be required to state that this credit policy will cost the applicant 2 per cent per month, the appropriate rate of approximately 24 per cent per annum. The card has some other things to say:

> Beneficial Finance System's cash-credit card—a valuable extra . . . at no extra cost!
>
> This exclusive card identifies you immediately at the more than 960 affiliated Beneficial Finance System offices in Canada, United States and Hawaii. With it, you may get extra cash in a hurry—either at home or away. You get this valuable card only at Beneficial Finance System offices.

I should like hon. members to listen carefully to this sentence as I read it again:

> This exclusive card identifies you immediately at the more than 960 affiliated Beneficial Finance System offices in Canada, United States and Hawaii.

In other words, this company which is asking parliament at this time for a change in its name from the Personal Finance Company of Canada to the Beneficial Finance system is in fact already using the latter name despite the fact that it has not had the approval of parliament. I can remember many instances of hon. members of the government announcing government policy outside of the house and saying that the government intended to put particular proposals before parliament, but before those proposals were placed before parliament the facts of those proposals had become the law of the country. Many of us have said it was an affront to parliament that the government by statement should in fact inaugurate a change in the law. But here is an affront to parliament by a private company. This company has the effrontery to come to parliament now and ask to have its name changed when in fact the company has already been using the new name in the normal course of its business.

I wonder if one of the reasons the company felt it could use this kind of advertising and could use this name in its Canadian literature is because D. K. MacTavish is a member of the board of directors of the company and appeared as the legal counsel for the company in proposing this bill when it was first brought to the House of Commons.

An hon. Member: Who is he?

Mr. Argue: Someone says "Who is he?" I have here a statement made by Harvey Hickey in the *Globe and Mail* of March 2 in which he refers to Duncan K. MacTavish as an Ottawa lawyer and president of the national Liberal federation.

The fact that this company has used the new name in its advertising without the approval of parliament for the official change should be sufficient reason for us to seriously consider the bill which is now before the house. We have already had this subject referred to the banking and commerce committee by way of Bill No. 51. I expect and I hope that the whole subject of small loans companies will be thoroughly studied by hon. members of parliament who serve on the banking and commerce committee. After we have had a thorough study of this entire field we would be in a much better position to judge whether or not a bill like this should in fact be passed by this house. If we say that we approve of this change at this time I wonder if we are not tying our own hands as far as the committee is concerned. We should have the opportunity to permit the banking and commerce committee to study this whole question thoroughly. By so doing we would be able to judge in a much more intelligent manner whether or not it is advisable in fact for this bill to be passed. Without having had the opportunity to learn the facts of the case from witnesses I certainly intend to vote for the six months hoist and later to vote against second reading of the bill.

Some hon. Members: Six o'clock.

Mr. Argue: Mr. Speaker, may I move the adjournment of the debate?

On motion of Mr. Argue 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. W. E. Harris (Minister of Finance) moved:

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

He said: Mr. Speaker, on the first day of spring one cannot help feeling buoyant and optimistic, and I think that what I have to say tonight will bear out that we have had a buoyant and optimistic year.

The world economic situation has during the past year shown nothing but solid progress in almost every civilized country. While the increase in economic activity has been most apparent in North America, substantial increases have also occurred in the United Kingdom, continental Europe and other parts of the world, and the flow of world trade has been very considerably enlarged. For many countries, this improvement came on top of an impressive growth of economic activity in previous years.

Continued rapid expansion in both investment and consumption expenditures has brought on a renewal of inflationary pressures in many countries; but it is highly encouraging that the general tendency has been to counter these pressures by fundamental monetary and fiscal policies which, in our judgment, go to the root of the trouble, rather than by a relapse into physical restrictions and controls.

As for our own economy, hon. members will recall that the situation at the time of the last budget was somewhat clouded. It was clear that we were beginning to recover from the recession of 1954, but the rate of recovery was still uncertain. To me it seemed that the prospects for economic expansion were reasonably good, and I based my revenue forecasts on the expectation that there would be an improvement of at least 5 per cent in production, and that the gross national product would reach an annual rate of about $26 billion by the end of the year. There were many who felt that such a view was altogether too sanguine. As a matter of fact, at a later time during the year, someone wrote that he could only conclude that some of the optimism of the Minister of Trade and Commerce had rubbed off on the new Minister of Finance. I would like to say that I would be happy if other qualities of the Minister of Trade and Commerce were also to rub off on me.

