Calgary West when the bill was given second reading.

**Mr. Fulton:** I do not think any opportunity was given for explanation.

**The Deputy Chairman:** It was done on second reading. As I say, I am not going to press the point any further. I have tried to point out the rules and I think I am right.

**Mr. Fournier (Hull):** I hesitate to intervene because in my little experience in this house I have found out that more time is lost on points of order than on serious discussions of a bill or resolution; but in this instance I cannot remain in my seat without saying one word. Last week we spent three days discussing the resolution, which was the basis of this bill. We spent two days on the principle and one day in committee. Every order in council which is covered by this bill was mentioned and discussed while we were discussing the resolution, the principle of the bill and in committee. We have been more than a day now on the principle of the bill on second reading. Even what the leader of the opposition has just read was read last night by the hon. member for Calgary West.

**Mr. Green:** Not that section.

**Mr. Fournier (Hull):** He read the whole thing.

**Mr. Green:** He read another one which is just as bad.

**Mr. Fournier (Hull):** But it means one thing, that all these orders in council have been discussed by each and every hon. member who spoke on both sides of the house.

This afternoon the Minister of Trade and Commerce read the whole thing concerning steel.

**Mr. Knowles:** He was also out of order.

**Mr. Fournier (Hull):** There is no doubt about that. I understand the point of order brought up in this instance. If we follow the rule we cannot get away from being strictly relevant to what is set out in the amendment. The Minister of Justice has mentioned it. It is a change of date, changing 1949 to 1950. The principle having been adopted on second reading, all that we can discuss on this section is the reason why it should not be extended for that one year; but it will be extended. The house has decided that point. Really, after two days discussing this—we can keep it up for a week; any hon. member could keep this up—I do not think we can get any more explanation than we have been given up to now. I would ask the Chairman to try, if possible, to follow the rules and have the discussion relevant to this section of the bill.

**Mr. Drew:** The explanation which has just been given merely illustrates what this house is being asked to do here. This bill has only two sections.

**Some hon. Members:** Six o'clock.

**The Deputy Chairman:** Shall the clause carry?

**Mr. Drew:** No.

Progress reported.

## BUSINESS OF THE HOUSE

**Mr. Drew:** Before you leave the chair, Mr. Speaker, may we be informed if it is the intention to proceed with the budget immediately after the recess?

**Mr. Fournier (Hull):** At seven-thirty the Minister of Finance (Mr. Abbott) will make his budget speech, and after that I understand that some hon. member from the opposition side will speak. At the conclusion of his remarks we shall revert to this bill in committee.

At six o'clock the house took recess.

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## AFTER RECESS

The house resumed at seven-thirty 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, once again it is my pleasant duty to bring down the annual budget amid conditions of sustained—one might almost say unexcelled—prosperity. Despite the grave uncertainties and the persistent difficulties that beset us in the field of international affairs, we Canadians as a whole have continued throughout the past year to enjoy higher standards of living than ever before. The volume of industrial output for civilian account, in the form of both consumer goods and capital goods, has never been higher. Cash income derived from farm crops, and the value of commercial fish landings in 1948 have also reached figures never before equalled. The output of our mines has increased by nearly one-third during the past three years, and is now running at a rate within two per cent of the wartime peak.

In other words, during the past year the Canadian economy—and by that phrase I mean this community of a million and a half farmers and fishermen, of three million industrial workers, and of hundreds of thousands of business, salaried and professional men and women, great and small—during the past year this community of free people has produced a record quantity of consumer goods, and at the same time has produced and installed a huge amount of new and improved capital equipment which promises still greater output in the years immediately ahead.

But what is even more satisfactory is that the energy, industry, skill and equipment which have been put into industry during the past three or four years is now bearing fruit in the form of a greatly increased flow of goods. Most of the serious shortages of goods have been overcome. The post-war world price inflation appears to have run its course. Since the late summer the price indexes have leveled out both here and in the United States —the two countries in which a free price market most nearly exists. In some sectors of the price structure, where the increases had been particularly great, prices have begun to recede to more healthy levels.

Prediction in a world so full of uncertainties must always be hazardous, but there is a wide measure of agreement, both here and abroad, that, barring the three major catastrophes of war, crop failure and widespread industrial work stoppages, the post-war price inflation has come to an end. That is not to say that there are not some acute shortages, as in steel or in housing, nor that there may not be considerable ups and downs in the prices of individual commodities from week to week and month to month. But the general assumption which I feel justified in making at this point is that when we come to the end of this year and look back we shall find that the price level as a whole will be no higher than it is now and that the prices of some groups of commodities at least will be somewhat lower.

The conditions and prospects which I have thus briefly sketched enable me to recommend to this house a series of proposals which combine a prudent provision against future uncertainties with a considerable measure of immediate tax reduction.

It seems to me that the time has now come when our objective should be to sustain our present high levels of output, avoiding the evils of unemployment on the one hand and further inflation on the other. The aim of both public and private economic policy should be to hold steady on the course. It cannot be the steadiness of inaction. To hold a steady course we must continue to devote much of our effort to further development and betterment. We should not seek just a balance, but a balance in motion.

Of course, we have our pessimists here and elsewhere. There are those whose eyes, fixed firmly on the past, see only the depressions that have followed the booms. But the best opinion I have been able to form leads me to believe that we can hold the current levels if we, and others in like position, act sensibly. I do not expect in the near future any serious decline in the high level of expenditures in North America, upon which our present prosperity is based. Businessmen, public authorities and consumers still have large demands to be filled, and the wherewithal to pay for what they want. Overseas countries still have many requirements to be met from north American production. Their own ability to pay is increasing and in the meantime is being supplemented by assistance from this side of the Atlantic. As I have said, no one can look far into the future with complete assurance in this uncertain age, but we can see far enough to make it possible to lay our plans now in the expectation that something like the present level of production and income for the country as a whole will persist throughout this coming year.

At the time of the last budget our most urgent and difficult economic problem was our shortage of foreign exchange. The progress made in this matter has been evident in our improved trade figures and in the recovery of our exchange reserve.

The present size of our exchange reserves shows the great improvement that has taken place since the end of 1947, when the emergency measures designed first to stop and then to reverse the serious drain on our reserves went into effect. From the dangerously low level of $502 million on December 31, 1947, our reserves rose to $998 million on December 31, 1948, and are now about $1,065 million, a level which, though not yet satisfactory, is much more nearly adequate to safeguard our position against the deficits which could develop without much warning in a trade as large and vulnerable as ours. In appraising this higher figure, one must bear in mind that it includes government borrowing of $150 million in the United States. On the other hand it also reflects the net foreign lending by the government amounting to about $100 million in this 15-month period.

All things considered, the change in our reserve position has been quite remarkable. During most of 1947 we were losing reserves at an average rate of $70 million a month. Since the beginning of 1948, excluding the long-term loan, we have been rebuilding our reserves at an average rate of about $30 million a month. In other words there has been a reversal of trend of the order of about $100 million a month. Improved tourist revenues as well as other invisible items on both current and capital account have contributed to this result, but it is clear that the principal increase in our reserves has come through the improvement in our merchandise balance of trade, and in particular our balance with the United States.

The trade figures for the year 1948 as a whole, when compared with 1947, show in a striking way this principal reason for the improvement in our exchange position. Our total exports increased from about \$2·8 billion to about \$3·1 billion. Most of this increase was due to the higher prices at which our goods were sold, but in some groups of commodities there were satisfactory increases in volume. The total value of our imports remained almost unchanged at about \$2·6 billion, despite an average increase in their prices of over 10 per cent. There was therefore an appreciable decrease in the actual volume of goods imported. Taking tourist business, freights, interest and dividends and other similar transactions into account, our net balance on current account transactions with all countries increased from a surplus of only \$47 million in 1947 to one of about \$450 million in 1948. Hon. members will realize, of course, that in 1948 we were not selling so much on credit and that this larger current balance was not offset to the same extent as in 1947 by large-scale foreign lending.

This improvement in our trade balance took place almost entirely in our trade with the United States. Our exports to Britain and its sterling area were reduced in total value by \$130 million, or about 12 per cent, due mainly, of course, to their need to save dollars. Our exports to other countries—mainly European—were reduced by \$30 million, or about 5 per cent, for similar reasons. Our imports from both these areas were increased substantially—by \$230 million, or nearly 40 per cent. This improvement in the capacity of these areas to resume their pre-war share in supplying our needs has been most welcome. It reflects a fundamental improvement in their productivity and output, as well as their efforts to sell, and our efforts to encourage the resumption of something approaching the pre-war pattern of trade.

On the other hand, our 1948 imports from the United States were \$170 million less than in 1947, or a reduction of about 10 per cent, and this despite some sharp increases in the cost of American goods. The reduction of \$170 million is the net result of two contrasting trends. In the case of goods enumerated in the Emergency Exchange Conservation Act, the value of imports from the United States was reduced by \$300 million; but the volume of all other imports rose by \$130 million. Increases in oil, coal and farm machinery alone amounted to more than \$120 million.

But the feature of our trade which I find most encouraging has been the increase in our exports to the United States. Here, the total value increased from just over one billion dollars in 1947 to more than one and a half billions in 1948. Some of this increase is due, of course, to higher prices—especially for pulp and paper and metals. Some of it is due to very large exports of cattle. But much of it, I am glad to say, is the result of improved Canadian ability to produce for, and sell to, the United States market, and of the reductions in tariffs obtained in the Geneva agreements. This big improvement in our exports to the United States was the type of constructive solution to our exchange difficulties that we were hoping to achieve, and I am gratified—as I hope you, sir, and all other hon. members are as well—at the extent of our success in this direction.

To summarize these trade figures briefly, our debit balance with the United States has been reduced by \$635 million, and our credit balance with all other countries has gone down by \$400 million, leaving a net increase in our over-all credit balance of \$235 million.

Our exchange problem is now approaching manageable proportions. As this house is aware from the discussions of the past few days, it is necessary to continue controls over imports as well as capital exchange transactions, in order to improve and safeguard our exchange situation, but these need not be so general or severe as to interfere seriously with the free working of our economy. I shall be announcing later in this statement some further welcome relaxations in these import restrictions, effective April 1.

