a fellow come to my house while I was home at Easter, who wanted this question brought up. I said, "Why don't you give me a statement to that effect? Put it in a letter to me, so that I will have it in black and white." Their position, however, which I can quite understand, is that if they did anything like that they would not be able to get lumber at all from the retail yards.

Mr. HOWE: Is this the same man who lays his flooring for three cents a square foot?

Mr. JOHNSTON: I do not want to get back on that argument, but if the minister says a man can lay flooring at 3 cents a foot or less and make a decent day's wages, I say he cannot do it.

Mr. HOWE: It is now one minute to six; we have been talking about lumber all afternoon. Can we not let this go through so that we may hear the budget quietly tonight, and go on with something else later?

Mr. JOHNSTON: As far as I am concerned—

Mr. MACKENZIE: May I suggest also that as a matter of procedure the committee must rise before six o'clock, so the Speaker will be in the chair at eight o'clock. Perhaps my hon. friend would be kind enough to allow this item to go through now, and then we shall sit later in the evening, after the budget speech has been delivered.

Mr. JOHNSTON: You mean on this item?

Mr. MACKENZIE: Yes, on this bill.

Mr. JOHNSTON: Let it stand and report progress.

Mr. MACKENZIE: Then with the consent of my colleague I move that the committee report progress and ask leave to sit again this day. I understand this item has been carried.

Some hon. MEMBERS: No.

Mr. JOHNSTON: That is not what you said a moment ago; you said we should report progress.

The CHAIRMAN: Before the motion is put, does the item on timber regulations carry?

Some hon. MEMBERS: Carried.

Some hon. MEMBERS: No.

Progress reported.

At six o'clock the house took recess.

After Recess

The house resumed at eight o'clock.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. DOUGLAS ABBOTT (Minister of Finance) moved:

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

He said: Mr. Speaker, it is my good fortune today to introduce a budget, the first for which I am responsible, under circumstances much more favourable than those of the recent past. Behind us are the huge and difficult budgets of the war years—highwater marks of achievement set by a Minister of Finance (Mr. Ilsley) whose name will long be remembered and honoured by his fellow Canadians—budgets which are evidence of what the Canadian people can do under the stimulus of war.

Today we have just ended a year in which our accounts show a surplus—a surplus larger than the accumulated total of all the previous surpluses in our history. Today we see a Canada enjoying a degree of prosperity never exceeded in living memory. We look forward to a year of high production and incomes. Indeed, we would appear to have ample excuse for self-satisfaction and easy optimism, if we took account only of our own immediate situation here at home. Our own position is favourable and encouraging, but beyond the Atlantic and the Pacific half the world works slowly and painfully to rebuild its ruins, and until much more progress has been made in both economic and political aspects of international affairs, we cannot afford to be complacent.

I do not propose to take the time to review in detail our present economic situation. Its main features are clear. Our available manpower is almost fully employed, with some surpluses in special areas and trades and equally real shortages in others. Demand continues to outrun supply in many lines of business. Our exports remain at high levels, limited in most cases only by our own ability to supply. Imports are pouring into the country from the south in large volume, without appearing to divert much demand from our own production. Private business is proceeding to expand, repair and improve its capital on a scale so large that its plans will be severely limited by scarcity of materials, equipment and labour.

Some increases in inventories are occurring but apparently not on a large scale, presumably because the pressure of demand in most cases is so excessive that neither producers nor dealers can keep ahead of it. Consumer purchasing continues to expand and there is as yet little sign in Canada of any widespread unwillingness or inability on the part of consumers to buy what is being offered to them. The demand for housing remains so great that the most strenuous efforts to meet it still leave a gap that can be filled only over a period of several years. Provincial governments and municipal authorities are making substantial expenditures to meet deferred maintenance and new public projects that were postponed during the war. In short, we are in a period of intense post-war activity, supported and fed from many quarters.

The results of this are reflected in our national statistics. The most comprehensive of these are the figures for national income, gross national production, and national expenditures, which are prepared and published by the dominion bureau of statistics. I have arranged to have included in the printed appendix to the budget a number of tables of these interesting and useful statistics as well as several tables of other representative figures that bear upon the budget and the general state of our economy. The national income, production and expenditure totals for 1946, it will be noted, are only moderately below the record levels of the peak years of the war, which years of course reflected the temporary and abnormal intensity of effort to which the war gave rise.

In spite of all the problems of transition and reconstruction during the past year, despite the huge shifts in man-power and the widespread shortages and labour unrest, our production, income and expenditures remained at very high levels. The figure for gross national production exceeded the $11 billion mentioned in last year's budget as a target which we might fail to reach because of interruptions to production. Examination of the table of national expenditures will show that there was a sharp decline during the year in government expenditures on goods and services but this was very largely offset by increased expenditures on plant, equipment and inventories on the part of private business, and by a very substantial increase in consumer expenditures. On the income side, there was a slight reduction in income from the peak level attained in 1945, but an increase in wages and salaries and in the income of individual businesses, reflecting chiefly a substantial increase in the net income of farmers which reached last year levels higher than even those of the war years.

In this present period of prosperity, inflationary pressures continue at work, though on a scale reduced from previous years. We no longer have the huge war requirements of our own and other governments exerting a constant and almost irresistible force on prices and supplies. The upward pressure of costs is also less strong, and in many cases adjustments have already been made to higher cost levels during the past year. The first rush of returned servicemen and other consumers to buy whatever was available is now subsiding and one can expect buyers to be more selective. On the other hand, of course, we must recognize that export demands for many products remain strong despite exchange difficulties of some of our customers. The huge expenditures of business on new plant, equipment, buildings and stock in trade now constitute in themselves a very potent inflationary pressure. Price levels in other countries, particularly the United States and Britain, are substantially higher than our own, and through both exports and imports they exert a strong upward thrust upon our prices which has only been partially offset by the readjustment last year of our exchange rate.

On balance, while there are still some inflationary forces to contend with, they are less powerful than in the past and not such as to interfere with the orderly decontrol of prices and supplies. I will not trespass here upon a subject already debated at length in this house this session, but I can and should say that in budgeting we must take into account the process and results of progressive decontrol.

In appraising our current situation we must also recognize the special and temporary character of much of the expenditure that is the stimulus to our present high level of income and production. Our war expenditures are largely finished, but there are many substantial expenditures such as those for veterans' benefits, which will diminish as time goes on. Much of the large expenditure of business on plant and equipment represents accumulated or postponed requirements and does not give us any reliable guidance as to what we may expect on a continuing basis, even under relatively prosperous conditions. Consumers, too, are probably still making purchases to meet accumulated needs that arose directly or indirectly out of the war, or are using extra wartime savings for special purposes, and consequently they are probably spending more and saving less than they normally would with incomes at present levels. So with our export sales as well; some of our largest customers are buying more from Canada, because of their abnormal needs at present and because other normal sources of supply are not available, than we can reasonably expect them to buy on a continuing basis. We must be prepared for reductions in some or all of these abnormal expenditures of various types in the not distant future, and we must be prepared for the changes and adjustments in our production necessary to fit it into a more permanent pattern.

Notwithstanding the temporary and special nature of some of these forces, it is encouraging to find that our present prosperity is largely based upon consumer and business expenditure as well as a high level of exports and can be expected to continue without any special expenditure made by the government for the purpose of sustaining it, whether by incurring deficits or otherwise. The demands for our production this year are so strong that I think we may legitimately make our budget plans in the expectation that our gross national product for this year, 1947, will exceed the estimated total of $11·1 billion for 1946 and may amount to something close to $12 billion, calculated at prices somewhat above those prevailing last year. Any such forecast in these uncertain and abnormal times is subject to a wide margin of possible error and to many qualifications. In particular, we must expect that the figure will be less than that I have mentioned, if a substantial recession should occur in the United States later this year.

One of the main supports of our current high level of production and income which is the result of special government action is, of course, our large volume of exports, financed in part by the loan to Britain and by export credits to France, Belgium, Holland and some other countries. These loans have been made to enable those who have been our customers in the past, and will be our customers in the future, to buy Canada's export products during this critical period when the world has been reconverting from war to peacetime production. These countries could not have bought from us on anything like this scale without such loans. It is very much in our interest that they should be able to buy during this period, not only as a means of getting our production and trade reestablished immediately, but also in order to assist these good customers and friendly countries to reestablish their own economic life on a satisfactory basis.

