farmer? The welfare of these income groups, in my opinion, is as important to us today in the world in which we are living as is the defence of this country through military effort, because if we do not make secure the lives of our people while we have the means to make them secure, we cannot defend ourselves from those evils that have overtaken all governments who refused to look after the welfare of their people.

On motion of Mr. Dickey the debate was adjourned.

At six o'clock the house took recess.

AFTER RECESS

The house resumed at eight o'clock.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Douglas Abbott (Minister of Finance): Mr. Speaker, I move:

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

In the twelve months which have elapsed since I brought down the last annual budget disquieting changes have occurred in the state of the world, and in Canada's place in it. The prospect is still far from clear. Great issues are still in the balance.

Last June the international tension crystallized in Korea. In September, parliament wholeheartedly supported the government's policy of participation in repelling this aggression. It was our hope then that the action in Korea would soon be brought to a successful conclusion. But later events took a graver turn when the Chinese communist government supported the North Korean aggressors in force. An end to the war in Korea is not yet in sight; indeed, there are indications that the United Nations forces may shortly be facing a most severe test of strength.

The Korean situation is significant of even greater dangers. It indicates that Russia is prepared to take steps involving the risk of a general war. While the strength of the west is increasing, so also is Russian strength. In the months that lie ahead, perhaps indeed for several years, we shall face a test of nerves, of our readiness to sacrifice immediate interests for future security. This is the background against which the budget must be viewed.

Without minimizing our anxieties, we are, however, entitled to take encouragement from certain of the developments during 1950. Since I shall of necessity have to speak at greater length this evening about matters that will be less pleasant and less welcome to us as individuals, I feel I should call attention now to some elements that favour us. We have serious tasks before us, but that is all the more reason why we should clearly understand that some of the changes that have occurred are on the asset side of the balance sheet, and if we are given time and if we take full advantage of that time, they will outweigh our present dangers.

The first great asset we have acquired—and it is perhaps immeasurable—is that the free world has realized its dangers, and has shown a capacity to agree upon courses of action and to act effectively. For this great event of 1950 we owe much to the vigorous leadership of the United States and the experienced partnership of the United Kingdom. Let us never forget that upon the continued enlightened and cordial partnership of the United States and the United Kingdom the peace and prosperity of the whole world heavily depend.

Nor should we fail to appreciate the response to the crisis made by the peoples of free Europe, and especially by our associates in the North Atlantic treaty. With all these peoples we have ties of race and kinship, and now we are joined by the still stronger bond of common ideals and common purpose. The visit with which the President of France has just honoured us has strengthened the links which history and culture forged long ago between our two countries.

This unity in action on the part of the free world is the first great and incalculable change for the better during the past year. If this unity should weaken, or if it should disintegrate, the outlook would be dark indeed. That is why it must be a fundamental object of our policy to promote and strengthen this unity of purpose and policy. We do well to take pride in the imperishable record of 1940 and 1941 when the commonwealth stood alone, but we should also take care that we are not called upon a second time to face such perils alone.

Another asset we have acquired during the past year is the very considerable continued improvement and expansion in the productive capacity of the western world. During 1950 industrial production in western Europe advanced by 20 per cent and is now operating at a rate about 35 per cent above pre-war. In the United States industrial production during 1949 experienced a sharp decline. In 1950 it recovered rapidly and is now running at a rate about 115 per cent above pre-war. Canada's industrial production was almost unaffected by the 1949 decline in the United

States; in 1950 it increased still further and is now about 110 per cent above pre-war.

The recovery of European capacity to export has also been most encouraging. In 1946 the volume of European exports was only one-half of the pre-war average; by 1949 it had recovered to pre-war levels, and is now running 25 per cent higher. Much of this improvement has been the result of the realignment of exchange rates to more realistic levels which took place in September, 1949. As a result of these improved conditions the dollar problem has receded into the background, at least for the time being. It still exists, however, and the rearmament program may revise it to some extent, but it no longer dominates the economic scene as it did two or three years ago.

A third great asset we should take full note of is that here in Canada, unlike so many countries, our people are not split and divided by fundamental cleavages of opinion. My task this evening is made easier because I sense that there are no great issues of principle dividing us. Individuals and parties in this house will differ on particular proposals, and in the course of debate on this motion it will be right and proper that those who differ should criticize. There may be differences of view with respect to degree and timing, but I am confident that on the major questions of policy underlying my proposals we are all fundamentally agreed.

The tasks before us will not be easy. We shall have to forgo some of the prospects of individual economic improvement that seemed to be our right. We shall have to yield for the time being a part of our economic gains of the recent past. But we must address ourselves to these tasks, and pay whatever price may be necessary to preserve peace and assure freedom.

CANADIAN ECONOMIC TRENDS

I turn now to a review of Canadian economic developments during the past year and to a projection of these trends into the year that lies ahead. As usual I am tabling a white paper which presents the more important economic and financial statistics in a convenient form, together with some brief explanatory notes and comments. The white paper also includes the usual preliminary details of our public accounts for the year ended March 31, 1951. I commend these budget papers to the careful study of all hon. members, and with the consent of the house I ask that they be printed as an appendix to today's debates.

NATIONAL PRODUCTION AND NATIONAL INCOME

Almost every significant economic indicator in Canada established new records in 1950. Gross national production in 1950 was close to $18 billion, net national income was about $14 billion, and personal expenditures on consumer goods and services were not far short of $12 billion. Gross capital investment was about $4 billion, and wages and other labour income nearly $8½ billion. Most of these figures are seven or eight per cent above 1949. A little less than half these increases represents increase in physical terms, and the rest is a reflection of higher prices.

The statistics of net farm cash income indicate an apparent decline of $90 million, but this is due to lower initial and participating payments on western grains during the past calendar year. In 1949 western farmers received payments from the wheat board amounting to $100 million more than the value of the grain delivered, and in 1950, $60 million less than the value of their deliveries. Agricultural production in Canada in 1950 was higher in both volume and value than in 1949, and farmers' cash income, excluding the variations in wheat board disbursements, was five per cent greater in 1950 than in the year before.

Investment and miscellaneous income in 1950 reached a new peak of $2·9 billion, a reflection of the very heavy new capital investment of recent years as well as the rising prices and high business activity of 1950. In the years 1946 to 1950 more than $9 billion of new plant and equipment has been installed by Canadian industry. Accurate figures of total capital investment in our industries have never been compiled, but I think it is a safe statement that during the past five years it has increased by not less than 40 per cent. Our industrial labour force during the same five years has increased by 12 per cent, and our agricultural labour force has declined 10 per cent.

Forecasting the future is always difficult, and in Canada is perhaps particularly difficult, partly due to our heavy dependence on the harvests of the land and sea, neither of which can be confidently predicted, and partly due to our dependence on foreign markets. This year it is made still more difficult by reason of uncertainties respecting steel and other materials and the shortages of special classes of skilled manpower. Every minister of finance, however, must adopt a view of the future, and I am basing my budgetary proposals on an assumption that the gross national product in 1951 will reach about $20 billion. That is an increase of about 12 per cent over 1950.

EMPLOYMENT, WAGES AND MANPOWER

The latest available statistics covering non-agricultural employment in Canada indicate that there are about 130,000 more persons employed than at the same time a year ago, and that there are about 115,000 fewer persons seeking work.

Monthly labour income at the end of 1950 was 11 per cent higher than a year earlier. For the eight leading industries regularly reported upon by the dominion bureau of statistics employment increased by five per cent during the year, weekly wages by seven per cent and total payrolls by twelve per cent. Average number of hours worked declined by a small fraction to a point just under 43 hours a week. Compared with the beginning of 1946 average weekly earnings adjusted by the cost of living index showed an increase in "real" earnings of nine per cent. Compared with a year ago the increase was about two per cent.

A manpower problem is likely to develop during the coming year. It is not likely to take the form of a serious over-all labour shortage, but there is already a scarcity developing in certain types of skilled labour, and it seems probable that these shortages of particular kinds of skill will become more widespread as defence production gathers momentum. As hon. members know, the government has recently appointed a national advisory committee on manpower to study and advise upon these matters.

CONSUMPTION AND PERSONAL SAVINGS

Personal spending on consumer goods and services in 1950 was about seven per cent higher than in 1949. A large part of this increase was concentrated in the second half of the year, and the increase was most conspicuous in consumer durables. The number of new passenger cars sold in 1950 was double the 1948 figure and 60 per cent greater than in 1949. Sales of electric refrigerators were three times as great as in 1948 and more than double the 1949 figure. And these rates of increase have probably accelerated during the first three months of this year.

Personal spending increased more than personal incomes, resulting in a decline in net personal savings out of current income. This decline in new savings amounted to about $270 million, or a drop of about 30 per cent.

EXTERNAL TRADE, THE BALANCE OF PAYMENTS AND EXCHANGE RATES

During 1950 there were a number of important changes in the pattern of our foreign trade. Exports from Canada increased by about four per cent to a peacetime record of $3,157 million. Since the price of our exports averaged about five per cent higher than in 1949 there was probably no increase in the volume of goods sold abroad. Imports, on the other hand, increased sharply in both volume and value. The total value of all merchandise imports in 1950 was $3,174 million, or an increase of 15 per cent over 1949. It will be seen from these figures that we imported $17 million more than we exported. This, however, does not take account of our exports of $162 million of gold which are not included in our regular merchandise trade statistics.

Changes in the direction of our trade were also significant. Our imports from the United Kingdom increased 32 per cent; from all other overseas countries by 27 per cent; and from the United States by 9 per cent. On the other hand, our exports to the United States increased 34 per cent, while our exports to the United Kingdom declined by 33 per cent, and to all other countries by 20 per cent. As a result of these shifts in trade our regional trade became much better balanced. In 1949 our exports to the United States paid for only 78 per cent of our imports; in 1950 they paid for 96 per cent. In 1949 United Kingdom exports to Canada covered only 43 per cent of her imports from us; in 1950 this figure rose to 85 per cent. For all other countries our imports in 1949 covered 64 per cent of our exports to them, and in 1950 this trade was almost exactly balanced.

Estimates of our balance of payments for 1950 indicate that we had a deficit on current account of about $300 million and a surplus on capital account of about $900 million, yielding a net increase of about $600 million in our gold and U.S. dollar reserves.

I think all hon. members are familiar with the facts of our extraordinary, I might even say embarrassing, increase in U.S. dollar reserves last summer when they increased by more than $500 million in ten weeks. After reaching a peak of $1,827 million at the end of October, 1950, our reserves have declined moderately and at March 31, 1951, stood at $1,653 million. At March 31, 1950, our reserves stood at $1,192 million.

One welcome consequence of the improvement in our exchange position was that we were able to withdraw all the emergency exchange conservation restrictions which we had to impose in November, 1947. After a steady series of relaxations during 1949 and 1950 the last of these restrictions disappeared on December 31, and the act itself was revoked by proclamation on January 15, 1951. The application of such restrictions is an irritating and a thankless task, and I should like to take this occasion to pay tribute to all Canadians, both consumers and businessmen, for the co-operative and understanding way in which they bore the complexities and the annoyances of this period. The demise of this act was unwept and unsung, but I trust not without honour.