I cannot leave this discussion of our exchange situation without expressing appreciation of the farsighted actions of the United States in promoting the economic recovery of western Europe. This sensible and practical program has already overcome some of the difficulties which eighteen months ago seemed almost insuperable. It is slowly but surely putting back on its feet one of the great productive areas of the world. This economic restoration is clearly a prerequisite for a stable and progressive political life in this key area, and as such it is a matter vital not only to our future economic well-being but to our very national safety. To us in Canada the general and longer-run benefits of European recovery and progress are of prime importance.

The grants and loans being financed through ECA are of great immediate value, but in another and more fundamental way the European recovery program is contributing to a betterment of our trading and income prospects. As a result of ERP, and more generally of the broad basic policy which underlies both ERP and the North Atlantic treaty, Europe is rapidly recovering confidence in its own future. The immediate crisis of confidence which was so alarming two years ago has passed. Without this restoration of confidence the large programs of financial aid would have proved merely palliative. As it is, the level of industrial production in western Europe, and for this purpose I include the German bizone, during the last quarter of 1948 was 20 to 25 per cent above the average of 1947, and most of the individual countries in this group have now reached or passed their pre-war levels of industrial output. Of course, much of this output is still going into the repair of the physical ravages of war, and is therefore not yet available for an improvement of standards of living or to pay for the additional imports which the restoration of a normal and rising standard of living demands. The future holds many uncertainties, but we can express gratification for the progress that the first year of ERP has witnessed.

There is one aspect, both of this exchange situation and our own general economic situation, which is clearly going to require continued attention from the government and parliament, as well as from Canadian businessmen. That is the problem of maintaining and extending Canada's overseas exports. In many traditional areas these have been declining during the past year under pressure of their dollar shortage, the adoption or tightening of import restrictions, and the increased supplies becoming available from other countries. In the light of all these adverse conditions, our export trade has stood up relatively well, but we cannot be satisfied with its present situation or immediate prospects. We must seek improvement. We must search for those adjustments from day to day and month to month that will maintain as far as possible our traditional markets. It was for the purpose of re-establishing and maintaining these traditional markets that we undertook a large export credits program. To the extent that those markets are closed to us, we must develop alternative outlets. While attempting to overcome the immediate difficulties, we must persevere in working out the constructive solution through trade agreements on a wide, non-discriminatory basis, and by other measures of a basic character that will assist those countries that buy from us to find dollar markets for their own exports, in order that they may pay for what they would really like to get from us. Over the long run, the establishment of prosperous trading conditions must come largely through the reconstruction of those countries overseas with whom we trade, through the expansion of their output and through the recovery of their productive efficiency, so that once again they will be able to earn enough to pay for the imports which they need.

It is only natural in the face of this problem that some should urge us to reverse our basic trade policy and embark upon barter deals, discrimination, and the balancing of trade accounts with individual countries. These are courses that many others are following. Discriminatory deals between others are interfering with our trade. It is tempting in the short run to consider doing similar deals, particularly to sell this or that, where our exports have been supplanted by others. However, it is too easy to look at only one side of the picture. If you look at the country as a whole, if you examine all aspects of the problem, I believe you will find that such a course would not serve Canada's best interests.

We believe that the inevitable effect of these bilateral, discriminatory deals is to diminish the total volume of world trade. However, even apart from this basic objection on grounds of principle, there are also, from Canada's standpoint, serious practical objections. In the first place, most of our trade takes place with the United States—both export and import—and we cannot deal that way there. There is a real danger that we may prejudice this greater part by trying discrimination and barter in the lesser. Secondly, we are not in a good bargaining position to make successful bilateral deals, deals which by their very nature would force us into bilateral balancing with each individual country. The normal and healthy pattern of our trade is triangular or multilateral. We might succeed in selling some surplus products by special deals—but we would have to take some other surpluses in return which we do not want and cannot really use; and for things we want we would be pressed into paying prices which our consumers would be unwilling to pay. In general, the advantage lies with the larger countries in these deals, particularly as sellers' markets give way to buyers' markets. If anyone feels tempted to start this kind of trading in a few problem cases, let him consider how we are likely to get along in the bargaining as we get drawn further and further into it.

The third practical objection to this line of approach is one in which most, but not all, members of this house will agree. It is that the application of a policy of barter, bilateral deals, and discrimination requires widespread governmental control of private trade, and even the extension of trade by agencies of the government itself. Deals of this sort would require a multiplication of import controls, export controls, licences and permits. It is apt to lead to more government buying and selling, frequently involving subsidies and trading losses. This may fit into the philosophy of government prevailing in some other countries, but most Canadian don't like controls and don't want their government getting deeper and deeper into import and export business.

It is unnecessary, I believe, for me to go into any more detailed review of the economic situation, save such as may be relevant to the appreciation of our fiscal position and policy. As usual I am tabling a white paper that contains, in addition to the detailed estimates of revenue and expenditures for the year now closing, a review of the more important economic statistics for the past few years and recent months. There are also some paragraphs of exposition and comment prepared at my direction and which I commend to those who wish to consider the budget proposals against an economic background. Members of the house and others will recall as well the two recent reports by the governor of the Bank of Canada and the chairman of the foreign exchange control board in which he deals in his usual lucid and objective fashion with the current developments of importance in this field. Finally I should mention the informative facts and forecasts provided some weeks ago to the house by my colleague the Minister of Trade and Commerce, relating particularly to the prospects for capital expenditure and the supplies available for construction.

Several conclusions emerge from an examination of these facts and forecasts. The first is that the prospective amount of capital expenditure on construction and on machinery and equipment, taken together with the level of exports, appears likely to be sufficient to sustain incomes and employment this year at around their current levels. Although the supply of construction materials will be better this year, construction costs are still abnormally high and there is still evidence of some strain upon the industry. I continue to believe that all construction work under the control of the government which it is practicable to postpone should be postponed, except in those few areas where there may be some local unemployment. That has been the approach of the government in the formulation of its expenditure program for the year. I must say that it gets progressively more difficult to apply this policy from year to year, as really important requirements for construction of all kinds keep accumulating —some of them repeatedly deferred since long before the war. Other needs, too, are constantly arising—some of them from the necessary expansion in the defence program, others from more constructive developments, such as the need to provide improved airport runways and related equipment to accommodate the bigger and better planes now available. We have also given a fairly high priority to construction necessary to permit expansion in our government activities in the field of scientific research and the improvement of techniques and markets for primary production—government operations which we feel are as fruitful as much private work with which they must compete for materials and labour. I hope this view will commend itself to the house and the public.

A second conclusion that emerges from a review of the economic situation is that the pressure of consumer expenditures upon supplies available to consumers is slackening. This may be observed in respect of various particular commodities where consumers can get what they want more easily and promptly than before, even motor cars. In some cases we can observe the occasional emergence of surpluses and of bargain sales by retailers, something which we had almost forgotten to be a normal part of business at certain seasons of the year.

This improvement in the supply situation for consumer goods results mainly from an increase in their supply and, to a lesser extent, I believe, from the filling up of the more urgent needs of consumers deferred during the war and the post-war shortages. Larger supplies of food have resulted from good crops here and elsewhere last year, both in the United States and abroad. The post-war world food shortage is passing over from its acute stage to a less severe phase in which prices and the ability to pay them are governing considerations once more. In other types of goods we are beginning now to receive the increased output in Canada made possible by our extended and improved equipment installed in recent years, as well as the increased imports from overseas as a result of the recovery of production in Europe and elsewhere, and the efforts of various countries to export to our markets.

This improvement in consumer supplies has brought a welcome halt to the increase in the cost of living. The index of living costs has remained almost constant since last September at a level about 60 per cent above pre-war, and about 30 per cent above 1929. Decreases in food costs have offset slight increases in other items. Some further increases may occur in a few items; but I think we are unlikely to see any significant increase in the cost of living this year—unless, of course, there are serious crop failures—and it is quite possible that there may be some decline. Consumers should have more money to spend this year than last, partly because of the upward sweep in wages that took place last year, partly because of the distribution of wartime refundable taxes that has been going on this month, partly because of additional payments being made to farmers by the wheat board, and partly as a result of the tax reductions which I shall be inviting this house to approve. The time has now come, I believe, when these increased expenditures by consumers can be met by increased supplies of goods without endangering either our price structure or our exchange situation.

In the light of these conditions and in line with the policy to which we have steadily adhered of removing controls at the earliest appropriate time, the government has authorized the wartime prices and trade board to withdraw its price ceiling orders on flour, bread, butter, sugar and molasses, and on those fruits and vegetables which are not limited in supply by the operation of the present import restrictions. Concurrently the government is withdrawing the subsidy of 46½ cents a bushel which has been paid since August 1 last on wheat going into domestic consumption in Canada.

Before turning to a review of the government accounts for the year, I wish to say a few words in regard to provincial matters.

We are now about to enter the third of the five fiscal years covered by our tax rental agreements with seven of the provinces. Those agreements have enabled the provinces concerned to obtain a more equitable share of revenue from the three great sources of direct taxation. They have done so without subjecting the taxpayers of these provinces to dual assessments, dual reporting and the other inconveniences and vexations which double taxation involves. They have enabled all these provinces to have the revenue from these major sources reflect the growth of population and the expansion of national income, and at the same time to have the assurance of an underwriting against the risks of economic adversity. This assurance that, come what may, cash receipts from these important tax sources could not fall below a guaranteed minimum has been, I believe, of great importance in enabling provincial governments to plan in advance their developmental programs and to undertake them with confidence. It has certainly also improved the credit standing of the provinces concerned. From the national point of view, it has removed or vastly lessened the risk that in times of economic difficulty the financial strains to which some provincial governments would be subject might lead to a competitive scramble to impose new and higher taxes and to adopt other policies which would hamper and impede national policies designed to promote economic recovery. They have provided a partial, though not yet a complete, basis for the development of that comprehensive program of co-operation between the federal and the provincial governments which we envisaged as essential to promote the maximum development of our resources and to assure full employment and a wide measure of social security for the Canadian people as a whole.

In all these ways the agreements have contributed to the strength and independence of provincial governments and to the health and vitality of the Canadian confederation. They have added a large measure of economic autonomy to the political autonomy enjoyed by the provinces which have entered into them. It is a travesty to suggest, as has been done so many times in this house in recent weeks, that they have weakened provincial autonomy or created an undue degree of centralization in this country. Two attempts have been made to build a case to support this charge.