Mr. Fleming: Be careful.

Mr. Harris: In the event, the Canadian economy advanced rapidly and continuously throughout 1955 and total production for the year as a whole was about $26½ billion. This was some 10 per cent greater than 1954 and nearly 9 per cent higher than the level of 1953. Since the average cost of living remained fairly stable, there was a significant increase in the wealth and welfare of most Canadians. More people were at work than ever before, unemployment was greatly reduced, wages and incomes were higher and the consumption of goods increased substantially. By virtually every standard, 1955 was a year of exceptional economic advance.

Nevertheless, some sectors of industry and agriculture have not fully shared in this rate of progress. For example, wheat farmers had a much better than average crop, but during the first part of the crop year were unable to deliver as much as all of us would like to have seen. However, this has changed materially since the session began, and sales have greatly improved.

Geography and climate impose upon us a substantial amount of winter unemployment but conditions are distinctly better this year than they were last winter. Part of this improvement is due to the response of industry and commerce to the program of promoting more winter employment initiated by my colleague the Minister of Labour.

However, admitting some unevenness in the rate of expansion, it is clear that Canada as a whole enjoyed an extraordinarily active and encouraging year in 1955 and that the momentum of expansion is still carrying us forward.

Perhaps I may be permitted to emphasize certain features of this expansion. The progress we have made over the last year or more can be related to at least three important factors: a high level of exports, a large program of capital investment, including residential housing, and a continuing increase in consumer expenditures. These were the things that caused production, employment and incomes to grow so rapidly. But behind all these things lay something less tangible, but fundamentally important and essential,—the confidence of Canadians in the economic future of our country.

The particular forces which encourage economic expansion are so inter-related that it is difficult to single out the one which was of most importance in 1955. However, I think that I would put the renewed growth of exports first on my list.

Canada's ability to produce and export is a measure of the enterprise of those Canadian individuals and companies—and of non-residents too—who have explored and developed our natural resources, or planned these new or enlarged mills, factories and mines, and of the workers and technical staffs who build or operate them.

On the demand side, the briskness of the United States economy in 1955 was the biggest single factor in the expansion of our exports. Our exports to the United States increased by $250 million out of a total increase in exports of about $400 million. However, the increase in our exports to our other traditional markets overseas in 1955 was also impressive. There was a 20 per cent increase in our sales to the commonwealth, and exports to western Europe increased 11 per cent.

With a very large program of capital investment taking place in Canada, and with consumption expenditures running at higher levels, imports also rose sharply in 1955. But it should be noted that fully two-thirds of our increased imports are accounted for by increased raw materials, machinery and equipment for Canadian factories and industries. Over $400 million of the $600 million increase in imports consisted of such items as industrial machinery and equipment, primary iron and steel, aircraft and automobile parts, farm machinery, crude petroleum and rubber, raw cotton and raw wool. Our heavy expansion of capital investment, part of which was made possible by foreign investment, not only made necessary these large imports of capital goods and raw materials, but also created many thousands of new jobs all over the country in secondary trade and industries which benefited from all this increased purchasing power.

The result of a greater increase in imports was a deficit on commodity trade of $185 million. This was mainly responsible for the increase in the total current-account deficit, which amounted to $665 million last year. The net inflow of long-term capital into Canada was less in 1955 than in 1954, the net inflow of short-term capital was greater, and there was no marked change in Canada's official reserves of gold and dollars. The value of the United States dollar in Canada rose from approximately 96⅝ cents Canadian at the end of 1954 to approximately 99⅞ cents Canadian at the end of 1955.

Changes in the relative levels of interest rates in Canada and the United States made the United States market less attractive for the issue of new Canadian securities than was the case in earlier years. This factor also stimulated a greater volume of repurchase by Canadians of Canadian securities held abroad.

The second dynamic element in the economy last year was the sharp growth in the amount of new capital expenditure. Here, too, the optimistic expectations of the early part of last year were more than confirmed by events. New capital expenditure rose by over 11 per cent to a total exceeding $6 billion and absorbed 23 per cent of our total national output.

