Mr. Drew: There is one point which I do not think is quite clear on the record. In answer to a comment by the member for Kamloops (Mr. Fulton) concerning the production of airplanes for our associates in NATO, the minister said "Would you give them away"? Then, in response to a further question he said that we are giving them away, every one of them. It seems to me that may leave an incorrect impression on the mind of anyone reading that statement. I would refer the minister to a statement which was issued on February 14, 1952 and which said that the planes to which the minister is obviously referring are being produced—that is the airframes are being produced—in Canada as part of a three-way joint program under the NATO agreement. The announcement was made simultaneously in Ottawa, London and Washington. The announcement made on February 14 appeared in a Canadian Press dispatch, and I shall quote the first paragraph:

Canada is joining in a three-way arrangement with the United States and Britain to build, equip and man squadrons of F-86 Sabre jet fighters for the North Atlantic treaty defence force.

Then the air force secretary in the United States, Thomas K. Finletter, was quoted in an Associated Press dispatch of the same date as saying:

The partnership of the North Atlantic treaty nations was exemplified in a signal way today with the simultaneous announcement at Ottawa, Washington and London of an arrangement whereby the three countries will combine to equip and man squadrons of Sabre fighters.

Again reading from the Canadian Press dispatch, I quote the following:

A spokesman, enlarging on the announcement, said Canada would supply the airframes for the Sabres, with all other parts, including engines, coming from the United States.

That, Mr. Speaker, does not seem to be a gift in the ordinary sense of the word. If the statement issued by the spokesman for the Department of National Defence on February 14 is correct, this is one of the arrangements growing out of the Lisbon conference about which perhaps we might have had more information in this discussion because the same spokesman informed the Canadian Press that this would amount to some hundreds of planes. I think all hon. members would have been very glad to have more of the details, and it does seem to me that this is certainly not a gift to Britain of planes. It is a three-way arrangement for the benefit of the general forces under NATO, and in fact it is said that it will be for the purpose of strengthening the North Atlantic treaty forces commanded by General Eisenhower.

Mr. Claxton: I am glad the leader of the opposition (Mr. Drew) raised this point, because I do not want to leave any incorrect impression. The statements from which he has just quoted were made by me, and of course I have no reason to correct them. The arrangement came about in this way. The air minister for the United Kingdom in the Labour government, the Right Hon. Arthur Henderson, on several occasions asked me if we could make some F-86E aircraft for them so as to fill the gap. After a good deal of discussion we agreed to do that on condition that the United States would supply what is called the government found property, which we are not ourselves in a position to provide. This includes engines, instruments and in the earlier aircraft, the armament.

Negotiations were carried out on a tripartite basis, and they resulted in an agreement being made before Lisbon, early in February, under which the United States would provide the government found property without which we cannot make the aircraft. We would build the aircraft and deliver them to Britain. The value of the government found property is approximately thirty per cent of the whole cost of the aircraft.

Motion agreed to and the house went into committee, Mr. Beaudoin in the chair.

DEPARTMENT OF TRADE AND COMMERCE

441. General administration, $617,796.

Item stands.

DEPARTMENT OF RESOURCES AND DEVELOPMENT

374. Departmental administration, $415,389.

Item stands.

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

257. Departmental administration, $970,160.

Item stands.

DEPARTMENT OF LABOUR

187. Departmental administration, $598,070.

Item stands.

Progress reported.

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) moved:

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

He said: Yesterday, Mr. Speaker, I made a slight departure from usual practice by tabling the budget white paper which hitherto it has been customary to table during the course of the budget speech; and I would hope that the house would give me unanimous consent to have it printed as part of today's *Hansard*.

Mr. Speaker: Is that agreed?

Some hon. Members: Agreed.

I did this for two reasons. The first was to give all hon. members an opportunity to examine the basic facts and figures more carefully and in a more leisurely fashion, and to do so in an atmosphere free from the distractions that perhaps accompany the annual statement of proposed tax changes. My second reason was that by transferring to the white paper the greater part of the general economic review, which is an essential introduction to the budgetary proposals, it will not be necessary for me to take up so much of the time of the house traversing this ground orally. In these general matters I shall limit myself this evening to drawing some of the implications and indicating the probable trend of events in the year ahead of us, in so far as they impinge upon budgetary problems.

We can look back upon the past year with a considerable degree of satisfaction. It has not been an easy year, but it has been a year of solid achievement. We have passed through one critical period, but equally serious dangers still lie ahead. Although we and our friends of the free world are now somewhat better prepared to meet them, there is no room for complacency. We still have the more costly part of our defence program immediately ahead of us. However, if we are equally resolute, energetic and fortunate during this year and the next, there is good prospect of achieving in the not too distant future, perhaps not a world of genuine peace and good will, but at least a position of reasonable confidence and security that can be maintained at a somewhat lower cost than we are now compelled to carry.

Our major difficulties are international in their origin. We are playing a full and constructive part in all worth-while endeavours to build the foundations of a safe and peaceful world. We are co-operating in those aspects of the work of the United Nations where useful progress is possible. We are participating effectively in the Colombo plan, and our role in building up the strength and the health of the north Atlantic community is commensurate with our interests and capacity. On the broad principles of these policies we are a united country, and I am sure I am expressing the thoughts of all groups and parties in this house when I pay tribute to the work of our Prime Minister (Mr. St. Laurent) whose leadership, moderation and good sense have played an important part in world affairs during the past three or four years.

For the Canadian economy 1951 was a good year. Its first half was dominated by strong inflationary pressures, but as the year progressed these pressures became less severe, and by the end of the year they had been brought under control.

Gross national output in 1951 was 17 per cent higher than in 1950. About two-thirds of this increase was due to higher prices and about one-third to increased real output.

Capital investment in 1951 once again reached record levels, and was probably at or close to the limits of our present physical capacity to expand plant and equipment without materially reducing our production of consumer goods. Government policy has played its part in guiding or steering an increased proportion of this new investment into lines which made the best contribution to our defence potential and to the enlargement of the foundations of our future progress.

Like my colleague the Minister of Trade and Commerce (Mr. Howe) I am satisfied that the deferred depreciation regulations have played an important part in restraining a good deal of capital investment that would have been of a less essential character in our present context, and in directing investment toward currently more essential ends. No changes in the principle of these regulations are presently contemplated, but I can assure the house that we do not like regulations of this sort and that we shall be most happy to modify or withdraw them when the proper time comes.

A year ago I stressed the importance of greater savings if we were to carry through our essential investment programs for defence and for resource development without increased inflationary pressures. In 1950 personal savings had fallen to about $700 million or less than 6 per cent of disposable personal incomes. In 1951 I am glad to report that despite higher income taxes and higher prices personal savings nearly doubled, reaching a total of almost $1,400 million, or more than 9 per cent of disposable personal incomes. To some extent the high rate of savings in 1951 was the counterpart of the low rate in 1950. The rate of saving was low in 1950 because of the heavy wave of consumer buying after Korea, and was high in 1951 because many purchases had been anticipated and quite a few consumers had to save more in 1951 to complete payments on goods purchased the year before. Higher interest rates and the more attractive terms of the sixth Canada savings bond series undoubtedly had some influence toward increased savings. I should also like to thank the National Council of Women and their affiliates in all parts of Canada for the excellent thrift campaigns they have been sponsoring during the past six months. Thrift and saving are still virtues, and I urge Canadians to keep up in 1952 the good record they made in 1951.

The restraints placed on consumer credit have also played an important part in reducing inflationary pressures and in improving the current savings ratio. These regulations were admittedly severe, but the inflationary pressures were such that strong measures were needed. As these pressures eased we were able to relax the regulations to some extent. I keep these matters under frequent review, and as soon as it seems sensible to do so we shall relax them again.

Preliminary estimates of net farm income in 1951 indicate a record level of more than $2,100 million, an increase of nearly 40 per cent over 1950. Excellent crops in all parts of Canada and higher prices for most farm products combined to produce this result. Due to unseasonable weather on the prairies not all this income was realized in cash, but the cash will flow in as the harvesting is completed this spring. Farmers are continuing to invest heavily in efficient modern labour-saving machinery. Farm implement purchases to the value of $137 million were financed under the Farm Improvement Loans Act, an increase of 35 per cent over 1950. These increasing investments in machinery and equipment are largely offsetting the decline in the numbers of farm workers, and given normal growing conditions I would expect farm crops and farm incomes to be well maintained in 1952.

