dollar equivalent of our funded debt payable in United States funds increased a further $39·8 million due to the revaluation of the Canadian dollar.

3. Finally, in regard to our funded debt payable in Canada, the amount of our obligations, including refundable taxes, which matured or were called during the year was no less than $3,137·4 million. We met $2,213·3 million of this amount by refunding or conversion into new issues, $338·2 million from the proceeds of new borrowing in the form of Canada savings bonds and deposit

certificates, and $430 million from the proceeds of sales of securities from securities investment account. Another $100 million in Canadian funds, not included in the cash surplus referred to above, was available from the proceeds of our issue in New York. The remaining cash required, $55·9 million, came from our cash surplus.

While I am on this subject, perhaps I may be permitted to deal with our probable financing requirements for the new fiscal year. As will be apparent from what I have to say later, I expect that we shall be able again next year to make some modest reduction in our funded debt from available cash resources but this reduction will certainly be much smaller than that effected this year. However, during the year there will become due or payable in Canada funded debt in the aggregate principal amount of $2,414·1 million.

Yesterday I made a public announcement to the effect that the government proposed to call for prior redemption on June 15, 1950, the first victory loan 3 per cent bonds which mature on June 15, 1951, and also on June 1, 1950, an issue of 3 per cent bonds sold in 1935 which mature on June 1, 1955. The amount required to pay off these called issues is approximately $745 million, and our cash resources will not, of course, be adequate for that purpose without a refunding loan. For that reason a new issue will be announced shortly before the time for payment of the called issues. It is expected that the new issue will include some longer term bonds suitable for general public investment as well as a substantial amount of short term bonds. This operation will result in a further reduction in the cost of interest on the public debt. Perhaps I should not let this occasion pass without again reminding all those who bought bonds during the war in such large numbers to examine their holdings and if they find they have any first victory loan bonds, make sure to turn them in on the call date, June 15 next, and thereby avoid any loss of interest.

FORECAST OF REVENUE AND EXPENDITURE, 1950-51

My forecast of our prospective revenue and expenditure for the new fiscal year is based on the expectations I noted earlier—that in general our national employment and income will be sustained at approximately the present level and that there will be a slight fall in average prices, more than offset by a slight increase in the volume of our production. Should conditions be better than this—as they could be if everything goes well—my forecast will be more than realized. Should economic conditions deteriorate, as they could, our revenue will fall off and our expenditure increase, as compared with the figures I am now putting forward.

In the light of what I have said, I expect that our present tax laws and other sources of revenue would produce in the next fiscal year a total revenue of about $2,430 million. For the convenience of hon. members and others, I have had prepared the usual table, comparing present forecasts with the figure for the year just closing, and I ask leave that this table be printed in *Hansard* at this point.

Forecast of Revenue

(Before tax changes)

	Fiscal year 1950-51 (Forecast)	Fiscal year 1949-50 (Actual-preliminary)
	(In millions of dollars)	
Customs import duties	$225·0	$229·0
Excise duties	213·0	215·5
Sales taxes (net)	400·0	404·1
Other excise taxes	153·0	163·9
Income taxes		
Individuals	530·0	611·5
Corporations	580·0	586·5
Interest, dividends, etc	46·0	45·5
Excess profits taxes	....	—2·5
Succession duties	29·0	28·5
Miscellaneous taxes	4·0	4·0
Total tax revenue	2180·0	2286·0
Non-tax revenue	200·0	203·0
Total ordinary revenue	2380·0	2489·0
Special receipts and credits	50·0	59·6
Grand total revenue	2430·0	2548·6

I should like to emphasize that our tax structure now is such that it is very sensitive to changes in employment and incomes, and relatively modest changes in these can have a more than proportionate effect upon our revenue.