Investment in housing comprised one-quarter of all new investment. Parliament has attached a great deal of importance to the encouragement of residential construction and home ownership. The housing legislation of 1954 made provision for further government encouragement and assistance by measures that are familiar to all of us. The success which attended these efforts has been most encouraging. In the last ten years almost a million new homes have been built and our cities and towns are being visibly transformed by the growth of new suburbs. 1955 was the first full year of participation by the chartered banks in the financing of insured residential mortgages and their entry into this field has considerably broadened the market for new home financing. 127,000 new dwelling units were completed during the year, an increase of 25 per cent over the previous year.

Another important stimulus to the expansion of the economy in 1955 was, of course, the increase in consumer expenditures on goods and services. This was particularly striking in the case of durable goods. Total sales of consumer goods and services increased by nearly 7 per cent or almost twice the increase of the previous year. Allowing for the growth of population, this means that the consumption of the average individual showed a 4 per cent increase, the largest annual increase since the war. A significant portion of this increase was the result of a wider use of instalment credit, but the principal explanation is the growth of employment and the increases in wages and salaries.

A year ago I referred to the part played by federal welfare and income maintenance policies in the stabilization of economic activity. During 1954 when business and employment in many sectors were failing to rise, or even declining, such measures as unemployment insurance, family allowances and the like automatically served to maintain incomes and employment. I have heard it said that the tax reductions of my last budget helped as well.

During 1954 the policy of the Bank of Canada was directed towards easy monetary conditions and the positive encouragement of enterprise so far as the availability of credit was concerned, and this policy was still in force at the beginning of 1955. As the slack in the economy was taken up, monetary policy shifted to one of neutrality and then to one of restraint. With the rapid growth of production in almost every direction, the possibility of shortages of such items as steel, cement, building materials, and of certain kinds of labour began to appear, and in these circumstances the Bank of Canada's operations were directed increasingly towards moderating the rate of expansion in the use of credit.

Looking now to the year ahead I feel that the evidence points to a continuation of the progress that the economy enjoyed in 1955. Both in the United States and overseas, the economic situation remains favourable so that we can anticipate a further growth in exports. Within Canada itself there are many other indications that 1956 should be a year of further expansion. The present investment intentions of industry, business and governments are much higher than they were last year, according to the survey tabled by my colleague the Minister of Trade and Commerce (Mr. Howe) recently.

We cannot expect, however, to see a physical rate of growth this year equal to that of

1955 when we had a certain amount of slack to begin with so I think that for purposes of revenue forecasting I should not count on an increase in the total national product of more than 5 per cent over last year, this being about the average annual rate of increase in recent years. Assuming stable prices, average crops and no untoward events, this would give a gross national product of close to $28 billion.

The blessings of an economy operating at a high level are pleasant indeed to a minister of finance but they bring with them new responsibilities for all of us. The objective should be to maintain a steady growth in economic activity without the process of expansion giving rise to inflation and instability. Consequently, in times like the present when private expenditures are expected to rise still further, the federal government itself has a special responsibility to see that its fiscal policies continue to be directed towards economic stability. The use of the flexible instruments of monetary policy is also being directed towards this objective. But careful judgment and wise spending policies are not solely matters of concern to public authorities. They are the normal responsibility of each one of us, regardless of his role in the economy.

GOVERNMENT ACCOUNTS, 1955-56

I turn now to report on the government's accounts for the fiscal year which will be closing a few days hence. At this time I can indicate only approximate figures because it will be several months before our books of account can be finally closed and audited.

Hon. members will recall that a year ago I budgeted revenues this year at $4,202 million, expenditures at $4,362 million, and consequently a deficit of $160 million. The result I am glad to say has been considerably better. In fact, our revenues will be about $4,385 million, or 4 per cent greater than forecast, our expenditures $4,437 million, or 2 per cent above forecast, and our deficit will be $52 million, or only about one-third of my earlier expectations.

The increase in revenues is a reflection of a rate of recovery and expansion somewhat greater than I had felt justified in assuming a year ago. Of the increase in expenditures over forecast, which amounted to $75 million, $20 million represents the wheat storage costs absorbed this year in accordance with legislation passed a few weeks ago; $5 million is on account of the support of agricultural prices and $15 million represents higher charges for interest on the public debt.