The outbreak of foot-and-mouth disease in a small area of Saskatchewan has been an unfortunate event, and has temporarily upset the movement of livestock and meats to their normal markets. Prompt and vigorous measures have been taken to eradicate the disease, and so far these have been successful in confining the outbreak within a very small area. To ensure that the disease is completely eradicated quarantine and other control measures will have to be continued for some time.

The government is compensating those whose animals or other property have to be destroyed and is prepared to use the Agricultural Prices Support Act to assist the livestock industry in this difficult period. It is expected that normal movements of meats and freer movements of livestock within Canada will be resumed very soon, except in the areas directly affected. The resumption of normal export business is still uncertain but it is hoped that it will be not too long delayed.

When I brought the budget down a year ago we were in the midst of a strong inflationary movement. At that time I described at some length the measures we were taking to bring this inflation under control. I referred to the economies in the government's non-defence spending, the reductions in the numbers of employees in the civil service and the increase in the civil service hours of work. I told the house we were determined to follow a fully pay-as-we-go fiscal policy. I referred to the actions taken to restrain credit expansion, both consumer credit and bank credit. I announced new regulations relating to deferred depreciation, and I made a special plea to all Canadians to raise their productive efficiency and to increase the volume of savings. I pointed out that while we could not wholly insulate ourselves from price increases in the outside world, we could and should control the inflationary forces generated within our own borders. I concluded by saying that the measures we proposed went to the root of the matter, but that in their nature they would take time to operate and could not produce dramatic results overnight.

I feel justified this evening in saying that our policies have proved to be wise and right. Events showed that the inflationary virus in our economic bloodstream had taken a stronger hold than I had anticipated, and that the price increases that occurred before our measures took full effect were about 5 per cent greater than the forecast on which the budget was based. Looking back now we can see that the rapid rise in wholesale prices began to moderate in April-May, the peak point was reached in July, and since then each month has shown a small but steady decline. The February, 1952, index was nearly 5 per cent below the July peak and 2½ per cent below the February, 1951, level.

The cost of living index normally parallels the wholesale index, but moves more gradually and lags a few months behind. The rapid rise in the cost of living index began to ease off in the late summer, though the highest point was touched just at the end of the year. In three of the last four months the index has declined. It is now back to the August, 1951, level, and is about 1½ per cent below the peak.

Inflationary pressures have also waned in the United States, but they remain uncomfortably strong in most of the rest of the world. As I have told the house on many past occasions we can hardly expect to have much less inflation than exists in the

United States—our economies are too closely intermingled and theirs is so much larger—but unless we manage our affairs well we could have a great deal more. The return of our dollar by normal market forces to parity with the American dollar—at present indeed to better than parity—has also had its moderating effect on Canadian prices.

In 1951, Canada's foreign trade reached the highest level in our history, both in quantity and value. Our total exports during the past year rose by 9 per cent in quantity and by 25 per cent in value over 1950. There was a large increase in exports to overseas markets, with sales to the sterling area one-third greater than in the previous year. Imports from all countries also were sharply higher, and for the year as a whole exceeded exports by $120 million. However, during the past six months imports have tended to fall from the previous peak while exports have continued at a high level so that we have had a trading surplus in each of these months.

In the past year there was a sharp deterioration in the balance of payments of the sterling area. The United Kingdom and other sterling area countries have taken strenuous measures to right the situation. I am hopeful that these measures will bring about a fundamental improvement in the position of this great trading area. These developments are inevitably affecting our trade, and the markets for some of our products have been reduced. However, as my colleague the Minister of Trade and Commerce indicated, there is good reason to believe that our exports as a whole to the United Kingdom during 1952 will be larger than in the previous year.

While our balance on international current account showed an excess of payments over receipts amounting to well over $500 million, nevertheless there was a small increase during 1951 in our exchange reserves resulting from a continued heavy inflow of foreign capital into Canada, chiefly from the United States. Our net capital inflow in 1951 was about $560 million, as compared with over $900 million in 1950. About one-half of this inflow may be said to have been initiated in Canada, in the sense that the funds were borrowed by Canadians, chiefly provinces and municipalities. Most of the rest was an inflow initiated from abroad in the form of investment in new developments or the expansion of established projects previously financed from abroad. I am not one of those who view with alarm a considerable amount of foreign investment, but I welcome the fact that such a high proportion of our new investment was financed by our own people. Of our tremendous new capital investment program in 1951, the highest in volume ever reached, about nine-tenths was financed out of the savings of the Canadian people.

During the past three months our official holdings of gold and United States dollars have shown little change. On March 31 they stood at $1,787 million, or $8 million more than on December 31, and $134 million more than a year ago. Between January and August last year our reserves declined about $180 million. In the remaining four months of the year they went up by more than $200 million, and since then they have shown little variation from week to week. I may say, in passing, that I expect that the 1951 report of the foreign exchange control board will be ready for distribution immediately after the Easter recess. Since foreign exchange control terminated on December 14 last, this will be the final report of the board.

Employment and earnings have reflected both the impact of the defence program and the hesitations in the civilian sector of the economy. Taken as a whole employment and labour income have never been higher. Industrial employment averaged 220,000 above 1950, and unemployment averaged 60,000 below 1950. Total labour income was up by 17 per cent. Average weekly earnings in December 1951 were 12 per cent above 1950, and hourly earnings were 15 per cent higher. The average number of hours worked per week during the year declined by 1 per cent, from 42·3 to 41·8. During the past six months pockets of unemployment have developed, and during the past winter total unemployment was somewhat higher than a year ago, though lower than two years ago. As in the United States and elsewhere unemployment of greater than seasonal magnitude has occurred in textiles and in consumer durables, in both cases largely due to heavy anticipatory buying twelve to eighteen months ago and to consumer reluctance to pay higher prices. Price reductions in both these fields have resulted in some pick-up in buying during the past two months and I would hope that this trend will continue.

I have already described the past year as one of solid achievement. We have made substantial progress in our defence program, and the inflationary spiral has been brought to a halt. There remains, however, a strong inflationary potential, and any series of events that sharply increased either international or industrial tensions could revive these direct inflationary pressures and put our economic defences to a renewed test.

The present prospects for 1952 are for continued high levels of employment and business activity, but with some unevenness in their distribution. Some lines and some regions may experience demands that will fully or more than fully tax their available resources. Other lines and other regions may find their resources less than fully employed.

I expect 1952 to show further increases in total output. Last year our gross national output reached $21·2 billion. For budget purposes I am assuming that output in real terms will advance another 4 or possibly 5 per cent and that prices will lie somewhere between no change from 1951 and 2 per cent higher. If one takes the lower of both these assumptions, that is a 4 per cent increase in output and no change in prices, gross national product in 1952 will reach $22 billion. If one takes the higher of both, that is a 5 per cent increase in output and a 2 per cent increase in price, our gross national product will be about $22¾ billion. All these estimates assume good average crops, continued increase in general productive efficiency and no serious or prolonged industrial work stoppages. In the light of presently observable trends, I am basing my budget on an expected gross national product that will closely approach $22½ billion.

GOVERNMENT ACCOUNTS, 1951-52

In reporting on the results of the past year I should point out that although the fiscal year ended a week ago it will be some time before the final figures will be available, and the figures I shall use tonight are necessarily preliminary and subject to revision. A great deal of detail is given in the white paper I tabled yesterday, and this evening I shall touch only on the main trends and highlights. But before I do so, may I first say something about the general problem of forecasting revenue and expenditure, and explain how these forecasts are compiled.

We have heard a good deal from some quarters in recent months about bad budgeting. Year by year my Conservative friends opposite have charged me with being too optimistic. The hon. member for Greenwood (Mr. Macdonnell) not so long ago, when I was budgeting for a $20 million surplus, gravely rebuked me for being reckless. Only a moderate worsening of conditions, he warned me, would plunge the national treasury into a deficit. But year after year as we approach the end of our fiscal period these same hon. members join in quite a different chorus—we have overtaxed the Canadian people! Let me say quite plainly, Mr. Speaker, that so long as we have such years of rising prosperity as we have experienced while I have been Minister of Finance I am not going to apologize for having a surplus and making some reductions in the deadweight of our huge national debt.