The government became aware several months ago of these revenue prospects and of the desirability of keeping our expenditures this next year within the total revenue that we could foresee in the economic conditions I have described. We decided that we should plan to do this, and that, except in the event of a deterioration of economic conditions or an unexpected emergency, we should hold our expenditure in the coming year down to approximately $2,400 million. Consequently the treasury board, at the cabinet's direction, made substantial reductions in the estimates submitted by various departments, particularly those involving construction or the expansion of activities not of an urgent or highly productive nature. As a result, the main estimates, laid before the house on February 24 were held down to a total of about $2,309 million, despite the increase in costs of social security and defence and the expenditures required for federal services in Newfoundland. Moreover, we propose to continue this same policy in considering supplementary estimates, unless a major change in the economic outlook occurs. However, we must anticipate some supplementary and further supplementary estimates, including substantial amounts for the 1950 deficits of the Canadian National Railways and Trans-Canada Air Lines. In addition, I would expect to make some provision in our accounts for reserves against our active assets and for contingent benefits under the Veterans Land Act. On the other hand we may expect some short-fall of expenditures below the limits provided in appropriation votes, but this is likely to be lower than in recent years, due to the outlook for more stable economic conditions and to the pressure put on the departments to keep estimates down to the minimum practicable amounts. All in all, I think we can reasonably expect to keep our expenditures in this new fiscal year to a total of about $2,410 million. On this basis our budget surplus should amount to around $20 million.

In so far as our prospective cash position is concerned, we must take into account non-cash items in revenue and expenditure and other cash receipts and disbursements. After adjusting our probable revenue and expenditure for non-cash items I believe we can expect a cash surplus somewhat higher than the budgetary surplus. To this we should add cash receipts in annuity, pension, and similar trust funds, and various deferred credits and suspense accounts. Taking all these items together we should have something in excess of $200 million dollars in cash over and above that required for cash expenditures.

Against this we must set our disbursements other than budgetary expenditure and redemption of our own securities. We shall probably require something over $100 million for housing loans and investments, including the married quarters program for the armed services, and nearly $30 million for Veterans Land Act loans. There will, I expect, be other minor loans and investments. There remains to be drawn $85 million under the United Kingdom loan agreement, but drawings on this loan will be offset in part by repayments on loans previously made to the United Kingdom and other governments abroad. On the whole, I would expect that our total cash disbursements would about balance with our total cash requirements for all purposes—apart from the sale, purchase, or redemption of our own securities, and apart from possible advances to or repayments by the foreign exchange control board because of changes in the size of our exchange reserves. As I have already indicated, it is impossible to forecast with any assurance whether our exchange reserves will increase or decrease by a significant amount and therefore whether we shall need to advance further Canadian funds to buy exchange, or can expect repayments on advances outstanding. On the whole I would not expect at present a movement in either direction large enough to affect our cash requirements to any important degree.

CONTINUING LEVEL OF EXPENDITURE

Our efforts to hold expenditures this coming year to the level I have described, despite the increases necessary for the social security legislation of last year and for defence, have caused me to realize that we must now expect for some time to have budgets as large as this one—that we must cope somehow with a continuing level of expenditure of $2,400 million, even in the absence of large scale economic difficulties or widespread unemployment. Our special post-war demobilization and transitional expenditures are now almost all behind us; we can expect a tapering off of some of the remaining payments for the veterans program and some of the other items which we have labelled "Terminable Services" in the estimates, but these we must expect to be offset by increases in other services required in normal times, particularly those on the development of natural resources. In years when economic conditions are adverse, we must expect not only lower revenues but higher expenditures to assist in overcoming these economic difficulties and to maintain satisfactory levels of employment and income. In good years we can hope to avoid such special expenditures and have buoyant revenues—but I doubt if the public or this House of Commons will really wish government services or activities to be reduced in years of prosperity to the degree necessary to get our expenditures much below this level of $2,400 million. If we get a substantial improvement in the international situation we may expect a reduction in defence costs that will materially lighten the burden on the budget, but it would be a bold man who would predict this with any confidence now.

Our union with Newfoundland has been warmly welcomed in every part of the country, and I am confident that the mutual advantages of this union will be demonstrated with increasing force as each year passes. But I think it is fair to remind the house that during the past year and over the next few years the accession of Newfoundland to Canada has imposed and will continue to impose a considerable net burden on the federal treasury. We share with our fellow citizens in Newfoundland a great confidence in their future, but in the meantime the social and developmental costs to be borne or shared by the central government will involve large net financial outlays.

Payments to provinces for statutory subsidies and compensation under the tax rental agreements totalled $104 million in the current fiscal year, and for the remaining term of these agreements the annual payments to the provinces concerned will be even larger than this year, whether or not any downturn in economic activity should occur in the next year or two. As already announced, there will be another conference with the provinces this fall, and whatever may be the eventual outcome of that conference, I think it is fair to assume that its decisions will not result in a lessening of the net burden on the federal budget.