This export credit programme and the loan to Britain are, of course, essentially transitional measures. None of us contemplates a continuing, large-scale programme of government lending to finance our exports. We in Canada must count on the returns from our exports to pay for our imports and to pay our other bills abroad, including the service of our external debt. We have consequently had to limit the credits that we have granted and to request those countries borrowing from us to pay for part of their requirements in foreign exchange that we can use to buy our own imports. We have also recognized that those to whom we are lending must have such help as we can give them in reestablishing and expanding their own export trade, so that they may continue to buy from us later and repay what we are now lending. Creditor countries must be prepared ultimately to accept repayment in goods and services. In the case of Canada, we are now a creditor of some countries and at the same time a debtor to the United States, and we must act and plan with both these facts in mind.

During the past year the high level of Canadian production and income has led to a very high level of imports, as supplies became available in other countries, particularly in the United States. This large volume of imports has made possible a more rapid rise in our living standards, a speedier reconversion of our industry, and a more adequate supply of essential materials for our production than would otherwise have been achieved. Since supplies from many countries were not available, most of our imports have had to come from the United States and have had to be paid for in United States dollars at a time when our receipts of United States dollars from abroad were greatly reduced by the fact that many of our customers had to obtain credit for a substantial proportion of their purchases from us. The result, of course, has been that we have found it necessary to draw substantially upon large exchange reserves built up in the last years of the war and the first year after V-E day. We fully expected that it would be necessary to draw heavily upon those reserves, and this was made quite clear last summer when our exchange control legislation was before parliament. At that time highly tentative and conservative estimates were given of the possible drain on our reserves that might be expected, but these, I am afraid, were regarded in some quarters as exaggerated—they were treated in some quarters as a rather laboured attempt to justify exchange control, the necessity for which some were inclined to deny. Since that time, as the extent of our trade deficit with the United States has become apparent through the published trade statistics, there has developed a tendency to go to the other extreme, and many unfounded rumours have been put into circulation. In these circumstances I felt it was desirable to table yesterday, somewhat in advance of the time when I normally would have done so, the report of the foreign exchange control board for the year 1946, which gives a great many facts concerning our trade and international financial position for that year.

I need hardly say that hon. members will find that report worthy of careful study. It shows that our official holdings of gold and United States dollars declined during 1946 by $263 million but that we still had a total of $1,245 million at December 31 last. While we had a net favourable balance on current account of $458 million with the world as a whole and one of $954 million with all countries other than the United States, our current account balance with the latter country was adverse to the extent of $603 million. This large current deficit with the United States was due in part to certain temporary factors, including the abnormal Canadian demands for United States goods and travel which we had largely done without for years, the filling up of empty shelves and warehouses, the high level of United States prices, the shortage of goods from alternative sources of supply and certain payments by the Canadian government for the purchase of military assets and equipment . But it would be a mistake to place too much emphasis on such special influences. The fact is that in any period in which we are enjoying high levels of production and high consumer incomes, Canada imports a great deal from the United States. In other words, our large adverse balance last year—and the continuing high level of imports—is to a very considerable extent the product of Canadian prosperity.

This point has a real bearing on the validity of the suggestion which is made in some quarters that it would have been better not to have restored the Canadian dollar to parity last July, and that the way to stop the drain on our United States dollar reserves is to reverse that action. This argument is based largely on pre-war conditions of unused capacity and limited demand that do not exist today. It seems to assume that exchange depreciation would restrict the flow of imports or increase the flow of exports. A large proportion of our imports from the United States, including for instance, such necessary products as coal, petroleum and raw cotton, would clearly not be affected at all, and under present conditions of shortages on the supply side and urgent and unsatisfied demands on the other, the effect on our volume of imports of, say, a 10 per cent change in the cost of most other import items would be very slight indeed. After all, the rise in prices in the United States which has occurred since last July has had no apparent effect in discouraging imports to this country. On the export side, too, the change in the exchange rate has had relatively little, if any, effect in reducing the amount of our exports, except possibly to some extent in the case of gold and, indeed, the change may have actually increased our receipts of foreign exchange in some cases as a result of adjustments in the prices obtained by our exporters. Our judgment on this matter has, I think, been confirmed by the action of many other governments. The exchange rates which they have selected and maintained indicate fairly clearly their view that under prevailing conditions of widespread shortages, limited supplies and urgent needs, the possibility of a country improving its exchange position by currency depreciation is extremely limited. Our return to parity last July was designed to relieve the pressure on our price ceilings and reduce the strong tendency to inflation in both prices and costs of production. Evidence of the contribution it has made in this direction is to be found in a comparison of the movements of prices in Canada and in the United States since last July, which can be seen in table VI in the appendix to this budget.

Another important point to which the foreign exchange control board's report calls attention is the extent to which the deficit in our accounts with the United States is offset by dollars or their equivalent received from other sources, including those countries to which we have granted credits. Last year we received $237 million of gold and United States dollars as a result of transactions with countries other than the United States—chiefly the United Kingdom, France and other countries to which we had extended credits. This year we expect to receive substantially larger payments in convertible exchange from the United Kingdom and from a number of other countries. Since last January the United Kingdom has been paying us for a portion of its current Canadian requirements in sterling, which we can and do convert into United States dollars or other currencies we require.

Moreover, we have now reached the time when Canada may expect to benefit from the new international machinery which has been established during recent years to aid in international monetary and financial affairs. The recent commencement of operations of the international monetary fund may soon result in overseas countries providing us through the fund with cash or a source of cash. The international bank will very shortly be making its first loans. The additional United States dollars which these loans will provide should assist certain countries now borrowing from us to pay for a portion of their purchases here in United States funds.

Finally, as the house is no doubt aware, eighteen of the leading trading nations of the world are now engaged in Geneva in vitally important trade and tariff negotiations. These discussions are intended to lead to substantial tariff reductions in the United States and elsewhere and to the establishment of an agreed code of behaviour between nations in the field of commercial policy and related matters. The ultimate objective of these negotiations is to make possible the restoration of multilateral trade on a large scale, which is the best possible basis for Canadian prosperity and stability.

I have referred to certain elements in our exchange situation and prospects which have helped, or will help, to meet the problem caused by our large, adverse balance with the United States. I have done so in order to give the house a balanced picture. No one would deny that, even after allowing for these favourable elements (of which I may say there has been no general knowledge or appreciation), Canada in common with practically all countries in the world, other than the United States, has a United States dollar problem. This is no new problem with us. In the course of the war, to go no further back than that, we had a United States dollar problem which in some ways was more difficult than what we have to-day. Indeed, we reached a point in the early stages of the war when our reserves were almost completely exhausted. But we quietly took constructive measures to deal with the situation and thus owing in part to our own efforts and in part to the cooperation of the United States we were able to master the problem. Not only did we meet all our requirements but we entered the current period with exchange reserves several times as large as at any previous period in our history.

In considering the present situation, it behooves us to maintain a reasonably balanced perspective. In terms of basic economic fundamentals Canada's international position is stronger today than at any previous time in our history. We emerged from the war with our productive apparatus not only completely unimpaired but enormously enlarged and strengthened. Our working force is larger, more highly skilled, and more fully employed than ever before. Our competitive position in world trade has been greatly improved as a result of our increased efficiency and the degree of control we have been able to exercise over inflationary rises in prices. Since the beginning of the war we have reduced our net international indebtedness by about thirty-five per cent. and this in spite of supplying huge quantities of goods to our allies on a gift or mutual aid basis. In 1946 we had a favourable balance in our current transactions with the world as a whole greater than that achieved in any previous year.

In this field of international trade and exchange, there are unquestionably problems which we must face and changing situations to which we must adjust ourselves. It will continue to be our policy to seek for constructive solutions to these problems in a straightforward, common-sense manner in collaboration with other nations.

I believe the house is in general familiar with the main aspects of our negotiations with provincial governments during the past year, but perhaps I should not let this occasion pass without a few comments about this important problem of dominion-provincial relations.

The offer made by the dominion in the budget of last June was promptly accepted as a basis for negotiation by three provinces and later by several others. In the course of discussions with these provinces, which extended over several months, the original terms were subject to a number of modifications and the details of agreements embodying the necessary provisions to safeguard the interest of all parties were hammered out and agreed upon.

The modified formulae for determining the amount of the annual payments to be made to the various provinces were the product of a most intensive study of the whole problem and represent, I believe, the most successful attempt yet made to achieve equitable treatment of all provinces. They maintain intact the existing pattern of statutory subsidies which are the product of a long historical evolution and in the additional payments they represent a fair compromise between the two alternative methods of allocation, namely, fiscal need and taxability or tax potential—a fair compromise between the school of thought which believes in equal per capita payments and that which would base payments on the relative ability of the various provinces to raise revenues from the tax sources in question.