The first attempt was based on the argument that the tax rental agreements involved an excessive use of subsidies which threatened the freedom of action of the provincial governments. In reply to that it should first be pointed out that the payments being made to the provinces under the tax rental agreements, apart from the statutory subsidies, are not subsidies at all; they are rentals negotiated by provincial governments for the temporary use of certain rights possessed by them. They are business-like arrangements, subject to re-negotiation at least a year before their termination date, and they do not involve the element of charity nor the surrender of one jot or tittle of constitutional rights. In most of these respects they are in marked contrast with the alternative which some of the critics suggest, namely, fiscal need subsidies which would require the provincial governments to come hat in hand to the federal government and plead for assistance on the basis of need rather than of right.

That should be a sufficient answer to the argument. However, even if we take both the tax rentals and statutory subsidies, we find that the total payments being made by the federal government to the provinces constitute a lower percentage of provincial ordinary revenues than the percentage of statutory subsidies to total ordinary revenues in the case of the four original provinces during the first fifteen years after they joined together to form our confederation. Let me give the figures. In the fifteen fiscal years 1868-1882, Nova Scotia derived 74·1 per cent of its ordinary revenue from federal subsidies; in the current fiscal year it is estimated that only 36·1 per cent of its ordinary revenue will come from subsidies and tax rental agreement payments. The corresponding figures in the case of New Brunswick are 77·9 per cent for the earlier period and an estimated 36·9 per cent for the current year. In the first fifteen years after confederation, Ontario derived 39·9 per cent of its total ordinary revenue from federal subsidies and Quebec 45·1 per cent; if these provinces were participating under the agreement, the percentage of their ordinary revenue derived from tax rentals and subsidies would, it is estimated, be moderately lower than the percentages I have just quoted. In the years following confederation up to 1882, all provinces, on the average, obtained 49·8 per cent of their total ordinary revenues from federal subsidies. For all seven provinces which enjoy the benefits of the tax rental agreement, the percentage of total ordinary revenues derived from tax rentals and subsidies in the current fiscal year is now estimated at only 32 per cent. If such percentages be the test, it is amply clear that we have far less centralization and make much less use of subsidies than the fathers of confederation thought to be necessary and provided for in the making of Canada.

The second attempt was based on the argument that between 1939 and 1947 the increase in dominion tax revenues had been much greater than in the case of the provincial and municipal governments. The simple answer to that argument, of course, is that during the period in question Canada has fought a major war involving the federal government in a perfectly colossal cost and leaving behind it an enormous burden in debt charges, pensions, treatment service costs, rehabilitation and other expenditures for which this government will be responsible for many years to come—and so will it also be for the vastly increased national defence expenditures which the state of the world left by that war is making it necessary for us to carry.

Neither of these arguments stands up nor do any of a similar kind. The simple fact is that the tax rental agreements promote and encourage provincial autonomy by making the provincial governments better able to carry out the heavy responsibilities assigned to them by our constitution. This government yields to no one in its desire to protect their rights and see them financially strong and independent. It yields to no one in its desire to co-operate with them in that kind of constructive partnership which will best enable all governments to tackle and solve the complicated problems of today and give to the Canadian people the measure of peace, prosperity and happiness they have a right to expect.

In this search for co-operation, it will not let pettiness of spirit nor false pride nor undue emphasis on purely financial considerations stand in the way of mutual understanding and constructive results. It will constantly seek out ways of tackling mutual problems and developing practical solutions —not merely talking about them as some other people do.

### THE GOVERNMENT ACCOUNTS: REVIEW OF 1948-49 AND FORECAST FOR 1949-50

Before appraising the budgetary outlook for the coming fiscal year, it is my duty to report to the house the financial results of the year that is now drawing to its close. The white paper which I am tabling includes the usual detailed statements of revenues and expenditures, and of assets and liabilities. The figures for the year 1948-49 are necessarily preliminary and subject to revision. Our fiscal year ends next week, on March 31, but our books must remain open for several weeks thereafter to record various year-end adjustments and to include all payments made up to April 30 on account of expenditures originating in, and properly chargeable to, the current fiscal year. Final figures for this current year cannot be available for some time.

A year ago I forecast revenue and expenditure figures that would yield a surplus of $489 million. The present figures indicate that our revenues will be $2,768 million, our expenditures $2,193 million, and our surplus $575 million. This surplus of $575 million is $100 million less than we had in the preceding year, but it is $86 million greater than I had forecast for this current year.

A year ago I based my estimates on what I then called a "conservatively optimistic forecast." In fact the expansion of the national income has been somewhat greater than that which I had predicted, and as a result our tax revenues are turning out a little better than the forecast, but the excess is not very great—less than 2½ per cent. We will obtain more from non-tax revenues and special receipts and credits than I had forecast, but expenditures, on the other hand, are within 1 per cent of my forecast.

Considering the magnitude of the total sums involved and the length of time ahead that these forecasts have to be made, I take a good deal of satisfaction in the close relationship of these forecasts and the actual results.

**Mr. Case:** Almost a perfect score.

**Mr. Abbott:** Yes, I think the hon. member is right.

**Mr. Smith (Calgary West):** At least a hole in one.

**Mr. Graydon:** The last inning you mean.

**Mr. Abbott:** I am looking forward to hearing from my hon. friends later in the debate.

**Mr. Speaker:** Order.

**Mr. Abbott:** I do not propose to comment at length on the details of revenue and expenditure, but shall content myself, and I hope the house, with a few general remarks.

Direct taxes, which include personal and corporate income taxes, the excess profits tax and succession duties have yielded $1,369 million, or $51 million greater than a year ago. They accounted for more than 56 per cent of our total tax revenue.

Indirect taxes, which include all customs and excise taxes and duties, have produced $1,072 million, or $62 million less than a year ago.

The greater yield in direct taxes is a reflection of higher incomes and profits; the decrease in indirect taxes is the result of the lower rates of duty under the Geneva agreements, the restriction of imports under the Emergency Exchange Conservation Act and the removal a year ago of the amusement tax, the sales taxes on prepared and packaged foods, and certain other indirect taxes.

Non-tax revenues, that is, post-office receipts and revenues from investments, were $210 million, or $32 million greater than last year. Special receipts and credits, chiefly sales of surplus war assets and sundry refunds, amounted to $117 million. This is $125 million less than a year ago.

On the expenditure side the principal decrease is $229 million in demobilization, reconversion and special expenditures. This decrease was almost exactly balanced by increases of $203 million in ordinary expenditures and $21 million in the deficits of government owned enterprises.

To a considerable extent this increase in ordinary expenditures is due to transfers of activities from the demobilization accounts to the ordinary accounts, and for the rest it stems from higher old age pensions, increased numbers of persons entitled to family allowances, the expansion of health services, more exploration, survey and mapping work, increased research expenditures, improved roads and tourist facilities in our national parks, improvements in airports and aids to air navigation, the betterment of maritime ports and harbours works, and generally from the effects of the higher price levels of all government operations, including the costs of construction and the costs of materials and supplies purchased, and including necessary adjustments in civil service salaries. I am very keenly aware of these increases in expenditures, and I can assure the house that we are constantly striving to maintain and improve both efficiency and economy in all government activities.

In summary then, our revenues for the year now ending are $103 million less than the preceding year, expenditures as a whole are down $2 million, and the surplus of $575 million is $101 million less than last year. There, in brief, is the result of our current financial operations for the year, and that is the amount by which the net debt of Canada has been reduced.

But, as has to be pointed out each year, the cash position and the cash requirements of the government, as distinct from its revenues and expenditures, are of almost equal importance in their bearing upon the incomes and expenditures of the individuals who make up this nation. Apart entirely from the sale of new securities or the redemption of old debt, the government receives and pays out each year large sums of cash that do not really belong to what an accountant might call its "income account",—they are neither revenue nor expenditure in the accounting or budgetary sense. Moreover some items of revenue and expenditure do not involve any cash receipts or cash outlays.

To arrive at our cash surplus, the $575 million budget surplus must be adjusted upward by $75 million on account of these non-cash items. Then we must add $128 million of cash receipts in the form of additions to various pension and trust accounts. This gives us a total of $778 million available for cash outlays that do not belong in the income account. Of this total $450 million were advanced to the foreign exchange control board to finance its increase in gold and United States dollar reserves, and $57 million were loaned to the United Kingdom and other countries to finance purchases of Canadian products. That is, $507 million were used in connection with the financing of our export surplus. Then we made loans and investments in Canada to the amount of $89 million, $71 million of which were advanced to the Central Mortgage and Housing Corporation for housing construction and housing loans. The total of all these loans, investments and advances is $596 million, and when you deduct that from the $778 million of cash available you get a cash surplus of $182 million. To this cash surplus were added $224 million resulting from sales of securities from our securities investment account. Of the resulting $406 million we used $372 million to make a net reduction in our funded debt, and the remaining $34 million served to increase our cash balances.

Our securities investment account is the one in which the government temporarily holds some of its own securities rather than holding larger cash balances, and it is necessary to make allowances for changes in this account in order to get a proper figure for the change in funded debt in the hands of others. Consequently the reduction of $372 million in our total funded debt should be offset by the $224 million reduction in the funded debt held in our investment account. We then see the reduction in funded debt outstanding outside this account was $148 million. This may be considered as the amount of our cash surplus used to reduce debt, the remainder of it being used to increase our cash on hand.