Naturally we hope to reduce expenditures by improved efficiency in operation and by economies in administration. We have been making good progress in this direction in recent years in many of our departments—quietly but effectively. Since it has been accompanied in many cases by an expansion in the work of the department or unit concerned, it is frequently not evident from the figures. We are pressing ahead further with this work, and building up a corps of efficient operating and administrative officers. But we should not delude ourselves with the belief that we can significantly alter the scale of the budget in this way. Our civilian payroll is only about $310 million a year out of total expenditures of $2,400 million, or about 12 cents out of every dollar spent. The other 88 cents goes either for transfer payments or is paid for goods and outside services. It is only by reducing government activities or social security payments that any major reductions can be made.

REASONS FOR EXPENDITURES

This is an important and serious conclusion. We should realize how this situation has come about. Mainly it has been by reason of war and the danger of future war. Our huge debt service is almost entirely a legacy of war. We have a heavy continuing charge for pensions and other provision for war veterans, and expenditures on defence now total $425 million. All told, then, we must provide something over a billion dollars a year because of past wars or the need to prevent future war. This huge outlay from which we get no tangible return is unfortunate—but let us remember that this, in addition to the blood and treasure expended in the past, is the price we pay for the personal freedom, the civil liberties, the democratic politics and the economic prosperity that we enjoy as part of the western world.

The second major category of expenditure that has brought us to budgets of this size is social security payments—old age pensions, family allowances, and unemployment insurance, as well as other smaller items. For these three huge programs we are having to provide $457 million next year. I need hardly point out that this house and those parties to which its members belong stoutly uphold the need for old age pensions on at least the present scale and we must, of course, make adequate provi-ion for the unemployed.

Our family allowances, though costly because of the huge numbers involved, are among the most constructive forms of social security; for they provide improved opportunities for health and education for the children of our country. We can expect in future years to gain material benefits from the better citizens this program makes possible.

Apart from these costs of defence and social security, there is a great variety of services provided to business and the public, on which we spend hundreds of millions each year but which are demanded just as are the services of business itself—the post office, the canals, the airports and airways, the wharves and harbours and river works, the aids to navigation, the technical services to agriculture and the fisheries, the foreign trade services, to assist our exporters and importers, the statistical services, the employment service, and others of a like character. Money spent on these provides services which the public use every day, whether they pay for them directly, as in the case of the post office, or indirectly, as in the case of most others.

Finally, I think it is important for the house to realize how much is being done to improve our productive resources in the future. Our health program, for example, for which we provide now over $40 million a year, is not only improving significantly the treatment of the sick, but making real strides in helping o reduce the amount of disease and illness. That will reflect itself in due course in our national production. We are now spending large sums in discovering, developing, improving and conserving our natural resources—through such departments as Agriculture, Fisheries, Mines and Technical Surveys and Resources and Development. This is valuable, sensible work that will increase our national income just as surely and effectively as much private business expenditure will. The same is true also of the extensive work in the field of scientific research, which has been greatly increased in scale and of which we may, I think, be justly proud.

I shall not try to enumerate all the classes of activities. I have said nothing, for example, of such an important one as our housing program. The point I wish to emphasize is that the public, the responsible political parties, and this parliament have all willed the ends to which these efforts are directed, and it is here in the budget that we must provide the means. Unless we are prepared to reduce the scope or scale of government activities, we must now expect $2,400 million budgets in future years.

Nor can we escape the tax implications of this conclusion. We must have a tax system that will at least balance the budget in good years, in those times when private expenditures and exports will sustain our employment and incomes at high levels; for otherwise we should slide quickly into inflation at such times and pile up our national debt more quickly than we add to the economic and financial capacity of the nation to carry it.

The conclusion then which I reach is that no minister of finance in the foreseeable future will have an easier task than I have, namely, that of covering about $2,400 million of expenditure. In considering proposals for further major increases in our expenditures of a continuing nature, we must be ready to balance them with increased taxes. We can afford some modest increases in expenditures from year to year, or alternatively modest reductions in taxation, as our productivity and national income grow, but this dividend of progress is gradual and modest in size in relation to the ambitious plans that are so much in the air these days. What is important, I believe, is that we should now realize clearly that there is no prospective surplus from which proposed new programs of expenditure can be met. If the expenditure is worthwhile, it should be provided for by new or increased taxes or charges or by reducing some other services or activities of lower priority.