Another consequence of our improved trade and general economic position was our action with respect to exchange rates last September. During the month of June an inflow of speculative capital from the United States became noticeable and it gathered momentum through July and August, reaching almost flood proportions in September. This inflow of funds, this tribute by New York to the essential soundness of the Canadian economy and its prospects, was rather sudden and not a little embarrassing. Much of it was looking for a quick ten per cent profit in the expectation that the Canadian dollar would be moved back to parity with the United States dollar. The inflow created difficulties for us not only from a banking point of view, but also in the sharp inflationary stimulus it applied to our money supply. The Bank of Canada took energetic measures to sterilize this inflow by heavy selling from its portfolio of government securities, and the government was in the fortunate position of having a cash surplus enabling it to finance part of the inflow which would otherwise have required further borrowing.

After careful review of all the relevant factors, and after consultation with the international monetary fund, we came to the conclusion that the wise policy to follow was to withdraw the official rates on the United States dollar and allow the exchange rate to find its appropriate level in response to the normal supply and demand forces operating in the market from time to time. As hon. members know, this operation was carried out smoothly, and during recent months the American dollar has been fluctuating narrowly and quite normally at premiums varying between 4½ and 5½ per cent.

THE CONTROL OF INFLATION

Two great issues, Mr. Speaker, face the world today. They are the pursuit of peace and the control of inflation. Neither of these is peculiarly Canadian. Both are matters of great concern to every decent country in the world. In respect of neither of them are we fully masters of our own destiny, for we live in a highly interdependent world. But both of them have had a large part in framing the policies of expenditure and revenue which are joined in my budget tonight.

Of our policy of seeking an enduring and expanding peace I need not speak at any length. It is clear and it is unambiguous. Its financial aspects are found in our defence estimates, in our provision for aid through various United Nations agencies both for relief and for other constructive purposes, and in the estimates which will be tabled later in this session for our co-operation in the Colombo plan.

I must, however, speak rather more fully about ways and means of restraining inflation. As I said a moment ago, this is not just a Canadian problem; it is a world-wide trend. Indeed, price increases in Canada during the past year have been more moderate than in other comparable countries. During 1950 wholesale market prices in Canada advanced 15 per cent; in the United States they advanced 19 per cent; in Australia 22 per cent; in the United Kingdom 23 per cent, and in most of the western European countries between 20 and 25 per cent. There is some satisfaction, though perhaps not much, in being not quite so badly off as one's friends and neighbours.

We must face the fact, however, that a considerable measure of inflation is abroad in the world. The continued increase in the various price indexes during the past three months is evidence of that. As the London *Economist* put it a few weeks ago, "the virus of inflation has got into the economic blood stream." Even if strong and effective measures are taken in all major countries it cannot be cured overnight. But it is the duty of each country, having regard to its own circumstances, to take all the practical and sensible measures available to it to bring this virus under control.

We in Canada have already done a great deal. As I have said on previous occasions, this is not a matter in which government policies alone can provide a complete solution. It is a matter which requires the fullest co-operation of all sections and groups, in which every person has a part to play. But governments can and should do a great deal. The government can exercise careful control over its own expenditures; we can follow a fully pay-as-we-go policy; we can restrain the expansion of credit; and we can apply direct controls either to particular conditions or, if necessary, more generally. In Canada we have done all of these and we shall continue to develop and apply these policies.

The essential principle in preventing inflation is to restrict the total of all expenditure, public and private, to an amount which can be met from our production and imports. The necessities of defence now require that our expenditure for all other purposes should be reduced—making due allowance for the increase in prices that has already occurred.

This requires us all to reappraise the priorities of our expenditures for various purposes and projects. Immediately following the Korean crisis last summer the government reviewed its own expenditure programs, and many projects that had been planned and for which parliament had voted funds were deferred. Since that time the numbers in many units in the public service have been reduced or held below the figures for which parliament had appropriated salaries. Hon. members and others have already seen tangible effects of this policy. The detail pages of the estimates show many instances where expenditure in the past year has been considerably below what was authorized and planned, despite the increase in wages, salaries, and prices.

For this new fiscal year we have applied a similar but more severe test of need. For non-defence purposes we have reversed the upward trend in expenditures. The estimates placed before parliament for this year show a reduction of $35 million below last year, despite an increase of more than ten per cent in salary and wage levels, despite higher materials and construction costs, and despite an increase of nearly $40 million in old age pensions, family allowances, tax rental agreements with provinces, and similar payments that rise automatically with increases in population and the value of production. The numbers of employees engaged in normal government administration are being reduced, and parliament is being asked to appropriate salaries or wages for about five per cent fewer employees than last year, apart from defence and related services. This reduction is made possible in part by an increase in normal office working hours, and by the elimination of certain services and activities.

We have paid particular regard to our expenditures on construction, because it is in this field where we anticipate the greatest competition between the defence program and other public and private expenditures. Examination of the estimates for the departments of public works, transport, agriculture, and resources and development—our major non-defence spending departments in this field—reveals very large reductions in their construction programs, notwithstanding urgent needs for expenditure of this kind, following twenty years during which works have been postponed, first for lack of funds, then for war, and finally, in recent years because of shortages of materials and labour.

It is hard to set a figure upon the reduction in expenditures that we have made because of the necessity of diverting resources to defence. I think, however, it would be fair to say that if we had not gone beyond the careful and prudent planning applicable to a growing Canada in a peaceful world, our non-defence expenditures might well have increased by more than $100 million instead of being $35 million less. I should like to thank all my colleagues and their senior officers for their co-operation in the difficult task of contracting their programs and expenditures.

It is in one sense misleading to talk of a special "economy drive" in regard to government expenditures. The duties of a minister of finance consist largely of a continuous search for economies. A more accurate way of expressing it is that priorities of expenditures shift and change from time to time, but given a program agreed upon for a particular year, the effort to achieve economy and efficiency is never relaxed.

Our second anti-inflationary policy is to balance the budget fully. If I may anticipate a later section of my speech I can say now that I estimate our budgetary surplus for the year just ended to be $203 million. As will also be seen from the resolutions I shall refer to later, we propose to follow a strict pay-as-we-go policy for the coming year.

Hon. members are also aware of the measures that have been taken to restrain the expansion of credit. In the field of direct action by government, regulations affecting consumer credit were put into effect last November, and revised on a more restrictive basis in March of this year. We have also begun to curtail the use of government funds by way of mortgage credit for housing and the extension of government guarantees of bank loans for farm improvements.

In the field of monetary policy, the Bank of Canada has for some time been exercising its influence to restrict the cash reserves of the banking system so as to discourage monetary expansion and, last October, raised its rediscount rate as a signal of warning. In February the bank expressed the view to the chartered banks that further increase in the total volume of bank credit would be undesirable. The banks agreed that restraint in bank lending under present conditions was in the general public interest, and adopted certain measures suggested by the Bank of Canada and described in a public statement issued by the bank. In addition to specific policies in respect to certain types of loans, it was announced that lending practices would be tightened wherever possible in all fields of bank lending in order to achieve the desired objective of avoiding further increase in the aggregate volume of the banks' loans and holdings of non-government securities. Hon. members will understand that these monetary and bank credit measures depend upon voluntary co-operation rather than government regulation, but the objective towards which they are directed is, I believe, very much in the public interest.

There is, I think, a growing realization throughout the country that at a time of full employment the level of investment cannot exceed the current level of new saving by the community without having an inflationary influence. In such circumstances extension of credit requires particularly careful scrutiny. One symptom of the very large demand for credit in recent months has been the establishment of higher interest rates in Canada, as in the United States and other countries. One would like to see more restraint in the demand for loans, and larger annual savings out of income. It is now widely recognized also that, within the limits imposed by aggregate new saving, lending institutions and individuals alike can make a constructive contribution by directing their investment policy so as to give preference to projects assisting the defence program and essential productive enterprise.

These tighter credit policies strike at the root causes of inflation by cutting down what business and consumers can spend in excess of their incomes. They take some months to show their effects on excessive purchasing and the rise of prices, but already one begins to see evidence of their influence. Along with similar action in the United States they will have a growing importance in holding prices down.

We have now had five successive years of unprecedented capital investment. A year ago I did not think that the 1950 rate of expansion would exceed the record of 1949, but in fact it was 14 per cent higher in value and about 7 per cent greater in physical volume. Preliminary reports for 1951 indicated that the business and industrial world was planning for another 15 per cent increase in capital investment above 1950. I am led to believe, however, that quite a few businessmen and other operators are revising their plans to more moderate dimensions in the light of steel shortages and tighter bank credit. But the indications are that the plans for capital expansion still being pushed forward are greater than the capacity to fulfil them. Unless there is a much sharper increase in per capita output than we have ever had in the past it will be literally impossible for all groups in the country to accomplish what they want or what they are planning to do: the government to double its defence expenditures, consumers to raise their levels of consumption, and business to increase its rate of capital expansion.

We cannot allow the defence program to suffer, nor would we wish to see a reduction in the levels of ordinary personal consumption. It is, therefore, largely in the field of capital investment and consumer durables that room will have to be made for the defence program. This is the more necessary since it is in this sector of the economy—the construction, metal using and machinery trades—that most of the defence production will be inserted.

Finally there is the question of direct controls. The government, through my colleague the Minister of Defence Production, is already applying direct controls in the allocation and use of steel and certain other essential materials, and he has powers which he is prepared to use to extend these controls when that appears to be necessary and desirable. The government's views on this general problem of direct controls have already been fully stated by the Prime Minister and by others earlier this session. The government's attitude toward direct controls is not based on theoretical or academic or ideological grounds; it is based on a completely practical appreciation of prevailing conditions and upon the estimated effectiveness of any proposed form of control in the given circumstances. I shall not repeat our views which are well known and well understood. If we reach a point where we believe a much wider range of direct controls would be in the national interest we shall use them, but we are not prepared to embark upon a premature program which under present conditions would in our judgment create more confusion than stability.

At the risk of some repetition, however, I would like to re-emphasize the extent to which higher prices are transmitted to Canada from abroad. More than one-fifth of everything we produce is exported, and about the same proportion of everything we consume is imported. In other words a large part of our price structure, certainly more than half its components, is directly determined by what others outside Canada charge us or will pay us. As my colleague the Minister of Defence Production (Mr. Howe) said last night, it would be possible to reduce substantially the price of meat in Canada, but only by placing an embargo on all cattle and meat exports. But if we want to retain the American market for our cattle—and in the long run it is essential—we in Canada must be prepared to pay as good a price for them as the Americans. We could reduce the price of clothing in Canada, but only by paying extremely heavy subsidies on imports of raw cotton and wool, on textile yarns and textile fabrics. As my colleague said last night, raw cotton has gone up fifty per cent in price during the past nine months, and raw wool prices have doubled.

Under conditions of total mobilization our people and producers would, I am sure, accept if necessary the loss of markets, the detailed regimentation of their businesses and the denial of their normal freedom to bargain and to make free contracts. We are not in that position now. We hope, and we still have reason to believe, that the policies of peace and security that we are following in association with other free nations will prevent the development of such conditions.

I have said something about what the federal government can and should do in these matters. It is equally important that provincial and municipal governments should follow comparable policies in their own spheres. Provincial and municipal expenditures, and the important public services which they sustain, are assuming increasing importance in the Canadian economy. In 1945 their net expenditures—that is, the expenditures of the provinces and the municipalities—totalled about $700 million, and in 1950 they exceeded $1,500 million. Total non-defence governmental expenditures in Canada at all three levels of government, excluding all intergovernmental transfer payments, have increased by about $1,000 million since 1945. In round figures $180 million of this increase has been at the federal level, $530 million at the provincial level, and $290 million has been in the municipalities. Both the provinces and the municipalities have highly essential functions to perform which require them to undertake a great deal of both small and large scale construction work. Having regard to the impact of defence on construction materials and skills I must again urge the provinces and municipalities to review particularly their capital and construction programs in the light of the general public interest.