To summarize this explanation I should like, with the permission of the house, to put in *Hansard* at this point a short table reconciling our budget surplus and our cash position:

Budget Surplus and Cash Position

| | | (millions) |
|---|---|---|
| Net cash balance arising from the current year's budgetary surplus (i.e. budgetary surplus of $575 million adjusted for non-cash items) | | $650 |
| Add other receipts: | | |
| Increases in annuity, pension, insurance and guaranty accounts | $93 | |
| Increases in floating debt, deposit and trust accounts, and sundry suspense accounts | 35 | |
| | | 128 |
| | | $778 |
| Deduct other disbursements: | | |
| Advances to the foreign exchange control board | $450 | |
| Loans to the United Kingdom and other governments (net) | 57 | |
| Advances to Central Mortgage and Housing Corporation | 71 | |
| Increases in other loans, advances and investments (net) | 18 | |
| | | 596 |
| Cash surplus—i.e. balance available for debt reduction and/or increase in cash balances | | $182 |
| Add: | | |
| Net sales of securities from securities investment account | | 224 |
| | | $406 |
| Deduct: | | |
| Reduction in Canadian funded debt | $472 | |
| Less increase in United States funded debt | 100 | |
| Net reduction in funded debt | | 372 |
| Net increase in cash balances during the year | | $ 34 |

The greater part of the reduction in the funded debt has taken the form of repaying approximately $286 million on account of the compulsory savings portion of the personal income taxes of 1943 and 1944, and the refundable portion of the excess profits taxes of 1943. This completes the repayment of the refundable portion of personal income taxes.

I must not leave this part of my report to the house without referring to the very gratifying response to our offerings of Canada savings bonds to the general public. As hon. members know, the purchase of these bonds is restricted to individuals and is limited to not more than $1,000 of any one series to any one person. Sales of the second series of these bonds reached $288 million. A third series was opened for subscription last October, and sales to date are $248 million. The public response to these issues, and particularly the volume of subscriptions made through the payroll savings plan, shows that Canada savings bonds fill very acceptably a real investment need for the rank and file of the Canadian people.

These results for the year should be a source of gratification to all Canadians. We have reduced our net debt by $575 million at the time when we could best afford to do so. It is still a very large debt—a net debt of $11·8 billion, and a total funded debt of $15·6 billion. There will undoubtedly be years when we will need to increase it in order to finance expenditures in excess of revenue, when economic conditions make that wise or necessary. An indefinite growth in the debt, and in the cost of servicing it, must eventually undermine confidence in our currency and our national finances.

I think most Canadians will regard the policy we have followed as one of simple common sense. Yet some hon. members opposite have insisted that we should have been less prudent, that we should not have attempted to reduce our debt this year, that we should have borrowed to pay off refundable savings or to finance the recovery in our exchange reserves. While arguing that taxes should have been drastically lower, they have also been urging higher and higher expenditures on a bewildering variety of projects. I ask myself how anyone can take as serious and responsible criticisms of this kind. They ask us to believe that the people of Canada would have been better off this past year had taxes been substantially lower, and our debt substantially higher.

That is not the case. Large tax reductions last year would have come too early to be of real value to the public as a whole.

**Some hon. Members:** Oh, oh.

**Mr. Rowe:** Even in June it will be pretty late.

**Mr. Abbott:** My hon. friends may not laugh quite so loudly in a moment, Mr. Speaker. I repeat, large tax reductions last year would have come too early to be of real value to the public as a whole, because the public's expenditure, even without tax reductions, was large enough to buy everything available —indeed it was a bit too large, and buying pressure forced up the cost of living. Lower income taxes in 1948 would have meant a higher cost of living. Some might have gained, it is true—those whose incomes are high and whose concern with the cost of living is relatively small. But the general run of citizens and taxpayers would not have been farther ahead—they would have paid less to the public treasury but more to those private treasuries where the gains from a higher cost of living would have come to rest.

**Mr. Rowe:** What a change a few months have made.

**Mr. Smith (Calgary West):** Now we have heard everything.

**Mr. Abbott:** The laughter has abated somewhat, Mr. Speaker.

It was plain for all to see that the nation as a whole was fully employed last year. More spending would not have led to any significant increase in production. To have reduced taxes then in order to let people spend more would have been a delusion. It made far more sense to use the surplus income—surplus from the viewpoint of the nation as a whole—to pay off our debt and restore our essential reserves of gold and United States dollars. It is hard for the individual taxpayer to see it that way, naturally, because it is true that if he alone had more to spend and less to pay in taxes he would be better off. He does not realize that there would be two or three million others doing the same, and the competition between them is what causes trouble—is what feeds the inflationary spiral. We in parliament have to see the picture as a whole, and it is when we look at it as a whole that we see the common sense in the decisions we took here last year.

Let me turn now to the coming year. The total of the main estimates for next year, including statutory items and those to be voted, amounts to $2,217 million—a substantial increase over last year's estimates, reflecting mainly a considerable increase in the national defence program and also higher prices and rates of pay. We have also this year included in the main estimates a number of items of types which last year were more common in the supplementaries—notably construction projects on which it is hoped to get started well before the fall and winter weather make this type of work more costly. To the main estimates will have to be added special estimates for Newfoundland which will probably exceed $50 million. We shall also have the usual supplementary estimates, although I do not expect they will be nearly as large as in this past year. I fear that we face again a deficit in the C.N.R. that will require a subsequent vote from parliament. It will also prove wise, I believe, to add further to our general reserve against the active assets on our balance sheet. All in all, I think I must budget in the expectation that total expenditures in 1949-50 may amount to about $2,390 million.

On the side of revenue, forecasting is as usual more difficult and uncertain, because our tax yields are now very sensitive to changes in economic conditions and the national income. On the basis of our present tax laws, and in the expectation that prices and production will hold to about their present levels with only normal seasonal changes, and that we have average crop yields this year, I now estimate that in the absence of any tax changes our revenues for the next fiscal year would amount in all to about $2,800 million.

The make-up of this total is given in a table, showing each of the major items in the forecast, together with the estimate for the year now closing. For the convenience of hon. members, I should like the consent of the house to have this incorporated in *Hansard* in the usual way without my taking time to read it.

Forecast of Revenue
(Before tax changes)

| | Fiscal year 1949-50 (Forecast) | Actual Fiscal year 1948-49 (Preliminary) |
|---|---|---|
| | (in millions of dollars) | |
| Customs duties | 235 | 225 |
| Excise duties | 210 | 206 |
| Sales taxes (net) | 385 | 378 |
| Other excise taxes | 260 | 259 |
| Income taxes | | |
| Individuals | 835 | 771 |
| Corporations | 550 | 490 |
| Interest, dividends, etc. | 45 | 43 |
| Excess profits taxes | ... | 40 |
| Succession duties | 26 | 26 |
| Miscellaneous taxes | 4 | 4 |
| Total tax revenue | 2,550 | 2,442 |
| Non-tax revenue | 200 | 210 |
| Total ordinary revenue | 2,750 | 2,652 |
| Special receipts and credits | 50 | 116 |
| | 2,800 | 2,768 |

From the figures I have given it is evident that in the absence of tax changes I would expect next year that our accounts would show a surplus of $410 million.

It is important, as in the case of the past year, to consider not only this budget surplus but also our prospective cash position, in order to appraise properly the outlook for next year. Eliminating non-cash revenues and expenditures, this budget surplus of $410 million might yield a surplus of available cash of about $500 million. To this we must add various receipts in pension and trust accounts and similar deferred liability accounts, which are likely to amount to nearly $150 million. This sum would probably exceed various loans and advances other than those to the foreign exchange control board and to governments abroad by as much as $25 million. Consequently in the absence of tax changes we might expect a cash surplus of about $525 million, reduced by whatever amounts may be required for financing our export surplus either by accumulating reserves or by foreign loans. It is still too early, with all the uncertainties of this present year to say, even roughly, what funds the government will have to find for financing our export surplus in one way or another.

TAX POLICY

What I have already said in commenting upon the economic situation, the results of last year, and the prospects for the new year, will already have indicated to you, Mr. Speaker, that I feel the time has now arrived when this parliament should enact some further substantial reductions in taxes. The increasing flow of goods available for sale to consumers without higher prices makes tax reductions economically feasible. The prospective surplus of revenue over expenditure, in the absence of tax changes, and even of a substantial cash surplus over our requirements for loans and investments, makes tax reduction financially feasible. The reduction of more than $1,600 million in our net debt made in the last three years has put us in a position now where we may prudently give consideration to further tax reduction. Finally, sir, I should say that I have been led to believe in recent months, as no doubt other hon. members have, that most of the Canadian people would support and even welcome an enlarged measure of tax reduction this year.

If this parliament should approve the program I am now going to propose, in addition to the tax reductions enacted following the Ilsley budgets of October, 1945, and May, 1946, and following my budgets of June, 1947, and May, 1948, it will have carried through a program of tax reduction such as no parliament has ever made before, here or anywhere else, I believe, and far more than most of us thought possible when we were elected following the victory in Europe in 1945. In approaching our task this year we should bear in mind that this is the continuation and rounding out of a program—not the beginning of a new policy. We have brought our high wartime taxes down by careful stages over a period of four years, and now we should aim at establishing a peacetime revenue system that may be varied up or down as the needs of the changing times require. We cannot complete this year all those improvements in the form and nature of our taxes that have been started in recent years, but we can carry them a long stage farther.

In selecting the fields for tax reduction we should bear in mind several general considerations. In the first place, we must recognize that most Canadians, like other peoples in recent years, have shown that they prefer to pay taxes in forms other than high income taxes. I think most of us believe the income tax on individuals is the fairest and best tax we have. The trouble is that we just don't like it, or at least we don't like too much of it. The public in peacetime will apparently only tolerate a level of income taxes that is far short of enough to yield the revenues that Canada requires now, and is going to require in years to come. Consequently we must plan on retaining as normal sources of revenue substantial taxes on goods and services, and taxes on corporate profits. In neither of these fields can we expect now to get back to the pre-war level of tax rates—at least not until the threats to peace disappear and the people cease to demand that the government carry out many of the types of services and transfer payments now being provided.

Consequently we face now, in addition to the problem of establishing a fair and proper schedule of income taxes, the need to adapt the form and nature of our taxes on goods and services and corporate profits to make them efficient, fair, and flexible sources of revenue, causing as little harm and irritation as possible for each dollar of revenue we must derive from them.

The second consideration relates more to the immediate future. The present economic situation is such that it is more appropriate this year to encourage increased expenditures by consumers, rather than capital expenditures by business. Business profits are already high, on the whole, and a large part of them is being devoted to capital expenditures. Markets for the goods and services required for additional capital expenditures by business are still relatively tight, and prices of machinery and equipment, and construction costs, are still very high. It would not be wise, I believe, to stimulate increased expenditures of this nature this year by general reductions in corporate taxation. On the other hand, there is, as I have already said, more opportunity now to satisfy increased expenditures by consumers. Consequently the principal tax reductions I am going to propose are those affecting individuals, both personal income taxes and taxes on things the consumer buys. I have, however, some important changes to propose in the distribution and nature of corporate taxes.