TAX POLICY AND TAX CHANGES

Given the conditions I have outlined, of continuing prosperity in which the positive and negative factors are rather evenly balanced, the wise and prudent fiscal policy calls for a balanced budget, or a budget which provides for no more than a modest surplus for the retirement of debt.

Last year I budgeted for a surplus of $87 million, and it now appears that we shall have a surplus of about $111 million. For the coming year I have already estimated expenditures at $2,410 million and revenues at existing tax rates of $2,430 million. That would leave us with a prospective surplus before tax changes of only $20 million. This leads me to conclude that no major changes in taxation would be wise this year. I am, therefore, proposing no important changes, but, as occurs each year, experience or changing circumstances require us to make a number of minor or technical changes in the tax laws, to remove anomalies, to secure greater equity, to clarify obscure points, or to meet special circumstances. In only two or three instances will there by any significant revenue implications in my proposals.

First, with regard to taxes on commodities, I propose that purchases by certain defined classes of institutions caring for orphans, the aged and the incapacitated be exempt from the sales tax effective July 1, 1950. The loss of revenue resulting from this change will not be large, but the saving in costs to these institutions will, I believe, be welcomed by those responsible for maintaining them. We have for many years exempted hospitals from the sales tax, and the institutions I have referred to are in many respects analogous to hospitals.

There is at present an extra five per cent tax on toilet soaps. For reasons which I shall not elaborate, chief among them the difficulty of drawing a clear line between toilet and laundry soaps, this tax has been very difficult to administer, and I am proposing that it be repealed effective midnight tonight. The loss of revenue will be about $600,000 in a full year.

The only other commodity tax change that I propose is the removal, effective midnight tonight, of the sales tax on ice cream, on drinks prepared from fresh milk and on prepared whipping cream. We have received strong representations from the dairy interests that the removal of this tax will give encouragement to the consumption of ice cream and dairy drinks at a time when sales of certain other milk products are declining. The loss of revenue in this item will be about $2 million in a full year.

The bill amending the Excise Tax Act giving effect to the above proposals will contain a number of other unimportant technical changes in the law.

As usual I wish to give public notice that no claims for refund arising out of the excise tax changes in respect of goods on which tax has been paid or is payable will be entertained by my colleague the Minister of National Revenue.

With regard to the Income Tax Act, no changes are being recommended in the rate structure. However, I am proposing certain amendments which will be of specialized but fairly widespread interest.

Last year we made some changes in the corporate tax structure, including a reduction to 10 per cent in the tax on the first $10,000 of profit of corporations. This tax abatement was intended to allow the small businessman to retain a larger proportion of his profits for growth. It was necessary, in order to confine the benefits to those who were intended to receive it, to allow only one corporation in a group of related corporations to secure the lower rate. At the time of the last budget and since, I have received many representations on this point, and I have given careful study to the suggestions which have been made for a less rigid limitation. Under the law as introduced last year companies are related if one controls another or is controlled by another, or if they are subject to common control. It is proposed that these provisions be relaxed in order to relieve particularly the cases where there is a substantial minority interest in the corporation. Under the new proposal, mere control will not be the criterion. I think it will achieve our original intention if some higher percentage of ownership is adopted in defining what we mean by related companies. It is proposed that companies shall not be deemed to be related companies unless there is related ownership of common stock to the extent of 70 per cent or more. This, I believe, will allow a wider group to obtain the preferred rate on the first $10,000 of profit, and will take care of most of the reasonable complaints against the law as passed last year.

Last year parliament approved a new system for depreciation allowances. Following considerable discussion in the house it was agreed to allow farmers and fishermen to continue under the old system. I expressed the opinion at that time that farmers would probably be better off under the new system than under the old. Apparently after having studied the new system many farmers are now inclined to agree with that view. Accordingly it is proposed to give farmers and fishermen the option of adopting the new system. It will, of course, have to be provided that once a taxpayer elects to adopt the new system it will not be permissible to revert to the old system.

The special write-off privilege for exploration and prospecting expenses in the oil and mining industries should, we suggest, be extended by adding a further year to the present periods provided in the law. It is also proposed to repeal the provision in our law which imposes a corporation tax on the income received by a trustee for holders of oil royalties.