I shall not repeat the figures which I have given and which my parliamentary assistant has given to the house on several occasions; but I will say, with all due modesty, that no minister of finance, provincial treasurer or any head of a national treasury with anything like comparable tasks has made as consistently good a record of forecasting of revenue and expenditure as has the Canadian minister of finance in the past five years.

How are forecasts made? First, take expenditures. Estimates have to be compiled by the departments in the autumn, six to eighteen months before the expenditures are to be made. Some of our operations are standardized and can be readily forecast from year to year. Such are family allowances or the interest on the national debt. In other cases, for example, compensation for the slaughter of diseased animals, payments on construction projects, or the deficit of the C.N.R., the disbursements to be made twelve or eighteen months hence are very difficult to forecast. However, experience has shown that it is usually possible to forecast total expenditures within 2 or 3 per cent. An exception, of course, is large scale defence procurement such as we are now undertaking. Last year we planned, and parliament authorized, defence expenditures in the total amount of $1,725 million. Actually we have spent about $1,441 million, or a shortfall of $284 million. How could this come about? Let me give an example. We had planned and expected to spend about $210 million on major defence construction projects; but because of difficulties of design and construction, and shortages of labour and materials we have found it possible to spend only about $165 million on these projects before the end of the year. The acquisition of machine tools, and of military equipment and its components in the United States poses exceptionally difficult problems of estimation as to final cost, delivery dates and dates of payment. In the year just ended the story has been one of unavoidable delays and postponements. This year it may be that deliveries will come forward much more rapidly than we now expect.

Considering all the difficulties, no one can be surprised that our total expenditures for the year just closed should turn out to be about 1½ per cent below what I forecast a year ago.

On the revenue side the problems of forecasting are closely tied to general economic trends which are not easy to predict. Practically all our revenues are from taxes which are in terms of percentages of incomes, of imports or of sales. To forecast the yield of the personal income tax we have to look ahead over the next twelve months and estimate how many people will be employed month by month, whether and to what extent wages and salaries will go up, the prevalence of much overtime or much short-time, the dividend policies of corporations, and the aggregate profits or losses of half a million farmers, tradesmen and professional men who are self-employed. A year ago I thought that there would be an increase of possibly 12 per cent in salaries and wages during the year and consequently I budgeted for an increase of $218 million in revenue. In fact, wages and salaries increased by 17 per cent, and personal income tax collections went up $328 million, or $110 million more than I had forecast.

Corporation income tax yields are still more difficult to estimate because, as is well known, corporation profits fluctuate much more widely, up and down, than do personal incomes. Last April I had expected to take in an additional $177 million under this head during the year. In fact our receipts increased by $335 million or $158 million above expectations. There is a special technical difficulty in forecasting corporate income tax yields. Each year the forecast has to be made on such facts as are available by the middle of March, at a time when most Canadian companies have not yet published their annual statements. Last year the preliminary March estimates of total profits in 1950, based on the limited evidence then available, turned out to be 12 per cent below the revised figures published by the dominion bureau of statistics many months later. The fact that I was forecasting from a base 12 per cent too low accounts for a considerable part of what proved to be a 16 per cent underestimate in this tax.

The yield of the customs tariff depends on the volume, the prices, the nature and the source of our imports. Our excise tax yields depend upon the ups and downs of prices and upon how much and in what form people will decide to smoke during the coming year, or how much they are going to spend on cars, radios, or a hundred and one other things. In the whole field of commodity taxes my forecasts a year ago have proved to be 12 per cent too low in the case of customs duties and 6 per cent too high for excise taxes and duties. On the sales tax I was almost exactly right. Grouping together all commodity taxes and non-tax revenues our receipts were just about 1½ per cent above the forecast. That, I should say, was a very close estimate.

All our tax yields, both income and commodity taxes, are directly affected by changes in the price level. If prices go up, our tax yields rise; if they go down, our tax yields fall. To show how sensitive revenues are to even small price changes let me give the following illustrative figures. Our present federal tax structure produced a revenue last year equal to about 19 per cent of the gross national product; but a general increase in incomes would yield more than 19 per cent of added revenue because our tax structure as a whole is progressive. In the year just ended gross national product was $1·2 billion greater than my forecast, and total revenue was $273 million more than I had originally expected. In other words, with an increase of 6 per cent in national product we took in 7½ per cent more revenue.

Every hon. member will agree, I hope, that it is not possible to predict with certainty the level of prices during any future twelve months to within one per cent. Yet on a GNP of $20 billion the difference between a one per cent rise and a one per cent fall in prices during the year is a difference of $400 million in GNP. Under our present tax structure, such a slight change in price could produce a difference of $80 to $85 million in our revenues.

Coming back now to our accounts for the year just ended, the over-all results are that our total revenues have been $4,003 million which, as the result of conditions I have just explained, is $273 million, or 7½ per cent higher than I forecast a year ago. Our total expenditures were $3,647 million, that is, $53 million or 1½ per cent lower than I had estimated. Our actual budget surplus for the year is, therefore, $356 million instead of the $30 million estimated last April.

There is little that I need add to what I have already said about revenues, but I should like to speak briefly about our policy in regard to expenditures—about economy.

An hon. Member: Hear, hear.

Mr. Abbott: I am glad to hear my hon. friend say "hear, hear" because I shall have something to say to him in a moment.

An hon. Member: It is a long time coming.

Mr. Abbott: Since the outbreak of hostilities in Korea the government has felt a special obligation to restrict severely its demands on labour and materials for non-defence purposes, and to make more than usual efforts to secure economy in its operations and expenditures. We have been striving to apply this policy during a period of buoyant prosperity in the nation as a whole, when businesses and consumers alike were spending on a scale never equalled before. During this time the Canadian people, and nearly all of us here representing them in parliament, have demanded expanded services and functions from the government, just as expanded services have been demanded of business. These demands have brought about expansion in our services and our expenditures, ranging from such simple businesslike matters as postal operations to such major developments of national policy as the new old age security pensions. We have had further expansions in scientific research, in our immigration program, in our diplomatic service, in the work for the education and improved health of our Indians, in the surveying and development of resources—to name some of the outstanding cases where it has been the wish of parliament to expand. In other cases we have had to grow, along with the country and the volume of its business.

It has been against this trend, and in the face of rising levels of prices and wages, that we have had to seek economy and retrenchment, to make room for expansion in our defence effort. The results of our efforts are to be found in the details of our programs and expenditures and of the estimates for next year. Members who examine the tables of expenditure in the budget white paper will find many instances of reductions as compared with the previous year, notwithstanding an increase of about 10 per cent in the level of salaries and other costs. Allowance for this price factor will reveal more cases where the real content of expenditure is reduced. In other cases we have arrested an upward trend or natural growth. The results of these efforts, and of the more efficient carrying out of our continuing operations, have been overshadowed in the total expenditure figures by the increase in the levels of costs, and by those major decisions to which I have referred above.

The main problem in controlling our total expenditures lies with us right here in this house—and on both sides of it—in exercising restraint upon the constant demands for additional government services. It is much more a matter of broad issues of policy than of administration, important as that is. The scale of our defence budget is determined by policy developed in the light of the international situation. In its application there are of course real problems in securing economy and efficiency, especially when we must compete for men and for administrative ability with prosperous private industry. Apart from direct defence costs, our direct operating budget for this year is approximately $580 million, and our expenditures of a capital nature on government construction and equipment, including replacement of many buildings, ships and works worn out or outgrown, are only $157 million. Perhaps parliament can find items in these two categories where further economies can be made—and we shall seek them in day to day administration even after parliament votes the funds. But above and beyond these direct costs of government operations and facilities, we have now about $900 million in social security payments, $180 million for subsidies and tax rental payments to provinces, $440 million for interest, and over $100 million in contributions, grants and subsidies, including those to international agencies and programs. Any major reductions in expenditures can come only in some of these areas, or in defence. I believe that most Canadians want the government to do these things and are willing to pay what they cost. I wish to emphasize, however, that we cannot have all these and reduced budgets too. Canada is now a highly productive country and can afford these things we are doing—but only at the cost of forgoing expansion or improvement somewhere else. Just now there are more good, sensible things to be done in this country—by business, by governments and by individuals—than can be done all at once while the defence program goes on. Trying to do them all will only result in inflation. We must all hold some of our projects and programs in reserve, even though they are sensible or indeed profitable. For the government to share properly in this policy of self-restraint, it needs forbearance on the part of all those who have demands to make on the government for service, assistance, or public projects.