The stability of revenues assured by the guaranteed minimum payments represents one of the chief advantages of the plan to the adhering provinces. Their revenues will rise as their population and the gross national product rise but the assurance that regardless of fluctuations in the national income, regardless of whether the next few years bring a recession, provincial revenues will be supported by these large irreducible minimum payments is of particular value to them. Far from weakening their autonomy or sacrificing any of their constitutional rights, they have merely found a method of utilizing one of these rights —the method of renting instead of cultivating a tax field—whereby they can assure this revenue at generous levels guaranteed against the risks of economic adversity and participating also in the profits of growth and prosperity. With this assurance of stable and rising revenues, they are for the first time in a position to plan with courage and confidence and a sense of real independence, programmes for the efficient discharge of their constitutional responsibilities.

The government of Canada looks forward to the day when the agreement of all or substantially all the provinces will make possible the achievement of the great national purposes which impelled the dominion to make its comprehensive proposals of August 1945. These include not only the elimination all across Canada of the evils of duplication and conflict in the fields of direct progressive taxation which have such important economic effects, but also the development of an efficient and flexible tax system designed to promote the expansion of employment and incomes, as well as a comprehensive programme for the cooperation of dominion and provincial governments in the field of public investment and social security.

Nevertheless, we do not ask any province to accept a tax agreement unless it believes such agreement to be in its own interest as well as that of the country as a whole. We did our best to shape the offer of last June in such a way as to make it possible and satisfactory for any province to remain out of the agreement if it wished to do so, and we would far prefer to have a province remain out indefinitely than to endeavour to persuade it to come in against its own judgment of where its true interests lie.

REVENUE AND EXPENDITURE 1946-47

Detailed information about our revenue, expenditure and debt is provided for the house and the public in the white paper which will be printed as an appendix to the budget, and therefore I shall only draw attention here to the main points of interest. As

[Mr. Abbott.]

the accounts will not be completed for some weeks, the present figures are estimates which are still subject to change.

The grand total of expenditures for the year amounted to approximately $2,632 million, which was just over half, 51 per cent to be exact, of the expenditures for the preceding year. Total revenue of all kinds, including refunds of previous years' expenditures and other special receipts and credits, amounted to $2,984 million, only $29 million less than the total of the previous year. There was consequently a surplus of about $352 million, constituting a reduction in our net debt. This is, of course, a surplus of quite unprecedented size and, in fact, compares with a total of $319 million for all previous surpluses in Canada's account since confederation. Such a surplus is, of course, very gratifying. We can take legitimate pride in the fact that in the first fiscal year beginning after V-J day we have been able to better than balance our public accounts by a wide margin. This large surplus is a tribute primarily to the health and strength of Canada's economy but the government of the day and particularly my predecessor, the present Minister of Justice, are, I believe, entitled to take credit for the prudent management of the country's financial affairs to which this result bears witness.

We should not, however, be led into false optimism, nor should we jump to the conclusion that our present tax structure is much more than adequate to meet all our future requirements. There are abnormal aspects of both the revenue and the expenditure sides of our accounts which need to be considered before we can obtain anything like a true picture of probable future budgets.

On the revenue side, for instance, there are special receipts of $372 million, representing the proceeds of sale of surplus war assets, refunds of previous years' expenditures and other credits of a temporary character.

Some hon. MEMBERS: Oh, oh.

Mr. ABBOTT: Yes, but there are also excessive expenditures on the other side.

In addition our tax revenues include a substantial amount of payments by taxpayers in respect of income received in earlier years or arising out of the non-recurrent taxation of accumulated surpluses of private companies. Moreover, our revenues are based on very high levels of production, incomes and imports which we probably cannot expect as normal levels in future years. I have said enough to demonstrate that it would be a mistake for us to assume that, if we were to retain our present tax structure, we could expect to obtain total revenue of a magnitude approaching that of the year just closed.

But while I emphasize that, I also wish to stress the fact that our expenditures for the past year included substantial sums for items of a temporary, abnormal or non-recurring character. National defence, for instance, spent some $376 million during the year, which is $136 million more than is being estimated for the current year. The Department of Reconstruction and Supply spent $70 million on liquidation and termination of contracts alone. Veterans Affairs paid out almost $320 million for war service gratuities and re-establishment credits, $100 million for discharge benefits and $50 million for treatment services. The continuing cost of subsidies introduced during the war accounted for about $208 million. There were many other items included in the 1946-47 expenditures which will either be entirely eliminated or greatly reduced in future years. The grand total of expenditures incurred last year must therefore be considered in the light of these abnormal or non-recurring factors. On the other hand, there is another type of allowance which will have to be made, if and to the extent that this parliament approves the undertaking of new services or the provision of new benefits. Here, in this parliament is where the real control of expenditure must rest. We may talk all we like about the necessity of reducing expenditures but if, at the same time, or, perhaps on the following day, we press for this or that new service or benefit, this or that new project, or an increase in this or that benefit, we are thereby making it impossible to maintain that more reasonable level of public expenditures which the cessation of war and demobilization expenditures should bring.

What I am getting at is this: Our surplus is a real one and one from which we can find encouragement, but it has been obtained at high levels of revenue and expenditure which do not necessarily give an accurate indication of the shape of things to come.

Total revenues for the year exceeded by $509 million the forecast made in the budget of last year. The largest increase over the forecast was in the item for special receipts, which the then Minister of Finance stated could only be an arbitrary estimate, and in respect of which we received in fact $372 million rather than $200 million. He stated that the estimates in respect of other items were believed to be conservative, and I think the prevailing view was that he was not being conservative enough. Caution was the only attitude which a responsible Minister of Finance could take, particularly in the light of the prevailing shortages, uncertainties and industrial unrest which prevailed when the budget was brought down.

In any case, our production, trade and income, on which our revenues were based, turned out to be surprisingly well maintained last year, despite the early difficulties and uncertainties. Consequently customs duties and personal income taxes, both highly sensitive to economic change, substantially exceeded our forecasts. We probably underestimated the effect on our income tax revenues of the return of veterans now getting taxable wages and salaries instead of tax-free service pay and allowances, as well as the effect of the large retroactive increases in wage rates. Corporation profits also turned out to be considerably higher than it had been felt safe to count upon, with the result that revenue from corporation income tax and excess profits tax amounted in all to about $688 million, which was 27 per cent above the forecast. Sales tax as well reflected the much greater supply of consumers' goods available for the market. Its yield at about $300 million was 20 per cent above the figure included in the last budget. Other excise taxes on consumers' goods showed a much smaller increase over the figures budgeted, and the yield of excise duties on liquor and tobacco turned out to be quite close to the anticipated figures. Succession duties, taxes on interest and dividends going abroad, and miscellaneous taxes produced revenues close to the estimated figures, while non-tax revenues were slightly less than anticipated.

On the expenditure side, the figures for the last year were well below the amount estimated. The total as estimated at present, is $2,632 million, which is $137 million, or 5 per cent, below the total of the main estimates for the year, which in the budget was taken as a safe limit to set on probable total expenditures.

Expenditure on national defence amounted to $376 million, which was $113 million less than that authorized by the estimates, and was, of course, only a small fraction of such expenditure in the previous year. Expenditure by reconstruction and supply, mainly on contract termination, emergency housing and coal production, amounted to about $137 million, compared with total estimates of $231 million, the main reduction by comparison with the estimates coming in connection with termination of war contracts. Expenditures of all kinds by the Department of Veterans Affairs amounted to about $607 million compared with aggregate estimates of $667 million. As I have said, the total cost during the past year of subsidies of all kinds, introduced during the war, paid by various departments and agencies amounted to approximately $208 million.

Following the practice of the last six years I have provided for an addition of $25 million to the reserve for possible losses on the ultimate realization of active assets. Under the Consolidated Revenue and Audit Act it is the duty of my department to present in the public accounts, to quote from the act, such "accounts and matters as are required to show what the liabilities and assets of Canada really are," at the date of such statement. I believe this obligation is to present what is considered to be a true picture of such assets and liabilities. The government of Canada has loans, advances, investments and other assets amounting in the aggregate to over $4,746 million which it carries in its books as active assets. It is obvious that while these assets on the whole are believed to be good assets, there is bound to be a certain percentage of loss on their ultimate realization. No one can forecast the future with sufficient accuracy to know precisely how large this loss may be. We can only use reasonable judgment and each year since 1941 it has been decided that the reasonable thing to do was to set aside $25 million as a reserve to take care of such losses. At March 31 last, the total amount in this reserve was $155 million after certain write-offs had been made against it. I would not go so far as to say that this sum, which represents 3.2 per cent of the total book value of our active assets, is a highly conservative estimate of the amount necessary to bring the book value of our active assets to a wholly realistic basis but I do believe that it is not an unreasonable provision for the purpose. No doubt ministers of finance reviewing the situation in future years may wish to build up the reserve to a somewhat larger amount over a period of time.

