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**Mr. Peters:** The reason he was interested was that if the farmers receive a fair and reasonable net income they will be able to buy the things that the workers in the factories produce. He was interested in such things as the mechanization of agriculture and he added his brief to the other supplementary briefs. Then there was a brief from a merchant. Possibly some members do not understand why a merchant would be interested in the problems of the farmers. In his brief there is this passage:

The farmer makes up 12 per cent of the total population of Canada but at the present time receives only six per cent of the national income. Under these circumstances we cannot maintain the family farm or small business.

He is interested in the matter from his point of view and he wants the farmer to have a fair and reasonable income so that he can sell to the farmer the things he has in his store. This should be elementary enough even for western members to understand. There are a number of other briefs representing other points of view. According to the government, diversification is the cure-all but one of these briefs points out that diversification has been tried in some areas and refers to the difficulties that have arisen not only in relation to wheat production but with respect to the diversified industry. He points out that if a farmer goes out of grain production in western Canada he probably goes into beef production and that brings about a lowering in the standard of farm income across the country because a surplus is created of that product. May I call it six o'clock?

**Mr. Graftey:** You sure can.

Progress reported.

At six o'clock the house took recess.

### AFTER RECESS

The house resumed at 8 p.m.

### THE BUDGET

#### ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

**Hon. Donald M. Fleming (Minister of Finance)** moved:

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

He said: Mr. Speaker, ten months have passed since I presented my first budget to this twenty-fourth parliament of Canada. Tonight it is my privilege to present the Canadian budget for the year 1959. I am deeply conscious of the honour and responsibility which once again fall to my lot.

[Mr. Peters.]

(Translation):

Mr. Speaker, the task of preparing the budget this year has indeed been a challenge. The concurrent existence of higher than normal unemployment and a disturbing inflationary potential have puzzled and confused economic observers not only in Canada but in many other countries. It has been necessary to analyse, weigh and assess the strength and drive of these opposing forces and to endeavour to prescribe courses of fiscal policy which will assist Canada to steer a wise course through them.

In the past year, public attention has been focused to an unusual degree on economic and financial issues. In the house, in the press and in public discussion, questions of inflation and unemployment, fiscal and monetary policy, recovery and the public and private functions in promoting sustained growth have been keenly debated. This is all to the good, for the functioning of our system of government depends upon an informed public opinion.

#### 1958 ECONOMIC CONDITIONS

A year ago we were faced with the carry-over of the effects of a slowing down in economic activity. The two major factors in the recession which began early in 1957 were the decline in business capital investment and the liquidation of inventories, which resulted in serious unemployment. There is still considerable unemployment, but looking back over the past year it is clear that we are now in a period of economic recovery, a period in which the forces of economic growth and expansion have re-asserted themselves. In the fourth quarter of 1958 the volume of production rose by two per cent above the preceding quarter and was two per cent above the level of the year as a whole. Taking account of normal seasonal influences there was a marked improvement in the trend of employment and earnings, in the volume of retail sales, in the level of corporate profits, and in the accumulation of inventories.

The budget white paper, tabled yesterday, reviews the economic developments of 1958 in some detail. I should like now to draw attention to some of the more significant aspects of these developments since they provide the background against which my budget proposals are presented.

The most important forces stemming the decline in business activity during 1958 were to be found in the fiscal policy and position of the federal government—lower tax rates

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and revenues, higher expenditures and increased cash disbursements particularly in housing loans. The additional spending power provided in this way helped to arrest the decline and underpinned both consumption and investment to a substantial degree until the major retarding influences had spent themselves. The tax reductions announced in December, 1957, helped to maintain the purchasing power in the hands of the public. Personal taxes paid in the calendar year 1958 were \$142 million lower than in 1957, despite an increase of \$1.4 billion in personal incomes. In addition, there were increases in social security payments, such as old age pensions, veterans' benefits, and unemployment insurance payments, and these also had the effect of maintaining personal incomes and consumer expenditure. Almost one-third of the total increase in personal incomes consisted of increased federal payments of this type, which rose in 1958 from \$1.5 to \$1.9 billion. There was also increased direct government expenditure on goods and services and this too injected new demand and tended to offset declines elsewhere in the economy. Increased federal transfers to the provinces were equal to about one-third of the total increase in provincial and municipal expenditures. The increase in provincial and municipal expenditures on goods and services in 1958 also provided substantial support.

Perhaps as important as changes in taxes and expenditures was government action to offset directly the decline in business capital investment by making funds available for housing. The result was that housing investment attained an all-time high in 1958. Housing starts rose to 165,000 units compared with 122,000 units in 1957 and a previous record of 138,000 units in 1955. In terms of value, investment in residential construction rose by \$353 million or 25 per cent.

Federal fiscal policy played a major role in arresting the decline and in sustaining the economy until the balance of economic forces again turned in the direction of the recovery which is now well under way. The result was that cash requirements on budgetary account and for loans and advances were greatly in excess of cash receipts, and there was a very large cash deficit of \$1,263 million in the 1958-59 fiscal year.

Hon. members are aware that in our accounting system there is no separation between current and capital expenditure except as regards loans and advances. In other words, the budgetary deficit reflects not only normal current expenditures but expenditures on capital works as well. It should be pointed out therefore that the deficit on budgetary account referred to

above was to a large extent the result of expenditures on development of resources and construction, which in private business would be charged to capital account. In the calendar year 1958 these federal capital works included in current budgetary expense amounted to about \$400 million. In addition, there were capital grants to the provinces, the most important of which was an expenditure of more than \$50 million for the trans-Canada highway. Thus it will be seen on analysis that three-quarters of the 1958-59 budgetary deficit is in fact due to expenditure of a capital nature, rather than expenditure on current account.

The moderate but steady advance in consumer spending during the first nine months of 1958 was also a continuing source of strength. In the fourth quarter of the year the advance quickened and consumer expenditure rose by three per cent, the largest quarterly increase since 1952. This advance was an important facet of recovery and carried consumer expenditure to a level six per cent above the same period in 1957. The fourth quarter increase was particularly noticeable in expenditure on durable consumer goods which rose by eight per cent.

Consumer expenditure is much the largest and most stable element of demand in our economy. The steady rise in consumer spending during 1958 was supported by a growth in all the main components of personal income. For 1958 as a whole total wage and salary payments were two per cent above the 1957 aggregate but the trend throughout the year is more significant. There had been some decline in labour income between the summer of 1957 and the spring of 1958. This trend was reversed in February, 1958 and by December last the level of labour income was five per cent above the low point reached eleven months earlier.

The aggregate income of Canadian farmers improved substantially in 1958. Net farm income rose by 24 per cent. This was largely the result of higher returns from livestock and animal products. Farm cash income was only two per cent below the all-time high reached in 1952 and on a per capita basis for all those employed in agriculture cash income was the highest ever recorded. Government action in aid of agriculture and agricultural exports contributed directly to this improvement.

Among the forces contributing to expansion in our economy is the rapid increase in our population. During 1958 our population increased by 381,000, and by mid-summer of this year our population will pass the 17½ million mark.

All this indicates something of the strength imparted to the economy by the growth in

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incomes. As I mentioned earlier, this was reinforced by a reduction in tax rates and by a very considerable increase in social security payments so that personal income available for spending was markedly higher than in 1957. In fact, the increase in personal income after taxes was seven per cent in 1958 compared with an increase of five per cent in 1957. About two-thirds of this large increase in personal income after taxes was used for the purchase of additional consumer goods and services; and the remaining third, an unusually high proportion, was saved. A return to more normal levels of saving together with the anticipated expansion in personal incomes can be expected to impart still greater strength to consumer spending in the months ahead.

Corporate profits are a sensitive indicator of business conditions. For the year 1958 as a whole corporate profits were five per cent lower than in 1957. But here again the yearly aggregate is not indicative of what happened during the course of the year. The downward trend in corporate profits which persisted through 1957 and early 1958 came to an end in the summer of 1958. Corporate profits began to rise in the third quarter of 1958 and increased by a further eight per cent in the fourth quarter. This recovery in profits can be expected to impart strength to increased business capital investment.

A further factor of importance in the recovery now taking place is the changing role of inventories. Movements in inventories tend to be of a short-run character, often intensifying demand in periods of expansion and inducing further declines in periods of lessening activity. In the 1955-56 investment boom the strongly inflationary conditions associated with a high level of capital investment contributed to a rapid rate of inventory accumulation. As the mood of optimism was replaced by one of caution, inventories were allowed to run down and to this extent current needs were met from existing stocks rather than new production. Between the first quarter of 1957 and the first quarter of 1958 investment in inventories declined by \$1.1 billion at annual rates—from accumulation at a rate of \$500 million to liquidation at a rate of \$600 million. Throughout the latter half of 1957 and the first half of 1958 investment in inventories was declining and therefore exerting a depressing effect on production. By the third quarter of 1958, however, this movement had run its course and inventory investment had resumed a positive role.

I have referred to the fact that declining business capital investment was a major factor in the slow-down which emerged

during 1957. This decline was particularly noticeable in the export-based resource industries where expansion had been fed by world demand. As the world commodity markets moved into a position of over-supply in late 1956 and early 1957, capital investment in these industries slowed down and this trend spread to other areas of investment as well. The decline was particularly marked in investment in machinery and equipment which fell by almost 20 per cent between the first and the fourth quarters of 1957.

For 1958 as a whole business capital investment, excluding housing, fell by \$789 million or 13 per cent from the 1957 level. While business capital investment was lower than in the peak year 1957, it was high by any other standard and remained an important source of demand in the economy. Moreover, it should be observed that a considerable part of the impact of the decline in capital investment and inventories did not fall on Canadian producers but was reflected instead in a decline in imports which had been swollen by the demands of the previous boom.

The decline in business capital investment was largely offset by expansion in social capital, including housing. In 1958 outlays of this kind increased by \$513 million or 17 per cent and offset almost two-thirds of the decline in business investment. Investment in housing and community facilities such as roads, schools and hospitals, amounted to more than two-fifths of our total capital spending.