I propose now, Mr. Speaker, to state and explain our program of tax changes and tax reductions.

### 1. PERSONAL INCOME TAX

The house will recall that there have been three substantial reductions in income taxes since hostilities ceased. Late in 1945 there was a general reduction of 16 per cent. Effective January 1, 1947, there was a second reduction in rates and an increase in exemptions; and in mid-1947 there was a third general reduction in rates. Tonight I propose still further substantial reductions in this tax in the form of both reduced rates and increased exemptions.

The present basic exemptions are $750 for single persons and $1,500 for married persons. I propose that these be increased to $1,000 and $2,000 respectively.

The exemption in respect of children eligible for family allowance is now $100. I propose that this be increased to $150.

The exemption for other dependents which is now $300, will be raised to $400.

By these moves we shall return to pre-war levels of exemptions, and in so doing will relieve about three-quarters of a million present taxpayers of all income tax liability.

I also propose a downward adjustment in the rates of tax. The complete details of the new rates are contained in the budget resolutions, and with the consent of the house I should like to insert in *Hansard* at this point the usual tables showing comparisons of the old and new taxes for single and for married persons at various income levels.

Present and Proposed Income Tax
Single Taxpayer

| Income | 1948 tax | 1949 tax | Dollar reduction | Percentage reduction |
|---|---|---|---|---|
| $ | $ | $ | $ | % |
| 750.... | .. | .. | .. | .. |
| 800.... | 5 | .. | 5 | 100 |
| 900.... | 16 | .. | 16 | 100 |
| 1,000.... | 29 | .. | 29 | 100 |
| 1,100.... | 44 | 15 | 29 | 66 |
| 1,200.... | 61 | 30 | 31 | 51 |
| 1,500.... | 120 | 75 | 45 | 38 |
| 1,800.... | 180 | 120 | 60 | 33 |
| 2,000.... | 220 | 150 | 70 | 32 |
| 2,250.... | 270 | 193 | 77 | 29 |
| 2,500.... | 320 | 235 | 85 | 27 |
| 2,750.... | 370 | 278 | 92 | 25 |
| 3,000.... | 420 | 320 | 100 | 24 |
| 3,500.... | 520 | 415 | 105 | 20 |
| 4,000.... | 620 | 510 | 110 | 18 |
| 5,000.... | 835 | 700 | 135 | 16 |
| 7,500.... | 1,465 | 1,270 | 195 | 14 |
| 10,000.... | 2,253 | 1,960 | 293 | 13 |
| 20,000.... | 6,515 | 5,960 | 555 | 9 |
| 30,000.... | 11,728 | 10,660 | 1,068 | 9 |
| 50,000.... | 23,456 | 21,814 | 1,642 | 7 |
| 75,000.... | 39,418 | 37,264 | 2,154 | 5 |
| 100,000.... | 56,631 | 53,714 | 2,917 | 5 |
| 200,000.... | 133,056 | 126,414 | 6,642 | 5 |

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. No account has been taken of the new 10 per cent tax credit for dividends.

Present and Proposed Income Tax
Married Taxpayer—No Dependents

| Income | 1948 tax | 1949 tax | Dollar reduction | Percentage reduction |
|---|---|---|---|---|
| $ | $ | $ | $ | % |
| 1,500.... | .. | .. | .. | .. |
| 2,000.... | 70 | .. | 70 | 100 |
| 2,100.... | 90 | 15 | 75 | 83 |
| 2,300.... | 130 | 45 | 85 | 65 |
| 2,500.... | 170 | 75 | 95 | 56 |
| 2,750.... | 220 | 113 | 107 | 49 |
| 3,000.... | 270 | 150 | 120 | 44 |
| 3,500.... | 370 | 235 | 135 | 36 |
| 4,000.... | 470 | 320 | 150 | 32 |
| 5,000.... | 670 | 510 | 160 | 24 |
| 7,500.... | 1,260 | 1,030 | 230 | 18 |
| 10,000.... | 1,990 | 1,660 | 330 | 17 |
| 20,000.... | 6,140 | 5,510 | 630 | 10 |
| 30,000.... | 11,315 | 10,160 | 1,155 | 10 |
| 50,000.... | 23,043 | 21,264 | 1,779 | 8 |
| 75,000.... | 38,968 | 36,664 | 2,304 | 6 |
| 100,000.... | 56,143 | 53,064 | 3,079 | 5 |
| 200,000.... | 132,493 | 125,714 | 6,779 | 5 |

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. No account has been taken of the new 10 per cent tax credit for dividends.

Present and Proposed Income Tax

Married Taxpayer with 2 Children of Family Allowance Age

| Income | 1948 tax | 1949 tax | Dollar reduction | Percentage reduction |
|---|---|---|---|---|
| $ | $ | $ | $ | % |
| 1,700.... | .. | .. | .. | .. |
| 1,300.... | 10 | .. | 10 | 100 |
| 2,300.... | 90 | .. | 90 | 100 |
| 2,400.... | 110 | 15 | 95 | 86 |
| 2,500.... | 130 | 30 | 100 | 77 |
| 2,750.... | 180 | 68 | 112 | 62 |
| 3,000.... | 230 | 105 | 125 | 54 |
| 3,500.... | 330 | 184 | 146 | 44 |
| 4,000.... | 430 | 269 | 161 | 37 |
| 5,000.... | 630 | 453 | 177 | 28 |
| 7,500.... | 1,208 | 964 | 244 | 20 |
| 10,000.... | 1,930 | 1,582 | 348 | 18 |
| 20,000.... | 6,040 | 5,375 | 665 | 11 |
| 30,000.... | 11,205 | 10,010 | 1,195 | 11 |
| 50,000.... | 22,933 | 21,099 | 1,834 | 8 |
| 75,000.... | 38,848 | 36,484 | 2,364 | 6 |
| 100,000.... | 56,013 | 52,869 | 3,144 | 6 |
| 200,000.... | 132,343 | 125,504 | 6,839 | 5 |

Note: (1) The above figures show the actual income tax liability of a taxpayer with family allowance children, but in order to arrive at his true net position the amount of family 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 $3,000 and two children would find that under present rates his income tax exceeded his family allowance by $86.00, while under the proposed rates his family allowance payments will exceed his income tax liability by $39.00.

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

In revising the rates of tax applicable to various income levels I have sought to achieve not only a reduction in rates, but also greater simplicity and greater equity. The two chief features of the new table of rates are first a large increase in the size of the first tax bracket to which the lowest rate of tax applies. Formerly this was a bracket of $100, now it is to be a bracket of $1,000. The second change in principle is to raise the point in the income curve at which the 50 per cent tax rate begins to operate.

Under the new table of rates three out of four persons who will still be paying tax will pay at a rate not exceeding 15 per cent on their income above the exemption level. No one will pay more than 15 per cent on any part of his income unless and until his income exceeds: $2,000 in the case of a single person; $3,000 in the case of a married person without dependents; and $3,300 for a married person with two children of family allowance age.

Let me give a few typical comparisons of the old and new rates.

A single person now paying $29 a year on an income of $1,000 will henceforth pay no tax whatever. A married person without dependents now paying $70 a year on an income of $2,000 will no longer have to pay any income tax. A married man with two children under 16 now pays $90 tax on $2,300 of income; henceforth he will pay no tax at all.

A single person at $1,500 will get a reduction of $45 or about 38 per cent; at $2,000 the reduction will be about $70 or 32 per cent; at $3,000 a reduction of $100 or 24 per cent; at $5,000 a reduction of $135 or 16 per cent; and at $10,000 a reduction of $293 or about 13 per cent.

In the case of married couples without children the reduction at $2,500 will be $95 or about 56 per cent; at $3,000 a reduction of $120 or 44 per cent; at $5,000 it will be $160 or about 24 per cent; at $10,000 it will be $330 or 17 per cent.

Comparison of the position of married couples with children of family allowance age is complicated by the necessity of taking the family allowance payments into account. All married taxpayers with two family allowance children having incomes of $2,300 or less henceforth will have no tax to pay and will, of course, receive the full amount of the family allowance payments. At $2,500 the amount of tax payable will be reduced from $130 to $30. If we offset family allowance payments against income tax such a family now receives on balance $14 a year from the treasury. In future they will, on balance, receive $114 from the treasury. At $3,000 this class of taxpayer, on balance, now pays $86 to the treasury; in future he will, on balance, receive $39 from the treasury. At $5,000 this same taxpayer will get a tax reduction of $177 or 28 per cent and at $10,000 a reduction of $348 or 18 per cent.

We propose, further, Mr. Speaker, that all these changes be effective as from January 1, 1949.

My colleague, the Minister of National Revenue, is expediting the preparation of new tax deduction tables for employers. These will be distributed as soon as available and employers are authorized to put them into effect immediately on receipt. It is expected that it will be possible to have the lower deductions in operation throughout the country within a few weeks. Furthermore, employers will be authorized to cease deductions immediately from those taxpayers no longer taxable under the new exemptions and a table is being made public tonight showing the weekly or other pay period amounts below which employers need no longer make tax deductions. My colleague will immediately make arrangements in co-operation with employers to expedite the making of refunds to persons no longer taxable but who have had tax deducted at the source since the first of the year. This will be done as quickly as possible, but in view of the great number of refunds that will have to be made it will require some months to complete the job.

While most of the reductions resulting from the new exemptions and reduced rates accrue to the benefit of the lower and middle income groups, I have not been unmindful of those business and professional people earning somewhat higher incomes. I have had particularly in mind the point at which the taxpayer is required to surrender to the treasury 50 per cent or more of any additional earnings, and have raised it to a more reasonable level.

These are the major changes we are proposing in the personal income tax field. But there are a number of other proposed changes to which I should refer.

At present all investment income in excess of $1,800 bears an extra tax of 4 per cent. In keeping with the general increase in exemptions, this $1,800 exemption will be increased to $2,400 or to the total of the taxpayer's personal exemptions, whichever is the greater.

The present law requires that in determining the income of a dependent for eligibility purposes it is necessary to include income, such as war disability pensions, that is exempt from tax under the law. I propose that this requirement be removed. The effect of this change is that only income that would be taxable income will be taken into account.