I have already referred to the impossibility of predicting with accuracy the probable total amount of ultimate loss in respect of all our active assets. It is even more difficult to assign this loss to individual assets or types of assets, although losses are more likely in certain cases than in others. In any case I am convinced that it would be unwise from the point of view of public policy to break up this reserve and earmark it against particular items in our active assets. No business man would reveal in his published statements the amount of his bad debt reserve carried against the account of each individual debtor; if he did, he would place himself in a very weak position in the collection of his accounts. Similarly, I believe that it would not represent prudent or efficient administration of Canada's financial affairs to show in the public accounts specific reserves to meet possible losses in connection with specific assets. The general reserve offers a better method of assuring a true presentation of Canada's assets without any disadvantage.

I should point out that while it is believed no specific parliamentary authority, other than that to which I have referred, is necessary to set up and add to this reserve, it is of course clear that no asset can be written off in whole or in part and the write-off charged to this reserve, unless there is parliamentary authority, general or specific. During the past year, write-offs amounting to $19·6 million were made and charged to this account. These involved various investments made during the war in government owned plant and equipment carried in our books as active assets, and the authority for the write-offs was the Surplus Crown Assets Act.

In addition to our budgetary expenditures the government made substantial outlays during the year in the form of loans or advances or the purchase of investments, in regard to which detailed information will be found in the white paper. The largest of such investments was that of $640 million in advances to the United Kingdom under the financial agreement approved by parliament last year. The United Kingdom drew rapidly on this credit during the past fiscal year, but we do not expect drawings this year to be so rapid, as a considerable part of British requirements in Canada are now being met by payments in convertible foreign exchange derived from other sources. Drawings under export credits to other countries amounted in all to about $267 million. All these were offset to a large degree by repayments of earlier loans and advances to various governments, so that our net investment in credits to other governments last year amounted to $648 million.

Owing to our surplus of revenue over expenditures, and repayments of various loans and advances. including some of those made to the foreign exchange control board. it was possible to meet all our requirements for cash, apart from debt redemption, without net new borrowing during the year. The only sale of new securities to the general public was the issue of Canada savings bonds, which commenced in November. The amount of this issue outstanding at the end of the fiscal year was $488 million. The proceeds of this issue, together with other available funds, made possible the redemption of $779 million of matured or called securities, apart from those renewed or converted, which resulted in a net reduction during the year of $283 million in our funded debt.

The estimated gross liabilities of the dominion at the end of the fiscal year amounted to approximately $17,660 million, against which active assets of approximately $4,590 million were held, leaving an estimated net debt of $13,069 million as of March 31. This, of course, is $352 million less than a year ago, as a result of the surplus on the year's operations. I should repeat that these figures are preliminary estimates subject to adjustments before the final accounts are struck.

BUDGET FORECAST 1947-48

In assessing the budget requirements for the new fiscal year, we should first recall that the total expenditures provided for in the main estimates are approximately $1,996 million. To this must be added $6 million of supplementary estimates already introduced, making the total $2,002 million. There will as always be supplementary and further supplementary estimates which must be taken into account and, on the other side of the ledger, we may expect the departments to make certain savings in the funds made available to them. It is the net result of these factors which will determine the total expenditures for the year.

At this time it is not possible to forecast with great accuracy the amount of additional funds which parliament will be asked to provide before the end of the year. However we can already see some of the purposes for which more funds will be required. One of the most important of these is to carry out our obligations under the new taxation agreements with certain provinces. Funds for this purpose could not be included in the main estimates, as the authority to enter into such agreements had not yet been granted by parliament, but in making our budget plans we must, of course, allow for them. At the present time the governments of six provinces have obtained or are now in the process of obtaining from their legislatures authority to enter into agreements. Our latest calculations of the gross annual payments to be made to these provinces in respect of the fiscal year 1947-48, using preliminary estimates of population and of gross national product, give a total of approxmately $78,400,000. From this amount must be deducted the statutory subsidies payable to these provinces. Only three-quarters of the net remaining payments to the provinces, or approximately $52,150,000, will be payable during the current fiscal year because of the timing of the quarterly payments involved.

From these payments one would normally deduct a credit for the special corporation income tax to be levied by the provinces in accordance with the agreements. It has been estimated that this adjustment for the six provinces under consideration would be in the neighbourhood of 15 to 20 million dollars for a full year, but no deduction in respect of this item will be made until after the end of this fiscal year.

To the net total I have already mentioned, we must add the subsidies to be paid to the maritime provinces under the Duncan and White commission awards, namely $2,475,000, and the special payments to be made to New Brunswick and Prince Edward Island in respect of the "gap" between the termination of their war-time tax agreements and the date from which the new agreements will commence, April 1, 1947. These payments, for which authority will be sought in the new legislation dealing with the tax agreements, will amount to slightly more than $3 million. The total, therefore, which we must add to the estimates to cover additional payments to provinces, is approximately $58 million. Of course, if more than six provinces enter into the agreements during the year, the total may exceed this figure.

While these further payments to provinces will be the most important addition to the expenditures contemplated by the main estimates, there will be others, some of which cannot now be foreseen but a number of which are already in prospect, as for instance, the increases in old age pensions to be provided for by legislation already announced. While we expect that, as usual, departments will not spend all of the funds provided for in every one of their votes, I do not think it is safe this year to count on savings as large as usual, in view of the pressure that has been put on all departments to cut their estimates to the bone. After making due allowance for all the considerations that appear pertinent and endeavouring to avoid either excessive caution or undue optimism, I have come to the conclusion that the best estimate that can be made at the present time of our total expenditures for the current fiscal year is $2,000 million.

Turning to the revenue side, we estimate that our present taxes under the laws now in force and applied under the conditions of the current fiscal year as we now foresee them would yield total revenues of approximately $2,450 million. This includes tax revenues estimated at $2,200 million, non-tax revenues (mainly return on investments and post office receipts) estimated at $160 million, and special receipts and credits estimated at $90 million. These tax and revenue figures include an estimated yield of $40 million for gasoline taxes, the repeal of which as from April 1 has already been announced and which is included with the tax changes in this budget. With the consent of the house, I shall place on *Hansard* a table showing the details of this estimate in comparison with the actual revenues of 1946-47, as now estimated.

—	Forecast Fiscal Year 1947-48	Actual Fiscal Year 1946-47
	(millions) $	(Preliminary) (millions) $
Customs Duties	230	237
Excise Duties	200	196
Sales Tax (net)	325	298
Other Excise Taxes	290	281
Income Tax—		
Personal	625	695
Corporate	300	239
Excess Profits Tax	170	449
Interest and Dividends	30	30
Succession Duties	26	24
Miscellaneous	4	10
Total Tax Revenue	2,200	2,459
Deduct Refundable Taxes	....	−7
Non-Tax Revenue	160	160
Total Ordinary Revenue	2,360	2,612
Special Receipts	90	372
TOTAL REVENUE	2,450	2,984

It will be noted that total estimated revenue on this basis would be $534 million less than in the year just closed. One of the principal reductions expected, namely $282 million, is in special receipts and credits, where we can no longer count upon large refunds of previous years' war expenditures or upon such large sales by War Assets Corporation as during the past year. We also anticipate a large reduction in the revenue from excess profits tax as a consequence of the changes introduced last year and which are only now taking full effect upon our revenue; this decrease will be offset in part by a corresponding increase in revenue from the corporation income tax, which has replaced a portion of the flat rate of the former excess profits tax. Personal income tax revenues are also shown at a lower figure as a consequence of the changes which went into effect on January first this year. Apart from these changes and certain minor ones that I shall not attempt to mention here, the table shows that we are anticipating a buoyant effect on revenues resulting from a national income and expenditure likely to be somewhat higher this year than last.

It will be apparent from the estimate of expenditure and revenue which I have just made, that if no tax changes were made we would anticipate a surplus of approximately $350 million during the fiscal year which has just begun. In view of the inevitable uncertainties, both in regard to several major items of expenditure and in regard to the level of corporate profits and other constituents of national income, we cannot take this forecast as a firm figure but it is the best estimate which we can make at the present time and indicates the general nature of the budget situation confronting us.