Of the public at large, consumers and producers, farmers and merchants, businessmen and labour, I ask for restraint and good sense in all economic matters. I come back again to the fundamental importance of increasing efficiency and output. Statistics and charts in the white paper I have tabled indicate that there has been no measurable increase in per capita productivity during the past five years. This can be explained by the larger proportion of children and old people in our population. But if we are to carry greatly increased defence costs without having a definite fall in our standards of consumption we shall have to do better than this—we shall all have to work harder and longer.

Greater output, however, is not just a matter of each of us working harder or longer. Productivity is also a reflection of efficient business management, and it calls for mutual confidence and the best possible working relationships between management and labour.

There is also urgent need for a higher volume of new saving, to cover the increase in capital investment which is in prospect, and to restrain the rising trend in consumer spending. This is certainly one of the best ways of reducing the intensity of competition for the use of labour and materials, and so reducing the upward pressure on prices. It is to the interest of every Canadian to make the maximum effort to save, or to increase the level of his saving, as a direct contribution to the avoidance of inflation and the successful prosecution of the defence program. The money saved can be used to buy Canada savings bonds, or to pay off the mortgage on his house or farm more rapidly, or to speed up the repayment of other debts, or to increase his savings in any other form that suits his individual circumstances. The important thing is to achieve an increase in aggregate saving up to a level at least equal to the new capital investment which we shall have to make this year.

GOVERNMENT ACCOUNTS, 1950-51

Turning now to a brief review of the government's accounts, may I again call the attention of hon. members to the detailed statements relating to these accounts in the white paper to which I have already referred. Of course it will be some time before the final figures for the year just ended will be available, and the figures I shall be using must, therefore, be regarded as preliminary and subject to revision.

In my statement to the house last September, I estimated our expenditure at $2,654 million and our revenue at $2,669 million. It now appears that our actual revenues for 1950-51 were about $3,105 million, our expenditures about $2,902 million, and as a consequence our budgetary surplus about $203 million.

The most notable feature of our financial operations has been the extraordinary buoyancy of our revenues, which reached an all-time peak and exceeded our estimates by $436 million. Our revenue, as hon. members are aware, is highly sensitive to variations in our production, trade, incomes and prices, and the unprecedented collections for the fiscal year are essentially a reflection of the high rate of economic activity generally during 1950, which began to accelerate in

April and May, and moved upward, much more rapidly after the outbreak of hostilities in Korea.

Direct taxes, which include personal and corporate income taxes and succession duties, yielded $257 million more than a year ago and account for half our total revenues. Indirect taxes, which include all customs and excise, have also shown a marked increase, yielding $201 million more than in 1949-50, and 40 per cent of the total.

The greater yield from direct taxes is primarily the result, on the one hand, of increased employment and higher incomes, and, on the other, of higher corporate profits earned during 1950. The record yield of $800 million from corporation income tax reflects in part the increase in corporate profits I have already discussed, in part the higher rates of tax imposed last September, and in part the provision introduced last year whereby private companies were allowed to capitalize their undistributed income on hand at the end of the 1949 taxation year upon payment of a tax of 15 per cent. As I said in my budget speech of March 28, 1950, it was impossible to predict what revenue would accrue from this 15 per cent tax, as no one could tell how many companies would take advantage of the new provision in the fiscal year. In fact, more than $90 million of tax has been paid by private companies under this provision.

The increased yield from indirect taxes is due, for the most part, to a larger volume of sales of consumer goods and services at higher prices, and, in lesser degree, to the impact of the additional commodity taxes introduced last September.

Our higher revenues are also the result of constantly improving efficiency in the Department of National Revenue. During the past two or three years a particularly good job has been done in streamlining procedures, speeding up assessments, and cleaning up arrears, as well as taking prompt and salutary action against fraudulent tax evaders. For this good work I should like to tender my particular thanks to my colleague the Minister of National Revenue (Mr. McCann) and his staff of senior officials.

I will not go into details of non-tax revenues or special receipts except to report on one item. Post office revenues have risen, but operating costs have also increased, with the result that on the usual basis, without adjusting for certain services rendered free or below cost to other departments and certain services or accommodation received without charge to it, the post office showed an operating deficit for the year. Details of all other items of non-tax revenues and special receipts which amount to $234 million will be found in the white paper.

Apart from the following three items, our estimates of expenditure have proved to be fairly close to the actual results for the fiscal year.

The house will recall that in my budget statement of September 7 I set a figure of $100 million for our estimated expenditures under the $300 million vote for the supply of military equipment and related services for our own use and for the use of our north Atlantic allies. I indicated at that time that this sum might be exceeded, and that indeed our aim would be to expedite this program by all possible means. We now expect that when the accounts for the year are closed they will show that we have made defence equipment, valued at $195 million, available to our north Atlantic friends, and consequently $95 million of the excess of our expenditures over our forecast may be attributed to this factor. Almost the whole of the remaining difference is accounted for by the two special items included in the further supplementary estimates for 1950-51 which were not foreseen last September, namely, the $65 million payment authorized to be made to the Canadian wheat board, and the special contribution of $75 million to offset in part the reported deficit in the superannuation account.

The most significant single feature of our expenditure has been the increase in national defence. Expenditures for the services and for defence research increased by about $190 million, and in addition, as I have already noted, supplies valued at $195 million were made available to our partners under the north Atlantic treaty. In all, our defence expenditures increased by $388 million to a total of $773 million. This amount is more than double the total defence outlay for the preceding year, and represents more than a quarter of all our expenditures for 1950-51.

In addition to the increases already mentioned, there was an increase of $22 million in payments for family allowances, old age pensions and pensions to the blind, and an increase of $20 million in the various payments to the provinces; but these were more than offset by reductions and savings in other items.

For example, there were significant reductions in expenditures for interest on the public debt, veterans benefits and government-owned enterprises. The saving of over $14 million in interest on public debt was due to the successive reductions in the debt which we have been able to achieve during the last five years. That of almost $19 million in veterans benefits is attributable to decreases in payments of rehabilitation benefits, war service gratuities and re-establishment credits. The reduction of $44 million in the charges for government-owned enterprises is due primarily to the sharp decrease in the deficits of the Canadian National Railways. Further decreases were due to the absence of any item comparable to the charges in the 1949-50 accounts for the assumption by Canada of part of the Newfoundland debt or for the write-down of certain of our active assets to non-active account. There were also other savings, and for particulars of some of these I would refer hon. members to the comparative tables of expenditures given in the white paper.

Following the practice of recent years, I have again provided for an addition of $75 million to the reserve for possible losses on our active assets. At March 31 loans, investments and other assets amounting in the aggregate to over $5,890 million were carried on the books as active assets. The reserve held against these amounted to $396 million, representing approximately 7 per cent of the total. This I believe is a not unreasonable provision.

In summary, our revenues for the year just ended were $525 million more than for the preceding year, and while our expenditures also increased by $453 million we were nevertheless able to achieve a surplus of $203 million or $72 million larger than that of the year 1949-50. This surplus has involved a corresponding reduction in the net debt of Canada, and brings to $1,980 million the amount by which the government has been able to reduce the net debt during the past five fiscal years. I am sure it must be gratifying to hon. members, as it is to me, that we have been able to reduce our net debt by this substantial amount—an amount which is approximately equal to the increase in our debt during the first three and a half years following the outbreak of war in 1939.

I should also like to direct the attention of the house to that part of our financial operations which lies outside the budget proper. Cash receipts from and cash payments to the public are more significant factors than budgetary revenues and expenditures in appraising the full effects of governmental financial transactions upon the Canadian economy. With this in mind I would like to refer briefly to those items in our budgetary revenue and expenditure accounts that do not involve the receipt or payment of cash, and also to those other cash receipts and disbursements which are outside the budgetary accounts but which must be taken into account in order to appraise our over-all cash position.

In addition to the provision for our general reserve and the usual interest credits and government contributions to annuity, pension and similar accounts, we have had the transfer to revenue of the excess provision for the refundable portion of the excess profits tax, the special government contribution to the civil service superannuation account, and the revaluation of our sterling and United States dollar assets and liabilities. Moreover, the transfer of existing stocks of equipment to our north Atlantic allies under the Defence Appropriation Act has not involved immediate cash disbursements. While during 1950-51 equipment valued at $195 million was transferred, disbursements for replacements amounted to only $20 million. When we take account of the above items and other cash receipts which do not constitute revenue in the budgetary sense, we find that a total of $792 million in cash was available during the fiscal year. Against this we must take into account the substantial disbursements we have to make during the year which are not budgetary expenditures. The largest and most significant of these were the advances to the foreign exchange control board to acquire gold or United States dollars. These amounted to $475 million. We have also made substantial loans to the Central Mortgage and Housing Corporation and to veterans under the Veterans Land Act for housing and settlement purposes. In the aggregate cash payments amounting to $612 million for loans and investments and other non-budgetary purposes which would otherwise have required additional borrowing were made out of available cash resources. This left an over-all cash surplus of $181 million. By using this amount and by letting our cash balances run down by $25 million, securities amounting to $90 million were acquired for the unemployment insurance fund and certain investment portfolios of the government, and in addition we were able to retire outstanding funded debt to a total amount of $116 million.

I shall not take the time of the house to discuss the balance sheet of Canada or explain the principal changes in our asset and liability accounts. Perhaps I should say, however, that the net debt of Canada at March 31, 1951, as presently estimated, was $11,441 million, that our total unmatured funded debt at the same date was $15,027 million of which less than 3 per cent is payable in London or New York, that the average coupon rate on this funded debt was unchanged at 2·60 per cent, and that our total public debt charges for the year 1950-51 amounted to $439 million, a decrease of about $12 million from the previous year.

FINANCING OPERATIONS

Financial operations during the fiscal year included the redemption or refinancing of a heavy volume of matured or called bond issues in addition to the normal refunding of various issues of short-term securities.

In regard to our funded debt payable in Canada, the amount of our obligations, including refundable taxes, which matured or were called during the year, was no less than $3,771 million. We met $3,245 million of this amount by refunding or conversion into new issues, and $467 million by new borrowing in the form of Canada savings bonds and deposit certificates. The remaining cash required, $59 million, came from our cash surplus. After taking into account $22 million arising out of certain non-cash transactions, funded debt payable in Canadian dollars was reduced by $81 million during the fiscal year.

Our funded debt payable in United States dollars decreased by $74 million during the year. Of this amount $55 million resulted from the redemption on October 1, 1950, of an issue of 4 per cent bonds outstanding in the amount of $100 million (U.S.), which was refinanced in part by the issue of 2¾ per cent twenty-five year bonds in the amount of $50 million. This issue which was sold at par established a new low record for the cost of borrowing in the United States market by any foreign government. In addition, there was a reduction of $19 million in our United States dollar debt reflecting the change in the exchange rate resulting from the freeing of the Canadian dollar in September, 1950.

Our funded debt payable in sterling decreased by $5·7 million. This was in part due to the redemption of $2·9 million registered stock on May 1, 1950, and in part reflected the change in the exchange rate.