With reference to permissible items under the medical expenses allowance, and in response to many individual representations, I propose to allow the cost of a wheelchair as a medical expense.

**Some hon. Members:** Oh, oh.

**Mr. Abbott:** I see the hon. member for Stanstead (Mr. Hackett) is applauding vigorously. His was one of the representations that I have had.

Under this same heading I also propose that the optional deduction of a flat amount of $500 now granted to a blind person be extended to persons confined throughout the taxation year to a bed or wheelchair.

Amendments will also be introduced confirming the exemption now granted to clergymen in respect of the rental value of a free residence provided by a congregation and in addition extending the exemption to rent paid by a clergyman renting his own quarters where a free residence is not provided by the congregation.

In the case of interest penalties accruing on unpaid amounts of tax where the taxpayer has received no assessment notice it is now possible, in view of the greatly expedited assessment tempo in the income tax division, to reduce the period beyond which interest will cease to accrue from the present twenty months to twelve months.

I estimate that the net effect of all these reductions and amendments affecting personal income taxes will be a tax reduction in a full year amounting to $270 million or about 32 per cent of our total estimated revenue from this source. In the coming fiscal year, however, the loss of revenue to the treasury will be about $235 million, because part of the effects of the tax reductions in 1949 incomes will not be reflected in revenues until after March 31, 1950.

### 2. SUCCESSION DUTIES

In view of the very considerable relief granted in respect of succession duties last year, Mr. Speaker, I am proposing no change in the Succession Duties Act this year. It will be recalled that my last budget provided for the complete exemption of estates up to $50,000 from liability for federal succession duties, and removed the ceiling on the amount of gifts that may be made for charitable or educational purposes free of succession duty.

### 3. CORPORATION TAXES

I have several important proposals to announce relating to the corporate tax field. In last year's budget we undertook a successful general overhaul and consolidation of the Income Tax Act. Within this new framework I am now bringing forward a program of policy changes as part of the progressive improvement of our tax system.

At present we have a flat rate of 30 per cent on all corporate profits. I am recommending that this 30 per cent be reduced to 10 per cent on profits up to $10,000 and increased to 33 per cent on profits in excess of $10,000. The house will at once recognize this as tax relief for small businesses and will, I trust, be heartily in accord with the policy. Our country as a whole owes a great deal to the small family type of business. They have to struggle along, grow and develop in competition with large and well financed corporations whose activities may be nation-wide. My own belief is that small businesses should be encouraged and it seems to me that a useful way to do this is to lower the tax and take less out of the funds they need for growth and expansion.

All corporations, regardless of size, will, of course, receive this relief on the first $10,000 of profits but, as I have said, the rate of tax on profits in excess of this figure will be increased by 3 per cent. The net result of these changes is a decrease in tax burden for corporations whose profit is less than about $77,000; that is, the large reduction on the first $10,000 of profit more than offsets the slight increase in the rate on profits between $10,000 and $77,000. Where profits are in excess of $77,000 there is a greater tax under the new rate structure payable by the corporation itself, but in the light of my next proposal it will be seen that this additional tax may be more than offset by benefits to the shareholders if the corporation distributes a reasonable proportion of its profits.

My second proposal introduces a measure of reform which has long been a declared objective of this government. I refer to the removal of double taxation of corporate profits, which was one of the aims of the program we placed before the dominion-provincial conference in 1945-46. Today we find governments in this country, as well as in most other countries, taxing away at least a third of corporate profits. In addition, the personal income tax rates apply in full to what is distributed out of the remaining two-thirds. The tax may be as high as 80 per cent upon distributions to shareholders. It seems to me that under a system of private enterprise which depends for its existence on a steady flow of venture capital we cannot afford to neglect the implication of this defect in our tax system, which has been accentuated by the increase in both corporate and personal income tax rates. We had hopes that the working out of satisfactory arrangements with all the provinces would have enabled us to deal with this problem before now, but the government feels that it cannot longer defer a beginning in this field. It is not a question of the immediate profit position of Canadian business because I think it is clear that today we in Canada are prosperous as never before. Rather it is a matter of concern for the future under a system where we depend, and must depend, for full employment and the creation of new wealth on the willingness of our people to risk their money in constructive enterprises.

As a first step in dealing with this problem I am proposing that parliament should allow individuals a credit against their personal income tax equal to 10 per cent of the dividends they receive from common shares of Canadian taxpaying corporations. While I have used the expression "common" shares, the law will actually confine the credit to the most junior class of shareholders of a company, and it will not be granted in respect of shares that enjoy any special preference. Generally speaking, the incidence of the corporate tax is upon the common shareholders, and I believe that they rather than preferred shareholders should be granted such relief as can be given at this time.

In discussing the increase in the general corporate rate by 3 per cent I said that this meant an increase in tax burden for the corporation itself where profits were above the $77,000 mark. The fact is, however, that if the corporation distributes more than about one-half of its profits after tax in dividends in respect of which the shareholders get a 10 per cent tax credit, there will have been a net decrease in the tax burden over-all from the point of view of the corporation and the shareholders considered together, that is, the corporate rate increase is more than offset by the decrease in tax for the shareholder in all cases where there is a reasonable distribution of profits. I should like to call particular attention now to the fact that as a result of the low corporate rate of 10 per cent coupled with the 10 per cent tax credit this budget removes completely double taxation on small businesses where profits are less than $10,000.

A further proposal affecting the taxation of profits is that the loss carry-forward period be lengthened to five years instead of the present three-year limit.

During the past year a great deal of study has been given to our system of allowances for depreciation. The problems in this field are highly technical, and I cannot in this speech enter into much detail regarding changes which are to be made. I shall, however, state briefly what they are, and a full explanation of them will be given when we are in committee on the budget resolutions.

In the past allowances have been granted on the basis of wear and tear of assets used in earning the income subject to tax. Under the new regulations which my colleague the Minister of National Revenue is proposing, the governing principle will be the amortization of costs of depreciable assets. Incidentally, an effect of this will be to allow for obsolescence hitherto unrecognized under our act. In the second place the rates of write-off will apply to the written-down value of the asset account rather than to the total asset account. In the technical language of the accountant this means changing from the straight-line method of depreciation to the diminishing balance principle. Of course the rates of depreciation will be appropriately increased having regard to the diminishing base to which they apply. Thirdly, it is proposed to introduce what might loosely be described as a recapture provision. This provision will operate to ensure in effect that the deductions for amortizing the cost of an asset shall not exceed the final proven cost of the asset to the taxpayer. It will call for an adjustment against future write-offs where assets are disposed of after some use. I might add here that the so-called add-back or adjustment will be limited to the written-down value at the end of 1948 regardless of the price realized on disposal of assets in order that there can be no possible claim that under this provision capital gains are being taxed, or that this recapture provision has any retroactive effect.

I believe that these principles which I have cutlined will mean a great improvement over the old system and will be a further step towards greater simplicity in our system of taxing business profits. There should be a real reduction in the accounting work both for business concerns and the tax department as well. The system will likewise be more equitable to the taxpayer and to the treasury. I shall welcome a full discussion of these recommendations.

Another problem that has been given a great deal of study in my department and the Department of National Revenue during the past year is the difficult position that many family businesses may find themselves in when their growth has been financed by the plowing back of profits over a long series of years. At present, on winding up, the distribution of assets to the extent of undistributed income on hand becomes taxable in the hands of the recipient at personal income tax rates in the year in which the assets are distributed. So severe is the application of our present law in such cases that many such businesses have been driven into a great variety of extremely complicated and cumbersome devices to secure legal avoidance of the excessive tax burden to which they are now potentially liable. As a result we are losing revenue to which we think the public treasury has a justifiable claim.

The problem is an extremely difficult one and I think it fair to say that there has not been much unanimity of view among those who have studied it as to the most equitable and practicable solution. We have been considering a plan under which a straight percentage tax paid by such a corporation at the time of winding up or at the time of capitalization of earned surplus will relieve the earned surplus of tax liability in the hands of the eventual recipient. Whether this would be equitable and, if so, what the flat tax should be, are questions which require the most careful consideration. I am not prepared to make specific proposals for enactment at this session of parliament. I hope that there may be an opportunity of having a plan of the type mentioned discussed when we are in committee.

In addition to the major adjustments in the corporation tax structure outlined a few minutes ago I am proposing some comparatively minor amendments affecting corporations.

I propose that the allowances now granted for expenditures on oil, mineral and gas exploration be extended for a further period of three years, that is, for 1950, 1951 and 1952. The present law now provides for deductions only in respect of expenses incurred to the end of 1949. The extra tax credit granted in the case of expenditures on deep test wells will be extended for one year, that is, to the end of 1950. Also the three-year tax exemption for new metalliferous and certain industrial mineral mines will be extended to cover such mines that come into production in 1950, 1951 and 1952.

There will be several amendments introduced affecting companies having business operations abroad. The more important of these will remove a complicated procedure by which corporations having controlled subsidiaries abroad are now allowed to claim a tax credit against their Canadian tax for taxes paid by these subsidiaries abroad and in some cases by companies which are in turn subsidiaries of the foreign subsidiary. In view of the fact that most countries in which Canadian companies are now doing business abroad impose corporation taxes as heavy or heavier than the Canadian tax, the effect of the present tax credit provisions is that no Canadian tax is imposed on this income. The procedure for attaining this result, however, is extremely complicated and it is proposed that the same result be achieved by an amendment which would allow dividends from such controlled foreign subsidiaries to be taken into Canadian income free of tax. This will greatly simplify one small but very complicated provision of the law at no appreciable cost in revenue.

A group of other miscellaneous amendments, mostly technical in nature, will be contained in the bill. They are not of general interest to the public so I shall not burden the house with the details at this time.

In concluding this discussion of corporation taxes, I estimate that all the proposals I have made, including the tax credit for dividends, will on balance result in no loss to the treasury. The three per cent increase in the general corporate tax rate will, in effect, enable the other changes to be made without any net loss of revenue.

4. TARIFFS AND TRADE

Before taking up excise taxes and duties, I want to say something about tariffs and trade.