The house is of course aware that in addition to our budgetary expenditures, the government is also called upon to provide cash during each fiscal year for the making of certain loans. advances and investments which increase the active assets of the dominion and therefore do not affect the surplus or deficit or the net debt. Apart from the usual capital advances to the Canadian National Railways and the national harbours board and loans for housing or to veterans, the principal items of this nature to be expected during the coming year are the continuing advances to Britain and other governments under existing agreements. As at April 1, the sums still remaining unused in these credits aggregated $870 million. There is likely to be some offset to this type of demand upon our cash resources in the shape of further repayments of various loans and advances previously made. However, any proper estimate at this time of the net result of these advances and repayments would be almost impossible to make. I shall therefore not venture to make any forecast as to our net cash requirements over and above our budgetary expenditures. We should, however, always bear in mind that a prospective budget surplus in our accounts does not necessarily mean a surplus of cash receipts over cash requirements.

We must also bear in mind that before the end of this fiscal year we must repay refundable taxes amounting to $89 million, $58 million being in respect of personal income taxes and $31 million for excess profits tax.

TAX POLICY

From what I have already said it will be clear that we can afford tax reductions without thereby creating a deficit in our accounts. Reductions in taxes leading to modest reductions in our revenues will result not in an increase in our net debt but rather in a smaller prospective reduction in that debt.

From some points of view it can be strongly argued that under the prevailing favourable economic conditions we should concentrate upon the maximum reduction of the national debt which of necessity had to be built up to such huge proportions during the war. It is a sensible and far-sighted policy to reduce the national debt in good times and permit it to increase in times of economic adversity. We must expect, I believe, that at times when our employment, production and incomes are below satisfactory levels, our revenues will fall short of our expenditures. Indeed, at such times it will probably be necessary to incur expenditures of various kinds to assist in restoring better levels of employment and income. It is a necessary corollary of this that we should aim at a surplus in times of prosperity and very high levels of income and employment, such as we have at the present time. Only by efforts to maintain our revenues under such conditions can we hope to avoid indefinite and undesirable accumulation of debt over the long run.

Economic considerations alone would hardly justify immediate tax reductions. As I have already stated, there are still substantial inflationary pressures pushing our prices and costs up. Reductions in taxes may add to these pressures in some measure, though they should reduce some of the demand for higher wage rates.

We must, however, look beyond these immediate circumstances and take other factors into account. The rapid rate at which taxes had to be increased in Canada during the war, experienced against our North American background of a long history of low taxes and relative freedom in economic affairs, has given rise to an acute tax consciousness.

Had our taxes been raised gradually and under normal conditions to their present levels, had they been increased for the productive, peacetime purposes of national development and social security rather than for the unproductive purposes of war, then the present levels might perhaps have been acceptable and tolerable as continuing levels. Instead, however, they represent a position to which we have returned after a sudden and unpleasant excursion into painful wartime levels of income tax, and people are still smarting so much from their wartime experience that even after the substantial reductions made in the last two budgets, the present levels of personal income taxes are regarded as excessive by a large proportion of the public. Therefore, whatever may be argued from the point of view of immediate economic effects or long-term debt policy, one must reach the conclusion that those who must bear them are not ready to support income taxes on the present scale. In fact, I am sure that were our present levels of personal income tax to be continued, they would constitute a serious impediment to a full working effort and a brake upon the drive and initiative of men and women in all groups and classes.

There is another important point. We in Canada must always remember the effect upon us and our policies of our proximity to the United States. So close and insubstantial is that common boundary line to most Canadians, so many-sided are the business and social relationships between our two peoples, so important is the influence exerted by the larger economy upon the smaller one, that we cannot for long follow widely divergent tax policies without causing serious strains. It would appear that if Canadians are asked to carry tax burdens which, after making due allowance for lower cost of living or lower cost of doing business or other offsetting factors, are significantly heavier than those imposed by the United States, there is a risk of a serious drain of Canadian personnel to the south for this reason alone.

PERSONAL INCOME TAX

I am consequently proposing to make a substantial reduction in taxation in this budget. Moreover, I am proposing to concentrate this reduction almost entirely in the field of personal income tax. This is the tax that at present levels is proving so unpopular and is causing difficulty. To overcome the situation which I have described a substantial reduction is necessary, and I do not feel that we can afford the reduction required in this field and also substantial reductions in other forms of taxation in the face of the responsibilities which Canada finds upon her shoulders in this post-war period.

In reducing the rates of income tax I have, of course, endeavoured to graduate them as fairly as possible, giving the greatest proportionate relief to those in the lowest brackets, but granting some relief to all. I have also had in mind keeping the rates of tax on additional income that a person may earn down to sufficiently reasonable proportions that the tax on such additional income does not offer a serious barrier to extra effort or initiative, including overtime work, for example.

I am, therefore, proposing a new and substantially lower schedule of rates of income tax to come into effect on July 1. Under this new schedule, the average amount of tax will be reduced by about 29 per cent, as compared with the present rates, and our revenue will be reduced accordingly. Nine out of ten taxpayers will find their taxes reduced by 29 per cent or more from existing rates. The reduction as compared with present rates is as much as 54 per cent in the bottom bracket, but is limited to about 6 per cent or 7 per cent in the top brackets. The new schedule has an initial or starting rate of 10 per cent instead of 22 per cent, as at present. The rate then steps up gradually over relatively short brackets and becomes 20 per cent over a considerable range of income in the lower middle brackets. As nearly as we can estimate, 95 per cent of all the taxpayers will find that under this new schedule the marginal rate of tax, that is to say, the rate on each additional dollar that they earn, will not exceed 20 per cent. The new schedule reaches a rate of 50 per cent on additional income at the level where income exceeds exemptions by $17,000, in place of $13,000 under the present schedule. The tax reaches a maximum of 80 per cent at the top on incomes in excess of $250,000 a year.

It is proposed to retain the same general structure of exemptions and allowances that was established last year. This structure, as the house is aware, has been considerably simplified as compared with the elaborate and complicated structure which prevailed during the war years, and we have achieved, I believe, the simplest practicable method of taking family allowance payments into account.

The exemption levels established last year are high enough to exempt completely from tax more than half the people earning incomes in Canada. Consequently it can be said that any person who pays income tax now has more than an average income, taking his or her marital and dependent status into account. Moreover, taxpayers with income only a little in excess of the exemptions will pay only a very small tax under the new rates, a good deal less than in the United States under either the existing or the proposed new schedule which has been approved by the house of representatives but not yet by the senate or the President. If we raised exemptions above the levels established last year, we should in fact be sparing so many from income tax that it would be unfair to the large number of the people who are below the present exemption levels, because we would inevitably be forced to rely for necessary revenues upon indirect taxes which would bear more heavily upon the low income groups.

It must be remembered, too, that raising the exemptions results in a very substantial loss of revenue because it affects all taxpayers, including those in the highest brackets, and the saving for each taxpayer is his highest rate of tax applied to the increased amount of his exemption. Already our exemptions are considerably higher than those in the United States and in the United Kingdom, the countries to which we would most naturally look for comparison. If, as some have suggested, we restored the prewar levels of exemptions, we should have to sacrifice more revenue than the whole of that sacrificed by the rate reductions I am now proposing, and we would be doing practically nothing by such action to reduce the rate of tax on additional earnings for those who remain subject to income tax. It is the high marginal rate of tax on additional earnings that discourages additional work, enterprise and initiative, and consequently we must aim in our reductions at cutting down these marginal rates of tax.

I am proposing that the new schedule of rates go into operation as of July 1, which is the earliest date by which it will be possible to prepare the new tables and get them into the hands of employers. As from that date deductions from wages and salaries will be adjusted to the levels appropriate to these new rates. The new tax rates themselves will apply fully, in the absence of modification by later budgets, to the income for 1948 and subsequent years. For the current year, 1947, total tax liability will be calculated by applying the existing rates, which went into effect on January 1, to half of the taxpayer's income for the year and the new rates to the other half. In other words, the effective tax rate for the year as a whole will be the average of the two sets of rates.

A few examples will probably illustrate more clearly than any description the effect of the proposed changes. A married man without children and with an income of $150 a month now is subject to a monthly deduction in respect of tax of $5.35 and must pay a total for the year of about $68 at the rates now in effect. Under the new rates his monthly deduction will be only $2.85 and his liability for a whole year will be $36. For the year 1947 his total tax will amount to $52 collected at the present rate of deduction for the first half-year and at the new rates for the last half of the year. In the United States, his total tax for a full year would be $118 under existing rates and $82 under the new proposal to which I have referred.

In Canada, a single person without dependents and with an income of $100 a month will under our present proposals find his deductions each month being reduced from $8.30 at present to $4.80 after July 1, and his tax liability for a whole year, instead of being $105 will be $61; for the year 1947 it will be the average of these two, namely $83.

Married persons with two children and a monthly income of $250 will find their deductions reduced from the present figure of $25.85 per month to about $18.30, while their annual tax bill will be reduced from $327 to $230; the average applicable to this year will be $278.