A large number of Canadian workers and important segments of the business community find their prosperity directly related to the demand for our exports. Despite the recession in the United States market in 1958, our exports of merchandise were maintained at the record level of 1957. There were substantial gains in exports of a number of commodities, among them uranium, aircraft, beef cattle, wheat and farm implements. There were declines in other products, notably petroleum, iron ore, copper, nickel, primary and semi-finished steel, as well as pulp and newsprint. There was during 1958 a pronounced economic recovery in our major external market, the United States. While our expectations of continuing improvement in the economic situation at home do not depend on any large increase in exports, the continuing strength of recovery in the United States cannot fail to affect the position of some of our most important exports and has already contributed to a return of confidence.

While exports were maintained in 1958, merchandise imports fell by eight per cent and our deficit on commodity trade declined by



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more than \$400 million,—from \$579 million in 1957 to \$174 million in 1958. These reductions in purchases from abroad were associated with the lower level of business investment in Canada and affected in particular our imports from the United States. The reduction in our deficit on merchandise trade was offset to some extent by a further rise in our deficit on non-merchandise account, and our overall current account deficit declined by \$288 million,—from \$1,400 million in 1957 to \$1,112 million in 1958. While the merchandise deficit was sharply reduced in the first three quarters of 1958, imports since then have been rising more rapidly than exports, a reflection of our progressing economic recovery.

The exchange value of the Canadian dollar in terms of United States dollars increased during the course of 1958, although the increase was confined to the first half of the year. The premium of the Canadian dollar over the United States dollar was a little more than 3½ cents in December, 1958, compared with about 1½ cents at the beginning of the year.

In our trade with the United States exports were well maintained while imports, particularly of capital goods and equipment, fell off quite sharply. On the other hand, our imports from the United Kingdom showed some increase. I am glad to say our trade and payments position with both the United Kingdom and the United States moved into better balance. With respect to the United Kingdom the gap in our current account has narrowed for the third consecutive year, with increases in both our imports and exports. The United Kingdom current account deficit with Canada in 1958 was \$130 million,—the lowest in any year in the post-war period except 1950.

The achievement of better balance in our trading relationships was one of the objectives which prompted the government to call for a commonwealth trade and economic conference. All the other members of the commonwealth, accepting our invitation, met with us in Montreal last September. It proved to be one of the most significant meetings in the history of the commonwealth, and owed much to the initiative of our Prime Minister (Mr. Diefenbaker). I have no hesitation in saying that, in the field of trade and economic development, the decisions reached at the conference will result in great benefits not only to the commonwealth but to the whole of the free world. The results of the conference fully justified its opening theme—"An expanding commonwealth in an expanding world."

Two subsequent decisions of great importance were foreshadowed at our conference. First, there was the approval at New Delhi in October of the proposal to enlarge the resources of the International Bank and the International Monetary Fund. In their different spheres these two institutions promote world prosperity and world stability. I shall very soon be inviting the house to approve legislation enlarging Canada's subscriptions to the resources of both these institutions. Without going into details at this time I should, however, remind hon. members that these increases in our subscriptions do not involve new cash requirements.

Second, there was the decision of the government of the United Kingdom in December to make sterling convertible—a decision which, I am happy to say, was taken concurrently by a number of leading European governments. We may be confident that, over the months and years ahead, convertibility will be a potent force reducing discriminatory trade barriers against our products and enlarging opportunities for our exporters.

One must admit, however, that trading arrangements and commercial policies on the other side of the Atlantic are in a state of some uncertainty. The European economic community—the European customs union as it was originally called—has come into being, and as an evidence of western European solidarity it is indeed welcome. Also to be welcomed is the fact that many of the first tariff reductions of the community, which came into effect last January, were made available to all members of GATT and were not confined to the members of the community. On the other hand, there seem to be strong pressures within the community to increase discrimination against the outside world in the field of trade quotas. This together with the possibility of higher European tariffs at a later date, is seriously disturbing to other members of the North Atlantic community and could exercise a divisive influence within the alliance. In seeking wider trade opportunities wherever we can we shall continue to employ all available facilities including those of GATT, the one organization which brings together the important trading countries and the chief trading groups.

Despite these difficulties and uncertainties in the commercial policies of the common market countries, world trade and payments have been moving into better balance. The fear of "dollar shortage", which hung over these countries in the post-war years, now seems to be dissipated. The United Kingdom and western European countries have added

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over \$3 billion to their gold and dollar reserves last year and this trend is expected to continue. For this reason alone we are entitled to expect that trading opportunities in that direction should continue to improve.

Much of the increase in European reserves came from the United States where gold reserves have fallen by \$2.3 billion during the past year. This implies that, broadly speaking, the United States is continuing to act as a "good creditor". By gifts and loans, bilaterally and through international institutions, it is providing other countries with more than enough dollars to pay for the excess of its exports over its imports. But it is to be hoped that the people and the government of the United States will become less timid regarding imports, particularly imports from a country like Canada, which buys from them far more than it sells, and is linked with them by bonds of common continental defence. In particular the actions of the United States in imposing during the past year new import restrictions on lead and zinc and mandatory controls on petroleum have aroused strong resentment in this country. We shall continue to press for the removal of these and other unjustifiable impediments to our export trade.

No review of the economic situation would be complete without some comment on price movements. In the fourth quarter of 1958 consumer prices were 2.4 per cent higher than a year earlier. The wholesale price index rose 1.3 per cent in the same period. This tendency toward rising prices, particularly in a period of recession, is a matter for concern. Advancing technology might have been expected to reduce the cost and selling price of many products to consumers. It is evident, however, that developments in corporation pricing policies, in labour organization and even in our political democracy are producing increased rigidities which inhibit the free play of competitive forces and thereby promote inflation and price increases.

I feel constrained at this point to renew the warning I gave in my previous budget regarding the danger to our longer term economic prospects of a persistent trend toward higher costs of production. World markets are becoming increasingly competitive, and unless we can keep our costs of production in line with those in other important trading countries we shall find it increasingly difficult to sell our goods abroad and meet the competition of imports at home. Indeed this is happening now.

Rising costs and continuing price increases spell inflation. They weaken our competitive position at home and abroad and thereby reduce the possibilities of useful and productive employment. They divert effort from

productive pursuits to the wasteful processes of speculation, from which in turn flow economic maladjustment and decline. More than this they impose severe burdens on those with fixed incomes and those normally least able to protect themselves. They lead to an unequal sharing of the fruits of progress and frustrate the just expectations of toil. I believe that the long-run growth in production and the fairness with which it is distributed are not unrelated and that both depend upon reasonably stable prices.

There has been much discussion about inflation during the past year, both here and in the United States. Some of it, in my view, has been of an exaggerated and overdramatized nature. I have always welcomed public discussion of this question. Only good can come from a better public understanding of the varied causes of inflation, of its different aspects, of its risks, of the dangers and injustices it breeds, and of the serious economic distortions it produces. I reject the doctrine of either the desirability or the inevitability of creeping inflation. As the *London Economist* put it:

The proposition that inflation is inevitable is not an acknowledgment of economic determinism, but a political judgment that the will to control it has disappeared.

To argue that inflation is inevitable is a reflection upon, indeed an insult to the intelligence and the moral fibre of free peoples.

I do not see any present evidence of overt inflation in the coming year; in fact the consumer price index has declined for the past four consecutive months. We must, however, continue on guard against potential inflationary pressures. I believe that it is well within the power of Canadians to achieve reasonable price stability without sacrificing either immediate recovery or balanced growth.

I have tried to draw together the main strands in the economic developments of 1958. I have pointed to the evidence of recovery at home and abroad. Throughout 1958 there was serious unemployment despite very substantial positive action by the government. The improvements in economic conditions to which I have referred had not been in effect long enough to bring about a substantial improvement in employment before the end of 1958. It has been an unusually severe winter in most parts of Canada, and this has contributed to some delay in the recovery of employment. The most recent statistics available show a reduction in the numbers of unemployed persons as compared with a year ago and a rise of 152,000 in the number of persons working. These are very encouraging figures, and I am confident that

we can now look forward to a rapid growth in employment opportunities as the season advances.

It remains to assess the strength of this recovery and to estimate the levels to which it will carry incomes in the coming year. I estimate that a mere continuation of the level of gross national product reached in the first quarter of this year would of itself produce a 1959 gross national product about four per cent above 1958. But recovery is still in process, and we can therefore confidently expect the gain in 1959 production to go well beyond this figure. Assuming normal crops, stable prices and no untoward external events I shall be basing my budgetary policy and my revenue forecasts on a gross national product of about \$34½ billion which is about seven per cent above the average level achieved in 1958.

#### GOVERNMENT ACCOUNTS 1958-59

I should like now to review briefly the government's accounts for the fiscal year that ended on March 31. Hon. members will find these set forth in some detail in the white paper tabled yesterday. It will be two or three months before our books of account for the fiscal year can be closed and audited, and the figures in the white paper and those I use tonight are approximate and subject to revision.

In my budget speech last June I budgeted for revenues of \$4,652 million, expenditures of \$5,300 million and a deficit of \$648 million. In August, as a result of further sales tax exemptions provided in the amendments to the Excise Tax Act, I estimated the deficit at \$650 million, and shortly before the house adjourned in September, following approval by parliament of the special wheat acreage payments and certain other expenditures, I revised my forecast of expenditure to \$5,350 million and of the deficit to \$700 million. It now appears that our revenues were \$4,770 million, our expenditures including the deficit in the old age security fund were \$5,387 million and the total budgetary deficit was \$617 million.

The increase of \$120 million in revenues is 2½ per cent over the budget forecast and reflects the fact that economic conditions during the year were somewhat better than those on which my budget estimate was based. Approximately \$52 million of this increase was in tax revenues and \$68 million in non-tax revenues, the latter reflecting mainly higher interest earnings and increased Bank of Canada profits. Expenditures at \$5,387 million were \$37 million, or two-thirds of one per cent higher than my revised budget forecast.