In addition to our outlays for government services which are included in the budgetary accounts, we have as usual made loans and advances and disbursed large sums for a variety of other essential purposes. During the fiscal year these outlays, all of which of course have been authorized by parliament, will amount to $285 million. To meet them we will have substantial sums available from non-budgetary sources, details of which are given in the white paper.

Although the budgetary deficit is $52 million, our cash balances at the year end will be about $295 million higher than a year ago. This is the result of receipts of $385 million from annuity, insurance and pension accounts, the repayment of loans and investments and other non-budgetary sources plus an increase of $245 million in our debt outstanding in the hands of the public, less the $285 million paid out for loans, advances and other non-budgetary purposes.

Our public debt operations during 1955-56 have included the redemption or refinancing of a large volume of matured or called bond issues. A notable feature of the year's operations has been the net increase of about $710 million in the amount of treasury bills outstanding reflecting the government's desire to meet the growing market demand for short-term securities. Net sales of Canada savings bonds series 10 are estimated at $645 million. In addition to the refunding or conversion of treasury bills, new securities were issued amounting to $3,230 million and old securities were redeemed or acquired for our sinking fund or securities investment accounts in the amount of $2,985 million. As a result, our unmatured debt held outside these government accounts was increased during the year by $245 million.

Interest rates rose sharply during the year at home and abroad, particularly on short-term securities. The average rate of interest on the government's unmatured debt will be about 2·86 per cent at the year end compared with 2·74 per cent at the beginning of the year.

I should like at this point to report briefly on the operations of the old age security fund during the fiscal year now ending. As hon. members know, pensions of $40 a month are paid from the fund, the revenues of which are derived from a 2 per cent tax on sales, a 2 per cent tax on corporation profits and a 2 per cent tax on personal incomes (with a maximum individual payment of $60). Pension payments from the fund during the year are about $366 million, revenues about $316 million and the deficit for the year of about $50 million has been financed by a temporary loan from the Minister of Finance. Following the practice introduced last year I propose to ask parliament in the June supplementary estimates for authority to charge the past year's deficit to 1956-57 expenditures.

FEDERAL-PROVINCIAL RELATIONS

The subject of federal-provincial relations has taken up a good deal of our time during the past twelve months. There have been four meetings of premiers, as well as other conferences of ministers. Last April we met to agree on an agenda and to conduct a general consideration as to those questions which seemed to be most urgent. In June we laid the ground work for a federal contribution to provincial costs of providing unemployment assistance not covered by unemployment insurance and other federal policies. In October we discussed the whole field of federal-provincial fiscal relations. In January we examined the question of health insurance.

It was also in January that the Prime Minister communicated to the provincial governments definite proposals respecting federal-provincial fiscal arrangements, and these were the subject of the last meeting of premiers eleven days ago. In commenting upon our federal-provincial fiscal proposals this evening, I do not need to go into detail, because parliament has been kept fully informed. In broad outline we have proposed:

First, that the federal government make unconditional equalization payments to provincial governments to bring their yield of certain standard tax rates applied to personal incomes, corporation incomes and successions, on a per capita basis up to the average per capita yield in the two provinces with the highest per capita yields.

Second, that whenever necessary the federal government makes unconditional stabilization payments to provincial governments to bring their available revenue in these tax fields up to a specified guaranteed minimum.

Third, that the federal government offer five-year tax rental agreements to the provincial governments, the annual payment being the estimated yield of the standard rate in that province.

Fourth, in provinces and fields where no tax rental agreement has been made, the federal rate of tax applicable in that province and field be reduced by the standard rate, leaving that provincial government free to impose whatever rate it deems appropriate.

Fifth, where a provincial government prefers to impose its own tax, the federal government at the request of the provincial government would be prepared to enter into a tax collection agreement under certain conditions on a fee basis, provided the provincial basis and rate of tax did not differ from the standard rate.

Our first suggestions made in October would have provided an increase in provincial revenues from these sources in 1957-58 of about $65 million, or 12 per cent over the estimated payments that would be payable in 1957-58 were the present agreements renewed without change. In successive negotiations we have improved our proposals in several ways, including increasing the standard rate on corporation incomes from 8½ percentage points to 9 percentage points; putting all calculations on a current year basis instead of a preceding year basis; and offering to withdraw from the insurance premium tax field in favour of the provincial governments. We have also improved considerably our first suggestions respecting the guaranteed minimum to the provincial treasuries.