Further up the scale the more fortunate individual, married, with no dependents and with an earned income of, say, $10,000 a year will find his annual tax bill cut from $2,723 to $1,990, while his bill this year will be $2,356.

It will be agreed, I believe, that income tax reductions, averaging over 29 per cent for all taxpayers and running up to 54 per cent for those in the lowest taxable brackets, are very drastic reductions. They are particularly significant when we remember that they follow the substantial reductions made in each of the last two budgets. I have had a calculation made to show just how much the total reduction has been from the war-time peak of income tax rates, the rates imposed by the budget of 1942. I am advised that the best way of getting the answer to my question is to apply to the estimated volume and distribution of personal incomes in a recent year the tax rates that were applicable under the 1942 budget and those in the new schedule which is to be found in the first resolution that will be tabled at the end of this budget. Such a calculation has been made. It shows an over-all reduction in the total personal income tax burden on the Canadian people of 51 per cent, taking into account only the fixed tax in 1942 and not the compulsory savings portion. If this portion were included in such calculation, the percentage reduction would, of course, be substantially higher.

I believe that the verdict of all responsible persons will be that we have gone as far as we can possibly afford to go under the present circumstances. The new rates reduce taxes very materially in the lower brackets and bring them quite substantially below tax rates in effect and proposed in the United States and of course very much below comparable rates in the United Kingdom, Australia and New Zealand. Higher up the scale, in the middle brackets, our proposed rates are also generally lower than those now applicable in the United States, but are somewhat higher, in dollar amount only slightly higher, than the new rates proposed in the United States, to which I have already referred but which of course may not be the rates finally adopted there.

These middle brackets represent a category of incomes to which we gave the most careful consideration. They include the salaried classes which according to much prevailing opinion have shared less than other classes in the economic gains made since 1939. The group also includes the young professional or scientific men and the young business executives for whom the attractions in the United States of more specialized opportunities and the possibility of ultimately higher rewards exercise the strongest appeal. Since early in the war our rates have been more progressive than the United States rates. However, after a great deal of study we have been able to deal with these middle ranges of income in such a way, I believe, as to achieve the maximum of fairness and the minimum of practical difficulties.

For the convenience of hon. members, I would like to place on *Hansard* at this point several tables illustrating our new rates of tax for single persons, married persons with no dependents, and married persons with two dependents, as compared with existing rates, and also a table comparing our taxes with those now in effect in the United States and with those proposed in the bill passed by the house of representatives.

PRESENT AND PROPOSED INCOME TAX

SINGLE TAXPAYER

Income	1947 tax at present rates	1948 tax at new rates	Percentage reduction from present rates	1947 tax 6 months at present rates and 6 months at new rates	Percentage reduction from present rates
	$	$	p.c.	$	p.c.
$ 750	....	....	....	....	....
800	11	5	54	8	27
900	33	16	51	25	25
1,000	55	29	47	42	24
1,200	105	61	42	83	21
1,500	180	120	33	150	17
1,800	257	180	30	218	15
2,000	313	220	30	266	15
2,250	383	270	29	326	15
2,500	453	320	29	386	15
2,750	523	370	29	446	15
3,000	593	420	29	506	15
3,500	740	520	29	630	15
4,000	895	620	29	758	15
5,000	1,205	835	29	1,020	15
7,500	2,058	1,465	29	1,761	15
10,000	3,038	2,253	26	2,645	13
20,000	7,900	6,515	17	7,208	9
30,000	13,400	11,728	12	12,564	6
50,000	26,091	23,456	10	24,773	5
75,000	43,516	39,418	9	41,467	5
100,000	62,016	56,631	8	59,323	4
200,000	143,441	133,056	7	138,248	4

NOTE.—In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

PRESENT AND PROPOSED INCOME TAX

MARRIED TAXPAYER—NO CHILDREN

Income	1947 tax at present rates	1948 tax at new rates	Percentage reduction from present rates	1947 tax 6 months at present rates and 6 months at new rates	Percentage reduction from present rates
	$	$	p.c.	$	p.c.
$ 1,500	....	....	....	....	....
1,600	22	10	54	16	27
1,800	68	36	47	52	24
2,000	118	70	41	94	20
2,250	180	120	33	150	17
2,500	243	170	30	206	15
2,750	313	220	30	266	15
3,000	383	270	29	326	15
3,500	523	370	29	446	15
4,000	663	470	29	566	15
5,000	973	670	29	821	15
7,500	1,793	1,260	29	1,526	15
10,000	2,723	1,990	27	2,356	13
20,000	7,488	6,140	18	6,814	9
30,000	12,988	11,315	13	12,151	6
50,000	25,641	23,043	10	24,342	5
75,000	42,991	38,968	9	40,979	5
100,000	61,491	56,143	8	58,817	4
200,000	142,841	132,493	7	137,667	4

NOTE.—In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

[Mr. Abbott.]

PRESENT AND PROPOSED INCOME TAX

MARRIED TAXPAYER WITH TWO CHILDREN OF FAMILY ALLOWANCE AGE

Income	1947 tax at present rates	1948 tax at new rates	Percentage reduction from present rates	1947 tax 6 months at present rates and 6 months at new rates	Percentage reduction from present rates
	$	$	p.c.	$	p.c.
$ 1,700					
1,800	22	10	54	16	27
2,000	68	36	47	52	24
2,250	130	80	38	105	19
2,500	193	130	33	161	17
2,750	257	180	30	218	15
3,000	327	230	30	278	15
3,500	467	330	30	398	15
4,000	607	430	30	518	15
5,000	911	630	30	770	15
7,500	1,725	1,208	30	1,466	15
10,000	2,647	1,930	27	2,288	14
20,000	7,378	6,040	18	6,709	9
30,000	12,878	11,205	13	12,041	6
50,000	25,521	22,933	10	24,227	5
75,000	42,851	38,848	9	40,849	5
100,000	61,351	56,013	8	58,682	4
200,000	142,681	132,343	7	137,512	4

The above figures show the actual income tax liability of a taxpayer with family allowance children' but in order to arrive at his true net position the amount of family allowance received for his children must be offset against his tax liability. For example, assuming he receives the average family allowance payment of $72.00 a child, a taxpayer with an income of $2,500 and two children would find that under present rates his income tax exceeded his family allowance by $49.00, while under the proposed rates his family allowance payments will exceed his income tax liability by $14.00.

NOTE.—In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

It is estimated that these proposed reductions in income tax rates will reduce our revenue from this tax by an amount of approximately $175 million for a full year. It is estimated that the effect upon the revenues of the current fiscal year will be about $110 million, as a part of our collections this year will be based on the previous tax rates before change.

I am endeavouring to make this a relatively simple budget and I am not, therefore, proposing any other substantial changes at this time in the income tax, although I shall later mention some minor amendments. We have been busy during the past year upon the re-writing of our basic income tax law in an effort to improve its arrangement, to make it clearer and simpler, and to remove ambiguities and anomalies. Hon. members will, I think, be particularly pleased with the extent to which it will be less dependent upon the exercise of ministerial discretions. Senior officials of the Departments of Justice, National Revenue and Finance have spent many months on a very detailed revision. I have taken a considerable personal interest in their work in this field. I hope to be able later in the session to introduce a bill embodying this general revision of income tax law with the intention of making it effective with respect to incomes of 1948. In all probability it will not be expedient or reasonable to ask the house to enact this new bill in the current session, but I believe it would be useful to bring it in this session in order to give members full opportunity to study it and mull it over, so that the country may get the full benefit of their consideration of all its details. We do not consider that this measure, when enacted as law, will constitute the final word, but we believe it will provide a framework within which further improvements can be made over the course of future years.

In addition to this new income tax act, we also will have ready for action in this session a complete revision of the Special War Revenue Act and which we propose to rename "The Excise Tax Act". When parliament has had an opportunity to deal with these two revisions, we shall have made a great advance

COMPARISON OF PERSONAL INCOME TAX—CANADA AND UNITED STATES

MARRIED TAXPAYER.—NO CHILDREN

Income	Canadian tax at new rates	U.S.A. tax at present rates (a)	U.S.A. tax at rates in bill passed by House of Representatives (a)
	$	$	$
$1,200	....	15	11
1,300	....	32	23
1,400	....	49	35
1,500	....	67	47
1,600	10	84	59
1,800	36	118	82
2,000	70	152	106
2,250	120	195	138
2,500	170	238	183
2,750	220	280	224
3,000	270	323	258
3,500	370	411	329
4,000	470	505	404
5,000	670	694	555
7,500	1,260	1,292	1,034
10,000	1,990	2,024	1,619
20,000	6,140	6,142	4,913
30,000	11,315	11,676	9,340
50,000	23,043	24,453	19,562
75,000	38,968	42,707	34,166
100,000	56,143	62,714	50,171
200,000	132,493	147,697	118,157

(a) The U.S.A. taxes shown are Federal taxes only; most States have income taxes in addition to the Federal tax. In Canada no personal income tax is levied now by any province. Under the United States income tax law every taxpayer is allowed a deduction of 10 per cent of income up to a maximum of $500 in lieu of deductions for medical expenses, charitable donations, etc., and this is taken into account in calculating the taxes for United States; Canadian taxpayers who can claim such deductions would pay less tax than shown by this table, since no allowance has been made for such deductions in calculating the Canadian tax.