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In addition to the expenditures for government services that are charged to the budgetary accounts we have made many very substantial loans and advances and disbursed large sums for a variety of other authorized and essential purposes. During the fiscal year these outlays amounted to \$1,760 million and included loans and advances of \$336 million to Central Mortgage and Housing Corporation, \$207 million to the Canadian National Railways, \$99 million to the St. Lawrence Seaway Authority and \$42 million to the Northern Ontario Pipe Line Crown Corporation, as well as \$212 million representing disbursements from the national defence equipment account. To meet these outlays substantial sums amounting in all to \$1,114 million were available from the repayment of loans, net annuity insurance and pension receipts and from other non-budgetary sources.

The budgetary deficit of \$617 million and the net non-budgetary requirements of \$646 million have been financed by an increase of \$1,429 million in the government's outstanding unmatured debt, resulting in an increase of \$166 million in our cash balances.

During the fiscal year, in addition to the refunding of treasury bills which matured weekly, outstanding securities amounting to the very large sum of \$7,973 million were redeemed or converted. New bonds in the amount of \$9,286 million were issued in exchange or for cash. After taking into account the net reduction of \$116 million in bonds held in our securities investment and sinking fund accounts the unmatured debt held outside these government accounts increased by \$1,429 million during the fiscal year.

The average interest rate on the government's unmatured debt at March 31, 1959 was 3.60 per cent compared with 3.05 per cent at the end of the previous fiscal year. This increase was mainly due to the substantial lengthening in the average term of the debt achieved during the year.

#### DOMINION-PROVINCIAL RELATIONS

The subject of dominion-provincial relations has already been debated on two occasions in the present session. Accordingly I do not propose to enter on that subject this evening. However, the house might find it interesting to have on record the financial contributions the federal government is already making available to the provincial governments and to provincial institutions.

Under the Federal-Provincial Tax-Sharing Arrangements Act we are making unconditional payments to the provincial governments or unconditional tax abatements amounting to \$684 million in the current year, of which \$167 million is in the form of fiscal aid



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through equalization and stabilization payments. Other direct unconditional payments from statutory subsidies and the share of the power corporation income tax total \$30 million. As additional grants to the Atlantic provinces we are paying \$2½ million a year to the government of Prince Edward Island and \$7½ million a year each to the governments of Nova Scotia, New Brunswick and Newfoundland.

In addition to these very large sums we are paying or stand committed to make available to the provincial governments or to provincial institutions very large amounts of money in the form of conditional, matching or specific grants-in-aid. These cover such projects as hospital insurance, health and hospital grants, old age and disability assistance, unemployment assistance, trans-Canada highway and roads to resources programs, grants in aid of vocational training, university grants, grants to municipalities in lieu of taxes and in aid of winter work programs,

and many others. The actual disbursements under these arrangements are expected to add up to more than \$460 million in 1959-60.

I should like at this point, Mr. Speaker, to place on *Hansard* a table showing the cost to the federal treasury of all our subsidies, tax rentals, tax abatements, and conditional and unconditional grants to provincial governments and provincial institutions, including municipalities and universities, for the past three fiscal years and for 1959-60.

There will be a number of tables that by leave of the house I will propose to place on the record of *Hansard* tonight, if the house were prepared to give its consent to that now I might save interrupting later.

**Mr. Speaker:** Has the minister leave to have printed in *Hansard* this table and subsequent tables as they appear in the address?

**Some hon. Members:** Agreed.

**Mr. Fleming (Eglinton):** Thank you. The table follows:

TABLE 1

FEDERAL CONTRIBUTIONS TO THE PROVINCES  
(in millions of dollars)

	1956-57	1957-58	1958-59 (preliminary)	1959-60 (estimated)
<b>A. Unconditional Grants—</b>				
1. Statutory Subsidies.....	22.7	22.0	21.6	21.4
2. Tax Rental and Abatements.....		493.6	514.3	517.0
3. Equalization.....	523.3	136.0	147.5	163.4
4. Stabilization.....		3.4	5.7	3.3
5. 50% share of Income Tax on Power Utilities....	6.6	7.3	8.7	9.0
6. Atlantic Provinces Adjustment Grants.....	—	—	25.0	25.0
7. Term 29 Award (Nfld.).....	—	—	13.6	7.3
Sub-total.....	552.6	662.3	736.4	746.4
<b>B. Conditional Payments—</b>				
1. Agriculture.....	0.8	0.9	1.6	1.6
2. Health.....	36.4	34.7	46.5	63.0
3. Hospital Insurance.....	—	—	57.8	160.0
4. Welfare.....	38.4	54.3	72.8	76.2
5. Vocational Training.....	4.1	4.5	8.5	10.0
6. Highways and Transportation.....	26.9	55.9	65.3	70.3
7. Resource Development.....	2.8	4.8	16.8	23.8
8. Subsidized Rentals and Slum Clearance.....	0.1	1.0	2.2	4.0
9. Other.....	1.2	1.0	9.2	8.5
Sub-total.....	110.7	157.1	280.7	417.4
<b>C. Payments for the benefit of provincial institutions—</b>				
1. University Grants.....	16.0	16.5	25.5	26.2
2. Grants to Municipalities in lieu of Taxes on federal government property.....	9.7	17.8	22.3	22.5
Sub-total.....	25.7	34.3	47.8	48.7
<b>TOTAL.....</b>	<b>\$689.0</b>	<b>\$853.7</b>	<b>\$1,064.9</b>	<b>\$1,212.5</b>

It will be seen from this table that the total cost to our treasury in 1956-57 was \$689 million; in the year just ended it was \$1,065 million; and in the year we are now entering it is estimated that it will be \$1,212 million. Thus in this new fiscal year our payments to or for the benefit of the provinces will be almost double those of three years ago.

[Mr. Fleming (Eglinton).]

Finally, hon. members should note that through the federal schemes of unemployment insurance, old age pensions and family allowance payments we disbursed in 1958-59 a total of \$1,510 million. These disbursements not only had important income sustaining effects on the entire Canadian economy, but also had a major impact on provincial and

municipal finances in relieving them of a great part of the burden of relief payments which in earlier decades would have fallen very heavily upon them.

#### DEBT MANAGEMENT

I reported to the house in my budget speech last June 17 that the matter of debt management, including the financing of about \$1,400 million of new cash requirements, would be one of the major financial problems of the year. I said at that time that debt management cannot follow any rigid formula, but needs to be adapted to shifting economic conditions and market sentiment. I emphasized, however, the importance of taking advantage of every appropriate opportunity to sell longer term bonds in order to keep our debt maturities spread out over a reasonable period of years. Since the end of the war the average term of our debt had been steadily shortening. At the end of 1949 it was about 8½ years; by the end of 1954 it was just over 7 years; and early in 1958 it was down to 6 years.

Our problem of debt management in mid-1958 had several aspects. One was a significant change in the attitude of the investing public toward government bonds, both in Canada and in the United States. After some signs of strength in the earlier months of 1958 the New York bond market broke sharply in mid-June, and continued a pronounced downward trend to the end of the year. The Canadian market, with some variations, followed this general trend.

In both countries investors were showing little interest in increasing their holdings of longer term government bonds. These circumstances led us, in planning our financing, to look to the relatively short term market; but here we encountered the problem of the shortness in the average term of our existing debt. The major factor in this situation was the impending maturities of nearly \$6½ billion of wartime victory bonds that had ultimate maturity dates between January 1, 1959, and September 1, 1966. But in so far as the market and the investor were concerned, this \$6½ billion was not spread over eight years, because the first four of the issues were callable in 1959 or earlier and the 1966 issue was callable at any time after September 1, 1961. From the investors' point of view, therefore, this \$6½ billion had to be considered as being spread over, not eight years, but approximately three years.

It was to clear away this heavy overhang of bonds of short term and uncertain term, and to provide a substantial lengthening out of the average term of our debt that the great conversion loan of last summer was undertaken. I shall not repeat the detailed merits

of this the largest financial operation in Canada's history. It achieved an unprecedented success. More than 90 per cent of the outstanding Victory Loan bonds were converted by their holders into longer maturities. It has proved to be a major anti-inflationary step; it removed a source of heavy pressure on the bond market; and by nearly doubling the average length of our debt it has made it possible to develop and carry forward a sound debt management policy.

Monetary policy and debt management are closely related. During the first nine months of 1958 the Bank of Canada progressively increased the total money supply very substantially. This increase in the money supply, which began in the third quarter of 1957, was in part a normal central banking operation to counter the recession in business activity and to ensure that recovery was not impeded by any shortage in credit. It was also a necessary concomitant of the conversion loan operation which was the foundation for a sound debt management policy.

Debt management and the problems of financing the undertakings of government are too often regarded as matters remote from the interest of the average citizen. The complexities of public finance and the intricacies of the bond market may seem to be removed from his experience. The fact is, however, that the national debt and the way it is managed touch the lives of all Canadians.

The volume of government borrowing, the rates, distribution and length of the national debt, affect the whole pattern of individual, corporate, municipal and provincial financing. Good debt management is essential to the maintenance of the purchasing power of the Canadian dollar and the achievement of sustained national development. It is at the very heart of national thrift and is vital to the realization of the economic goals of a free and competitive society.

An important and healthy development of recent months has been the sharp reversal of a long continuing trend of dis-investment in Government of Canada bonds by the general public. This decline in the holdings of Canada bonds by the general public—that is, holdings outside the banking system and government accounts—had been going on more or less steadily since the end of the war, but was considerably accelerated during the first part of 1958. Ten years ago the general public's holdings were close to \$10 billion; five years ago they were down to \$9 billion; at the end of 1957 they were about \$8.7 billion; and they reached a low point of just under \$8 billion in September, 1958. In the past six months there has been a sharp turn around. Since last September the general public's holdings of Canada bonds have



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increased week by week and are now \$1,560 million higher than on September 30. Today the general public's investment in Dominion of Canada bonds is at a higher level than at any time in the past eight years.

If I may have consent, Mr. Speaker, I should like to insert at this point three factual tables relating to the size, the distribution, the average term, and the total interest cost of our public debt over the past ten years.