During the past year there has been considerable uncertainty in the mining industry with regard to the position of prospectors and those who are engaged in developing our mineral resources. From the early forties onward, it has been the practice to interpret the law as not subjecting to tax gains made by bona fide prospectors and developers in discovering and proving up mining properties. As the house knows, our Income Tax Act was completely rewritten, and the new act has been in force since the beginning of 1949. The new act contains no clear-cut authority for the practice which has been followed during the past decade. The position under the law of these important groups should be clarified, and we are proposing this year to introduce an amendment which should allay the fears of many who have in recent months been concerned about this matter.

Perhaps I might also take this opportunity, in view of recent public interest in the question, to assure the house that it is not the policy of the government to tax capital gains. Under any income tax law there is always a very difficult problem in drawing a line between gains which are profits from carrying on a trade or business and those which are not. To my knowledge no tax legislation has ever been passed in any country that has removed all doubts on this score. In England, where our basis of income tax had its origin, the matter has been settled almost entirely by the courts, taking into account the facts in each individual case. Much as I would like to introduce greater certainty, I do not believe that it can be done satisfactorily by legislation. We now have a readily available income tax appeal board that has been set up to determine questions of this sort. I might add that, in order to facilitate the appeal procedure, it is now proposed to allow members of the board to hear cases individually, and also to allow the taxpayer, if he wishes, to go direct to the exchequer court instead of being required to proceed first to the tax appeal board.

In the budget of last March I announced that I had been considering further legislation to deal with the position of closely-held companies where their growth had been financed out of retained profits. I now have definite proposals which will be placed before the house for consideration. The new sections are bound to be complicated, and I hesitate to attempt to summarize them. I should, however, mention a few of the main features, with the warning that what I say cannot cover all the provisions which will have to be in the law.

Generally speaking, I propose to deal with the surpluses accumulated up to the end of 1949 in much the same way as surpluses up to the end of 1939 were dealt with in accordance with the recommendations of the Ives commission. This earlier legislation provided for a tax payable by the corporation, graduated, however, according to amounts receivable by individual shareholders. In the legislation now proposed, closely-held corporations may elect to pay a tax on undistributed income on hand at a flat rate of 15 per cent. This change will remove many of the troublesome problems encountered under the earlier legislation.

If the proposed legislation did no more than take care of past surpluses, a new problem with respect to the future would immediately start developing. I think it desirable, therefore, that the present legislation should provide a comprehensive solution to the problem as a whole rather than merely deal in ad hoc fashion with the past.

The Ives commission made a recommendation in respect of surpluses accruing after 1939 under which a proportion of annual profits might be retained by closely-held companies and be entirely free from personal income tax upon subsequent distribution. We have been giving a great deal of thought to this proposal but we feel that we cannot go quite as far as that recommendation. Under the proposals which we are recommending, a closely-held company may, to the extent that it pays out earnings in dividends, earn the right to capitalize an equivalent amount upon payment of a special tax of 15 per cent. It appeals to me as sensible to encourage these family corporations to pay reasonable dividends while at the same time making it possible for them to retain profits essential for growth and expansion without imposing on shareholders an almost impossible potential tax burden.

There will be proposed a number of other amendments of a technical character, but I need not burden the house with an attempt to explain them at this stage.

TARIFF PROPOSALS

When I presented the budget last October, I said that plans were under way for another set of multilateral trade negotiations under the general agreement on tariffs and trade. The concluding work on these plans is at present nearing completion in Geneva, where the countries participating in the general agreement are holding their fourth session. It has now been decided to hold the third round of tariff negotiations in Torquay, England, beginning September 28 of this year, and it is anticipated that some forty countries will take part. The proposed Torquay negotiations are a further step in the post-war program of international co-operation to reduce tariffs and remove other barriers which stand in the way of a freer flow of international trade. The original Geneva agreement of 1947 was widened last year at the Annecy conference to include ten additional countries. The main purpose of the Torquay conference will be to increase the value of the general agreement by expanding it to include more countries, to cover a broader range of commodities, and, in addition, to provide further tariff concessions on products previously negotiated. It is intended that at the conclusion of the Torquay conference all the tariff concessions resulting from the new negotiations, together with the original Geneva and Annecy tariff concessions, will be incorporated in a new set of tariff schedules which will run until January, 1954.

Canada will have an opportunity at Torquay to negotiate for further tariff reductions with the United States, the other participants in the Geneva and Annecy agreements, and also with a number of new countries. While the United States will, on this occasion, still be governed by the Reciprocal Trade Agreements Act which empowers the president to reduce tariffs by not more than 50 per cent of the 1945 rates, there is a considerable number of important items on which further concessions may be made.