I have already discussed the major changes which took place in Canada's foreign trade position during the past year. The record reflects both the difficulties which some of our exports have encountered, and the large degree of success with which Canadian exporters and the Canadian government, working together, have sought out and developed alternative markets when traditional markets were closed to us. It must be regarded as a major achievement that Canadian exports reached a new peacetime record in 1948. This result is all the more remarkable when we consider that United States exports in the same period fell by nearly 18 per cent.

Chief credit for this achievement belongs to Canadian producers whose energy and resourcefulness made the right goods available for export at the right prices. But the government's achievements in reducing trade barriers and developing new trade opportunities contributed greatly to the maintenance and expansion of our trade.

The increase which took place in our total exports, and particularly the 44 per cent growth which took place in our exports to the United States, would not have been possible without the tariff concessions which we obtained under the Geneva agreement on tariffs and trade.

As I mentioned in my budget speech last year, most of the tariff reductions agreed upon at Geneva became provisionally effective on January 1, 1948. The first year's results are apparent from the trade figures which I have mentioned. These results, in my opinion, provide a strong endorsement of the policies which this government has followed in the field of international trade.

As hon. members know, trade negotiations with 13 additional countries are to commence at Annecy next month. As a result of these negotiations, the mutually beneficial concessions negotiated at Geneva will, it is confidentially expected, become applicable both to a wider circle of countries and to a broader range of commodities. As hon. members know, the legislation for the extension of the United States Reciprocal Trade Agreements Act is now before the Congress. When this legislation is passed, we will have the opportunity to seek a further trade agreement with that country. We would hope that it may be possible to conclude a further agreement similar to the three entered into in the past under that legislation, but one which would also open up wider possibilities for our exports of manufactured goods.

In view of the pending tariff negotiations at Annecy and other trade discussions which are envisaged, and in view also of the intention to introduce legislation at a later date to implement the general agreement on tariffs and trade, I am not proposing any tariff changes at the present time. For the same reasons the government does not intend to invite parliament to extend the special temporary provisions regarding the duties on cotton and rayon piece goods. These will expire July 1, 1949 in accordance with the legislation passed by parliament last year.

During the past 16 months we have had in effect certain emergency restrictions on imports into Canada. These restrictions have been an important factor in achieving the notable improvement which has taken place in our foreign exchange reserve position. When these emergency restrictions were introduced I stated that they would be relaxed or removed as rapidly as possible. Some relaxations have already been made, but the time has not yet come when these exchange conservation measures can be dropped entirely. Canada's foreign exchange reserves are still not as large as we would like them to be under present circumstances. A further increase is necessary if we are to face future uncertainties with confidence. However, the improvement which has taken place in our balance of payments justifies some further relaxations at this time.

After a careful appraisal of the situation, the government has decided to increase the present quotas on consumer goods listed in schedule II of the Emergency Exchange Conservation Act by approximately 25 per cent. In addition some items will be transferred from the prohibited list to the quota list as of April first, and on a few other items the restrictions will be suspended completely. As I announced last December, it is the government's intention to remove all the remaining import restrictions on fresh fruits and vegetables by next July. Complete details of these new relaxations are the subject of a statement, a copy of which I am now tabling.

At this time I wish to emphasize that it is still an important aspect of the emergency exchange conservation policy to facilitate the efforts of United Kingdom exporters to regain as much as possible of their historic share of the Canadian import market which they inevitably lost during the war years. This is particularly so in the case of cotton piece goods, which is the field where the greatest change between pre-war and post-war sources of supply occurred.

While United Kingdom cotton textile exports to Canada in 1948 did not reach the levels that we had hoped to see achieved, there was an encouraging improvement. The yardage of United Kingdom cotton goods exported to Canada in 1948 was more than four times that of 1947. We believe that Canada offers a sound long-term market for still larger quantities of United Kingdom cotton piece goods than are coming here now.

The quota applicable to textiles from scheduled countries is to be increased somewhat in the interests of Canadian users, but the continued operation of this quota will still give a strong incentive for further expansion in Canadian purchases of British textiles. It is to be earnestly hoped that both Canadian importers and United Kingdom exporters in their mutual long-run interests will continue to make every effort to consolidate and expand this trade on a sound business basis.

The Canadian government has taken and will continue to take all feasible steps to encourage the expansion of British trade with Canada. We are keenly aware that we must buy from our customers if we are to continue to sell to them. However, we cannot solve this problem alone. We have provided opportunities and created incentives for the purchase of British goods. It is up to British exporters and the British authorities to take advantage of these opportunities and to see that their goods are made available for export to Canada at prices which our consumers can afford to pay.

The most important lines of British exports to Canada have been greatly assisted, and are continuing to be assisted, by the operation of quotas under the Emergency Exchange Conservation Act. These quotas restrict competitive imports from the United States, and give British producers preferred access to their pre-war share of the Canadian market. This is one of many steps which have been taken in applying the Canadian government's policy of using every practicable measure to encourage imports from the United Kingdom.

Early in the war Canada granted a 50 per cent discount from the normal preferential duties to a wide range of British goods. The duties on British cottons and rayons were entirely removed. Moreover, these wartime tariff reductions were maintained in effect until January 1, 1948, when they were replaced by the reduced tariff rates negotiated at Geneva.

In order to remove any possible obstacle to British trade arising out of our anti-dumping legislation I introduced last year an amendment to the dumping provisions of the customs tariff. Under authority of this amendment several important classes of goods, which might otherwise have been subject to dumping duty when imported from Britain, have been declared exempt. Measures such as these, together with the special efforts of the Department of Trade and Commerce and its commercial representatives in the United Kingdom to stimulate the interest of British exporters in the Canadian market, are playing a constructive part in expanding British sales in this country.

The government of Canada has made repeated requests at the very highest level that authorities in the United Kingdom and other commonwealth countries do all that they can to take advantage of the favourable opportunities which Canada has offered for their exports. The Canadian government has also made it clear that it does not look with favour on purchasing arrangements or bilateral trade deals which tend to divert away from Canada either British or colonial products which otherwise could be sent here, particularly in cases where we have established and are maintaining substantial tariff preferences in favour of such goods.

Canadian import statistics which I quoted earlier make it clear that the efforts made both here and in Britain to enlarge Canada's purchases from the United Kingdom are bearing fruit. British export figures offer confirmation, if any is required. They show that the United Kingdom's exports to all countries increased substantially in 1948, and that its exports to Canada increased even more. The value of United Kingdom exports to all countries was 39 per cent higher in 1948 than in 1947. In the same period its exports to Canada increased 60 per cent. It will be agreed that this is a large and encouraging increase. I sincerely hope that this trend will be continued and thus provide a sound basis for the maintenance of our important export markets in the United Kingdom.

### 5. EXCISE TAXES AND EXCISE DUTIES

Under the exigencies of wartime finance we were compelled in our search for revenue to get into a rather complicated structure of commodity taxes. In addition to the traditional taxes on beer, wine, spirits and tobacco, and the general sales tax, we developed a great variety of taxes. These were necessary, indeed indispensable, taxes at the time; but they varied considerably as to rates, as to point of imposition, and as to method of collection.

We cannot afford to forgo most of the revenue these taxes provide, but in my judgment the time has come for a major job of simplification in this superstructure combined with substantial reductions in the number and the rates of these newer taxes.

I shall begin by listing those taxes which we propose shall be entirely repealed.

First, there is the tax of 15 per cent on all travel tickets by air, land or sea, and special taxes on sleeping car berths and parlour car chairs. This tax has been a considerable burden in a country like Canada where distances are so great, and it bears somewhat more heavily on people living at greater distances from the main centres of business and industry. We propose that these taxes be repealed effective midnight tonight. The revenue from these taxes has been $22 million a year.

Closely related to the transportation taxes are those on telegrams, cables, long distance telephone calls and extension telephones. These also bear disproportionately on those living at greater distances from the main centres of business, and in addition they mean added expense to individuals at times of family emergency. It is proposed to repeal all these taxes effective tonight. The revenue reduction will be $7,500,000.

In the third place, the special taxes on soft drinks, carbonic acid gas, candy and chewing gum have never been popular, and administratively they have not been easy to collect. They have, however, been highly productive of revenue at a time when revenue was badly needed. In the year now closing they have yielded more than $49 million. They seem to have been among the least popular of all the so-called "nuisance taxes", and we have come to the conclusion that they can go. It is proposed, therefore, to repeal these also, effective midnight tonight.

Finally, there is one other excise tax that is proposed for outright repeal and that is the special 5 per cent tax on the manufacturer's selling price of buses. This is not a large revenue producer—last year it gave us only $150,000. No other form of public transit equipment bears such a tax, and its disappearance will be a modest benefit to municipalities who operate bus transportation systems.

These are the taxes which we propose for outright and immediate repeal. The total tax reduction involved is approximately $79 million in a full year, and about $69 million in the coming fiscal year.

I turn now to another group of special taxes in respect of which I propose simplification of procedure and reduction in rates effective midnight tonight.

I shall mention first the 25 per cent retail purchase tax on jewelry and related articles. This is the only tax in our whole system that is levied and applied at the retail level. At the time it was imposed, and having regard to the revenue then desired, there were sound reasons for putting it at the retail level: but in line with the simplification of our tax structure, the pattern of which will appear as I continue my speech, we propose that the tax be moved back from the retail level to the manufacturer's level, and that the rate be reduced to 10 per cent effective immediately. The existing exemptions to this tax will continue. The net tax reduction in this case is estimated to be $8 million a year.

In much the same class I put the present 35 per cent tax on the manufacturer's selling price of luggage, bags, purses, fountain pens and pencils and desk sets, and smokers' accessories; and the 25 per cent tax on cigarette lighters. We propose that all these taxes be reduced to 10 per cent at the manufacturer's level. This will involve a tax reduction of $5,800,000 a year.

Similarly it is proposed to reduce from 25 per cent to 10 per cent the tax on cosmetics, toilet articles and preparations, with a consequent tax reduction of $4 million a year.

The present tax structure on matches is a rather complicated schedule based on the number of matches in the box or package. We propose to repeal this whole schedule, and to substitute a straight 10 per cent ad valorem tax. This will mean a tax reduction of $2 million a year.