TABLE 2A  
GROSS AND NET DEBT

	Funded Debt (\$ billion)	Total Debt (\$ billion)	Net Debt (\$ billion)	Net Debt	
				Per capita	As per cent of G.N.P.
				\$	
March 31					
1950.....	15.2	16.8	11.6	847	71.2
1951.....	15.0	16.9	11.4	814	63.3
1952.....	14.7	17.5	11.2	772	52.9
1953.....	14.8	17.9	11.2	757	46.7
1954.....	14.6	17.9	11.1	725	44.4
1955.....	14.5	18.0	11.3	720	45.4
1956.....	15.4	19.1	11.3	702	41.7
1957.....	14.4	18.3	11.0	663	36.4
1958.....	14.2	18.4	11.0	647	35.0
1959.....	15.6	20.2	11.7	676	36.3

TABLE 2B  
INTEREST COST OF GROSS AND NET DEBT

Year ending March 31	Interest paid on total debt (millions)	Revenues from Investments (millions)	Net Interest Cost (millions)	Net Interest as p.c. of net debt
1950.....	\$440	\$ 92	\$348	3.00
1951.....	425	90	335	2.94
1952.....	432	118	314	2.80
1953.....	451	117	334	2.98
1954.....	476	152	324	2.92
1955.....	478	134	344	3.04
1956.....	493	149	344	3.04
1957.....	520	207	313	2.85
1958.....	539	169	370	3.36
1959.....	604	225	379	3.24

TABLE 2C  
MATURITY AND DISTRIBUTION OF FUNDED DEBT

December 31	Average Term of Debt*	Amount of Funded Debt Held (\$ millions)		General Public	P.C. held by Gen. Public
	Years	Banks	Govt. Accts.		
1949.....	8.3	5,178	796	9,845	62.2
1950.....	8.1	5,093	847	9,952	62.6
1951.....	7.5	5,052	1,009	9,273	60.5
1952.....	6.8	5,176	1,102	8,909	58.7
1953.....	6.2	5,184	1,314	9,139	58.4
1954.....	7.2	5,633	1,204	8,629	55.8
1955.....	6.3	5,540	1,491	8,969	56.1
1956.....	6.6	4,950	1,518	8,766	57.5
1957.....	6.0	5,104	1,367	8,693	57.3
1958.....	10.3	6,190	1,258	8,968	54.6
1959 (Apr. 1).....	10.0	6,104	944	9,512	57.4

\*Excluding Canada Savings Bonds and Perpetuals.

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These tables show that since 1949 our gross funded debt has increased by about five per cent, and our net debt is almost unchanged. Our net debt per capita was \$847 ten years ago, \$725 five years ago and is reduced to \$676 now. Our net debt as a percentage of gross national product in the same years was 71.2, 44.4 and now 36.3.

While the gross interest on our public debt rose from \$440 million in 1949-50 to \$604 million in 1958-59, our interest and dividend returns from our public investments have risen in the same years from \$92 million to \$225 million. The net interest cost of the public debt was thus \$348 million ten years ago and was \$379 million in the year just ended.

## GOVERNMENT ACCOUNTS 1959-60

I come now to the budgetary outlook for the current fiscal year. Early in February I tabled the main estimates for 1959-60 totalling \$5,596 million. In addition, I must assume that there will be some payments under the Agricultural Stabilization Act and that we will have to make provision for a reduced Canadian National Railways deficit for 1959. The deficit in the old age security fund will be about \$185 million this fiscal year. There will also be some additional statutory expenditures as well as the usual supplementary and further supplementary estimates but offsetting these we can expect some lapsings in appropriations.

The total amount of lapsings at the end of the year is likely to be much smaller than in past years, as a result of the arduous labours of the treasury board in revising and screening the departmental estimates for the current year. As I said on tabling the main estimates, we have done our utmost to promote efficiency and economy in government administration, and notwithstanding our growth in population and the essential services that must accompany such growth, we have been able to hold both staff and administrative costs remarkably close to the levels of the previous year.

After careful study and consideration, and taking into account our continuing efforts to achieve further economies in administration and greater efficiency in the public service, I have concluded that our budgetary expenditures for the fiscal year ending March 31, 1960, will be approximately \$5,660 million, excluding the old age security fund deficit, or \$5,845 million including that deficit.

This is \$458 million higher than our budgetary expenditures last year. While this would appear to be a very substantial increase I should remind hon. members that \$235 million, or more than half of the total, is in our defence expenditure, and reflects, for

the most part, the decision taken last year to liquidate the national defence equipment account in 1958-59. Actually, our total cash outlay this year for defence will be approximately the same as last year, but because of this change in bookkeeping treatment, equipment purchases which in previous years were charged to the defence equipment account will now be charged to budgetary expenditures. As I explained last year, this change was made in the interests of good accounting and for the maintenance of proper parliamentary control of expenditures.

The other half of the increase is in non-defence expenditures. More than \$100 million is due to the higher cost of our contributions under the Hospital Insurance and Diagnostic Services Act. Part is due to increased debt charges reflecting the increase in our outstanding debt and higher interest rates; part to the normal growth in our existing social security and welfare payments; and part to government policies designed to foster national development and to provide increased employment opportunities,—expenditures which will in this and future years increase the efficiency and productive capacity of our economy and thereby add to our future national wealth and income.

Forecasting revenue is always difficult, much more difficult than estimating expenditures. On the basis I indicated earlier of a gross national product of \$34½ billion for 1959 and taking into account all available information, I should expect if there were no change in tax rates that our total revenues would be \$5,165 million in 1959-60. This is \$395 million, or about eight per cent, more than our revenues in the year just ended.

If I may have unanimous consent, Mr. Speaker, I should like at this point to insert in *Hansard* a table showing my estimate of the revenues for the year just ended and what we may expect to receive in the coming year under our existing tax laws.

Table 3  
Revenue forecast—Before tax changes  
(in millions of dollars)

	1958-59	1959-60
Personal income tax .....	\$1,371	\$1,550
Corporation income tax .....	1,029	1,065
Non-resident tax .....	60	75
Estates tax .....	73	75
Customs duties .....	486	525
Sales tax .....	694	755
Other duties and taxes .....	561	610
<b>Total taxes .....</b>	<b>\$4,274</b>	<b>\$4,655</b>
Non-tax revenue .....	496	510
<b>Total revenue .....</b>	<b>\$4,770</b>	<b>\$5,165</b>

With projected revenues of \$5,165 million and expenditures of \$5,845 million I should expect a deficit of \$680 million for the current year if there were no change in our present tax structure.

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Apart from and outside the budget we shall continue to require large amounts of cash and before I come to discuss the appropriate tax policy for our present and prospective circumstances I should like to draw these requirements to the attention of the house.

As hon. members know, every year the government lends or advances substantial sums for a wide variety of public purposes. These are not treated in our accounts as budgetary expenditures, as in most cases they are interest-earning or revenue-producing and the principal amount is eventually repaid.

On the other hand, each year we collect or receive large amounts of cash which are not treated as budgetary revenues. These consist mainly of moneys paid for the purchase of government annuities, insurance or superannuation benefits or from the repayment of loans made in previous years.

During 1959-60 we shall probably be called upon to advance about \$300 million to Central Mortgage and Housing Corporation for housing loans; about \$200 million for the capital investment and refunding programs of the Canadian National Railways and close to \$150 million to the St. Lawrence Seaway Authority, the National Harbours Board, the Canadian Farm Loan Board and other crown corporations and for other non-budgetary purposes.

On the other hand, we shall have about \$250 million available from the repayment of loans and from the excess of current contributions over current benefit payments in our various annuity, pension and insurance accounts.

Our net requirements for these non-budgetary accounts, excluding possible exchange fund requirements which cannot be forecast, will be of the order of \$400 million which we must borrow. This together with the prospective budget deficit would result in net cash requirements of between \$1,050 and \$1,100 million for the year.

**TAX POLICY**

As I have said, Mr. Speaker, on the basis of our present expenditure program and our present tax structure we shall be facing a deficit of about \$680 million in the fiscal year ending next March 31. This is about \$63 million greater than the deficit recorded for the year just ended, notwithstanding the fact that I expect our present tax structure to yield nearly \$400 million more revenue in 1959-60 than in 1958-59. As I have already said, this is due to two principal factors. The first is that having liquidated the former defence equipment account during the past year, the defence expenditures to be charged against the current budget in 1959-60 will be \$235 million greater than last year, although the

actual cash expenditures will be about the same. The second factor is that we shall now be meeting a full year's cost of the hospital insurance program, and this will add more than \$100 million to our expenditures.

Government policies relating to taxation and expenditures should be kept flexible. In an earlier generation when government revenues and expenditures were only a very small fraction of the gross national product the broad economic effects of government finance were not of great significance. But in this modern age where the government expenditures constitute 18 to 20 per cent of the gross national product—and in many countries the percentage is much higher than in Canada—the financial policies of the government—the amount spent, how it is spent, how the revenues are raised, and the balance between revenue and expenditure—all exert a very direct influence on the health of the private sector of the economy.

As economic conditions change, the government's budget policy needs to change also. It must be flexible; it should be adapted to the shifting economic climate. There are times when a substantial deficit is clearly the right policy; there are times when the budget should be in balance; there are times when some provision should be made for the orderly retirement of debt; and within these ranges there is always the question of degree. The problem of timing the adjustments in budgetary policy is not an easy one, and yet good timing is often of crucial importance.

Government financial policy can never be as flexible as policy in private business. Changes in taxes have important, sometimes vital, effects on business operations. Government expenditures are in large measure analogous to the overhead expenses of private business; they cannot be greatly changed on short notice. Budgetary changes cannot be lightly undertaken or introduced without the most careful consideration. Moreover, it would be very upsetting and confusing to business if changes in taxation were made too frequently or at unusual times.