Thus, the over-all reduction in our funded debt during the year was $161 million, of which cash payments accounted for $116 million and exchange revaluations and adjustments for the balance.

FORECAST OF REVENUE AND EXPENDITURE, 1951-52

I now come to a consideration of our revenue and expenditure prospects for the new fiscal year, 1951-52. The main estimates which I laid before the house on March 12 provided for expenditures of $3,587 million. Of this amount $1,664 million is for defence, or approximately $893 million more than the estimated outlay for defence during the year just ended. The total estimate for our non-defence programs for the new fiscal year is $1,923 million. However, there will as usual be supplementary estimates. On the other hand there will be offsets to these supplementary estimates. We shall spare no effort to achieve the maximum possible economies. Inevitably in any program of this magnitude there will be shortfalls in expenditures as compared with the estimates. The total amount of these savings is most difficult to forecast, particularly in a time of rising costs and prices, but I am confident that it will be fairly substantial. Taking all relevant factors into consideration, my best estimate is that our total expenditure during the present fiscal year will be of the order of $3,700 million, and I propose to budget on that basis.

On the revenue side, I base my forecast on the expectation I have noted earlier—that our gross national product will reach $20 billion. Should production and incomes continue to rise beyond that level—as well they might—I should expect my forecast to be more than realized. Should they go not quite that high, our revenues could fall short of the estimates I am now submitting.

However, on the basis of these assumptions I would expect that if we were to make no changes in our present tax laws, our total revenue would rise to about $3,325 million during the fiscal year. I have had the usual table prepared showing a comparison of the revenue forecast for 1951-52 with the preliminary figures for the year just closed, and for the convenience of hon. members and others, I ask the consent of the house to have this table printed in *Hansard*.

Forecast of Revenue
(Before tax changes)

	Fiscal year 1951-52 (Forecast)	Fiscal year 1950-51 (Actual preliminary)
	(In millions of dollars)	
Customs import duties	$ 315·0	$ 298·0
Excise duties	245·0	245·0
Sales taxes (net)	495·0	459·1
Other excise taxes	238·0	215·9
Other taxes		
Individuals	785·0	652·0
Corporations	850·0	800·0
Interest, dividends, etc. ..	60·0	62·0
Excess profits taxes	....	10·0
Succession duties	40·0	34·0
Miscellaneous taxes	5·0	4·9
Total tax revenues	$3,033·0	$2,780·0
Non-tax revenue	$ 242·0	$ 231·8
Total ordinary revenue ..	$3,275·0	$3,012·7
Special receipts and credits	50·0	92·6
Grand total revenue	$3,325·0	$3,105·3

With estimated expenditures of $3,700 million and prospective revenues of $3,325 million it would appear that in the absence of any tax changes we would have a budgetary deficit of $375 million in 1951-52. However, before dealing with the tax changes which I shall recommend, I would like to refer to our prospective cash position and those extra budgetary cash receipts and disbursements which are so important from the economic standpoint in their impact upon our economy and in appraising the real significance of our financial operations for the year.

To this prospective budgetary deficit of $375 million we must add our probable cash disbursements for other than budgetary expenditures. In the replacement fund set up under the Defence Appropriation Act there is a balance of $175 million which is now available to the Department of National Defence for cash expenditures for the purpose of replacing existing stocks of defence equipment transferred to our north Atlantic allies during the fiscal year just ended. During the new year additional transfers to our allies are expected, but substantial cash disbursements for replacements will also be made, and these disbursements are likely to exceed the transfers to the replacement fund, although the actual amount of the excess is difficult to forecast. In addition, we shall in all probability require about $60 million for housing loans, possibly $15 or $20 million for Veterans Land Act advances, and there will undoubtedly be other loans and investments. Offsetting these will be the cash receipts in the annuity and pension funds and in the various trust and other accounts, including repayments of loans and advances made in previous years. All in all, I expect that our total non-budgetary cash disbursements will somewhat exceed our total non-budgetary cash receipts. This is apart from any transactions in our own securities, and possible advances to or repayments by the foreign exchange control board resulting from changes in the size of our exchange reserves. It is, of course, not possible to forecast with any degree of assurance the extent of any change in these exchange reserves and I shall not attempt that hazardous exercise. From what has been said, however, it seems apparent that unless the repayment of advances by the foreign exchange control board equals the net excess of non-budgetary cash disbursements over non-budgetary receipts, our over-all cash deficit, assuming no changes in our present tax structure, would exceed the estimate of our budgetary deficit I have already given.

TAX POLICY

I said a moment ago that we face a prospective deficit of $375 million. The first question is, what shall we do about it? In my mind, and I think in the mind of every hon. member, the answer is clear and must be unequivocal. No person with any sense of financial responsibility and having a clear view of our circumstances and our prospects could do other than conclude that we must increase our revenues by at least the amount of the deficit, that we must balance the budget, that we must follow a strict pay-as-we-go policy.

There is, of course, a certain arbitrary element about budget statistics. We do our budget arithmetic in terms of separate periods of time—the fiscal year. In reality the stream of income and the stream of expenditure are continuous though always changing. In some months the inflow exceeds the outflow, in others the process is reversed. Since the summer of 1950 the volume of flow in both streams has been steadily rising, though at varying rates. A year ago our total expenditures were $2·4 billion, in the year just closed they were $2·9 billion, this year they will be $3·7 billion. It will be clear that during the last few months of the past year the flow of expenditure was at a rate considerably above $2·9 billion a year, and during the last half of this fiscal year it will probably be running at a rate of about $3·9 billion a year.

It is my duty, therefore, to seek new revenues which will produce actual additional receipts of about $400 million in this fiscal year, but which will be yielding at a rate of about $600 million a year during the last six months of the year.

The next question is one of ways and means. It is generally agreed, I think, that we have an excellent basic tax structure. We arrived at this basic structure through a series of changes completed in 1948 and 1949. It consists of a well balanced blend of personal income taxes, corporation income taxes, succession duties and commodity taxes. The commodity taxes in turn comprise customs duties, the so-called general sales tax and the special excise taxes. This structure was designed to be simple and flexible, one that could be readily adapted by moderate changes in rates or in coverage to meet any reasonable scale of peacetime requirements.

I am reluctant to believe that we must inevitably face budgets of $4 billion or more for any considerable succession of years. There is still a possibility that reasonable solutions of the present international tensions may be developed. In another year's time we should have a clear view of the prospects. I have, therefore, decided not to recommend any major reconstruction of our tax system this year but instead to meet our current requirements by a series of simple but adequate surcharges on several existing taxes and also to widen the coverage of our special excise taxes. I think that over the shorter run this method of defence surcharges will produce the necessary revenue with the least difficulty and inconvenience. If our optimistic hopes are realized it will be easy to reduce these surcharges or to drop them entirely, but I want to add that if it becomes clear that we are in for a long pull at these high levels of expenditure some major changes in the existing tax structure may have to be devised. My tax proposals, therefore, must be regarded as an interim policy for the period of the current year.

In proposing tax changes in times like these we must give consideration to the effects of the inflationary forces at work. Our principal economic objectives at this time must be greater efficiency, greater output, less non-essential capital investment, moderation in consumer spending, and an increase in personal savings. At the same time we would all wish to retain as free and as flexible an economic system as possible. Taxes operate on the economic system by diverting part of the income stream and by altering price relationships, and they have the effect of varying the intensity of incentives to produce and to spend or save. Any tax change will have some effect on incentives, or on spending, or on saving. Our problem is to get a good balance between taxes on earnings and taxes on spending. Taxes on spending, that is, taxes on commodities, do not adversely affect incentives to produce. In the case of taxes on commodities, government revenue is obtained not by reducing private income, but by placing a surcharge on private expenditure of certain kinds. This type of taxation has the advantage that it does not adversely affect the incentive to earn income, that is, to produce, and it does offer the consumer some choice as to whether he will spend, and pay the tax, or whether he will save and to that extent avoid the tax.

As I said earlier, the three principal inflationary forces presently at work in Canada are the rising prices outside Canada, the domestic capital investment boom which shows no signs of abating, and the fact that consumer spending power is outrunning the flow and production of consumer goods and services. There is little we can do about rising external prices, but we can do a good deal about the two domestic pressures and we have already done a good deal.

Consumer expenditures are being restrained by consumer credit regulations, as well as by the higher taxes introduced last September, and will be further affected by the higher taxes I shall be proposing a little later this evening. Taken together we think that these measures are adequate to the circumstances.

Heavy capital expenditures, on the other hand, are providing the most severe internal pressure and all signs point to increasing pressure from this source. In 1950 they were much more than double 1946 and 50 per cent above 1947. The reported capital expenditure plans for 1951 indicate intentions to increase them by a further 15 per cent over 1950, but it may be doubted whether such an increase is physically possible.

Capital expenditures are much more difficult to hold within bounds. Monetary and credit policies are having a restraining effect, but a large proportion of business corporations still have a highly liquid position and to that extent are less affected by these financial controls. The increases in corporation income taxes which I shall be proposing will drain off substantial amounts of corporate profits but the total volume of profits remaining in corporate hands will still be sufficient to maintain and, in some cases, to increase the capacity of corporations to plan additional capital investment without recourse to borrowed funds. Ordinarily this is a good thing both for the corporations and for the country, but under present conditions all expenditures of this sort that are not essential should be postponed.

Steel and related controls will place considerable restraints on less essential capital expansion, but they will not directly affect certain kinds of investment. In fact they could have the result of intensifying competition for such other materials and labour as are available. To embark upon all-out direct construction control would be an almost impossible task, as the experience of 1944-45 indicated.

What we need is a stiff financial deterrent that will affect particularly the businessman who is considering the kind of investment which is attractive, not because of its long-term soundness, but because it can be written off out of the expected high profits of the next few years at a time when he expects the rate of corporate income tax to be abnormally high.

To provide this deterrent it is proposed to defer for a period of four years the right to charge depreciation on all capital assets acquired after April 10, 1951, excepting certain classes of assets defined in the regulations and certain additional kinds of assets when certified as eligible by the Minister of Trade and Commerce.

The principal classes of assets which will still be eligible for current depreciation without a certificate will be those acquired

(a) for the production and distribution of electricity, gas and water; the provision of telegraph and telephone services; pipe lines, gas and oil well equipment; lumbering equipment; patents and franchises.

(b) for use by individuals in farming, fishing, or a professional service.

The principal kinds of assets in respect of which the Minister of Trade and Commerce will be authorized, in his discretion, to issue certificates of eligibility for current depreciation will be those necessarily acquired for

(a) defence purposes;

(b) the production and distribution of primary products in the farming, fishing, mining, petroleum, lumber and pulp and paper industries;

(c) direct use in a transportation or communication business.

Under the proposal, the right to charge depreciation as an expense is deferred, not cancelled or even diminished. For example, $10,000 of ineligible assets acquired after April 10, 1951, will earn no depreciation for tax purposes during the next four years; but in 1955 it can be transferred to the depreciable asset account at its full original cost. If it is a type of asset that can be written off in, say, 10 years, it will be written off in 1955-64 instead of in 1951-60.

The deterrent will particularly affect the businessman whose decision to make a capital expenditure is strongly influenced by the expectation that he can write off a large fraction of his cost at a time when both profits and tax rates are abnormally high, particularly if it is a kind of investment with uncertain profit-making possibilities six or eight years hence. In other words it will compel the businessman to give primary attention to the long-term prospects of proposed capital expenditures and if outside financial participation is required lenders will also take this view.