Because our budget surplus for the year was $356 million our net debt has been reduced by that amount. This is the sixth successive year in which we have had a surplus, and it brings to the very large and gratifying total of $2,344 million the amount by which we have been able to reduce the net debt of Canada since April 1, 1947. Applying the current average interest rate of 2·65 per cent on our outstanding debt, this represents interest savings of more than $62 million a year.

After adjusting the budgetary surplus for non-cash items and taking into account cash receipts from non-budgetary sources, we had sufficient cash available to meet essential non-budgetary cash outlays and provide for some reduction in funded debt. The non-budgetary cash outlays, all of which are of course authorized by parliament, totalled $653 million, and included such items as the following: advances of about $70 million to Central Mortgage and Housing Corporation for house construction and housing loans; loans of $139 million to the Canadian National Railways for necessary capital expenditures, including the refunding of securities; advances of $200 million to the exchange fund to finance the increase in our foreign exchange reserves consequent upon the flow of investment capital into Canada from abroad; and $95 million used to acquire materials essential to our defence program and held as current assets until charged as expenditures when embodied in finished goods.

After making these cash disbursements and drawing down our cash balances by $66 million, which left us only about $20 million cash on hand at the fiscal year end, we were able to retire outstanding funded debt to a total amount of $300 million as well as to acquire and withdraw from the market $156 million of our own securities, mainly for the unemployment insurance fund and the securities investment account.

The public debt operations of the government during the past year again included the redemption or refinancing of a large volume of matured or called bond issues in addition to the usual refunding of short-term securities. Funded debt payable in Canada amounting to $2,762 million matured during the year. Of this, $2,100 million was refinanced by refunding or conversion into new issues, and $362 million was covered by new money obtained from the very gratifying response to the Canada savings bonds campaign last fall. The remaining cash required—$300 million—came from our cash surplus. After taking into account certain minor non-cash transactions, the funded debt was reduced by a total of $324 million during the fiscal year.

FORECAST OF REVENUE AND EXPENDITURE, 1952-53

I turn now to a survey of our revenue and expenditure prospects for the new fiscal year. On March 19 I laid before the house the main estimates for 1952-53 providing for expenditures of $4,336 million, of which $2,106 million was for defence, $1,908 million for non-defence, and $322 million for old age security pension payments. These pensions, of course, are paid out of the old age security fund and consequently lie outside the scope of the budget proper, but they have been included in the estimates for purposes of record. The estimate of $2,106 million for defence is $665 million or 45 per cent more than our actual expenditures for that purpose last year. The estimates for our non-defence budgetary requirements are not comparable with last year's figures for they do not include provision for payments under the new tax rental agreements with the provinces which have not yet been concluded. If the eight provinces which came into the previous agreements all enter into the new agreements, as now appears probable, total payments under this head will amount to about $150 million in addition to the amounts shown in the estimates.

On the other hand, the estimates do include a number of items, such as the grant for assistance under the Colombo plan, which in the previous year were covered by supplementary estimates. Nevertheless, as in the past, some supplementary estimates must be expected, including provision for some items the nature of which is known but for which firm amounts are not yet available or final policy decisions have not been taken—the deficit of the Canadian National Railways, the grants to universities, and the subsidy on the movement of feed grains after the end of the current crop year, are examples of what I have in mind. I should also expect to make some further provision in our accounts for such items as the reserve against our active assets and the deficiency in the civil service superannuation account.

In line with past experience I expect there will be a shortfall of expenditures below the amounts provided by parliament in the appropriation votes. The amount of savings is difficult to estimate, particularly with respect to a defence program of the magnitude we are now engaged in. I should remind hon. members that the defence program necessarily involves very large long-term commitments, and the rates of expenditure under such contracts may be more or less rapid than we are presently estimating. My judgment, however, is that we are likely to have some shortfall rather than overrun, and I am budgeting on that basis.

All in all, I have concluded that I must expect total budgetary expenditures of $4,270 million, which excludes payments to be made from the old age security fund.

On the revenue side, forecasting is, as usual, difficult and subject to many uncertainties. However, on the premise that our gross national product for 1952 will approach $22½ billion and assuming no tax changes, I should expect that our total revenue, including old age security tax receipts, would be $4,630 million. The old age security receipts which I estimate at $235 million are, of course, earmarked for the old age security fund, leaving me about $4,395 million to cover our purely budgetary expenditures. I have had prepared the usual table showing a comparison of the revenue forecast for 1952-53 with the preliminary figures for 1951-52 for the convenience of hon. members. I would ask the consent of the house to have this incorporated in the record without my taking time to read it.

Some hon. Members: Agreed.

Mr. Abbott: The table is as follows:

Forecast of Revenues

(Before tax changes)

	Fiscal year 1952-53 (Forecast)	Fiscal year 1951-52 (Actual Preliminary)
	(in millions	of dollars)
Personal income tax	1,240·0	980·0
Non-resident income tax ..	60·0	55·5
Corporation income tax ...	1,257·0	1,134·0
Excess profits tax	....	2·2
Succession duties	43·0	38·0
Customs import duties ...	370·0	353·0
Excise duties	240·0	222·0
Sales tax (net)	540·0	583·0
Other excise taxes	340·0	316·0
Miscellaneous taxes	5·0	5·3
Total tax revenues.......	4,095·0	3,689·0
Non-tax revenues	275·0	276·9
Total ordinary revenues	4,370·0	3,965·9
Special receipts and credits	25·0	37·2
Total budgetary revenues	4,395·0	4,003·1
Old age security taxes		
2% sales tax	135·0	19·0
2% individual income tax	52·0	....
2% corporation income tax	48·0	2·0
	4,630·0	4,024·1

With estimated expenditures of $4,270 million and prospective revenues of $4,395 million, it would appear that in the absence of any tax changes we would have a budgetary surplus of $125 million in 1952-53. However, before dealing with the tax changes which I shall propose to the house, it is essential to consider not only the budgetary position but also our prospective cash position in order to make a proper appraisal of the outlook for the coming year.

We shall require about $90 million for housing loans, possibly $125 million for advances to the Canadian National Railways, $40 million for financing the acquisition of materials for the defence production revolving fund, and smaller amounts for other loans, investments and advances. There may also be outlays on replacement of military equipment in excess of the value of equipment transferred to our NATO allies in the current year and charged to appropriations.

Offsetting these will be cash receipts, including repayments of loans and advances and the net cash receipts of the various annuity, pension and other accounts which the government holds and administers. Taking all these factors into consideration, I should expect that apart from any transactions in our own securities, and any advances to or repayments by the exchange fund resulting from increases or decreases in our exchange reserves, the total of the cash required for our non-budgetary disbursements will be somewhat greater than the cash available from our non-budgetary receipts.

On the other hand the budgetary expenditures include items which do not require the immediate outlay of cash, and consequently the burden on our cash resources will be correspondingly reduced. My general conclusion is that unless there is a substantial change in the amounts advanced to the exchange fund our over-all cash surplus will correspond fairly closely with our budget surplus.

TAX POLICY

From the figures I have given as the best estimates that can be made at this time of expenditure and revenue for the coming year it is clear that there is not much room for tax abatement. That this would be the case has been evident to me for many months, and I have done my best on every occasion to warn the public against undue optimism and against irresponsible and misleading interpretations placed upon the interim monthly surpluses reported during the course of the year. In this house and elsewhere hon. members opposite have used these monthly figures to criticize the government's tax policy without apparently making the slightest effort to check the reasonableness of their inferences. For example, they have repeatedly quoted the fact—and it is a fact—that the monthly statement showed an interim surplus on December 31 of $722 million. They have implied that on this basis the final surplus was likely to be almost $1 billion. My hon. friends knew, or should have known, that such an inference was wholly unwarranted. Almost at the beginning of our annual public accounts there are three pages of tables and charts explaining in detail the seasonal nature of our revenues and expenditures. Hon. gentlemen opposite are in the habit of expressing great interest in the public accounts, but apparently in their study of them they have not got through the first six or eight pages. If they had they would have learned that the final surplus is normally about half the interim surplus as of December 31.