The sum total of these improvements in our offer has been to enlarge the increase in provincial revenues available from these sources from the $65 million of last October to $109 million in February.

I should explain that all the figures I am using relating to 1957-58 are not forecasts but calculations based on an assumption that total revenues from these three tax fields will increase by 5 per cent per annum over the 1955 figures.

On this assumption our proposals would make available to the provincial governments in 1957-58 revenues of $640 million. In the same year the present tax rental agreements if renewed without change would provide $531 million. Having regard to our national responsibilities and commitments we cannot see how we can go further. Under all the circumstances we believe our offer is eminently fair and that it is reasonable and realistic in the light of federal and provincial responsibilities.

As a result of further consideration since March 9, we are, however, prepared to make an improvement in the stabilization feature of the proposals. Our offer hitherto has been that the revenue available to a provincial government under these arrangements will be not less than the highest of, (a) the dollar amount received or available in the final year of the present agreements, or (b) the per capita rate paid or available in that year, or (c) 90 per cent of the average of the two preceding years under the new arrangements. We are now prepared to give the further guarantee that the amount available will be not less than the amount that would have been available if the present tax rental formula had been continued throughout the next five years, nor will it be less than 95 per cent of the average of the two preceding years under the new arrangements. Every province is therefore guaranteed that under the new arrangements it can never get less than it would have received had the present agreements been renewed without change, and that above this floor it will have access to the revenues from the insurance premium tax.

Since both the federal government and the provincial governments must have time to make decisions and to set up any consequential administrative machinery, we propose to introduce legislation later in this session to prescribe the nature of and to provide authority for unconditional equalization payments and unconditional stabilization payments to provincial governments, and to authorize the government to enter into tax rental agreements or tax collection agreements.

The Prime Minister has written to the premiers on these matters, and the letters will be tabled tomorrow.

Before I turn to the question of how we should raise our essential revenues in the coming year, there are two other matters in the field of finance to which I should like to make reference.

First, a few words about credit unions and co-operative savings and lending societies. These have been growing very rapidly in numbers, membership and resources during the past fifteen years. In 1940 there were over 1,000 societies with assets of $25 million. The most recent figures available indicate that there are now more than 4,000 societies with over 1,600,000 members and close to $600 million of assets. Members' savings and deposits in these credit unions exceed $500 million and loans to members $350 million. Clearly the credit union or co-operative savings society is filling a most useful and rapidly expanding role in our financial system. We are getting a number of requests to treat credit unions, for a variety of purposes, as if they were banks, and particularly to allow them to participate in various kinds of government guaranteed loans.

May I make it clear that the federal government has no intention or desire to intervene in the general field of co-operative credit societies, but we are prepared to sit down with interested groups to discuss under what circumstances and conditions we could properly extend to them privileges and opportunities which are not now open to them. I hope to arrange such discussions shortly, and I should add, Mr. Speaker, we have already had some informal discussions on the subject.

May I repeat that it is not our desire to extend our supervision in this field unless, and only to the extent that credit unions may desire to participate in these government activities.

The second matter is our regulations affecting trade in gold.

Late in 1931, when the United Kingdom and Canada went off the gold standard, the export of gold was made subject to a system of licensing administered by the Minister of Finance. At the same time arrangements were made with Canadian gold producers whereby all newly mined Canadian gold was turned over to the royal Canadian mint, and the mint became in effect the agent of the gold mines.

In 1946 and 1947, the international monetary fund, of which we are an active member, became increasingly concerned with the serious extent to which gold throughout the world was being diverted into private speculative holdings. In March 1948, in line with the international monetary fund's policy, which we fully supported, of discouraging hoarding, the government gave notice that gold imported into Canada after that date would not be granted an export licence.

In 1951 the fund decided that it was impracticable to expect uniformity in the measures taken by its members in respect of their control over gold transactions, and as world-wide monetary conditions improved our regulations have been liberalized from time to time. For example, in 1951 we allowed Canadian gold producers, under certain conditions, to sell gold in the world markets. In 1953 we liberalized the conditions under which we would release gold for industrial uses, and last May we undertook to grant export licences for gold imported into, or purchased in, Canada for safekeeping for account of foreign central banks and official international financial institutions.