NOTE.—In calculating the above Canadian taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No distinction is made between investment and earned income under the United States tax.

in the complete overhauling of our tax legislation, which the government regards as one of its major, immediate post-war objectives.

CORPORATION AND EXCESS PROFITS TAXES

I turn now to corporation income and excess profits taxes. Effective at the beginning of 1947, these have been reduced to a straight corporation income tax of thirty per cent on profits, plus a tax of fifteen per cent on excess corporation profits. As my predecessor stated last year, the excess profits tax has distinct weaknesses and limitations in normal times and is not, therefore, to be accepted as a permanent part of our tax structure. As he said, the government decided last year that it would be retained for this year, 1947, unless provision is made for its earlier repeal at this session of parliament.

We have given careful consideration to the question of whether or not this tax should be repealed before the end of the year, and have taken into account the views and arguments advanced from many sides. If business conditions had now returned to normal and we could rely upon the forces of competition and bargaining to keep profits at normal levels, we would be justified in repealing this tax with effect before the year end. If business needed larger profits to encourage and enable it to provide additional employment by greater expenditures, we should repeal the tax forthwith. Neither of these conditions exists at present. While competition is returning and supply is catching up on demand, profits before tax still are running at abnormally high levels, due to the after-effects of the war, including continuing demobilization and export credit expenditures. Business confidence and available funds are so high that a good many business men are competing more in their efforts to expand their investment quickly than in getting down their costs and keeping down the prices at which they sell their products. In all these circumstances, the government has decided that this tax should not be terminated until the end of the year.

A short time ago in this house I urged Canadian business men to reduce their prices as their volume and efficiency of business expand. I stated that it is neither proper nor even good business to charge all the traffic will bear. I want to emphasize that view again now. We in the government, and the vast majority in this house and in this country, believe in what is now called "free enterprise". We believe in it not as a windy doctrine or a mystic ideology, but as a sensible way of getting things done. It must prove itself and justify itself by its results. With the orderly removal of controls, with increasing supplies of material, with efficient and cooperative labour, and with ample markets, Canadian business enterprise is in a most favourable situation. We all expect it to show its mettle, both in production and in marketing. We expect it to show its ability to keep down costs and prices. In its own long-run interest, as well as in the national interest, business must keep its prices down and its profits within reason.

While most of the minor amendments in our tax laws will be dealt with in the revised act, about which I have already spoken, there are a few changes applying particularly to corporations and other businesses which I wish to propose at the present time.

In the first place, I am proposing that we levy a 5 per cent withholding tax on dividends paid by wholly-owned Canadian subsidiaries to their parent companies abroad. We have no tax of this kind on such companies at present, but such a tax is permitted by our tax convention with the United States which levies such a tax, and we feel that it is not unreasonable for Canada to have one as well. This new measure is to come into effect immediately, and I estimate that in a full year it will yield three or four million dollars.

It is also proposed to extend for 1948 the allowances that have been made in recent years for expenditures on exploration for oil, gas and other minerals. We believe that these allowances have been important in facilitating and encouraging mineral exploration and development, and that we should continue them at least for another year. We propose to change the form of these allowances from the present form of a tax credit to the more normal form of a deduction from income. In the case of the special allowance provided for expenditures on deep test wells, we will make a further special provision to preserve the equivalent value of the tax credit now granted.

In accordance with the announcement made several months ago, I am also proposing to introduce a special provision in the income tax law to ensure that the income content of funding or refunding security issues received by taxpayers after January 1, 1947, will be taxed as income in the year in which the new issue is received. As I explained in the announcement, we feel that it is necessary to take this precaution to safeguard our revenue and to preserve equity.

Other proposed amendments relating to the income tax act will remove the residence requirements for dependent wives and children, now possible after the war conditions are ended, and lengthen the period within which refunds of over-deductions may be claimed; make provision for tax credits to Canadian companies in respect of corporation income tax paid to a foreign government on income of a foreign corporation in which the Canadian company owns more than 50 per cent of the voting stock; amend the part of the act dealing with the undistributed income of private companies in several minor respects; and also amend one or two provisions of the act which must be revised to carry out the terms of the agreements with the provinces. I shall give explanations and details of these minor amendments when we are dealing with the resolutions. There are some other detailed provisions in the amending bill itself which can best be explained and discussed when we have it before us.

COMMODITY TAXES

In the field of taxes on commodities, the only major change which I am proposing is to give effect to my earlier announcement that the gasoline tax of 3 cents a gallon will be repealed as from April 1. It is estimated that this tax would have yielded us close to $40 million in the current fiscal year, and I must, therefore, take account of this loss in our estimate of total revenue. It is, of course, well known that our purpose in withdrawing from this field of taxation at this time is to leave the provincial governments, which have traditionally occupied the field, full scope to carry out whatever policy they think best within it. As a result, the reduction in our tax may not result in any reduction in taxes paid by the consumers of gasoline, but that, of course, is a matter for each provincial government to decide in its own case. Pending action by parliament, I requested the Department of National Revenue to suspend collection of the tax from April 1.

We are also proposing to make certain minor amendments in the tax on passenger transportation, to conform with recent changes in the corresponding tax in the United States. It is desirable in this field to preserve as much similarity as possible between the taxes in the two countries, as that simplifies greatly the position of our common carriers. We are also proposing to iron out certain minor anomalies in the structure of the sugar tax and to make certain technical changes in the Act to improve its effectiveness.

TARIFFS

I have already referred to the tariff negotiations now taking place in Geneva. These are of the greatest importance to Canada. We hope and expect that out of them will come sufficient reductions in tariffs to make it practicable to establish an international trade organization and to agree upon a code of international behaviour in regard to import restrictions, export subsidies and other commercial policies. Canada is, of course, prepared to make tariff reductions and reductions in preferences in exchange for tariff reductions by the United States and by other countries. We do not expect one-sided bargains. We are ready to do our full share.

I feel it is important, however, to stress two aspects of the situation from the Canadian viewpoint. In the first place, the tariff policy of the United States is the key to the success both of the tariff negotiations themselves and of the proposed charter. All of us who buy from the United States on a large scale and who owe large sums to the United States on capital account must have a greater opportunity to sell our goods in her markets than we have had up to now. Unless large scale American imports provide the world with an adequate supply of United States dollars, the rest of the world cannot hope to follow the liberal, multilateral and non-discriminatory trade policy which the United States has been urging upon it with our support and that of others. A positive lead in real tariff reductions by the United States is, therefore, needed if success is to be achieved at Geneva.

Secondly, there are in the proposed trade charter a good many qualifications and escape clauses applying particularly to the vitally important parts of the agreement that relate to quantitative restrictions on trade. Good arguments can be made, and are made, for each of these. But we must guard against the danger that if too many of them are included in the charter, the sum and substance of them all, taken together, may undermine many of the positive benefits which the charter is intended to give to each of the agreeing countries.

These are two points that deserve our keenest attention in regard to the negotiations and charter discussions at Geneva.

In view of the negotiations now in progress, I do not propose to recommend any tariff changes in this budget, nor to make any detailed statement of tariff policy. I should, however, remind the house at this point that during the past year a number of special wartime tariff arrangements have ended with the end of the special wartime circumstances that gave rise to them.

Various orders in council which had provided for temporary reductions or suspensions of duties on individual items to make it possible to hold price ceilings, were revoked from time to time as ceilings were removed or as domestic supplies improved. This process was virtually completed on March 31. Moreover, as I announced last January, provision has been made for the issue of a proclamation on June 30, 1947, terminating the reductions of duty under the War Exchange Conservation Act. This will restore the regular British preferential rates of duty on imports from the United Kingdom. Our future trade relations with the United Kingdom, the United States and other countries will be determined in the light of the outcome of the United Nations Conference on Trade and Employment.