The deficits we ran last year, both on budgetary account and on over-all cash account, were very large; but looking back over the past year and considering all the circumstances I do not think that they were excessive. Undoubtedly they were a major factor in moderating the 1957-1958 recession, with respect to both its depth and its duration. I think nearly all informed observers have agreed that our policy last year was right in its direction and about right in its degree. We are now, however, well on the road to recovery, and we can look forward to a steady expansion of economic activity, employment and incomes.



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I believe all hon. members recognize that we must look forward to a time when conditions of prosperity and employment will allow a balanced budget and when we can also make proper provision for an orderly retirement of debt.

We have not yet, however, reached that stage. Recovery is gathering momentum, but it would be unwise at this juncture to change our course so abruptly as to hamper the forces of expansion. I believe, however, that there should be some narrowing of the budgetary gap. If, under the greatly improved prospects of today, we were to continue to run deficits on the same scale as last year, we would, in my judgment, run serious risk of building up an inflationary potential which could prove most difficult to keep under control a year or so hence.

Appropriate steps in the direction of balancing the budget are also desirable in order to reduce the heavy pressure of new federal borrowings on the bond market. I have already noted that our federal debt in relation to our growing population and in relation to our expanding gross national product is not excessive; indeed its relative burden is less than in almost every year since the end of the war. But the fact remains that the Canadian bond market has not been accustomed to absorbing as large a volume of new government of Canada bonds as we have had to offer during the past year. The impact of our borrowings, which over the year as a whole have been achieved largely in a non-inflationary manner, has exerted an upward pressure on interest rates. It is desirable, therefore, under present circumstances to move in the direction of reduced federal borrowing, in order to reduce pressure on the interest rate structure and to leave more room for essential provincial and municipal financing.

The two principal elements of a continuing nature in our increased expenditures in 1958 and in 1959 are the increased old age pensions and the new program of hospital insurance. These are universal benefits available, in so far as the federal government is concerned, in the same degree to all Canadians, from coast to coast, and without regard to individual means. It seems to me that, in principle, such universally available benefits should be met from a broadly based system of tax contributions.

Our tax policy for 1959-60 will therefore be based on two principles:

- (a) To provide a broadly based source of revenues to meet the new and additional forms of universally available social welfare benefits, and
- (b) To reduce the budgetary gap in a degree that will not interfere with the desired rate of recovery, but will hold out the prospect of a balanced budget at the appropriate time.

I have already referred to the important results achieved by the government in providing increased social security, including old age security and hospital insurance. These programs have been well received. They cost money and must be paid for. We have also, as I have previously indicated, spent large sums to meet the problem of unemployment.

As far as I can judge, our Canadian public has been well informed about the underlying facts of the situation. Evidently most people have been expecting some tax increases this year. Many may be not unpleasantly surprised that the increases I shall be proposing are as moderate as they are.

In formulating my proposals I have made every effort to spread the increased burden in a pattern which is fair and equitable and will not weigh too heavily on any one section of the community. Several different taxes and various tax rates will therefore be affected, each of them in moderate degree. The measures which I propose are designed to safeguard the credit of the country, the soundness of our currency, the development of our resources, and the security of our economic future.

## OLD AGE SECURITY

The Old Age Security Act provides a pension without a means test to every eligible person 70 years of age or over. The pension was \$40 a month from 1952 until July 1, 1957, when it was increased to \$46 a month. To meet our people's needs it was increased substantially to \$55 a month by the present government on November 1, 1957.

Before the old age security legislation was first introduced the entire subject was carefully studied by a joint committee of the Senate and the House of Commons. After considering various methods of financing, this committee recommended that the contributory principle be applied, and that the required funds be raised annually on a pay-as-you-go basis. From the outset the contributions to the fund have been two per cent on personal incomes with a maximum contribution of \$60, two per cent on corporate incomes, and a two per cent sales tax. This 2-2-2 formula is now far from adequate to provide the funds required to pay the increased pension. In the past fiscal year the contributions fell short of the required total by \$184 million. If we are to continue to

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maintain the contributory principle and an ear-marked fund it is necessary to increase the contributions to the fund.

I propose that we continue to support the pension out of the same three sources of contributions in the same proportion as in the past. This system is well established and fully accepted by the public. I am, therefore, proposing the following rates of contribution; three per cent on personal incomes with a maximum contribution of \$90, to take effect on July 1, 1959; three per cent on corporate incomes, to take effect from January 1, 1959; and a three per cent sales tax, to take effect tomorrow.

Under the 2-2-2 formula the two per cent levy on personal incomes reached its maximum of \$60 at a level of taxable income of \$3,000 a year. The new three per cent levy on personal incomes will reach its maximum of \$90 at the same level of taxable income.

For the convenience of hon. members may I insert in *Hansard* a table showing total contributions and total pension payments under the Old Age Security Act since its inception.

Table 4  
Old Age Security Fund

Fiscal year	Total contributions (millions of dollars)	Total pension payments
1951-52 (3 mos. only)	\$ 26.4	\$ 76.1
1952-53	223.6	323.1
1953-54	293.1	338.9
1954-55	290.0	353.3
1955-56	316.2	366.2
1956-57	371.6	379.1
1957-58	371.5	473.9
1958-59	(est.) 376.0	(est.) 560.0
Total	\$2,268.4	\$2,870.6

The rates of contribution that I am proposing will yield about \$143 million in this fiscal year and about \$196 million in a full year. This means that the fund will show a deficit of about \$42 million at the end of the current year; but since we shall have provided for the necessary revenues to bring the fund into balance over the next two or three years, I do not propose to treat the deficit in the old age security fund as a budgetary charge in the current year, but to carry it forward into 1960-61.

May I insert here a table showing the effect of these changes on the Old Age Security Fund for 1959-60 and for a full year.

Table 5  
Old Age Security Fund  
(in millions of dollars)

	Income Tax		Sales Tax	Total
	Personal	Corporate		
Revenue from present rates	\$150	\$56	\$187	\$393
Revenue added by new rates in 1959-60	41	20	82	143
Total revenue in 1959-60	191	76	269	536
Total revenue in a full year at new rates	225	84	280	589
Total pensions payable in 1959-60				578
Total pensions payable in 1960-61				597

## INCOME TAX

I also propose some increases in the rates on personal and corporate incomes as part of the general program of reducing the deficit.

Aside from the increased contributions for old age security I do not recommend any increases in taxes on personal incomes below the level of \$3,000 of taxable income.

I am proposing, however, to add two percentage points of personal income tax to each rate in the rate schedule above \$3,000 per year, to take effect on July 1, 1959. The effect will be that taxpayers will pay an additional two per cent on all of their taxable income in excess of \$3,000. The increased old age security contributions, to which I have already referred, will involve these same taxpayers in an additional \$30 on their first \$3,000 of taxable income. It is expected

[Mr. Fleming (Eglinton).]

that this increased rate on taxable incomes in excess of \$3,000 will yield \$25 million this year and \$45 million in a full year. It will have no application to approximately 3,800,000 of Canada's 4,600,000 personal income tax payers.

For 1959 the rates will reflect the fact that the increases are not to take effect until July 1. Therefore the increase in income tax rates for this taxation year will be one percentage point on taxable income in excess of \$3,000 and the additional old age security contribution will not exceed \$15. For example, a married taxpayer with two young children who has a total annual income of \$5,600 will pay no additional income tax, but will pay an additional \$2.50 a month for old age security commencing next July.

It will be remembered that this government reduced income tax rates and increased exemptions in 1957. On the first \$1,000 of

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taxable income we reduced the rate of tax by two percentage points. On the second \$1,000 of taxable income we reduced the rate of tax by one percentage point. At the same time we increased the exemption for each dependent child by \$100.

Taxpayers in the lower and middle income brackets will find that their tax increases this year will cost them less than the relief granted to them by the reductions of 1957. The best way to illustrate the effect on the individual is to compare the taxes which will be payable in a full year after this year's changes with the taxes payable in 1957 prior to the reductions we introduced in that year. For purposes of comparison, let us consider the position of a typical married man who is the father of two children of family allowance age.

At an income level of \$3,000 a year, under the new rates, this man will pay a total of income tax and social security contribution of \$56, an increase of \$4 from the 1958 level. He will, however, be paying \$34 less than he paid before the reductions we introduced in 1957.

At an income level of \$4,000 a year, under the new rates, he will pay a total of \$208, an increase of \$14 from the 1958 level but \$44 less than before the reductions we introduced in 1957.

At an income level of \$5,000 a year, he will pay a total of \$390, an increase of \$24 from the 1958 level but \$44 less than before the reductions we introduced in 1957.

At an income level of \$7,500 a year, he will pay a total of \$898, an increase of \$68 from the 1958 level but still \$2 less than before the reductions we introduced in 1957.

It is clear from these examples that even after the increases now being proposed the vast majority of taxpayers will be paying less in income tax and old age security contributions than they paid prior to the reductions we introduced in 1957.

At the same time they are receiving the protection of a social security system which has been greatly improved and extended.

For the convenience of hon. members may I insert in *Hansard* at this point five tables indicating the effect of the proposed changes in personal income taxes, along with the increased contribution to old age security.

TABLE 6a  
EFFECT OF PROPOSED PERSONAL INCOME TAX CHANGES  
Single Taxpayer with No Dependents

Income	In 1958		In 1959		In a Full Year		Increase In a Full Year	
	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution
\$	\$	\$	\$	\$	\$	\$	\$	\$
1,300	22	4	22	5	22	6	—	2
1,500	44	8	44	10	44	12	—	4
2,000	99	18	99	23	99	27	—	9
2,500	166	28	166	35	166	42	—	14
3,000	236	38	236	48	236	57	—	19
3,500	318	48	318	60	318	72	—	24
4,000	403	58	403	73	403	87	—	29
5,000	573	60	582	75	591	90	18	30
7,500	1,086	60	1,120	75	1,154	90	68	30
10,000	1,722	60	1,781	75	1,840	90	118	30
15,000	3,412	60	3,521	75	3,630	90	218	30
20,000	5,507	60	5,666	75	5,825	90	318	30
30,000	10,002	60	10,261	75	10,520	90	518	30
50,000	20,747	60	21,206	75	21,665	90	918	30
75,000	35,692	60	36,401	75	37,110	90	1,418	30
100,000	51,637	60	52,596	75	53,555	90	1,918	30
200,000	122,332	60	124,291	75	126,250	90	3,918	30

NOTES: 1. In calculating the above taxes it has been assumed that everyone takes the optional standard deduction of \$100 in lieu of claiming deductions for charitable donations, unusual medical expenses and union dues.