Rubber tires and inner tubes (but not including original equipment tires) are now subject to a tax of 5 cents a pound. It seems to me that this is both cumbersome and complicated. We propose, therefore, to repeal this poundage tax, and put these tires and tubes into the 10 per cent ad valorem group. No change in revenue yield is expected.

Finally, there is a tax, of minor revenue significance, of 25 per cent on coin-operated games and vending machines. This, too, will be reduced to 10 per cent.

**Mr. Knowles:** Have you any taxes left?

**Mr. Abbott:** The reductions in tax revenues as a result of all these shifts to this new 10 per cent rate will be about $20 million in a full year and about $17 mililon in the next fiscal year. Added to the reductions in the repealed items, this makes a total reduction in excise taxes of $99 million in a full year, and $86 million in the coming fiscal year.

I am not proposing any changes in the taxes or duties on liquor and tobacco or in the general sales tax rate.

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

With these changes in effect our excise tax structure will be very much simpler and will be available to serve the people of this country as an efficient, equitable and flexible instrument of raising the revenues which are necessary to pay for the services which are now demanded of the federal government.

Let me recapitulate the substance of this commodity tax structure as it will now be.

First, the taxes at special and very high rates on beer, wine, spirits and tobacco.

Second, the general sales tax.

And third, a new group, or more accurately an enlarged group, where a 10 per cent tax in addition to the sales tax is imposed. The list will include such things as radios, phonographs, motorcars, jewelry, furs, cosmetics, luggage, purses, handbags, smokers' accessories, and so on.

This will provide a commodity tax system in which adjustments to varying fiscal requirements can be made by adding or subtracting from the list of goods covered, or by raising or lowering the general rates applicable.

Quite apart from the details of items and rates I commend it to all members of the house as constituting a very long step toward the desirable objective of a coherent and simple, yet efficient and flexible tax system.

### CONCLUSION

I can now summarize the net effects of all the tax changes I have proposed by saying that they will produce an estimated total reduction in taxation of $369 million in a full year and about $323 million in the next fiscal year. With the permission of the house I should like to insert in *Hansard* a recapitulation in tabular form:

Effect on Revenue of Proposed Tax Changes

| | Reduction in full Year | Reduction in Fiscal Year 1949-50 |
|---|---|---|
| | $ | $ |
| Personal Income Tax | | |
| Increased exemptions and reduced rates | 270,000,000 | 235,000,000 |
| Ten per cent tax credit for dividends | 12,000,000 | 9,000,000 |
| Corporate Income Tax | | |
| Net increase in revenue from rate changes | +12,000,000 | +8,000,000 |
| Excise Taxes Repealed | | |
| Soft drinks | 28,000,000 | 24,500,000 |
| Candy | 19,000,000 | 16,625,000 |
| Chewing gum | 2,000,000 | 1,750,000 |
| Transportation tickets | 20,500,000 | 17,950,000 |
| Berth and parlor car seats | 1,500,000 | 1,325,000 |
| Long distance calls, telegrams and cables | 7,500,000 | 6,550,000 |
| Transportation buses | 150,000 | 130,000 |
| Carbonic acid gas | 350,000 | 300,000 |
| Excise Taxes reduced to 10 per cent | | |
| Retail purchase tax | 8,000,000 | 7,000,000 |
| Toilet articles | 4,000,000 | 3,500,000 |
| Luggage | 4,000,000 | 3,500,000 |
| Matches | 2,000,000 | 1,750,000 |
| Smokers' supplies | 600,000 | 525,000 |
| Pens and pencils | 1,000,000 | 875,000 |
| Cigarette lighters | 250,000 | 220,000 |
| Total | $368,850,000 | $322,500,000 |

[Mr. Abbott.]

You will recall, Mr. Speaker, that at an earlier point in this speech I estimated that the present rates of taxation would yield us a revenue of $2,800 million in the coming fiscal year. After making allowance for tax reduction amounting to about $323 million on the basis of the fiscal year, my revised estimate of revenue for the year will be $2,477 million. With the permission of the house I will place on *Hansard* a table showing the revised revenue forecast in detail after taking account of the tax changes.

Revised Forecast of Revenue for Fiscal Year 1949-50 Taking Account of Tax Changes

| | Forecast of revenue from existing taxes | Reduction in revenue in fiscal year 1949-50 from budget proposals | Revised forecast of revenue for 1949-50 |
|---|---|---|---|
| | $ | $ | $ |
| Customs duties | 235,000,000 | .... | 235,000,000 |
| Excise duties | 210,000,000 | .... | 210,000,000 |
| Sales tax (net) | 385,000,000 | .... | 385,000,000 |
| Other excise taxes | 260,000,000 | 86,500,000 | 173,500,000 |
| Personal income tax | 835,000,000 | 244,000,000 | 591,000,000 |
| Corporation income tax | 550,000,000 | +8,000,000 | 558,000,000 |
| Interest and dividends | 45,000,000 | .... | 45,000,000 |
| Succession duties | 26,000,000 | .... | 26,000,000 |
| Misc. taxes | 4,000,000 | .... | 4,000,000 |
| Total tax revenue | 2,550,000,000 | 322,500,000 | 2,227,500,000 |
| Non tax revenue | 200,000,000 | .... | 200,000,000 |
| Total ordinary revenue | 2,750,000,000 | 322,500,000 | 2,427,500,000 |
| Special receipts | 50,000,000 | .... | 50,000,000 |
| Total revenue | 2,800,000,000 | 322,500,000 | 2,477,500,000 |

I said earlier that before making any tax reduction it was estimated that we would have a budget surplus of $410 million in the coming year. I have now proposed that $323 million of this be translated into tax reductions, which means that I am budgeting for a surplus of $87 million. This $87 million is a modest, I could almost say a nominal, budget surplus for it represents less than 3½ per cent of our expenditures.

I repeat, and I emphasize, Mr. Speaker, that all these estimates of revenue and surplus are based on the assumption that current rates of employment, production and incomes will, on the average, be maintained during the coming year. Should this expectation not be realized, our budget surplus of $87 million could rapidly melt away.

A budget surplus of $87 million will mean a reduction in our net debt by that amount. This reduction may take place either as a result of an increase in our active assets by a reduction in our outstanding debt or by both. It is more difficult than usual to forecast what our cash surplus will be in this coming year, because of the rapid changes that have been taking place in our foreign trade situation and the difficulty of foretelling now what cash the government will need to use in financing Canada's export surplus. Earlier I stated that in the absence of tax changes we could expect to have a cash surplus of $525 million next year, apart from the amounts required to finance our export surplus either by accumulating exchange reserves or making credits. The tax changes will reduce this figure to $202 million. I would hope that we shall succeed in selling enough abroad that our export surplus will be larger than this figure, and that we shall be able to bring our reserves up to a more satisfactory level. Should things develop this way and if, therefore, we need more than $202 million for this purpose, I think it would be the sort of situation that would justify us under present circumstances in borrowing our residual cash requirements.

This, Mr. Speaker, is the third budget that I have had the responsibility of presenting to this house, and the seventh in the preparation of which I have had some part. I take a good deal of personal pride in having been associated with the framing of Canada's economic and financial policy throughout these seven years. Wherever you go outside Canada, and almost everywhere you go within Canada, you find in the minds of those who know the record, a clear appreciation of the fact that the Canadian achievements in matters of economic and financial policy during and since the war rank second only to Canada's fighting record on land, on sea and in the air. We have been fortunate, it is true, but we have also, I think, been skilful, intelligent and prudent in the management of our affairs.

Before I take my seat may I summarize in a few short sentences the financial record of this Liberal government during the life of this present parliament.

In October 1945 we provided tax reductions of $300 million a year.

In June 1946 we provided tax reductions of $266 million a year.

In April 1947 we provided tax reductions of $265 million a year.

In the 1947-48 session we provided tax reductions of $92 million a year.

And now in March, 1949, we are providing tax reductions of $369 million a year.

In these five successive budgets we have made tax reductions which now mount up to nearly $1,300 million a year.

During the past three years we have reduced our net debt by $1,625 million.

During the life of this parliament we have extended social security, improved our health services, and have provided training, re-establishment credits and other benefits to our ex-servicemen on a scale more generous than that of any other country. We have greatly expanded our activities in research, exploration and surveys. And throughout the last four years the increase in employment, in wages, in farm incomes, and in general prosperity has never faltered. I know of no country in the world which can show a better record, or in which I would rather live.

I want to table now the budget resolutions.

THE EXCISE TAX ACT

Resolved that it is expedient to introduce a measure to amend The Excise Tax Act and to provide, effective on and after March 23, 1949:

1. That the following excise taxes be repealed, namely, the excise taxes on:

(a) Soft drinks;
(b) Chocolate, candy, and confectionery;
(c) Chewing gum;
(d) Cable, telegraph, and telephone messages, and on telephone extensions;
(e) Transportation tickets or rights of transportation, and on seats, berths, or other sleeping accommodation;
(f) Motor buses; and
(g) Carbonic acid gas.

2. That the retail purchase tax be repealed and replaced by an excise tax of 10 per cent, payable by the manufacturer or importer, on all articles now subject to the retail purchase tax.

3. That the following excise taxes be reduced from 35 per cent to 10 per cent, namely, the excise taxes on:

(a) Trunks, suitcases, bags, and luggage of all kinds;
(b) Ash trays, tobacco pipes, and smokers' accessories; and
(c) Fountain pens, propelling pencils, and desk accessories.

4. That the following excise taxes be reduced from 25 per cent to 10 per cent, namely, the excise taxes on:

(a) Toilet articles;
(b) Devices commonly or commercially known as lighters; and
(c) Coin, disc, or token operated machines and vending machines.

5. That the sales tax on the following articles be repealed: Lactose; malt syrup except when sold for beverage purposes; diesel powered self-propelled trucks, mounted on rubber tired wheels, for off highway use exclusively at mines or quarries, and complete parts thereof.

6. That the rates of excise tax on matches be amended from the present specific proportionate rate of tax on each package, to an ad valorem tax of 10 per cent.

7. That the present specific tax of 5c per pound on tires and tubes be amended to an ad valorem tax of 10 per cent.

INCOME TAX

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

1. That, for the 1949 and subsequent taxation years, the following shall be the exemptions from individual income tax:—

(a) $2,000 in the case of a married person and persons allowed a deduction equivalent to that of