There will, therefore, be a stiff deterrent on projects of uncertain long-run value and also on capital expenditures on frills, gadgets and generally "dressing up" offices, stores and buildings. This deterrent should reduce the competitive scramble for scarce materials and equipment and thus place less strain on direct controls. Such materials and equipment will tend to go to those who can make the best long-term use of them. Bidders who are anticipating short-run quick profits will tend to withdraw from the market. One further advantage is that the government will not be telling anyone that he cannot do this or that. What will happen is that a financial penalty will be put, in the short run, on those who go ahead with less essential expenditures.

These revised depreciation regulations will go into effect immediately and will apply to all capital assets acquired after April 10, 1951. A copy of the regulations which have been approved by the governor in council will be tabled at the close of my address and my colleague, the Minister of Trade and Commerce, will be issuing an explanatory statement within a day or two.

I turn now to my proposals for tax changes for this year.

The field of the corporation income tax is a difficult one, and one which I have to approach with a particularly keen sense of responsibility for the real national interest, because the general public does not, I am afraid, fully understand the implication of these taxes. It would be only too easy to take a superficially popular line and increase these taxes to a point which while yielding large immediate revenues would do grave damage in the longer run to the economy as a whole.

I shall not repeat what I said about the excess profits tax last September. I still believe that it is not a sound tax except under very special circumstances, and I do not believe we have reached that point. A part of what I said about the excess profits tax, namely, that it blunts the goad to efficiency and that it invites waste, applies also to high rates of corporation income tax. It is, of course, a question of degree. I say quite frankly, however, that I am not happy about corporation tax rates when they go over 50 per cent. I think it is bad psychology to permit people to say that more than half of any income earned, or any savings made, will go to the government.

There is also the point that corporation taxes involve double taxation; we tax the corporation on its profits, and then we tax the shareholder again on his dividends. Moreover, we have always relied on undistributed corporation profits to provide a large fraction of the capital required for expansion of our industries. At this juncture in our affairs, with heavy capital investment contributing to inflationary pressure, I shall not be too much concerned if higher tax rates leave less for reinvestment, but in the long run it is a good thing for the country that business should grow out of reinvested profits.

Having weighed all these factors I have come to the conclusion that the right policy at this time is to impose a defence surcharge of 20 per cent on all corporation income tax payments in respect of income earned after January 1, 1951, in addition to the 5 per cent higher tax rate imposed last September. This 20 per cent surcharge will apply only to profits now taxed at the 38 per cent rate. It will not apply to the rate of 15 per cent which applies to the first $10,000 of profits.

I am conscious of the fact, however, that this 20 per cent surcharge will weigh very heavily on those kinds of companies which for a variety of reasons, public control of rates or otherwise, are never able to earn more than a very modest rate on their capital. To such companies the next few years can offer little expectation of increased profits, yet many of them are engaged in activities which will require them to raise very large sums of additional capital for essential expansion. If we are not to cripple their borrowing capacity we must not cripple their capacity to earn their normal profits after tax. For these reasons I propose that the 20 per cent defence surcharge shall not operate so as to reduce the net income after federal tax, but before any provincial income taxes, of any company to a point below a 5 per cent return on capital employed.

Apart from this abatement the effect of the 20 per cent defence surcharge is to raise the rate of tax on all profits over $10,000 from 38 per cent to 45·6 per cent. It must be remembered that there are also provincial corporate income taxes. In the eight provinces with tax rental agreements it is 5 per cent, and in Ontario and Quebec it is 7 per cent. This means that the marginal rate of combined tax will be just over 50 per cent in eight provinces, 52·6 per cent in Ontario and Quebec.

If this 20 per cent defence surcharge were applied to all profits its yield would be about $115 million in this fiscal year, and about $170 million in a full year. The abatement I have mentioned will cause some reduction in this yield. On the other hand, we shall pick up some additional current revenue incidental to the policy I have announced regarding deferred depreciation. What this amount will be cannot be more than an informed guess. I am inclined to the view that this increased revenue will be rather more than the loss from the abatement of the surcharge and I have, therefore, put down $116 million this year and $175 million in a full year as my increased revenue from the corporation income tax.

There will in addition be a number of technical changes in the law covering corporation taxes, but none of these will have any significant economic or budgetary implications.

I turn now to the personal income tax. In line with my earlier statement that I wish to upset the present tax structure as little as possible this year, I am proposing to leave the exemptions and the percentage rate structure unchanged and rely upon a straight defence surcharge for the revenues we require. This surcharge will be 20 per cent on the amount of tax payable under the present rate structure and will take effect as from July 1, 1951. This means that the tax payable for the whole calendar year of 1951 will be increased by ten per cent, but commencing July 1 all payroll deductions will be one-fifth greater than in the present deduction tables and all other pay-as-you-earn instalments will be increased by one-fifth. With the permission of the house I shall insert in *Hansard* at this point the usual tables illustrating the effects of this surcharge.

Present and Proposed Income Tax
Single Taxpayer

			Increase in Tax	
Income	1950 Tax	1951 Tax	In 1951	In a Full Year
$	$	$	$	$
1,000	......	......	....	....
1,200	30	33	3	6
1,500	75	83	8	15
1,800	120	132	12	24
2,000	150	165	15	30
2,250	193	212	19	39
2,500	235	259	24	47
2,750	278	306	28	56
3,000	320	352	32	64
3,500	415	457	42	83
4,000	510	561	51	102
5,000	700	770	70	140
7,500	1,270	1,397	127	254
10,000	1,960	2,156	196	392
20,000	5,960	6,556	596	1,192
30,000	10,660	11,726	1,066	2,132
50,000	21,814	23,995	2,181	4,363
75,000	37,264	40,990	3,726	7,453
100,000	53,714	59,085	5,371	10,743
200,000	126,414	139,055	12,641	25,283
400,000	283,114	311,425	28,311	56,623

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 income of that amount and additional investment income to make up the total. No account has been taken of the 10 per cent tax credit for dividends from Canadian corporations.

Present and Proposed Income Tax

Married Taxpayer—No Children

Income	1950 Tax	1951 Tax	Increase in Tax In 1951	Increase in Tax In a Full Year
$	$	$	$	$
2,000	......	......	....	....
2,250	38	42	4	8
2,500	75	83	8	15
2,750	113	124	11	23
3,000	150	165	15	30
3,500	235	259	24	47
4,000	320	352	32	64
5,000	510	561	51	102
7,500	1,030	1,133	103	206
10,000	1,660	1,826	166	332
20,000	5,510	6,061	551	1,102
30,000	10,160	11,176	1,016	2,032
50,000	21,264	23,390	2,126	4,253
75,000	36,664	40,330	3,666	7,333
100,000	53,064	58,370	5,306	10,613
200,000	125,714	138,285	12,571	25,143
400,000	282,364	310,600	28,236	56,473

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 income of that amount and additional investment income to make up the total. No account has been taken of the 10 per cent tax credit for dividends from Canadian corporations.

Present and Proposed Income Tax

Married Taxpayer with Two Children Eligible for Family Allowances

Income	1950 Tax	1951 Tax	Increase in Tax In 1951	Increase in Tax In a Full Year
$	$	$	$	$
2,300	......	......	....	....
2,400	15	17	2	3
2,500	30	33	3	6
2,750	68	75	7	14
3,000	105	116	11	21
3,500	184	202	18	37
4,000	269	296	27	54
5,000	453	498	45	91
7,500	964	1,060	96	193
10,000	1,582	1,740	158	316
20,000	5,375	5,913	538	1,075
30,000	10,010	11,011	1,001	2,002
50,000	21,099	23,209	2,110	4,220
75,000	36,484	40,132	3,648	7,297
100,000	52,869	58,156	5,287	10,574
200,000	125,504	138,054	12,550	25,101
400,000	282,139	310,353	28,214	56,428

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

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

When hon. members have an opportunity to study these tables they will find, for example, that the married man with no children earning $2,500 will have his tax increased by something less than 30 cents a week. The $5,000 a year man will pay an additional $8.50 a month; the $10,000 a year man will pay an additional $28 a month, and so on. Starting July 1 every taxpayer will pay a rate one-fifth higher than he has been paying. This 20 per cent defence surcharge on personal incomes should yield $85 million this year, and $158 million in a full year.

There will be a number of other amendments to the Income Tax Act.

Authority will be requested for a simplified income tax system for members of the armed forces under which their full income tax liability in respect of service pay may be met by appropriate deductions from their monthly pay.

Expenditure on certain drugs will be allowed in computing deductible medical expenses.

Provision will be made for the deduction, in computing income from wages and salaries, of professional membership dues and certain other cost items where the professional status is required to be maintained by the terms of the employment or where such costs are required by the contract of employment to be assumed by the employees. Similarly, provision will be made for the deduction of union dues.

The 15 per cent tax on undistributed income of private companies will be made available to all companies, but the right of controlled companies to pay in respect of surpluses accumulated from 1950 onward will be withdrawn.

The right of corporations to file consolidated returns will be withdrawn in respect of taxation years ending after December 31, 1950.

The special provisions regarding exploration expenses incurred by mining and oil companies will be extended for a further year.

Minor adjustments will be made in respect of lump sum accumulations of income received in a year, investment counsel fees, charitable foundations, farm losses and "related companies".

A few other technical amendments will be contained in the bill but I need not refer to them at this time. As hon. members will note, some of the above amendments will increase revenue and others will decrease it. On balance I estimate a net increase in revenue from all these items of about $10 million.

I turn now to our third broad field of taxation, that of commodity taxes.

We propose to make no changes in the present scale of taxes on alcoholic beverages. Last September we increased these taxes by $22 million a year. The rates are now high, and I am aware that whenever we change these taxes we impose a good deal of inconvenience and some confusion upon the provincial authorities.

We propose, however, to increase the taxes on cigarettes and on manufactured tobacco. The cigarette tax is now $10 per thousand, and I am recommending an increase of $1.50 or a total of $11.50 per thousand, effective midnight tonight. This change will yield us $21 million this year and $26 million in a full year.

For some years now we have had a tax on cigarette papers and cigarette tubes which are used by those who "roll their own". This tax has become difficult to administer. I propose to repeal this tax and substitute for it a higher tax on manufactured tobacco. To keep a reasonable proportion between the traditional relationship between the taxes on cigarettes and tobacco I am recommending an increase of 48 cents a pound on manufactured tobacco. A proportionate increase is also proposed with respect to the tax on raw leaf tobacco. I estimate that these changes will give us an additional $8 million this year and $9 million in a full year over and above the loss of revenue on cigarette papers and tubes.

Next I come to what we call the special excise tax, that is the tax now imposed at a rate of 15 per cent on such things as motorcars, radios, household electric appliances, cameras, jewelry, cosmetics and so on. We propose that this tax be increased to a rate of 25 per rent.

The house will also recall that last September we deliberately decided not to place this special tax on refrigerators, stoves and washing machines. I regret that we can no longer afford to leave these entirely free of extra tax, and I am recommending that a tax at 15 per cent be levied on all mechanically operated domestic refrigerators and washing machines and on all domestic cooking stoves except those designed to use coal or wood only.

In September a tax of 30 per cent was imposed on all candy, confectionery and chewing gum. Experience has shown that this rate has been too severe, and its effects upon the industry have been out of proportion in comparison with other taxed industries. We propose, therefore, to reduce this rate to 15 per cent.