Mr. Nowlan: Civil service superannuation.

Mr. Rowe: Just a million out.

Mr. Abbott: I am sure we shall have a very enlightening speech from the hon. member for Kamloops (Mr. Fulton) in due course. I can hardly wait for it.

Mr. Fulton: We shall do our best.

Mr. Abbott: A year ago, in the face of an extremely uncertain situation, I put forward what I described as a provisional tax program. This was done in the expectation that the outlook at home and abroad would become clearer. While the future is not free of uncertainty, the prospects are now sufficiently clear to justify moving toward a more stable pattern in our tax structure. The main essentials in a tax structure necessary to carry the civilian and the defence programs are that it should be adequate, efficient, fair and reasonably stable. To be adequate it is clear that I cannot offer any large net reductions in taxes this year. To be efficient and to be as fair as possible I shall be proposing quite a number of modifications, which on balance will provide some net reduction in tax revenues, though in certain instances adjustments in consumption may partly offset the adjustments in the tax rates. These modifications in tax rates, and some rearrangements in the grouping of tax commodities, will I believe put our tax structure into an orderly balance and, in the absence of substantial changes in the pattern of expenditure, provide some promise of reasonable stability in our tax structure for the immediate future.

Our total program of expenditure now consists, in round figures, of just over $2 billion for defence, nearly $1 billion for social security and pensions of various kinds, about $650 million for interest on the debt and payments to the provinces, and about $650 million for general administration and all the other varied activities of government. To this broad pattern of expenditures all parties in the house have subscribed in principle. While we will continue to press for maximum economies the only reasonable expectation we can have of real reductions in tax load must lie either in a lesser need for defence expenditure or in the steady increase in the wealth and incomes of our people, so that the present actual weight of taxation becomes a relatively lighter burden.

INCOME TAX CHANGES

Coming now to specific proposals I shall deal first with the corporate income tax. At present corporations pay, under the federal income tax law, 15 per cent on the first $10,000 of profits and 38 per cent plus 20 per cent of 38 per cent (the defence surcharge) on profits in excess of $10,000. This results in an effective rate of 45·6 per cent on profits over $10,000. In addition, corporations have been paying five per cent in the eight provinces with which we have had tax agreements, and seven per cent in Ontario and Quebec. Some time ago it was announced that the eight provinces would be asked to drop these five per cent corporate income taxes. They will be replaced by a five per cent increase in the federal rate. Concurrently provision will be made for a five per cent tax credit against the federal tax in respect of profits earned in Ontario and Quebec where provincial corporate taxes presumably will still be in force. This change will be essentially one of form rather than substance, and is designed to simplify administrative procedures. There will be no net increases in the taxes paid by corporations since the additional amount paid to the federal government will be only what they would have paid to the provinces. Our tax receipts will go up by $35 million on a full year basis, but our payments to the provinces will go up by an equivalent amount.

After this consolidation the federal rate on the first $10,000 will be 20 per cent with 50·6 per cent as the rate on the remainder. In the process of re-arrangement which will be effective as from January 1, 1952, the 50·6 per cent will be rounded off to an even 50 per cent. The revenue loss from this minor adjustment will be about $12 million in this fiscal year.

In considering the over-all tax position of corporations under this new structure it should be remembered that there is an additional two per cent tax on all corporate income imposed under the old age security act. To sum up then, the top corporate tax rate in Canada will be 52 per cent in eight provinces and 54 per cent in Ontario and Quebec.

Quite frankly, I am concerned that conditions make it necessary to maintain in our tax structure rates as high as this on business profits. My main concern is not with the current year or even possibly with next year. The ill effects of too high taxes can perhaps be endured for a year or two. But as I said last year, excessive rates of tax on corporate incomes if long maintained can do grave damage to the economy as a whole, and I say quite candidly that if I had more leeway for tax abatement it is to income taxes, both corporate and personal, that I would give first consideration.

The house will recall that in my budget speech a year ago, I expressed special concern over the effect of our present high corporate tax rate on certain public utility companies which are forced by the nature of their business and their franchises to raise large amounts of capital to finance expansion of services required to be performed for the public, and which because of public control of rates are allowed to earn only a modest return on their capital. At that time I had in mind that we would be able to work out the details of a formula which would give such companies substantial relief from the 20 per cent surcharge I was then proposing. After a great deal of investigation we found it impossible to devise a practicable formula of the type I had in mind and so the whole idea had to be dropped.

During the past year much further study has been given to the problem and I have now decided to recommend a change in our law which I believe can be administered and which will grant a measure of relief to certain of these companies as long as the present very high corporate tax rate continues to apply. This relief will apply to companies whose main business is the distribution to, or generation for distribution to, the public of electrical energy, gas or steam, and will take the form of a deduction from the tax otherwise payable of an amount sufficient to reduce to 43 per cent the tax payable under the Income Tax Act on that part of a corporation's taxable income that is derived from such distribution or generation. This, it will be recalled, is the group of companies in respect of which the government of Canada now turns over to the appropriate provincial governments half of its collections of tax on the specified income, after deduction of certain types of tax paid directly by the same corporations to provincial governments. It is also, generally speaking, the group of companies which for a variety of reasons finds the greatest difficulty in securing adequate income to attract the heavy volume of capital required to keep pace with public demand.

I am well aware that the degree of relief which I find it justifiable to grant may prove disappointing to those concerned but I do hope that it will make a real contribution to a solution of a problem we all recognize. It was only with the greatest reluctance that I reached a decision to apply a reduced rate of tax to a named class of companies and I decided it should be done only as a temporary expedient. Hon. members will have noted from the explanation I have given that as the corporate tax rate drops from its present 50 per cent level (that is, excluding the old age security tax) the formula I am proposing will result in a lessening measure of relief to this special class of companies and when the rate falls to 43 per cent, the formula will cease to operate.

There will be some revenue loss from this proposal but the net effect will be relatively small, as an amount equal to half of the tax abatement would otherwise, under present arrangements, have been turned over to the provincial governments.

An interesting change I am proposing under the corporation income tax is that those crown corporations of the federal government which are designated as proprietary corporations, and hitherto have been exempt from tax, will in future pay corporate income tax to the federal government in the same manner as any privately-owned corporation. "Proprietary corporations" are those so designated under the Financial Administration Act, and generally speaking are companies which are carrying on business operations similar to and in competition with private business. One desirable result of this proposed action will be to make the financial statements of these crown companies more comparable with private industry, and make it easier to assess the relative efficiency of their operations. I do not expect this change to have appreciable net revenue effects. It will increase our tax receipts and reduce our non-tax revenue. All crown company profits eventually find their way into the treasury, and many of them already remit all or the greater part of their profits year by year.

Other proposals under the corporation income tax include the extension for an additional year of the allowances now granted for mineral and petroleum exploration expenses, including the so-called "deep-test" well allowance, the addition of another year to the period during which new mines may qualify for the three-year exemption, and various technical amendments of lesser importance which will be covered in the bill to amend the Income Tax Act.

In the personal income tax field a new rate schedule will be introduced. Into this new schedule I propose to incorporate most of the weight of the present 20 per cent surcharge. There will be some over-all abatement although in saying this I should remind the house that the two per cent income tax imposed by parliament last session under the Old Age Security Act will be coming into force on July 1 of this year.

The Budget—Mr. Abbott

The house will recall that one of the criticisms quite properly directed at the 20 per cent surcharge method of increasing the personal income tax was that it increased in a distorted manner the rate of progression in the income tax schedule. For example, it resulted in levying a tax of more than 100 per cent in certain circumstances. Everyone would agree that such a result is quite wrong, and in modifying the rate structure this anomaly has been removed and a more reasonable scale of progression has been established. I expect the revenue loss as a result of these changes to be about six per cent in a full year and this loss in revenue is a general indication of the average gain to the individual taxpayer. In other words, the average taxpayer will pay six per cent less than he would otherwise have done under the income tax law as it now stands. With the consent of the house I should like to insert in *Hansard* at this point tables showing the effect of the new taxes on taxpayers at various levels of income.