2. In calculating the above taxes it has also been assumed that where incomes are in excess of \$30,000 that part of income which is in excess of \$30,000 is subject to the 4 per cent investment surtax.



TABLE 6b

## EFFECT OF PROPOSED PERSONAL INCOME TAX CHANGES

## Married Taxpayer with No Dependants

Income	In 1958		In 1959		In a Full Year		Increase in a Full Year	
	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution
\$	\$	\$	\$	\$	\$	\$	\$	\$
2,300	22	4	22	5	22	6	—	2
2,400	33	6	33	8	33	9	—	3
2,500	44	8	44	10	44	12	—	4
3,000	99	18	99	23	99	27	—	9
3,500	166	28	166	35	166	42	—	14
4,000	236	38	236	48	236	57	—	19
5,000	403	58	403	73	403	87	—	29
7,500	870	60	894	75	918	90	48	30
10,000	1,446	60	1,495	75	1,544	90	98	30
15,000	3,032	60	3,131	75	3,230	90	198	30
20,000	5,077	60	5,226	75	5,375	90	298	30
30,000	9,522	60	9,771	75	10,020	90	498	30
50,000	20,217	60	20,666	75	21,115	90	898	30
75,000	35,112	60	35,811	75	36,510	90	1,398	30
100,000	51,007	60	51,956	75	52,905	90	1,898	30
200,000	121,652	60	123,601	75	125,550	90	3,898	30

Note: See Notes for Table 6a.

TABLE 6c

## EFFECT OF PROPOSED PERSONAL INCOME TAX CHANGES

## Married Taxpayer with Two Children Eligible for Family Allowances

Income	In 1958		In 1959		In a Full Year		Increase in a Full Year	
	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution
\$	\$	\$	\$	\$	\$	\$	\$	\$
2,800	22	4	22	5	22	6	—	2
2,900	33	6	33	8	33	9	—	3
3,000	44	8	44	10	44	12	—	4
3,500	99	18	99	23	99	27	—	9
4,000	166	28	166	35	166	42	—	14
5,000	318	48	318	60	318	72	—	24
7,500	770	60	789	75	808	90	38	30
10,000	1,326	60	1,370	75	1,414	90	88	30
15,000	2,842	60	2,936	75	3,030	90	188	30
20,000	4,862	60	5,006	75	5,150	90	288	30
30,000	9,282	60	9,526	75	9,770	90	488	30
50,000	19,948	60	20,392	75	20,836	90	888	30
75,000	34,818	60	35,512	75	36,206	90	1,388	30
100,000	50,688	60	51,632	75	52,576	90	1,888	30
200,000	121,308	60	123,252	75	125,196	90	3,888	30

Note: See Notes for Table 6a.

TABLE 6d

## EFFECT OF PROPOSED PERSONAL INCOME TAX CHANGES

Married Taxpayer with Four Children Eligible for Family Allowances

Income	In 1958		In 1959		In a Full year		Increase in a Full Year	
	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution
\$	\$	\$	\$	\$	\$	\$	\$	\$
3,300	22	4	22	5	22	6	—	2
3,500	44	8	44	10	44	12	—	4
4,000	99	18	99	23	99	27	—	9
5,000	236	38	236	48	236	57	—	19
7,500	670	60	684	75	698	90	28	30
10,000	1,206	60	1,245	75	1,284	90	78	30
15,000	2,657	60	2,746	75	2,835	90	178	30
20,000	4,647	60	4,786	75	4,925	90	278	30
30,000	9,042	60	9,281	75	9,520	90	478	30
50,000	19,663	60	20,102	75	20,541	90	878	30
75,000	34,508	60	35,197	75	35,886	90	1,378	30
100,000	50,353	60	51,292	75	52,231	90	1,878	30
200,000	120,948	60	122,887	75	124,826	90	3,878	30

NOTE:—See Notes for Table 6a.

TABLE 6e

## EFFECT OF PROPOSED PERSONAL INCOME TAX CHANGES

Married Taxpayer with Two Children Eligible for Family Allowances and Two Other Dependents

Income	In 1958		In 1959		In a Full Year		Increase in a Full Year	
	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution	Income Tax	OAS Contribution
\$	\$	\$	\$	\$	\$	\$	\$	\$
3,800	22	4	22	5	22	6	—	2
3,900	33	6	33	8	33	9	—	3
4,000	44	8	44	10	44	12	—	4
4,500	99	18	99	23	99	27	—	9
5,000	166	28	166	35	166	42	—	14
6,000	318	48	318	60	318	72	—	24
7,500	573	60	582	75	591	90	18	30
10,000	1,086	60	1,120	75	1,154	90	68	30
15,000	2,492	60	2,576	75	2,660	90	168	30
20,000	4,432	60	4,566	75	4,700	90	268	30
30,000	8,802	60	9,036	75	9,270	90	468	30
50,000	19,378	60	19,812	75	20,246	90	868	30
75,000	34,198	60	34,882	75	35,566	90	1,368	30
100,000	50,018	60	50,952	75	51,886	90	1,868	30
200,000	120,588	60	122,522	75	124,456	90	3,868	30

NOTE:—See Notes for Table 6a.

I am also proposing to add 2 percentage points to the rate of tax on corporate income in excess of \$25,000, to take effect from January 1, 1959. This increase will have no application to approximately 42,000 of Canada's 50,000 corporate income taxpayers. It is estimated that this additional tax will increase revenues \$56 million on a full year's basis and \$32 million this fiscal year. The applicable rate will now be 47 per cent. Together with the old age security contribution, the levy on corporate profits up to \$25,000

will be 21 per cent, and on the excess over \$25,000 will be 50 per cent.

Although it is only fair and equitable that all corporations should pay the old age security contributions in full, my proposal that corporate incomes up to \$25,000 should be exempt from the additional two per cent levy is in line with the government's policy of giving special encouragement to the expansion of smaller business firms.

May I insert here, Mr. Speaker, a table showing the effect of this tax increase at various levels of corporate profits?

TABLE 7  
EFFECT OF PROPOSED CORPORATION INCOME TAX CHANGES

Income of Corporation	In 1958			In 1959			Increase	
	Income Tax	OAS Contribution	Total	Income Tax	OAS Contribution	Total	\$	%
\$	\$	\$	\$	\$	\$	\$	\$	%
5,000	900	100	1,000	900	150	1,050	50	5.0
10,000	1,800	200	2,000	1,800	300	2,100	100	5.0
15,000	2,700	300	3,000	2,700	450	3,150	150	5.0
20,000	3,600	400	4,000	3,600	600	4,200	200	5.0
25,000	4,500	500	5,000	4,500	750	5,250	250	5.0
30,000	6,750	600	7,350	6,850	900	7,750	400	5.4
35,000	9,000	700	9,700	9,200	1,050	10,250	550	5.7
40,000	11,250	800	12,050	11,550	1,200	12,750	700	5.8
50,000	15,750	1,000	16,750	16,250	1,500	17,750	1,000	6.0
75,000	27,000	1,500	28,500	28,000	2,250	30,250	1,750	6.1
100,000	38,250	2,000	40,250	39,750	3,000	42,750	2,500	6.2
200,000	83,250	4,000	87,250	86,750	6,000	92,750	5,500	6.3
300,000	128,250	6,000	134,250	133,750	9,000	142,750	8,500	6.3
500,000	218,250	10,000	228,250	227,750	15,000	242,750	14,500	6.4
1,000,000	443,250	20,000	463,250	462,750	30,000	492,750	29,500	6.4
2,000,000	893,250	40,000	933,250	932,750	60,000	992,750	59,500	6.4
5,000,000	2,243,250	100,000	2,343,250	2,342,750	150,000	2,492,750	149,500	6.4

In connection with personal income taxes, I have reviewed the whole subject of income tax deductions for medical expenses. It became necessary to do this because of the greatly increased federal contributions to health costs under the hospital plans financed jointly with the provinces. After studying various solutions to the problems at issue, I have come to the conclusion that a change should be made.

My proposal is to exclude from medical expenses, as now defined in the Income Tax Act, all such expenses from which the taxpayer is relieved to the extent that they are paid with the assistance of the federal government under the Hospital Insurance and Diagnostic Services Act. This amendment will take effect as from January 1, 1959, to coincide with the taxation year for individuals.

The exemptions granted under the Income Tax Act for medical expenses are clearly intended to relieve the individual taxpayer who has a burden of unusual medical expenses. It would be quite anomalous to allow income tax deductions to individuals for hospital care received at government expense now that the federal government is financing a very substantial proportion of hospital costs. The federal treasury should not be in the position of paying twice, once in terms of expenditure and again in terms of taxes forgone.

A further reason for making this change arises out of the differences in form amongst the provincial schemes. Because of these differences it is becoming increasingly difficult to give equal income tax treatment to the residents of the various provinces which have instituted hospital insurance plans. Under some of these it appears that the taxpayer

incurs expenses which he has, in effect, pre-paid by insurance premiums. Under others he does not incur expenses but merely receives free care paid for out of general taxation.

Under this proposal a taxpayer will still be able to claim expenses which he himself has paid, including any co-insurance or deterrent charges paid under a provincial hospital insurance plan, or which an insurance company or health insurance association has paid for him. Consequently, there will be no change in the present incentive for taxpayers to insure against the costs of health care. Implementation of this proposal will have no effect on a taxpayer in any province that is not receiving federal funds in support of a hospital insurance plan.

This change in the definition of medical expenses will reduce the total of medical expenses deductible on income tax returns, and it is estimated that it will increase our tax revenues by \$3 million this year, and \$9 million in a full year.