These, like all other commodity tax changes, will be effective at midnight tonight.

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

I estimate the increase from 15 per cent to 25 per cent in existing taxes after taking account of the reduction in the tax on candy will yield an extra $44 million this year and $54 million in a full year. The new items to be taxed at 15 per cent should produce about $16 million this year and $21 million in a full year.

Finally I have given very careful thought to the so-called general sales tax. I say "so-called general sales tax" because it is really very far from being such. Our present sales tax has a very long list of exemptions. About ninety-five per cent of all foods are free of sales tax. All fuels and all building materials are exempt. I think it is safe to say that two-thirds of the average Canadian family's total spending is not touched by the sales tax. Contrary to the frequent assertion, the sales tax does not strike a higher proportion of the expenditures of the low income group. Calculations based on recent family budget studies made by the dominion bureau of statistics indicate that in the lowest income groups only about one-quarter of total income is spent on goods subject to sales tax; at the $3,000 a year level about one-third of the family income is spent on goods subject to this tax. This 33 per cent of income spent on taxed commodities extends to beyond the $6,000 a year level. Only when incomes exceed $7,000 or $8,000 a year does the proportion of income spent on goods subject to sales tax start to decline, and this is just about the point where our income tax starts to become sharply progressive. To say that our sales tax is a harsh regressive tax simply is not true.

If hon. members have succeeded in following my estimates of additional tax yields they will realize that my proposals so far leave me about $100 million short of my necessary objective of $400 million to balance this year's budget. My range of choice to secure this remaining $100 million is really limited to more than doubling the increase I have already proposed in the personal income tax, which could only be achieved by a sharp lowering of exemption levels, or an increase in the sales tax. I do not say that we have reached the practicable limits of the income tax. Of course we have not. The new rates we are proposing are much below the peak rates of 1943 and 1944. But experience has shown that you cannot increase income taxes by too much in any one year without creating serious embarrassment to large numbers of people in all income groups, and without seriously affecting economic incentives.

I have therefore come to the conclusion that the sound thing to do from the economic point of view, and the fair thing at this time, is to increase the sales tax. I believe also that this is the choice that will be preferred by the great majority of our people. We are not recommending any change whatever in the coverage of the sales tax, but we are proposing that its rate be increased from 8 per cent to 10 per cent, effective immediately. I estimate that this will yield additional revenue of $105 million this year and $125 million in a full year.

Finally, I have certain tariff changes to propose. The tariff negotiations which have been taking place at Torquay during the past six months have just been concluded. The purpose of these negotiations was to extend the Geneva and Annecy agreements for another three-year period, to increase the scope of these agreements by including more countries and a wider range of commodities, and further, to arrange for additional reciprocal concessions on products previously negotiated. The Canadian delegation has concluded negotiations, providing for further reciprocal concessions, with sixteen countries including the United States. It has been arranged between the countries represented at Torquay that the details of the agreements resulting from the negotiations will be announced by the participating governments on May 9. Consequently I am not in a position to review the results at this time.

The budget resolutions relating to the customs tariff which I am tabling contain proposals to carry out certain recommendations of the tariff board and to provide for reductions in a number of duties which would lower costs of production in our great primary industries of agriculture, mining and fishing. Other changes proposed would achieve improvements in the wording and classification of several items so as to remove anomalies and to facilitate administration.

Two years ago I referred the plastics and synthetic resin items in the tariff to the tariff board for inquiry and report. These items were last examined by the board in 1937. In view of the rapid technical changes which have been taking place in this new and expanding industry, it is not surprising that the existing items in the tariff have become obsolete. Because of the highly technical factors involved and the complexity of the problem I felt it particularly desirable to have a thoroughgoing inquiry by the tariff board before recommending any action. The exhaustive examination which the board has undertaken is not yet completed, but the board is of the opinion that there are certain special and pressing difficulties which should be dealt with at this time. Consequently the board has submitted an interim report in which it recommends the insertion of certain items into the tariff prior to submission of its full conclusions covering the whole of the synthetic resins and plastics field. I have included these recommendations in the changes which I am proposing in the budget resolutions. The board's recommendations are designed to achieve up-to-date provisions respecting both classification and rates. The rates recommended involve some increases and some decreases in existing rates of duty. The reasons which led the board to recommend these readjustments are fully set out in its interim report which I am tabling with the budget resolutions.

The other tariff proposals include changes which would widen the application of certain items pertaining to farm equipment. They would provide for the free entry of such things as grain or hay driers, individual sprinkler irrigation systems and several items of dairy equipment when for use on the farm. Most of these were recommended to the government in the brief submitted by the federation of agriculture. The free entry of these items would be of considerable assistance to our farmers and is in accord with the government's policy, stated by my predecessor, Right Hon. J. L. Ilsley in his budget speech of 1944, regarding the free entry of farm implements and machinery.

In respect of the fishing industry two changes are proposed. One would permit the free entry of diesel engines for installation in boats used exclusively for commercial fishing operations and the other would widen the provision for free entry of nets and lines to include nets and lines made of any material. Both my colleague, the Minister of Fisheries, and I have received many representations that these changes would be of significant assistance to the fishing industry. In view of the heavy dependence of the industry upon export markets it is in the general interest to reduce, wherever practical, tariff barriers which add to costs.

The changes proposed in the customs tariff affecting equipment used in the mining industry would widen the existing provisions to permit the entry of unfinished parts of the equipment specified, at the same reduced rates as are now granted to the fully finished parts. In a number of cases the provisions would be extended to cover additional items of equipment used in mining operations.

An amendment is proposed to the tariff item dealing with settlers' effects. A number of countries from which we seek to obtain immigrants find it necessary, owing to the shortage of exchange, to apply restrictions on the transfer of emigrants' capital. These restrictions have operated as a deterrent to the movement of desirable immigrants into Canada. The new subsection which I am proposing to add would, in these cases, permit the free entry of settlers' effects during a period of three years from the time of the settler's first arrival. This would enable the settler to use his frozen capital to purchase and bring in from his country of origin such things as household effects, wearing apparel, tools of trade and agricultural equipment, after the settler has been here and has had an opportunity to decide what he and his family need most urgently. This new provision should make it possible for many desirable immigrants to establish themselves more rapidly in productive activity in this country.

Finally, I am proposing an amendment to tariff item 708. This would remove obsolete language and would enable the government to carry out reciprocal customs arrangements regarding certain matters with other signatories of the North Atlantic treaty. These would apply to supplies for defence establishments located in one another's territory in accordance with jointly agreed plans for our common defence.

The net effect of all these tariff changes on the total of all customs revenues will not be significant.

I think it will be convenient to hon. members if I insert at this point a table summarizing the revenue effect of all these tax changes.

Effect on Revenue of Proposed Tax Changes

	In Fiscal Year 1951-52		In a Full Year	
		$		$
	(millions)			
Personal income tax				
20 per cent surtax	...	85·0	...	158·0
Corporation income tax				
20 per cent surtax and deferred depreciation	...	116·0	...	175·0
Other income tax changes	...	10·0	...	10·0
Sales tax				
Increase in rate to 10 per cent	...	105·0	...	125·0
Excise taxes				
Increase in 15 per cent rate to 25 per cent	52·0	...	63·0	...
Reducing confectionery tax to 15 per cent	-8·0	...	-9·0	...
Net increase		44·0		54·0
New 15 per cent tax on refrigerators, stoves and washing machines	...	16·0	...	21·0
Increase in cigarette tax	...	21·0	...	26·0
Increase in tobacco tax	14·0	...	17·0	...
Repeal of tax on cigarette papers	-6·0	...	-8·0	...
Net increase		8·0		9·0
Total		405·0		578·0

It will be noted that in a full year I expect to get an additional $185 million from corporation taxes, $158 million from personal income taxes and $235 million from commodity taxes. In this fiscal year, largely because of the three-month lag in income taxes, I expect to get $126 million from corporations, $85 million from personal income tax and $194 million from commodity taxes.

As usual at this point I should like to insert another table showing a revised estimate of total revenues for 1951-52 after giving effect to the proposed tax changes.

Revised Forecast of Revenue for Fiscal Year 1951-52 Taking Account of Tax Changes

	Forecast of revenue from existing taxes	Increase in revenue in fiscal year 1951-52 from budget proposals	Revised forecast of revenue for 1951-52
	$	$	$
		(millions)	
Customs duties	315·0	....	315·0
Excise duties	245·0	....	245·0
Sales tax (net)	495·0	105·0	600·0
Other excise taxes	238·0	89·0	327·0
Personal income tax	785·0	85·0	870·0
Corporation income Tax	850·0	126·0	976·0
Interest and dividends	60·0	....	60·0
Succession duties	40·0	....	40·0
Miscellaneous taxes	5·0	....	5·0
Total tax revenue	3,033·0	405·0	3,438·0
Non-tax revenue	242·0	....	242·0
Total ordinary revenue	3,275·0	405·0	3,680·0
Special receipts	50·0	....	50·0
Total receipts	3,325·0	405·0	3,730·0

This table shows estimated revenues at $3,730 million. Earlier in my speech I forecast our total expenditures at $3,700 million. I am therefore budgeting for a surplus of $30 million.

I should repeat, Mr. Speaker, that all these estimates assume a high level of employment throughout the country, at least average agricultural crops, and a basic price level not very much higher than that which now prevails.

These then are the proposals which we recommend to the house in order to meet our financial requirements. None of us can tell what the future has in store. The taxes we have proposed should yield total revenues of about $3,900 million in a full year. It would be too bold to hope that conditions a year hence will permit any reductions in these rates of tax. There can be some hope, but certainly no assurance, that tax rates next year may not have to go higher.

It is an inexorable rule of life that we can never really get something for nothing. Nothing is really free. Everything worth while has its costs. Tonight is the annual occasion when we count up the cost of our policies in terms of money. That cost is high, but failure to achieve our objectives of peace, security and financial integrity would involve infinitely greater and more painful cost.

Mr. Speaker, I wish to tablé the various resolutions which I shall move when the house is in committee.

INCOME TAX ACT

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

1. That, in respect of income earned after the commencement of the 1951 calendar year, a corporation shall pay a defence surtax for the year equal to 20 per cent of that portion of its ordinary income tax for the year that is computed at the 38 per cent rate, or the 33 per cent rate if applicable, (before allowance is made for tax credits) subject to a right to a refund of such tax to the extent that it would reduce the corporation's taxable income after payment of ordinary income tax to an amount less than 5 per cent of its capital employed.

2. That an individual shall pay a defence surtax equal to

(a) for the 1951 taxation year, 10 per cent and

(b) for each subsequent taxation year, 20 per cent of his ordinary income tax (including investment surtax) for the year before allowance is made for tax credits.

3. That, for the purpose of computing income from an office or employment for the 1951 or a subsequent taxation year, there may be deducted certain amounts paid in respect of

(a) travelling expenses that the officer or employee was required by the contract of employment to incur,

(b) professional membership dues where the officer or employee was required by the contract of employment to maintain his professional status,

(c) office rent or salary to an assistant or substitute required by the contract of employment to be paid by the officer or employee.

(d) supplies consumed directly in the course of the employment for which the officer or employee was required by the contract of employment to pay, or

(e) Union dues.