Mr. Speaker: Is that agreed?

Some hon. Members: Agreed.

Mr. Abbott: The tables are as follows:

Present and Proposed Income Tax
Single Taxpayer

Income	Tax for 1952 at Present Rates	Tax in Full Year at New Rates	Percentage Reduction from Present Rates	Tax in 1952 (6 months at present rates 6 months at new rates)
$	$	$	%	$
1,000	....	....	....	....
1,200	36	34	6	35
1,500	90	85	6	88
1,800	144	136	6	140
2,000	180	170	6	175
2,250	231	218	6	225
2,500	282	265	6	274
2,750	333	313	6	323
3,000	384	360	6	372
3,500	498	470	6	484
4,000	612	580	5	596
5,000	840	800	5	820
7,500	1,524	1,450	5	1,487
10,000	2,352	2,250	4	2,301
20,000	7,152	6,750	6	6,951
30,000	12,792	11,950	7	12,371
50,000	26,177	24,354	7	25,195
75,000	44,717	41,554	7	42,965
100,000	64,457	60,004	7	61,960
200,000	151,697	141,404	7	145,880
400,000	339,737	318,344	6	327,570

Note: (1) In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No account has been taken of the 10 per cent tax credit for dividends from Canadian corporations.

(2) The Old Age Security tax of 1 per cent on taxable income (maximum tax $30) in 1952 and 2 per cent of taxable income (maximum tax $60) thereafter is not included in the above amounts.

Present and Proposed Income Tax
Married Taxpayer—No Children

Income	Tax for 1952 at Present Rates	Tax in Full Year at New Rates	Percentage Reduction from Present Rates	Tax in 1952 (6 months at present rates 6 months at new rates)
$	$	$	%	$
2,000	....	....	..	....
2,250	45	43	4	44
2,500	90	85	6	88
2,750	135	128	5	132
3,000	180	170	6	175
3,500	282	265	6	274
4,000	384	360	6	372
5,000	612	580	5	596
7,500	1,236	1,175	5	1,206
10,000	1,992	1,900	5	1,946
20,000	6,612	6,250	5	6,431
30,000	12,192	11,400	6	11,796
50,000	25,517	23,754	7	24,565
75,000	43,997	40,904	7	42,280
100,000	63,677	59,304	7	61,220
200,000	150,857	140,604	7	145,060
400,000	338,837	317,484	6	326,690

Note: (1) In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No account has been taken of the 10 per cent tax credit for dividends from Canadian corporations.

(2) The old age security tax of 1 per cent taxable income (maximum tax $30) in 1952 and 2 per cent of taxable income (maximum tax $60) thereafter is not included in the above amounts.

Present and Proposed Income Tax
Married Taxpayer—With Two Children Eligible for Family Allowances

Income	Tax for 1952 at Present Rates	Tax in Full Year at New Rates	Percentage Reduction from Present Rates	Tax in 1952 (6 months at present rates 6 months at new rates)
$	$	$	%	$
2,300	....	....	..	....
2,400	18	17	6	18
2,500	36	34	6	35
2,750	81	77	5	79
3,000	126	119	6	123
3,500	221	208	6	215
4,000	323	303	6	313
5,000	544	514	6	529
7,500	1,157	1,100	5	1,129
10,000	1,898	1,810	5	1,854
20,000	6,450	6,100	5	6,275
30,000	12,012	11,235	6	11,624
50,000	25,319	23,574	7	24,376
75,000	43,781	40,709	7	42,075
100,000	63,443	59,034	7	60,998
200,000	150,605	140,364	7	144,814
400,000	338,567	317,226	6	326,426

Note: (1) The above figures show the actual income tax liability of a taxpayer with family allowance children but in order to arrive at his true net position the amount of family allowances received for his children must be offset against his tax liability.

(2) In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No account has been taken of the 10 per cent tax credit for dividends from Canadian corporations.

(3) The old age security tax of 1 per cent taxable income (maximum tax $30) in 1952 and 2 per cent taxable income (maximum tax $60) thereafter is not included in the above amounts.

As I mentioned earlier, no change has been made in the levy on personal incomes already enacted as a contribution toward the cost of old age security. This charge will apply at an effective rate of 1 per cent on taxable income for 1952 and at a 2 per cent rate thereafter, and will be in addition to the ordinary income tax. I am proposing that tax deductions under the new schedule will commence on July 1, concurrently with the commencement of deduction of the old age security tax. The tax liability for the full year 1952 will be determined in accordance with a special schedule of rates which will in effect represent the average of the rates now in force and the rates under the new schedule.

I think I should make clear that the reductions in income tax which I have announced will not be sufficient, for most taxpayers, to offset the effect of the old age security tax.

As a result of this change I anticipate that in the fiscal year which has just commenced revenue from personal income tax will be reduced by some $40 million from the amount of $1,240 million I estimated earlier that I would receive from this source.

I am proposing several other amendments of lesser importance affecting the personal income tax.

The existing maximum limits on the amount of medical expenses that may be deducted were established some time ago and there is evidence that these limits are imposing undue hardship in many instances of prolonged or serious illness, especially in cases where certain new and more expensive kinds of treatment are required. I am, therefore, proposing that these limits now be doubled. The effect of this change will be to raise from $750 to $1,500 and from $1,000 to $2,000 the amount which may be deducted in a year for persons having single and married status respectively, with corresponding increases in the allowance granted where there are dependents. The law also now requires that medical expenses be both incurred and paid in the same twelve month period to be eligible. I am proposing in the future to recognize expenses paid in the period no matter when incurred.

I gave most careful consideration to the suggestion contained in the resolution passed by this house that the provisions of the law limiting the deductible medical expenses to those in excess of 4 per cent of income should be removed. However, I feel strongly that the normal personal and living expenses of a taxpayer should never be deductible from income for taxation purposes. The requirement that only medical expenses in excess of 4 per cent of income are deductible will be retained, therefore,—

Mr. Knowles: Shame!

Mr. Abbott: —as a means of limiting, and I think properly so,—

Mr. Knowles: Shame!

Mr. Abbott: —the application of this provision to medical expenses of an unusual degree in accordance with the original purpose.

Mr. Knowles: Despite the unanimous vote of this house the other day.

Mr. Abbott: Some further technical changes will be made in the special tax system introduced for the armed forces last year. Experience with this new system has revealed certain problems which can be overcome by modifying its details in some minor respects. These will be discussed in detail when the amendments to the Income Tax Act are before the house.

The legislation governing pension plans will be amended to allow a deduction for payments under so-called terminal funding plans, and to introduce greater flexibility into the provisions governing the deductibility of employer's contributions in respect of employee's past services. Other minor technical amendments affecting the personal income tax will also be proposed in the amending legislation.

A word might be said here about the Succession Duty Act. Our law needs overhauling and I had hoped before now to have been able to bring forward a revision of the law for the consideration of the house. The fact is, however, that pressure of other matters has made this impossible. There are a few amendments of a technical nature that need immediate attention. They are not matters of policy and the effect will be merely to clarify certain provisions and remove anomalies. These will be found in the amending bill which will subsequently be introduced.

CUSTOMS TARIFF CHANGES

The budget resolutions relating to the customs tariff which I am tabling contain proposals to carry out certain recommendations of the tariff board and to provide for reductions which have been requested in certain duties to achieve economies in costs of productions. In a number of cases I am proposing changes in wording and classification which would remove anomalies and administrative difficulties which have arisen. I am also proposing to bring into the customs tariff a number of items which have been accorded reduced rates of duty for some time by order in council.

I am tabling with the budget resolutions four reports I have received from the tariff board. These reports are the result of references which I sent to the board during the past several years on plastics, glass, architects' and engineers' plans, and iron or steel shot and grit. In each of these cases I thought it desirable to have a thorough inquiry by the board, under the terms of the Tariff Board Act, before recommending any action.