We now propose to remove all remaining restrictions in this field. Effective tomorrow, both residents and non-residents of Canada will be free to buy gold for export or for safekeeping, and the regulations under the Gold Export Act requiring an export licence have been suspended. Mines agreeing to forgo aid under the Emergency Gold Mining Assistance Act will be able to sell their gold wherever they desire subject merely to reporting their production and sales to the Department of Finance.

TAX POLICY

I come now to the question of an appropriate tax policy for the coming year. Last year I said that with our proposed level of taxes and a gross national product of $26 billion we could expect revenues to flow in at the rate of about $4,350 million. In the event our gross national product went a bit over $26 billion, and our revenues were $4,385 million,—which is quite a close fit to my forecast.

I said earlier I am now assuming a gross national product of about $28 billion for 1956, and on that basis I would expect our present tax structure to produce revenues of $4,775 million. This is a very large increase for a single year. The explanation lies largely in the way in which our corporation income tax returns flow in. Under the Income Tax Act corporations must pay their tax in monthly instalments, but their first nine instalments may be based either on their estimate of their current rate of profits or on their last year's actual taxable income. We know that profits in 1955 were considerably higher than in 1954, but our tax receipts are almost exactly the same. During the coming months our inflow of corporation income tax receipts will be abnormally high as corporations catch up on their 1955 tax liability and at the same time are paying currently on a much higher base.

If I may have unanimous consent I shall place in *Hansard* at this point a table showing the details which go to make up the $4,775 million of revenue which we would expect to receive in the coming year if tax rates remained unchanged.

Mr. Speaker: Is there unanimous consent?

Some hon. Members: Agreed.

Mr. Harris: The table is as follows:

Revenues before tax changes
(in millions of dollars)

	Preliminary 1955-56	Forecasts 1956-57
Personal Income Taxes	$1,180	$1,265
Corporation Income Tax	1,035	1,315
Non-resident tax	67	70
Succession Duties	75	65
Customs Duties	475	485
Excise Duties	245	258
Sales Tax	640	675
Other Excise Taxes	260	265
Other Taxes	16	17
Total Tax Revenue	3,993	4,415
Non-tax Revenue	392	360
Total Revenue	$4,385	$4,775

I should like to say again that this forecast of $4,775 million, which is an increase of $390 million over the year just closing, includes a large element of non-recurring increased revenue in the corporation tax field.

While I expect this large increase in revenue, we also have to face very considerable increases in expenditure. The main estimates tabled in January show an increase in expenditure of $54 million. As I explained at that time, this does not include the 1955-56 deficit in the old age security fund which we will in due course be asking parliament to charge off against next year's expenditure. This will amount to about $50 million (a reduction from the $63 million a year ago). There will be additional obligations under the Temporary Wheat Reserves Act, and also under our agreements with the provincial governments respecting unemployment assistance. We must expect some further expenditures in connection with agricultural price supports, and we shall have to find some further funds for the Canadian Broadcasting Corporation.

I have previously informed the house that some increases in salaries and rates of pay in the public service are about due. I cannot yet say what this will cost, but when I point out that each one per cent increase across the board in civil salaries and wages would add about $9 million to our expenditures next year, (including the required matching lump sum payment into the superannuation account), the house will realize that this may be a very considerable sum.

All in all, and after making due allowance both for further supplementaries and lapsings, I cannot promise expenditures of less than $4,650 million in the coming year.

Before proceeding, I should like to put this figure in context. The house will be aware that the gross national product in current dollars has been increasing on the average over the past few years at a rate of just over 5 per cent per year. Many of the increases in the expenditures of the government flow from these rates of growth. This is most apparent in some of the heaviest items of expenditure in the statutory category, but it also has a bearing on the scale of service required and other costs that must be met. In many fields the services provided by the federal government have to expand along with the increase in population and national production. I need only mention such things as the provision of inspection services of all kinds, customs administration, trade promotion, surveys, research and the provision of transportation facilities, for example. If these services do not keep in step with public need the expansion of the economy will itself be hampered. Also the government cannot escape the increases in costs resulting from the rise in salaries and wages which has taken place in the private sectors of the economy.