CONCLUSION

Before taking into account tax changes, I have forecast revenues of $2,450 million, and expenditures of $2,100 million for the current year, leaving a prospective surplus of $350 million. The reduction in taxes now proposed, including the repeal of the gasoline tax, will, it is estimated, reduce our revenues by a total amount of $265 million when they are in effect for a full year under economic conditions similar to those at present. Consequently these proposed tax changes will effect a continuing reduction in the general level of our revenues equal to approximately three-quarters of the amount of the surplus now in prospect. This, I believe, is as great a reduction in our tax structure as we should make at the present time. It is too early yet to hazard any forecast as to the probable level of expenditure and revenue in the fiscal year commencing April 1, 1948, but I believe it would be most unwise to carry our tax reductions at the present time beyond those which I now propose.

The effect of the proposed tax reductions upon revenues in the current year is estimated to be approximately $160 million, reducing them, therefore, to a total of $2,290 million. After allowing for our prospective expenditures of $2,100 million, this leaves us with a prospective surplus of $190 million and a corresponding prospective reduction of that amount in our net debt during this fiscal year. I should point out that on the basis of the foregoing estimates, were the tax reductions in effect for the whole of the current year, this apparent surplus would be reduced to $85 million.

In appraising this prospective surplus, however, one must keep several factors in mind. In the first place we must be prepared to make financial provision for agreements with any of the three remaining provinces which have not yet signified their desire to do so but who may wish to enter into such agreements. Should all three provinces entertain agreements effective this year, our expenditures will be increased by an addition $110 million or thereabouts. If they do not, then we can reduce our net debt correspondingly. Secondly, it must be borne in mind that our revenues now are very sensitive to any change in general business conditions. In forecasting them in this budget, we have assumed that our national income, production and trade will be at high levels. We believe that this is the most probable course of events. On the other hand, it must be conceded that some recession in the United States this year is by no means impossible. A substantial recession in that country would be bound to have some effects on our own situation, and this in turn would adversely affect our revenues. We must, therefore, leave some margin of safety in the form of a surplus, which we will apply to debt reduction, if conditions remain favourable.

I hope that it will be a cause for gratification and confidence to members of this house and to all Canadians that we are able to drop the tax on gasoline, make a very substantial reduction in our personal income taxes, and still show a prospective surplus in our accounts. This is convincing evidence of the inherent strength of our financial position. I would be less than candid, however, and derelict in my duty, if I did not point out that this favourable situation is due in a very large part to the generally favourable economic circumstances upon which our revenues so greatly depend. If and when we face greater economic difficulties we must anticipate lower revenues. We may also, I hope, anticipate somewhat lower expenditures within a year or two, as certain of the abnormal post-war expenditures disappear, particularly those on subsidies and veterans' benefits. On the other hand, the reduction in these expenditures may be offset in some years by other expenditures deliberately undertaken for the purpose of improving employment and incomes. Consequently our favourable position this year cannot in itself be taken as evidence that we shall be able to avoid deficits in future years when economic conditions are less favourable than now.

Mr. Speaker, I have tried to present a balanced view of the financial affairs of this country. I have explained the extent to which our current prosperity and our governmental accounts have been influenced by factors of a special, abnormal or temporary nature. I have dealt with several of the major problems which still confront us and which we must solve if we are to retain a healthy and prosperous economy. But in spite of all I have said to discourage undue optimism or complacency, the story I have had to tell is one, I repeat, which should justify pride and inspire confidence in every Canadian. We can take just pride in the size of the surplus I have reported, pride in the fact that it has been achieved so promptly after the end of the war, pride in the fact that after a 51 per cent cut in personal income taxes and other drastic reductions from the peak of wartime taxation, we are able to forecast better than a balanced budget for the new fiscal year. All this bears eloquent witness to the speed and smoothness with which we have made the transition from war to peace. It reflects the health and the underlying strength of Canada. It inspires faith and confidence in the future of a country which is responsible for such great achievements following the close of a war to which it devoted its resources without stint on a scale matched by few others.

Two months hence we shall have occasion to celebrate the eightieth anniversary of the founding of this confederation. It was seventy-nine years ago yesterday that the first formal budget speech was presented to this house by the then Minister of Finance, the Hon. John Rose (later Sir John Rose). On April 28, 1868, in a speech lasting nearly four hours, he presented his estimates of revenue and expenditure for the first fiscal year of the new Dominion and outlined his financial proposals for the following year.

There was no *Hansard* in those days, but, according to the Ottawa *Times* of the following day, there were loud cheers when he expressed the view that "unless something very extraordinary or unforeseen should arise", the year would show a surplus on ordinary account, excluding capital expenditures, of $374,140, estimated receipts of about $14,700,000 exceeding estimated ordinary expenditures of $14,300,000. No doubt with a praiseworthy effort to improve the lot of succeeding finance ministers, he attempted to refute the charge that the country was "groaning under a heavy load of debt and taxation" but in any case it is interesting to note that eighty years ago it was also the custom to claim that the country was going to the dogs because of high taxes and high debt. The whole spirit of the speech can be summed up in a phrase which the minister had used on a previous occasion—"the sums we have to deal with are considerable but the resources and energy of the country are ample to meet them".

These men of 1867 had faith in the future of the united Canada which they were then striving to build. But probably none of them ever dreamed that in eighty short years, total revenues of the dominion could expand nearly two hundred times. We have indeed travelled a long way from the small beginnings of those days. But the same qualities which have brought us thus far can carry us to still greater heights. We are entering a most exciting period. Never before have there been such great material opportunties open to any generation. Never before have we been so conscious of the challenge presented to our economic and political abilities. Never before has our country been called to occupy a position of such high responsibility in world affairs as she does today. If we continue to show the courage, the unity and the spirit of cooperation which inspired the fathers of confederation, and which inspired our peope during these last war years, our achievements in the peace-time years ahead will, I am confident, be equally striking.

INCOME WAR TAX ACT

Resolved, that it is expedient to amend the Income War Tax Act and to provide:

1. That, effective on and after July 1, 1947, payroll deductions for taxes be reduced to conform with the following schedule of graduated rates of tax:

On the first $100 of income or any portion thereof, 10 per cent per annum; or

$10 upon the income of $100; and 12 per cent upon the amount by which the income exceeds $100 and does not exceed $200; or

$22 upon the income of $200; and 14 per cent upon the amount by which the income exceeds $200 and does not exceed $300; or

$36 upon the income of $300; and 16 per cent upon the amount by which the income exceeds $300 and does not exceed $400; or

$52 upon the income of $400; and 18 per cent upon the amount by which the income exceeds $400 and does not exceed $500; or

$70 upon the income of $500; and 20 per cent upon the amount by which the income exceeds $500 and does not exceed $3,500; or

$670 upon the income of $3,500; and 22 per cent upon the amount by which the income exceeds $3,500 and does not exceed $5,000; or

$1,000 upon the income of $5,000; and 26 per cent upon the amount by which the income exceeds $5,000 and does not exceed $6,500; or

$1,390 upon the income of $6,500; and 30 per cent upon the amount by which the income exceeds $6,500 and does not exceed $8,500; or

$1,990 upon the income of $8,500; and 35 per cent upon the amount by which the income exceeds $8,500 and does not exceed $11,500; or

$3,040 upon the income of $11,500; and 40 per cent upon the amount by which the income exceeds $11,500 and does not exceed $14,000; or

$4,040 upon the income of $14,000; and 45 per cent upon the amount by which the income exceeds $14,000 and does not exceed $17,000; or

$5,390 upon the income of $17,000; and 50 per cent upon the amount by which the income exceeds $17,000 and does not exceed $25,000; or

$9,390 upon the income of $25,000; and 55 per cent upon the amount by which the income exceeds $25,000 and does not exceed $50,000; or

$23,140 upon the income of $50,000; and 60 per cent upon the amount by which the income exceeds $50,000 and does not exceed $75,000; or

$38,140 upon the income of $75,000; and 65 per cent upon the amount by which the income exceeds $75,000 and does not exceed $100,000; or

$54,390 upon the income of $100,000; and 70 per cent upon the amount by which the income exceeds $100,000 and does not exceed $150,000; or

$89,390 upon the income of $150,000; and 75 per cent upon the amount by which the income exceeds $150,000 and does not exceed $250,000; or

$164,390 upon the income of $250,000; and 80 per cent upon the amount by which the income exceeds $250,000.

2. That for the 1948 and subsequent taxation years the graduated rates of tax applicable to income of individuals be the rates set out in paragraph one.

3. That for the 1947 taxation year the graduated rates of tax applicable to income of individuals be the average of the present rates and of the rates set out in paragraph one.

4. That for the 1947 and subsequent taxation years the deductions from income of an individual allowed in respect of persons supported by or dependent on him be allowed without regard to the country of residence of such persons.