In 1937, when the board last reported on the tariff schedule covering synthetic resins and plastics, it recommended that these schedules be reviewed from time to time in order to keep the classifications and rates of duty up to date. During the past decade the Canadian plastics industry has undergone a striking development both in the magnitude and range of its operations. As a result the classification, wording and rates of duty pertaining to the plastic items in the tariff have become obsolete. After an exhaustive inquiry into this highly complex and technical subject the board has proposed a revised classification and has recommended adjustments in rates of duty in order to bring the tariff items in line with the present position of the industry.

Last year the board presented certain interim recommendations on the plastic items which I tabled with my budget a year ago. The report which I am now tabling contains the final results of the board's inquiry and incorporates the interim recommendations which were implemented by parliament last year. The board's recommendations, which are now complete, regarding the structure of rates for the plastic items involve some increases and some decreases from existing rates of duty. The reasons which led the board to recommend these readjustments are fully set out in its report.

The second tariff board report which I am tabling relates to the tariff items covering glass in its various forms. The board has recommended reduced rates of duty on such widely used items as window glass, plate glass, certain forms of safety glass, and mirrors. The board has come to the conclusion, also, that if the recommended reductions are implemented, the drawback provisions granted to the mirror and safety glass industries are no longer necessary.

In 1946 parliament, upon the recommendation of the Minister of Finance, established a tariff item which provided for the duty free entry of certain engineers' plans, drawings or blueprints. Subsequently I received a number of representations asking for the restoration of the former rates of duty. I referred the matter to the tariff board for inquiry and report. The board heard extensive evidence from the interested parties and after careful study has recommended that duty free entry under the item in its present form should be continued.

The remaining report of the tariff board deals with the customs duty on iron or steel shot and grit. The item is now duty free. The board has recommended the imposition of a duty of five per cent on one classification of this item.

The first budget resolution relating to the customs tariff which I am submitting includes proposals to carry out all the tariff board recommendations respecting plastics and glass. I wish to consider further the recommendation for the imposition of a new duty on iron or steel shot and grit.

The second customs tariff resolution contains proposals for lower rates of duty on a list of items that enter into the costs of production of certain manufacturing and primary industries. A number of reductions are proposed in rates of duty on certain specialized equipment used in the mining industry. In respect of items used in agriculture there are several proposals for lower rates of duty, including some items of equipment used in the dairy industry, propane gas for use in tractors, clarification of the position of tractor tires and certain tractor accessories to ensure continued free entry, and ball and roller bearings for the repair of agricultural implements and machinery. I am also proposing that provision be made for the free entry of complete aircraft and engines of types and sizes not made in Canada. This is designed to be of particular assistance to the considerable number of smaller air transport companies which are anxious to re-equip with more modern aircraft. I am also proposing to widen the limit allowed from five dollars to ten dollars for the free entry of casual donations sent by persons abroad to friends in Canada.

In addition, the resolution contains a considerable number of proposals for improvements in wording and classification to remove anomalies and to keep the items in line with recent developments. The schedule pertaining to automobile parts has been extensively rewritten to bring it up to date with the present position of the automobile industry. The rates of duty proposed for automobile parts have generally been in effect for some time as a result of trade agreements negotiated under the general agreement on tariffs and trade. On the whole these rates are appreciably lower than the existing statutory rates.

Under the third customs tariff resolution I am tabling it is proposed to bring into the permanent tariff a number of items on which reduced rates of duty have been granted temporarily by order in council on materials used in Canadian manufactures. Authority for such temporary reductions is granted in section 284 of the Customs Act. Many of the items have been in effect for several years and experience has shown that it is desirable to place them in the permanent tariff.

I would expect no net change in our customs revenue as a result of all these amendments.

COMMODITY TAX CHANGES

Turning to commodity taxes, my purpose here as elsewhere is to make a number of adjustments and regroupings which will have the effect of reducing some tax rates, without seriously reducing our total revenues. They will also enable us to get back to the three broad groups of domestic commodity taxes which have become our accepted objective of a well-balanced, relatively simple, yet highly productive revenue system in this field.

Hon. members will recall that our commodity taxes fall into three main categories: first, there is the so-called general sales tax, of which the rate is 8 per cent with an additional 2 per cent levied for old age security; second, there are the special excise taxes, in general applicable in addition to the sales tax, which are now levied on a wide range of consumer goods at a rate which, with a few exceptions, is presently 25 per cent; third, there are the taxes and duties on liquor and tobacco products, both traditional and productive sources of revenue in the federal tax system.

Except for minor additions to the list of exempt goods, details of which will be found in the resolutions, I am not proposing to touch the sales tax. For reasons which I have discussed fully in the past I am satisfied that in its present form, with the numerous and extensive exemptions granted under it, the sales tax is a fair levy. We are constantly striving to make it even more so, and will continue to do so in the future.

The second broad group of taxes, the special excises, apply to a range of goods most of which are in the class of consumers' durables and are less essential in the sense that in most cases their purchase and enjoyment may be postponed without serious sacrifice. In 1949 we revised our rate structure so that on most goods the rate was 10 per cent. In the fall of 1950, after the invasion of Korea, we raised the general level to 15 per cent, and a year ago, when it appeared that our defence effort would make still heavier demands upon us, we raised the rate of broadest application to 25 per cent and brought three types of household appliances under tax at a 15 per cent rate. An exceptional instance in this group was soft drinks, which we raised to 30 per cent in the fall of 1950 and have retained at that rate since.

One reason for attempting a year ago to reduce the current purchases of most of the items in this tax group was that we were facing the prospects of acute shortages in steel and other essential materials which go in large volume into these articles. Due in part to reduced production of these consumer durables, but even more to the rapid increase in steel producing capacity and improved supplies of other critical materials, we no longer face these difficulties to the same acute degree, although I should add that that statement would have to be qualified if we had prolonged work stoppages in the steel industry either in this country or in the United States.

We can ill afford much loss of revenue, and I have given much personal study to this question. In this I have been helped by a considerable number of carefully prepared and thoughtful briefs from consumers, dealers and manufacturers. I am satisfied that a lower rate of tax will now meet our requirements, and I am proposing that effective from midnight tonight, the tax on all goods now bearing the 25 per cent rate under the Excise Tax Act will be reduced to 15 per cent, that the household appliances now taxed at 15 per cent will be exempted from this special excise, and that the 30 per cent rate on soft drinks be reduced to 15 per cent. In this connection the tax on carbonic acid gas will also be reduced, and products competitive with soft drinks, known as dry-powder drinks, will be made taxable at a 15 per cent rate. The tax on candies, which was reduced last year to 15 per cent, will continue to be taxed at that rate.

The details of the goods affected by these changes are given in the resolution, but for the information of the house I mention that included in the group on which the rate is reduced from 25 per cent to 15 per cent are automobiles, the smaller electrical household appliances, firearms, motor cycles, radios and phonographs, tires and tubes, golf clubs and balls and fishing rods and reels, cameras and supplies, lighters, cigars, luggage, pens and pencils, jewelry, ornaments, toilet articles, clocks and watches, and furs. The household appliances taxed at 15 per cent, and now to be exempted, are stoves, washing machines and refrigerators.

The net reduction in revenue from the changes just proposed is estimated at $78 million in the fiscal year.

Turning to the third main group of commodity taxes—those on alcoholic beverages and tobacco—the principal problem I have had to deal with has been the cigarette tax, and there is no subject upon which I have received more free advice. Hon. members will recall that a year ago taxes were increased on both cigarettes and cut tobacco, and the tax on cigarette papers and tubes was repealed. I had then expected that there would be a net increase in revenue of $28 million as a result of all these changes. Actually the increased revenue has turned out to be only $5 million, made up of a decrease of $1 million on cigarettes and an increase of $13 million on cut tobacco offset by the $7 million of taxes abolished on cigarette papers and tubes.

An hon. Member: Smuggling.

Mr. Abbott: I am coming to that.

In the case of cigarettes only I had forecast an increase of $21 million and I experienced a decline of $1 million. There are of course a number of reasons for this decline. I had expected that the higher prices resulting from the higher tax would affect consumption to some extent, but when they were combined with additional price increases announced by the manufacturers a little later, the effect on consumption was much more pronounced.

Mr. Fraser: Do not blame the manufacturers.