I believe that in the present conditions of unbalanced world trade, the success of the Torquay conference will depend largely on the leadership given by the United States. If the United States is prepared to make significant tariff reductions, I am confident that these coming trade talks will make an important contribution to the restoration of a saner trading world. We in Canada are not unmindful of our own responsibility, and I can say that we will take this opportunity to consider appropriate adjustments in our customs tariff which should contribute to a better balance in our trade with the United States, the sterling area and western Europe.

In view of the important tariff negotiations which are scheduled to commence in a few months' time, the budget resolutions relating to the Customs Tariff which I am tabling contain very few changes in so far as customs duties are concerned, but in order to facilitate the compilation of a new consolidation of the Customs Tariff, several hundred items have been renumbered and rearranged covering products in respect of which changes have been made in recent years as a result of tariff negotiations at Geneva and Annecy. These items which are shown in resolution 3 continue rates of duty that have been in effect for several years, except in the case of tin plate, on which the British preferential tariff is being increased from free to 15 per cent ad valorem. During the negotiations at Geneva in 1947 the elimination of this British preference, coupled with a reduction in the most-favoured-nation rate from 17½ to 15 per cent, was agreed to by the British and ourselves as an essential part of the bargain by which we obtained very important concessions in the United States tariff, and at that time Canada gave an undertaking to make this increase effective as soon as the necessary legislation could be enacted. It is proposed that resolution 3 go into effect on June 1, 1950.

My other tariff proposals, which for the reason mentioned are of only minor significance, are included in resolution 2. The tariff is being reduced on dates for packaging and on compounds imported mainly from the United Kingdom for the manufacture of phonograph records. The other changes are mainly for the purpose of facilitating administration and the elimination of obsolete phraseology. Somewhat related to this latter category is an amendment being proposed in connection with the tariff item covering biological products. For some years the administrative authorities have held that penicillin and similar antibiotics were dutiable as chemicals. An importer appealed this ruling and his appeal was allowed by the tariff board. The decision of that board is now before the exchequer court. The whole field is one in which there have been important technological and industrial developments in recent years, and there is a need for investigation of all the pertinent facts and clarification of the tariff situation. What we are now proposing therefore is to insert in the tariff an appropriate definition of biological products to maintain the existing practice, and then refer the whole question of biological products to the tariff board for thorough investigation and considered recommendation. The tariff changes in resolution 2 which cover about twenty-five items will go into effect tomorrow.

I should add that the amendments being made to the Customs Tariff in these budget resolutions will not affect in any way the carrying out of the provisions and intent of the Emergency Exchange Conservation Act.

REVISED ESTIMATES AFTER TAX CHANGES

I may now summarize the effects of the proposed tax changes on the balance of revenues and expenditures. The various tax reductions which I have proposed should not in all involve a loss of revenue of more than $3 million. The revenue from the new tax available to closely-held companies in respect of accumulated earnings cannot be predicted, because we cannot tell how many of these companies will elect to take advantage of the new provisions in the next fiscal year. The revenue we receive could be quite large. I believe that it will at least be sufficient to offset the reductions just mentioned.

This, then, leaves our expected expenditures at $2,410 million, our expected revenues at $2,430 million, and our expected surplus for the coming year at $20 million.

CONCLUSION

There is little that I need add, Mr. Speaker, by way of conclusion. Canada is in a prosperous state of economic health. There are difficulties and uncertainties ahead of us; but when in our history have we been without difficulties and uncertainties? During the past year Canada has demonstrated the soundness and the resilience of her economy.

My hon. friends opposite have been discovering imminent crises and catastrophes almost every month for the past two years or more, and almost every month our trade has increased, our employment has increased, and new resources are discovered or developed. We all know, of course, that our geography and the nature of many of our basic resources make us vulnerable to sudden economic changes in the countries with which we do the greater part of our trade. But I suggest to all my hon. friends opposite that the calamities they fear are not imminent, and that if at some future time we have to face serious difficulties we shall find that we have never been better equipped and prepared to resolve them.

I wish now to table the budget resolutions:

INCOME TAX ACT

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

1. That for the 1949 and subsequent taxation years, the provision under which the 10 per cent tax rate on the first $10,000 of income of a corporation