4. That the governor in council be authorized to make regulations under which the income tax of members of the armed forces on their service income will be paid in full in respect of the pay and allowances of each pay period by a deduction therefrom in accordance with a special table subject to the right of any member to file a return on an annual basis.

5. That the right to elect to pay the 15 per cent tax on its undistributed income now enjoyed by a private company

(a) be extended to all other corporations, and

(b) be withdrawn, effective April 10, 1951, from a corporation that is controlled by another corporation except in respect of its undistributed income on hand at the end of the 1949 taxation year.

6. That for the 1951 and subsequent taxation years the provision under which the 15 per cent tax rate on the first $10,000 of income of a corporation applies to only one of several related corporations be amended so as not to include in the class of related corporations those controlled by persons not dealing at arms length unless such persons own shares in the capital stock of both corporations.

7. That for the 1951 and subsequent taxation years, payments made for insulin, cortisone, adrenocorticotrophin (ACTH), liver extract injectible for pernicious anaemia and vitamin B12 for pernicious anaemia purchased under a physician's prescription may be included in the medical expenses for which a deduction from income may be made for the purpose of computing taxable income.

8. That special deductions from income to taxpayers whose principal business is the production, refining or marketing of petroleum or petroleum products or the exploring or drilling for oil or natural gas or mining or exploring for minerals, be allowed for expenses incurred in the 1954 operations on the same basis as for expenses incurred in the operations in the years 1951 to 1953.

9. That special deductions from income and taxes to taxpayers whose principal business is production, refining or marketing of petroleum or drilling for petroleum be allowed for expenses incurred in respect of deep-test oil wells in 1952 operations on the same basis as for similar expenses in 1950 and 1951 operations.

10. That the exemption of the income from a metalliferous or industrial mineral mine for the first three years of production now applicable to mines that came into production during the years 1946 to 1952 be extended to mines coming into production in the years 1953 and 1954.

EXCISE TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Excise Tax Act and to provide:

1. That the rate of the general sales tax be increased from eight to ten per cent and that the rate of sales tax on those articles at present subject to four per cent be increased to five per cent.

2. That the excise tax on goods mentioned in schedule I of the act, and on furs, that are at present subject to the rate of fifteen per cent be increased to twenty-five per cent.

3. That the excise tax on candy, chocolate, chewing gum and confectionery that may be classed as candy or a substitute for candy, be reduced from thirty to fifteen per cent.

4. That there be imposed, levied and collected an excise tax of fifteen per cent on the following goods when adapted to household or apartment use:

(a) stoves, hot plates, grills and other appliances when adapted wholly or in part for cooking and when designed for using other than solid fuels;

(b) washing machines operated by electric or other power;

(c) electric, gas or kerosene refrigerators and freezing equipment and complete parts therefor including coils, condensing or compressor units, motors, cabinets, boxes, evaporators and expansion valves.

5. That the excise tax on cigarette papers and cigarette paper tubes be repealed.

6. That the excise tax on the following goods be increased by the amounts shown:

(a) for each five cigarettes or fraction of five cigarettes contained in any package.............. three-quarters of one cent;

(b) for each ounce or fraction of an ounce of manufactured tobacco, including snuff but not including cigars and cigarettes, contained in any package........three cents;

(c) for each ounce or fraction of an ounce of Canadian raw leaf tobacco when sold for consumption in Canada..........three-quarters of one cent.

7. That the sales tax on the following goods be repealed:—

(a) cortisone;

(b) adrenocorticotrophin (ACTH).

8. That any enactment founded upon this resolution be deemed to have come into force on the eleventh day of April nineteen hundred and fifty-one.

CUSTOMS TARIFF

1. Resolved, That schedule A to the Customs Tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended, be further amended by striking thereout tariff items 216f, 296e, 386(p), 403(e), 409f, 410g, 410h, 410i, 410j, 410l, 410o(i), 410p, 410q, 410r, 410s, 410t, 410u, 410v, 410w, 410x, 410z, 435, 440k, 475, 523g, 682, 705, and 708, the several enumerations of goods respectively, and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said schedule A:

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
216f	Materials of a kind not produced in Canada when imported for use only in the manufacture of the goods specified in tariff items 237*(a)*, *(b)*, *(c)* and *(d)*, 238, 238*a*, 238*b*, 238*c*, 238*d*, 238*e*, 238*f* and 238*g*..........	Free	Free	Free	Free (various)	Free (various)	Free (various)
238	Synthetic resin sheets, film or sheeting, not less than 6 inches in width, n.o.p., synthetic resin lay-flat tubing, not less than 6 inches in circumference, n.o.p:—						
	(a) Phenol-aldehyde type, not further manufactured than cast..........	Free	Free	Free			
	(b) Acrylic type, not further manufactured than moulded or cast..........	Free	Free	Free			
	(c) Polyethylene type						
	(i) Plain, uncoated, undecorated..........	10 p.c.	10 p.c.	10 p.c.			
	(ii) Other..........	15 p.c.	15 p.c.	15 p.c.	Free 15 p.c.	Free 20 p.c.	Free 25 p.c.
	(d) Vinyl type, except vinylidene						
	(i) Plain, uncoated, undecorated..........	15 p.c.	15 p.c.	15 p.c.			
	(ii) Other..........	15 p.c.	20 p.c.	25 p.c.			
	(e) Vinyl type, vinylidene						
	(i) Plain, uncoated, undecorated..........	Free	Free	Free			
	(ii) Other..........	Free	Free	Free			
	(f) Other type						
	(i) Plain, uncoated, undecorated..........	Free	Free	Free			
	(ii) Other..........	10 p.c.	10 p.c.	10 p.c.			
277	Oils, hydrogenated, blown, dehydrated or sulphonated, not including blown or hydrogenated fish seal or whale oils..........	15 p.c.	20 p.c.	25 p.c.	To August 27th, 1950: 15 p.c. From August 28th, 1950: Various	20 p.c. Various	25 p.c. Various
296e	Magnesium oxide and magnesium carbonate, not further manufactured than ground, when imported by manufacturers of insulating materials for use exclusively in the manufacture of such insulating materials, in their own factories..........	Free	Free	Free	Free Free	Free 15 p.c.	Free 25 p.c.

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
386	(*p*) Sheets or strip, of iron or steel, hot or cold rolled, with silicon content of ·075 per centum or more, when imported by manufacturers of electrical apparatus or of parts therefor, for use in the manufacture of electrical apparatus or of parts therefor, in their own factories..................	Free	12½ p.c.	12½ p.c.	Free 7½ p.c.	12½ p.c. 20 p.c.	12½ p.c. 20 p.c.
403	(*e*) Steel wire, coated or not, when imported by manufacturers of machine card clothing for use exclusively in the manufacture of machine card clothing, in their own factories..................	Free	Free	Free	Free 15 p.c.	Free 30 p.c.	Free 30 p.c.
409f	Grain crushers; grain or hay grinders; grain or hay dryers; milk coolers; steel stanchions for confining livestock either in pens or individually, including complete equipment for milking parlors; automatic stock watering bowls; barn litter carriers and track; sprinkler irrigation systems; barn hay forks, carriage, pulleys and track; all the foregoing for use on the farm for farm purposes only; hay loaders, hay tedders, potato planters, potato diggers, fodder or feed cutters, ensilage cutters, post hole diggers, snaths, stumping machines, grain loaders or elevators with a capacity not exceeding 40 bushels per minute and all other agricultural implements or agricultural machinery, n.o.p., and complete parts of all the foregoing..............................	Free	Free	Free	Free 20 p.c. Free 15 p.c. 20 p.c. 10 p.c. Free Free 15 p.c. Free 15 p.c.	Free 20 p.c. 22½ p.c. 22½ p.c. 22½ p.c. 25 p.c. 10 p.c. 15 p.c. 20 p.c. 20 p.c. 22½ p.c.	Free 30 p.c. 30 p.c. 30 p.c. 30 p.c. 35 p.c. 35 p.c. 35 p.c. 30 p.c. 30 p.c. 37½ p.c.

410a	(iv) Mine car loaders, self-propelled, single-bucket type, the bucket of which loads at the front and moves over the loader to discharge at the rear, n.o.p., and parts thereof, for use exclusively in mining operations..........................	Free	12½ p.c.	35 p.c.	10 p.c.	25 p.c.	35 p.c.
410g	Articles for use exclusively in the metallurgy or smelting of iron, viz.: machinery and apparatus for sintering or nodulizing iron ore, concentrated or not, or flue dust; machinery and apparatus for use exclusively in the construction, equipment and repairs of blast furnaces for smelting iron ore, such machinery and apparatus to include hot blast stoves and burners, blast piping and valves connecting the blowing engines with the furnace, scale cars, charging and hoisting apparatus, blast furnace gas piping, cleaners and washers; and parts of all the foregoing, but not to include wrought iron pipe or valves 10½ inches and under in diameter, nor structural iron work......	Free	5 p.c.	5 p.c.	Free (various)	5 p.c. (various)	5 p.c. (various)
410h	Equipment and parts thereof for distributing stone dust in mines................................	Free	Free	10 p.c.	Free (various)	Free (various)	10 p.c. (various)
410i	(1) Miners' rescue appliances, designed for emergency use in mines, where artificial breathing is necessary in the presence of poisonous gases, including high pressure oxygen pumps for use exclusively in connection with such appliances, and automatic resuscitation apparatus for artificial breathing to aid in the saving of human life, and parts of all the foregoing......................	Free	Free	Free	Free (various)	Free various)	Free (various)
	(2) Combustible gas indicators, for detecting explosive gases or vapors; methane detectors; carbon monoxide detectors and continuous indicators and recorders; carbon monoxide alarms; pyrotannic detectors for determining the presence and quantity of carbon monoxide in the blood; inhalators for use in reviving victims of carbon monoxide poisoning; pocket gas respirators, dust respirators, paint and lacquer spray respirators, fume and smoke masks, and hose mask outfits complete with face piece, harness, air line and air pump or blower, designated for the protection of firemen and industrial workers; special safety goggles, designed for eye protection of miners, welders, foundrymen and other industrial workers employed in hazardous work; parts of all the foregoing......................................	Free	Free	Free	Free (various)	Free (various)	Free (various)

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
410j	Miners' acetylene lamps and parts thereof; miners' safety lamps and parts thereof; accessories for cleaning, filling, charging, opening and testing miners' lamps; battery renewal preparations for miners' electric safety lamps; all for use exclusively in mines..........	Free	Free	Free	Free (various)	Free (various)	Free (various)
410l	Coal crushers, ore crushers, rock crushers, stamp mills, grinding mills, rock drills, percussion coal cutters, coal augers, rotary coal drills, n.o.p., and parts of all the foregoing, for use exclusively in mining, metallurgical or quarrying operations.....	5 p.c.	15 p.c.	25 p.c.	5 p.c. 10 p.c. (various)	15 p.c. 25 p.c. (various)	25 p.c. 35 p.c. (various)
410o	(*i*) Coal heading machines; electric or magnetic machines for concentrating or separating iron ores; automatic scales for use with conveyors; and parts of all the foregoing, for use exclusively in mining or metallurgical operations..........	Free	Free	Free	Free (various)	Free (various)	Free (various)
410p	Sundry articles of metal as follows, for use exclusively in mining and metallurgical operations, viz.: furnaces for the smelting of ores; converting apparatus for metallurgical processes in metals; machinery for the extraction of precious metals by the chlorination or cyanide processes, not to include pumps, vacuum pumps or compressors; blast furnace blowing engines for the production of pig iron; and parts of all the foregoing..........	Free	Free	Free	Free (various)	Free (various)	Free (variou
410q	Pumps and vacuum pumps, and parts thereof, for use exclusively in the extraction of precious metals by the chlorination or cyanide processes..........	15 p.c.	15 p.c.	20 p.c.	15 p.c. (various)	15 p.c. (various)	20 p.c. (various)
410r	Power driven reciprocating pumps and parts thereof, designed for normal working heads of 400 feet and over, for use exclusively underground in mines.......	15 p.c.	25 p.c.	27½ p.c.	15 p.c. (various)	25 p.c. (various)	27½ p.c. (various)

[Mr. Abbott.]