Mr. Abbott: I am not blaming anything. I know my hon. friend knows something about the tobacco manufacturing industry. Then our tobacco taxes are paid when the products are shipped from the factory and there were heavy but quite legitimate shipments from the factories in the several weeks preceding the budget. Further there was a prolonged strike during the summer in the plant of one large manufacturer. There has also been a considerable increase in the importation of American cigarettes, both legal and illegal, though in my opinion the volume of smuggling has been greatly exaggerated in much of the public discussion.

After saying all this, the real situation is that when the various provincial taxes on cigarettes and the manufacturers' price increases are added to the federal taxes we seem to have reached a point of diminishing returns. I therefore propose, effective immediately, to move the cigarette tax back to where it was a year ago, that is, a reduction of $1.50 per thousand, or three cents on the standard package of 20. As a result of this change and the consequential price reductions I would expect some recovery in cigarette sales, and I estimate the net reduction in revenue at $10 million.

The tax on raw leaf tobacco will be reduced by the amount of last year's increase. In recent years the use of tobacco in this form has been decreasing, and I have been impressed by the evidence that the present tax is unduly burdensome to the growers.

A minor technical change that will be made in the case of manufactured and raw leaf tobacco will be to modify the charges now imposed to vary with the exact amount of tobacco in a package rather than to apply at a flat amount per ounce or fraction of an ounce.

In the case of alcoholic beverages no changes of any consequence are proposed. Minor adjustments under the Excise Act will include the repeal of the duty on spirits used in fortifying wines or in any product that is subject to a special excise tax. It is proposed to change the duty on beer made from substances other than malt from 45 cents to 42 cents per gallon in order to give the two forms of product equality of treatment. The revenue effects of these latter changes will be unimportant.

As usual I give public notice that no claims for refund arising out of tax reductions in respect of goods on which tax has been paid will be entertained by my colleague, the Minister of National Revenue.

SUMMARY OF TAX CHANGES

I am now in a position to summarize the effects of all the proposed tax changes, and in doing so I ask leave of the house to insert in the record the two usual tables, one showing the effect of the proposed tax changes on revenue, and the other giving a revised forecast of total revenue after giving effect to the tax changes.

Effect on Revenue of Proposed Tax Changes

	Reduction in fiscal year 1952-53	Reduction in a full year
	(In millions of dollars)	
Personal income tax—		
Incorporation of 20 per cent surtax into rate structure ..	40	65
Corporation income tax—		
Reduction due to ·6 per cent adjustment in tax rate	12	18
Increase due to incorporation of 5 per cent provincial corporation income tax into federal tax structure	+25	+35
Excise taxes—		
Reduction of 25 per cent rate to 15 per cent	58	64
Reduction in tax on soft drinks from 30 per cent to 15 per cent	10	11
Repeal of 15 per cent tax on refrigerators, stoves and washing machines	10	11
Reduction in cigarette tax	10	11
Other miscellaneous changes ..	1	1
Total	116	146

Revised Forecast of Revenues for Fiscal Year 1952-53 Taking Account of Tax Changes

	Forecast of revenue from Existing Taxes	Increase or Decrease (—) in Revenue From Budget Proposals	Revised Forecast of Revenue for 1952-53
		(In millions of dollars)	
Personal income tax	1,240·0	—40·0	1,200·0
Non-resident income tax	60·0		60·0
Corporation income tax	1,257·0	13·0	1,270·0
Succession duties	43·0		43·0
Customs import duties	370·0		370·0
Excise duties	240·0		240·0
Sales tax (net)	540·0	—1·0	539·0
Other excise taxes	340·0	—88·0	252·0
Miscellaneous taxes	5·0		5·0
Total tax revenues	4,095·0	—116·0	3,979·0
Non-tax revenues	275·0		275·0
Total ordinary revenues	4,370·0	—116·0	4,254·0
Special receipts and credits	25·0		25·0
Total budgetary revenues	4,395·0	—116·0	4,279·0
Old Age Security taxes			
2 per cent sales tax	135·0		135·0
2 per cent individual income tax	52·0		52·0
2 per cent corporation income tax	48·0		48·0
	4,630·0	—116·0	4,514·0

The tables show that the net reductions in taxation during this fiscal year will amount to $116 million. Hon. members will recall that earlier in my speech I estimated the prospective surplus before tax changes, at $125 million. After giving effect to my proposed tax changes budgetary revenues are estimated at $4,279 million, expenditures at $4,270 million, and consequently an estimated surplus of $9 million. What I am really doing, of course, is budgeting for a balanced budget, since the $9 million surplus is less than one-quarter of one per cent of revenues, and less than the normal mathematical margin of error in the estimates themselves.

A year ago, Mr. Speaker, I concluded my budget speech by saying that it would be too bold to hope that by this time circumstances would permit any reductions in tax rates, and the best hope I could hold out would be for no further increases in tax rates. I am glad that conditions have so turned out that I have been able to do a little better than I expected. I have not proposed any increases in tax rates, and I have been able to propose some downward adjustments.

Unless conditions at home exceed even my generous expectations, and unless the clouds that overhang the international scene lift more rapidly than we now have a right to expect, my hope for next year is the same as that I expressed a year ago—an expectation of no increases in tax rates, but not much likelihood of substantially lower rates. If we can do as well next year in bettering these expectations as we have this year, I for one would be content, and I am sure that the house and the country, knowing full well the great and serious responsibilities that we in Canada carry in partnership with others, would fully share that sense of satisfaction.

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

INCOME TAX ACT

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

1. That for the 1953 and subsequent taxation years there be substituted for the graduated rates of tax and the defence surtax that are at present applicable to the income of individuals, the following graduated rates of tax:

(a) 17 per cent of the amount taxable if the amount taxable does not exceed $1,000,

(b) $170 plus 19 per cent of the amount by which the amount taxable exceeds $1,000 if the amount taxable exceeds $1,000 and does not exceed $2,000,

(c) $360 plus 22 per cent of the amount by which the amount taxable exceeds $2,000 if the amount taxable exceeds $2,000 and does not exceed $4,000,

(d) $800 plus 25 per cent of the amount by which the amount taxable exceeds $4,000 if the amount taxable exceeds $4,000 and does not exceed $6,000,

(e) $1,300 plus 30 per cent of the amount by which the amount taxable exceeds $6,000 if the amount taxable exceeds $6,000 and does not exceed $8,000,

(f) $1,900 plus 35 per cent of the amount by which the amount taxable exceeds $8,000 if the amount taxable exceeds $8,000 and does not exceed $10,000,

(g) $2,600 plus 40 per cent of the amount by which the amount taxable exceeds $10,000 if the amount taxable exceeds $10,000 and does not exceed $12,000,

(h) $3,400 plus 45 per cent of the amount by which the amount taxable exceeds $12,000 if the amount taxable exceeds $12,000 and does not exceed $15,000,

(i) $4,750 plus 50 per cent of the amount by which the amount taxable exceeds $15,000 if the amount taxable exceeds $15,000 and does not exceed $25,000,

(j) $9,750 plus 55 per cent of the amount by which the amount taxable exceeds $25,000 if the amount taxable exceeds $25,000 and does not exceed $35,000,

(k) $15,250 plus 60 per cent of the amount by which the amount taxable exceeds $35,000 if the amount taxable exceeds $35,000 and does not exceed $50,000,

(l) $24,250 plus 65 per cent of the amount by which the amount taxable exceeds $50,000 if the amount taxable exceeds $50,000 and does not exceed $75,000,

(m) $40,500 plus 70 per cent of the amount by which the amount taxable exceeds $75,000 if the amount taxable exceeds $75,000 and does not exceed $100,000,

(n) $58,000 plus 75 per cent of the amount by which the amount taxable exceeds $100,000 if the amount taxable exceeds $100,000 and does not exceed $150,000,

(o) $95,500 plus 80 per cent of the amount by which the amount taxable exceeds $150,000 if the amount taxable exceeds $150,000 and does not exceed $250,000,

(p) $175,500 plus 86 per cent of the amount by which the amount taxable exceeds $250,000 if the amount taxable exceeds $250,000.

2. That for the 1952 taxation year the graduated rates of tax applicable to income of individuals