Before I leave the subject of medical expenses in relation to personal income tax, may I say that I have carefully reviewed a number of requests for additions to the list of items that may be included as medical expenses for income tax purposes. I am proposing to add a few more items to the list including iliostomy and colostomy pads, crutches, trusses, and rocking beds for polio patients.

In addition to these tax changes I have just outlined, Mr. Speaker, the bill to amend the Income Tax Act will contain a number of amendments of a more technical nature. Some of these are designed to alleviate hardship,



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others to improve the efficiency of the tax system and keep it up to date. It is not expected that these changes will have any significant effect on revenues.

One of these amendments will provide for more generous tax treatment of payments made by an employer to the widow or dependent children of a deceased employee by providing that such death benefits shall be free of tax up to an amount equal to 12 months' salary of the employee or \$10,000 whichever is the lesser.

There has been an increasing use of group life insurance plans as a means whereby corporations provide substantial remuneration to some of their senior officers in a tax-free form. This is unfair to other taxpayers. Accordingly an amendment will be proposed to subject to tax a portion of the benefit which an employee derives through the payment of group life insurance premiums on his behalf by his employer. It is not intended to disturb the present tax treatment of the many plans where the benefit provided by the employer does not exceed \$25,000 of insurance for an individual employee.

Another proposed amendment that will be of some general interest will provide for tax relief on lump sum withdrawals from employee pension plans where the amount withdrawn is transferred to another pension plan or used as a premium under a registered retirement savings plan. It is believed that this step will help an individual who is moving from one job to another or from the status of employee to that of self-employed person to do so without seriously disturbing his provision for a retirement income.

**ESTATE TAX**

The Estate Tax Act has been in force since January 1, 1959, a period of about three months, and has received general public approval. I am not proposing any amendments to this act this year. In my view, it would be wise to allow for another year of testing, study and experience.

**SALES AND EXCISE TAXES**

In a budget of this kind, where it is necessary to find increased revenues, no one will be surprised that I am including some changes affecting cigars, cigarettes and spirits. Taking effect tomorrow, the excise duty on spirits will be increased by \$1 per proof gallon, from \$12 to \$13 per proof gallon. This change is equivalent to about 12 cents on a 25-ounce bottle of whisky. Also taking effect tomorrow, the excise tax on cigarettes will be increased by \$1 per thousand. This latter is equivalent to two cents per package of 20 cigarettes. Also taking effect tomorrow,

the excise duty on cigars which is now \$1 per thousand will be increased to \$2 per thousand.

These three tax increases will yield about \$42 million in this fiscal year and \$46 million in a full year, including the parallel increases in customs duties and the consequential increases in the sales tax.

I am proposing some technical amendments which will affect the application of the Excise Tax Act to toilet goods and pharmaceuticals. These amendments will go some way toward implementing one of the recommendations contained in the report of the sales tax committee of 1956.

Briefly, they will extend the definition of manufacturing to the packaging of toilet preparations and pharmaceuticals except where this is done in a retail store for sale directly to consumers and will also extend the definition of manufacturer to any person who markets private brand toilet preparations and pharmaceuticals except a retailer who sells directly and exclusively to consumers.

This amendment will apply to both the sales tax and the special 10 per cent excise tax.

After careful consideration, I am convinced that a serious degree of inequity exists at present in the application of the Excise Tax to toilet goods and pharmaceuticals. This is why I am proposing these amendments. In some instances, one domestic manufacturer is being treated unfairly in comparison with another, merely because of the way his business is organized. In other important instances products of domestic manufacture are being taxed more stringently than comparable imported products. The amendments I am bringing forwards are designed to rectify these situations.

These present recommendations may be regarded as portions of the continuing program of reviewing the operation of the Excise Tax Act and of implementing, where appropriate, certain parts of the report of the sales tax committee of 1956.

I have received a number of requests for the exemption of particular products from sales or excise taxes. Because of the need for revenues I find myself unable to comply with any of these requests this year, apart from minor technical exceptions.

The bill to amend the Excise Tax Act will also contain a number of amendments providing technical and administrative changes. None of these latter amendments is expected to have any significant effect on revenue.

**CUSTOMS TARIFF**

I now turn to the Customs Tariff. I have a substantial number of changes to propose to the house tonight. The main group relates

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to fruits and vegetables. For the convenience of honourable members, I have consolidated these changes, affecting eighty-one tariff items and sub-items, into a single resolution. Another resolution contains the nine changes that we are making as a result of renegotiating the most-favoured-nation rates on woollens and worsteds. Another resolution clarifies the interpretation to be given to the word "machinery" throughout the tariff. And still another embraces all changes of a miscellaneous character.

It might be of interest to note that 142 tariff items and sub-items are affected by the resolutions. In the case of 32 items the rates of duty are being increased. In the case of 40 items rates are being reduced. In the case of nine items, all involving fruits and vegetables, rates are being both increased and decreased depending on the season. Finally, there are 61 items for which rates of duty are left unchanged and for which the changes proposed are, for the most part, purely formal.

In every case where an increase is proposed in a rate that was bound in one way or another under our trade agreements, the appropriate negotiations or consultations have been undertaken and are either concluded or virtually concluded.

The house will recall that, on November 17, 1957, I tabled an extensive report by the tariff board on fruits and vegetables. Broadly speaking, the changes in the tariff items on fruits and vegetables that I am submitting tonight flow from that report.

The government undertook to negotiate the tariff changes proposed by the board, under the terms of our trade agreements, with the countries concerned—that is to say, chiefly with the United States, but also with other countries supplying us with small quantities of fruits or vegetables. We recognized that, as in all such negotiations, we would either have to "compensate" for the increase in some tariff rates by reductions in others, or else face retaliatory tariff increases against our fruits, vegetables or other products entering the United States and other countries. Accordingly, before negotiations began, we consulted the Canadian horticultural council about possible supplementary changes in our tariffs on fruits and vegetables which might be used by way of compensation.

In the end, the negotiations ranged over almost the whole of our tariff schedule on fruits and vegetables. While the negotiations have been friendly, they have not been easy. The results, however, can be regarded as satisfactory. Details are to be found in the resolution on the fruit and vegetable tariff schedule that I am tabling tonight. For the convenience of hon. members I have

divided this resolution into three sections: one sets out changes of substance, both increases and decreases in rates; another contains other changes of a purely formal nature, such as the renumbering of tariff items; a third was required to make a minor change in our trade agreement with New Zealand.

Three of the most important changes are as follows: The duty on potatoes, table and seed, new and old, will hereafter, as recommended by the tariff board, be 37½ cents per cwt. throughout the year. Thus, at last, we regain substantial reciprocity with the rates applied to our potatoes by the United States—that is to say, reciprocity with the rates applied to the bulk of our shipments to that country. Our seasonal duty applying to imported peaches remains at 1½ cents a pound, but it will hereafter be in force for 14 instead of 9 weeks each year. In respect of apples we are moving to complete reciprocity with the United States; the duty on imported apples will hereafter be ¼ cent a pound all the year round, instead of free for 10 weeks and ⅓ cent a pound for the rest of the year.

The list of products is lengthy. I can summarize the changes broadly, indicating first what is happening to the "in-season" duties and second what is happening to the "out-of-season" duties. As for the "in-season" situation, the special seasonal duties will be increased or the seasonal period improved, or both, for the following products: asparagus, Brussels sprouts, cabbage, carrots, cauliflower, celery, corn-on-the-cob, cucumbers, lettuce, onions, peppers, parsnips, apricots, sour cherries, pears and prunes. Further, an additional duty of 5 per cent will be charged on green beans, Brussels sprouts, carrots, beets, cauliflower, lettuce, peas, parsnips and corn-on-the-cob when imported in season in consumer-type packages.

Turning to the out-of-season situation, for most products the duty continues to be 10 per cent as at present; but for a number of important products a period of free-entry will now be permitted during part or all of the "off-season". These off-season arrangements, which will benefit Canadian consumers without, we believe, damaging Canadian producers, will apply to the following products: beans, cabbage, carrots, cauliflower, celery, lettuce, peppers, tomatoes, cantaloups, pears, plums and strawberries.

Turning to the canned and frozen products there are modest increases of duty consequential upon the increased protection received by the fresh products. These increases apply to asparagus, Brussels sprouts, apricots, cherries, peaches and prunes. Certain commonwealth countries send us some canned fruits and, following discussions with them,

we are adjusting preferential rates on these products so as to maintain existing preferential margins.

I now turn to textiles. In September 1957 I referred to the tariff board the whole of the textile schedule, including yarns, fabrics and made-up goods, and at that time I invited the board's recommendations. The board has, up to the present, submitted reports on woollen and worsted fabrics, on woollen yarns, on cotton yarns and fabrics, and on textile wastes. It has also held hearings on synthetic fibres and fabrics, and I expect to receive that report shortly. Thus, most of the more important items have now been considered. The board has yet to hold hearings, however, on a substantial number of items, many of them of no wide significance but some of considerable importance to the groups directly affected.

It would have been unfair and undesirable to delay action on any of these numerous textile items until the board had reported on all of them. I am sure the house would wish the government to take or to initiate action on individual groups of items as soon as practicable after receiving the board's recommendations, and this is the policy that the government is following. However, we are bound to act within the framework of our trade agreements; these may involve preparatory procedures in addition to the negotiations themselves which usually occupy many months. Moreover, since some groups of textile tariff items are closely linked to others, it may be contrary to our commercial interests to try to negotiate one group before we are in a position also to negotiate another.

In my last budget I took the first step towards our general revision of the textile schedule by introducing modest increases in the British preferential rates on woollens and worsteds under tariff item 554b.

At the same time I announced the government's intention to renegotiate the most-favoured-nation rates on that item with a view to restoring the margin of British preference. Accordingly, tonight I am announcing new most-favoured-nation rates under that item as follows: for fabrics weighing 12 ounces or more per square yard a rate of 27½ per cent plus 33 cents per pound; for fabrics weighing less than 12 ounces a rate of 27½ per cent plus 38 cents; and for fabrics weighing not more than 9 ounces a maximum duty of \$1.10 per pound. The increases in these rates correspond with the modest increases in the preferential rates introduced last year, so that the margin of preference previously in effect is now being restored.