410s	Amalgam safes; automatic ore samplers; automatic feeders; retorts; mercury pumps; non-metallic heating elements; pyrometers; bullion furnaces; amalgam cleaners; and parts of all the foregoing, for use exclusively in mining or metallurgical operations...	Free	Free	Free	Free (various)	Free (various)	Free (various)
410t	Blowers of iron or steel, of a class or kind not made in Canada, for use in the smelting of ores, or in reduction, separation or refining of metals, ores or minerals; rotary kilns, revolving roasters and furnaces of metal, of a class or kind not made in Canada, designed for roasting ore, mineral, rock or clay; furnace slag trucks and slag pots, of a class or kind not made in Canada; and parts of all the foregoing..................	Free	Free	Free	Free (various)	Free (various)	Free (various)
410u	Blowers of iron or steel, n.o.p., for use in the smelting of ores, or in reduction, separation or refining of metals, ores or minerals; rotary kilns, revolving roasters and furnaces of metal, n.o.p., for use in the roasting of ore, mineral, rock or clay; furnace slag trucks and slag pots, n.o.p.; and parts of all the foregoing..................	12½ p.c.	17½ p.c.	20 p.c.	12½ p.c. (various)	17½ p.c. (various)	20 p.c. (various)
410v	Buddles, vanners, slime or concentrating tables and parts thereof, for use in mining and metallurgical operations..................	Free	Free	Free	Free (various)	Free (various)	Free (various)
410w	Machinery, n.o.p., for the concentration or separation of ores, metals or minerals, viz.: flotation machines, flotation cells, oil feeders and reagent feeders for flotation machines and flotation cells, pumps, vibrating and impact screens, jigs, magnetic separators, magnetic pulleys and filters, for use in the concentration or separation of ores, metals or minerals, and parts of all the foregoing..................	5 p.c.	7½ p.c.	20 p.c.	5 p.c. (various)	7½ p.c. (various)	20 p.c. (various)
410x	Machinery, furnaces and appliances, of a class or kind not made in Canada, and parts thereof, for use in the refining of metals, and for the production of anodes, cathodes, blocks, slabs, pigs or ingots, in such refining processes..................	Free	Free	Free	Free (various)	Free (various)	Free (various)
410z	Machinery and apparatus, n.o.p., and parts thereof, for the recovery of solid or liquid particles from flue or other waste gases at metallurgical or industrial plants, not to include motive power, tanks for gas, or pipes and valves 10½ inches or less in diameter..	5 p.c.	10 p.c.	12½ p.c.	5 p.c. (various)	10 p.c. (various)	12½ p.c. (various)

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
435	*(a)* Locomotives and motor cars for railways, of a class or kind not made in Canada, and parts thereof (including motive power and parts thereof, of a class or kind not made in Canada), for use exclusively in mining, metallurgical or sawmill operations..................................	Free	Free	20 p.c.	Free 15 p.c. Free 15 p.c	Free 20 p.c. 20 p.c. 22½ p.c.	20 p.c. 30 p.c. 30 p.c. 37½ p.c.
	(b) Diesel switching locomotives, including motive power, and parts of the foregoing, of a class or kind not made in Canada.........................	Free	10 p.c.	20 p.c.	Free Free 15 p.c.	10 p.c. 20 p.c. 22½ p.c.	20 p.c. 30 p.c. 37½ p.c.
440k	(1) Engines and complete parts thereof, n.o.p., to be used exclusively in the propulsion of boats or in hoisting nets and lines used in such boats *bona fide* owned by individual fishermen for their own use in the fisheries, under such regulations as the Minister may prescribe........................	Free	12½ p.c.	15 p.c.	Free	12½ p.c.	15 p.c.
	(2) Diesel engines and complete parts thereof, to be used exclusively in the propulsion of boats or in hoisting nets and lines used in such boats for use exclusively in *bona fide* commercial fishing operations, under such regulations as the Minister may prescribe...	Free	Free	15 p.c.	Free Free Free	12½ p.c. Free 20 p.c.	15 p.c. Free 30 p.c.
475	Stereotypes, electrotypes, rubber plates and celluloids for books, and bases and matrices and copper shells for such printing plates; positive and negative films of periodical publications regularly issued at stated intervals as frequently as, at least, four times a year, not including catalogues....................	Free	Free	Free	Free 15 p.c.	Free 20 p.c.	Free 27½ p.c.
523g	Woven fabrics, whether coated or not coated with rubber, when imported by manufacturers of card clothing for textile machinery, for use in the manufacture of such card clothing in their own factories. and, per pound	Free	Free	Free	Free 25 p.c.	Free 25 p.c.	Free 35 p.c. 4 cts.

682	(1) Fish hooks, for deep-sea or lake fishing, not smaller in size than number 2·0; fishing nets and nettings of all kinds; threads, twines, marlines, fishing lines, rope and cordage, not exceeding one and one-half inches in circumference, to be used for fishing purposes or for the construction or repair of fishing nets; the foregoing not to include such articles used for sportsmen's purposes, and to be subject to such regulations as the Minister may prescribe....... but not less than, per pound	Free	Free	Free	Free 20 p.c. .... 17½ p.c. (various	Free 25 p.c. 24 cts. 22½ p.c. (various)	Free 35 p.c. 28 cts. 35 p.c. (various)
	(2) Materials for use in the manufacture of the goods specified in tariff item 682(1)....... but not less than, per pound	Free	Free	Free	12½ p.c. 20 p.c. .... (various)	17½ p.c. 25 p.c. 24 cts. (various)	25 p.c. 35 p.c. 28 cts. (various)
705	Settlers' effects, viz.:—Wearing apparel, books, usual and reasonable household furniture and other household effects; instruments and tools of trade, occupation or employment, guns, musical instruments, domestic sewing machines, typewriters, bicycles, carts, wagons and other highway vehicles, agricultural implements and livestock for the farm, not to include live stock or articles for sale, or for use as a contractor's outfit, nor vehicles nor implements moved by mechanical power, nor machinery for use in any mnaufacturing establishment; all the foregoing if actually owned abroad by the settler for at least six months before his removal to Canada, and subject to regulations prescribed by the Minister.......	Free	Free	Free	Free	Free	Free
					(The third proviso to this Item is new.)		
	Provided: (1) That, subject to the exceptions stated hereunder, any dutiable article entered as settlers' effects may not be so entered unless brought by the settler on his first arrival, and shall not be sold or otherwise disposed of without payment of duty until after twelve months' actual use in Canada; (2) That the six months' ownership requirement as specified in this Item shall not apply in the case of *bona fide* brides' trousseaux and wedding presents; and						

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff Tariff
	(3) That with respect to *bona fide* settlers' effects imported from countries named by the Minister that are applying restrictions on the transfer of emigrants' capital to Canada, the six months' ownership requirement specified in this Item shall not apply and notwithstanding the first arrival requirements specified in this Item a reasonable amount of the effects of a settler may be entered from such countries during a period of three years from the date of the settler's first arrival, subject to such regulations as the Minister may prescribe.						
708	Arms, military stores, munitions of war and other goods the property of and to remain the property of a British Commonwealth country designated by the Governor in Council or of a foreign country that is a party to the North Atlantic Treaty and is designated by the Governor in Council; goods consigned to military service agencies and institutions designated by the Governor in Council where the goods are for the personal use of or consumption by nationals of countries designated under this Item who are employed in defence establishments of those countries in Canada.........	Free	Free	Free	Free (various)	Free (various)	Free (various)
	Provided that the Governor in Council may prescribe regulations for all the foregoing and may order that any of the privileges granted under this Item be withdrawn in any case where a country does not grant corresponding privileges to Canada.						

2. Resolved, That schedule B to the Customs Tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended, be further amended by striking thereout tariff item 1052, the enumeration of goods and the rate of drawback of customs duties set opposite to the said item, and by inserting the following items, enumerations and rates of drawback of customs duties in said schedule B:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
1052	Machinery, new or used, and all parts thereof, not including consumable tools, of a class or kind not made in Canada.	When for use in the plants of manufacturers of automobiles and motor vehicles or of automobile or motor vehicle parts for the manufacture of automobiles and motor vehicles or of automobile and motor vehicle parts..............................	99 p.c.
1053	Machinery, new or used, and all parts thereof, not including consumable tools, of a class or kind not made in Canada.	When for use in the plants of manufacturers of aircraft, aircraft engines, aircraft equipment, or of parts of the foregoing for the manufacture of aircraft, aircraft engines, aircraft equipment, or of parts of the foregoing....	99 p.c.

3. Resolved, That any enactment founded upon the foregoing resolutions to amend schedules A and B to the Customs Tariff shall be deemed to have come into force on the eleventh day of April, one thousand nine hundred and fifty-one, and to have applied to all goods mentioned in the foregoing resolutions imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

(*See also Budget Papers, pages 1837 to 1910.*)

Mr. J. M. Macdonnell (Greenwood): Mr. Speaker, the minister must be pleased and perhaps a trifle surprised to find how popular his new taxes are; and perhaps it is just as well that he did not get the applause before he made his speech or he might have made them even higher. Whatever our differences with the minister are, I am sure I can say that we all recognize the heavy burden which he carries and that we appreciate the manner in which he discharges his heavy duties.

I do not propose tonight to enter into the details of the taxes which the minister has propounded. These can be gone into as we continue this debate. There are not many surprises, after all. The known taxes are there, and there are not many places for him to go when he wants substantial amounts of money.

As a matter of fact, Mr. Speaker, when the minister was speaking of millions and tens of millions of dollars, I was thinking most of the time of the people to whom millions and tens of millions are rather meaningless and whose financial calculations are limited to figuring whether or not they are going to be able to get by this week with prices as they stand now. We know how many of these people there are among us; and not all the glowing figures we have, showing the wonderful progress that we have made, alter the fact that we have among us tens of thousands of people to whom these figures mean nothing. Indeed, it is a bitter irony that we are not able to manage our affairs well enough so that these people can be relieved of the necessitous situation in which they find themselves.

Having said this, I would say to the minister that it is a great disappointment to find that there is no indication tonight—none so far as I can see—that the minister is prepared to consider further measures to deal with this situation. Notwithstanding the fact that apparently we are the only civilized country, if we can call it that, which is not trying to deal with this matter, he goes on persisting in a blank negation. I confess that after what the minister told us the other day I had hoped—although he did not, I must admit, put it in so many words—that we should have something different from this blank negation.

But I must admit the minister was surprisingly optimistic. He found a satisfaction which I am not able to share in various aspects of what he had to bring forward. He compared us with other countries and admonished us that we should be extremely thankful to be as well off as we are. My answer to that is this. What other country has the natural advantages that we have? What