Our negotiations regarding increases in our M.F.N. duties on woollens and worsteds have

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been conducted with Italy and France. By way of compensation we are granting reduced rates on a special type of wool fabric—fabrics for neckties and scarves—and also on perfumes, aperitif wines, ports, sherries and manufactures of marble.

We have taken steps under our trade agreements to initiate negotiations on other textile items, including cotton yarns and fabrics. The house may be assured that we shall move forward as quickly as may be practicable.

A brief reference should, perhaps, be made to other reports of the tariff board that have been received and tabled since my last budget: Those relating to rubber footwear and to flourspar. In neither case did the board recommend any change in the tariff structure, and no change is proposed.

This concludes what needs to be said about the disposition of reports from the tariff board. However, the resolutions I am tabling for the amendment of the Customs Tariff cover other matters as well. For the most part the changes that are put forward are of miscellaneous character, of considerable interest to those directly concerned but of no very general interest. There is, however, one group of changes to which I should call attention.

I have been giving thought to various representations that have been made to the government regarding a very important concept which runs through our Customs Tariff: the concept that the protection afforded to goods which are ruled by the Department of National Revenue or the courts to be of a "class or kind" made in Canada should receive greater protection than similar goods of a "class or kind" not made in Canada. This differentiation, based on "class or kind", is to be found in many individual tariff items and also in our anti-dumping and countervailing duties.

Some of the representations have suggested legislation which would define or re-define the words "class or kind" in such a way as to enlarge the range of goods that are now deemed to be made in this country and thus given the greater protection. It is questionable, however, whether an over-riding measure, involving a departure from present practices and present interpretations, is in the national interest. I am not prepared, at this stage, to propose a general measure to broaden the range of goods that receive protection on a made-in-Canada basis. On the other hand, I am prepared to propose particular measures to prevent this range of goods from becoming narrower. In this connection important representations have been received from Canadian manufacturers of machinery, and I am proposing two steps tonight that will be of interest to them.



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One of the problems to be met is this. Most machines now enter Canada, not under tariff items naming particular types of machine, but under items providing for machinery in general. These items provide for relatively high rates of duty on machines of a class or kind made in Canada and relatively low rates on those of a class or kind not made here. Experience has shown that, with the increasing complexity and variety of modern machines, these "class or kind" provisions create uncertainties. Much time and expense are involved in trying to clarify "class or kind" questions before the courts.

I propose to resolve these issues in six important fields by introducing six new tariff items tonight. Each of these items will specifically name one class or kind of machine, which has been ruled to be made in Canada, and will apply the tariffs rate that is now applicable to it. Thus, there will be no change whatever in the immediate situation. But all concerned, and particularly the Canadian manufacturers and users of these machines, will be able to make plans and contracts on a firm basis and without fear of protracted and costly litigation. The six are: fork-lift trucks, paper-mill machines, power cranes, power shovels, machines for generating electricity, and vending machines.

The second problem to be met stems from modern automation. Machines are becoming not only more complex but also more closely interwoven and intertwined—linked together, in many cases, under complicated control systems. This has raised a question: What is the difference, if any, between "machinery" and "a machine"? Let me illustrate the problem. The word "machinery" might be interpreted to cover a series of machines, interlinked with each other and under a common control system. If so, and if one or more of this series of interlinked machines was not made in Canada, then our customs department and our courts might feel bound to rule that the machinery, the assembly taken as a whole, was of a class or kind not made here. As such, the whole assembly would be entitled to low rates of duty even though some of the individual machines were of a class or kind made in this country and would thus have been entitled to substantially higher protection.

To avert this risk of loss of protection I am tonight inviting the house to insert a new definition or interpretation in the Customs Tariff. Under this, wherever the word "machinery" appears in the tariff it will be defined to have the same meaning as the word "machines". Here, again, there will be no change whatever in any rates of duty that are being applied at present; but I hope

[Mr. Fleming (Eglinton).]

we shall be avoiding serious difficulties and uncertainties that might have arisen in the future.

In concluding my proposals regarding changes in the Customs Tariff, I should say a word about their effect on the revenues. Hon. members will have observed that, while some of the changes in rates are upwards, others are downwards. Only one of the changes affects a tariff item which yields us substantial revenue—an increase of \$1 per gallon on imported spirits bringing this rate into line with the higher domestic excise duty to which I have already referred. Apart from this change, it is reasonable to assume that the tariff changes I am proposing tonight will not appreciably influence the balance of ways and means in the coming year.

## SUMMARY AND CONCLUSION

That, Mr. Speaker, concludes my budgetary proposals for the year upon which we are just entering. In summary may I remind you that our budgetary expenditures, which exclude the old age security fund, are expected to be \$5,660 million; our budgetary revenues after giving effect to the tax changes I have proposed are estimated at \$5,267 million; and the indicated deficit for 1959-60 is \$393 million.

In reviewing our cash requirements earlier this evening I estimated our extra-budgetary cash needs at about \$400 million. To this sum I must now add the expected deficit of \$42 million in the old age security fund which is not being charged against the current budget. In round figures, therefore, our net cash requirements outside the budget will be about \$450 million, and this added to the budgetary deficit, means that our net borrowing requirements this year will be of the order of \$850 million, or some \$400 million less than in the year just ended. With a good response to our Canada savings bond campaign this year, our net market borrowings in 1959-60 should be less than one half of the \$1,220 million borrowed in the market in 1958-59. Since our flow of revenues will be at a rising rate throughout the year, partly because of expanding prosperity and partly because some of the increased taxes do not come into full effect until later in the year, our new borrowing needs are likely to fall more heavily in the first half of the fiscal year than in the second half.

May I now insert here, Mr. Speaker, my final table which shows the effect of the proposed tax increases on the budgetary levies, on the old age security fund contributions, and the combined increases.



## The Budget—Resolutions

Table 8  
Revenue forecasts—After tax changes  
(in millions of dollars)

	Revenue added		Total
	Full year in 1959-60		revenue
			in 1959-60
<b>(a) Budgetary Levies</b>			
Personal income tax .....	\$ 54	\$ 28	\$1,578
Corporation income tax .....	56	32	1,097
Non-resident tax ..			75
Estates tax .....			75
Customs duties ....	3	3	528
Sales tax .....	1	1	756
Other duties and taxes .....	42	38	648
<b>Total taxes .....</b>	<b>156</b>	<b>102</b>	<b>4,757</b>
Non-tax revenue ..			510
<b>Total revenue ....</b>	<b>\$156</b>	<b>\$102</b>	<b>\$5,267</b>
<b>(b) Old age security fund contributions</b>			
Personal income ..	\$ 75	\$ 41	\$191
Corporation income	28	20	76
Sales tax .....	93	82	269
<b>Total .....</b>	<b>\$196</b>	<b>\$143</b>	<b>\$536</b>
<b>(c) Combined increases</b>			
Personal income tax .....	\$129	\$ 69	
Corporation income tax .....	84	52	
Sales tax .....	93	82	
Cigars, cigarettes and spirits .....	46	42	
<b>Total .....</b>	<b>\$352</b>	<b>\$245</b>	

It will be seen that the total tax increases proposed amount to \$352 million in a full year and \$245 million in this fiscal year. This increase will, in a full year, balance the increased cost of old age pensions and the enlarged social security program.

*(Translation):*

Mr. Speaker, Canada has its share of problems, some arising out of international disagreements and tensions, and others resulting from the process of growth of our nation. With courage and firmness, none of those difficulties are insuperable. So long as our problems are only in the nature of growing pains, we can look to the future with confidence and assurance.

We have withstood the disturbing calm of recession, and the winds of prosperity again fill our sails, as the basic strength and firmness of the Canadian economy again assert themselves. With a united, determined and confident population, Canada marches on unflinchingly towards its bright destiny.

*(Text):*

Just as last year's budget was designed to meet 1958 economic conditions and needs, so this year's budget is designed to meet the changed conditions and needs of 1959. In a period when economic conditions are undergoing rapid change, our approach to

our fiscal problems must be flexible and adaptable.

This budget has been designed to foster and promote recovery. Our aim is to maintain a sustainable rate of growth in terms of employment, development of resources and a sound dollar, so that Canadians everywhere may find full expression for their enterprise, industry and aspirations as free men and women.

Canada has no reason for fear. Blessed as she has been by a benign Providence above all other lands, she can face her shining future with utmost confidence.

## INCOME TAX ACT

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

1. That for the 1960 and subsequent taxation years each of the graduated rates of tax at present applicable to individuals on taxable income in excess of \$3,000 be increased by two percentage points and that for the 1959 taxation year each of the graduated rates of tax applicable to individuals on taxable income in excess of \$3,000 be increased by one percentage point.

2. That with respect to income of corporations earned on and after January 1, 1959 the 45 per cent rate of tax on taxable income in excess of \$25,000 be increased to 47 per cent and the 43 per cent rate of tax on taxable income in excess of \$25,000 applicable to corporations deriving more than half their gross revenue from the sale for delivery in Canada of electrical energy, gas or steam be increased to 45 per cent.

3. That commencing January 1, 1959 the definition of medical expenses exclude those amounts which the taxpayer is not required to pay because they are paid with the assistance of the government of Canada under the Hospital Insurance and Diagnostic Services Act.

4. That amounts paid on or after January 1, 1959 for ilioostomy and colostomy pads, crutches, trusses for hernia and rocking beds for poliomyelitis patients be included in the medical expenses that are deductible in computing taxable income.

5. That for the 1959 and subsequent taxation years an individual be allowed to deduct in computing income, in addition to the amounts now permitted by the Act, any amount received by him out of a pension fund or plan upon withdrawal or retirement from employment or upon the winding up of the fund, not exceeding the portion thereof that is paid in the year, or within 60 days after the end of the year, as a contribution to a registered pension fund or plan or as a premium under a registered retirement savings plan.