Against this background, the increase of just over $200 million in anticipated expenditures in 1956-57 over the previous year is at a rate somewhat lower than that of the average rate of growth of the G.N.P. in recent years. The greater part of the increase in anticipated expenditures pertains to statutory items, such as the servicing of the public debt, subsidies and special compensation to provinces, family allowances, and other welfare payments.

On the basis of the figures I have been using, what might be called the controllable expenditures show an increase of a little over 3 per cent, which is considerably less than the rates of growth in the economy generally that I mentioned a moment ago. This result can be achieved only through the continued exercise of effective control, economy and efficiency in the operations of the government. Despite the small size of the projected increase, a number of new programs have been accommodated. These include larger outlays for the Colombo plan, and for United Nations technical assistance and relief programs to the extent of $9 million, provision for the new five-year census amounting to nearly $4 million and increases of smaller amounts for the atomic energy program and for trade promotion.

The program of public works and other capital items for the coming year has been held down to immediate essentials. The main estimates which have been tabled indicate that the appropriations proposed to cover expenditures on public works and other capital items are down by nearly $10 million from the previous year. The increased amounts required by the Department of Northern Affairs and National Resources and for the trans-Canada highway are more than offset by other reductions. In proposing small expenditures for capital purposes, the government is seeking to reduce the strain on the economy resulting from the very large increase in capital expenditures which private industry is planning to make during 1956.

As I have projected revenues at $4,775 million and expenditures of $4,650 million, we would have a surplus of $125 million under our present tax structure.

This sum of $125 million is about 2½ per cent of our revenues or our expenditures; it represents, therefore, not much more than a prudent reserve against unforeseen circumstances that may arise in the course of the year. Moreover, we had a deficit of $152 million last year and a further deficit of $52 million this year. But of course, an accumulation of debt of over $200 million in two years, having regard to our record in the past 10 years, is in itself no cause for concern. But clearly it is only sound and responsible finance to run a modest surplus in times as good as these we are now in.

TAX CHANGES

Although for reasons just stated it is not possible for me to recommend to parliament any reduction in the general level of income tax this year there will be some changes in certain provisions in the Income Tax Act. Of these amendments some will be mainly technical in their nature while others will contain substance of interest, but on balance there will be no appreciable effect on total revenues.

There will be some changes in the tax treatment of proceeds from plans under which employers share their profits with employees. In future under deferred profit-sharing plans, gains and losses resulting from investment portfolio transactions will be excluded in calculating the taxable portion. The dividend element in the income allocated to a member will be recognized for tax credit purposes. Also, there will be postponement of tax liability for the first three years on amounts allocated to a member of a plan if the unconditional right to receive such amounts has not been assured to the member within this period. With these changes our tax provisions for profit-sharing plans will be established on a pretty satisfactory basis.

Over the past year my colleague the Minister of National Revenue (Mr. McCann) and I have given considerable thought to the general requirements to which pension plans must conform in order to establish the right of tax deductibility for contributions. We have concluded that it is desirable to revise the blue book which contains the general instructions regarding pension plans. In particular we have examined with some care the provisions relating to limits on the discretion of the trustees in investing funds placed under their administration and we have studied the urgent representations made to us for the removal of some of these restrictions. Our decision is that we should remove the percentage limitations relating to equity investments so that trustees will be able to govern their own investment policies in the light of the particular pension requirements of the plans under their administration.

Members of the professions and others who have been affected by a recent Exchequer Court decision which ruled out a deduction for convention expenses will doubtless be interested in learning that the act will be amended to allow for 1955 and onward the deduction of expenses for two conventions annually in Canada.

The recent decision of the Supreme Court of Canada in the Home Oil case has created a situation which calls for some amending legislation. In brief the court decided that under the Income Tax Act and regulations thereunder as they were in 1949 and 1950 an oil producer was entitled to have the so-called depletion allowance calculated on an individual well basis rather than on the basis covering total operations. This decision has affected the basis in law for the policy which has been followed for the oil industry during the course of its development.

In 1951 the regulations which had been in force during the years covered by the Home Oil appeal were amended by the governor in council with a view to establishing greater legal certainty for the basis on which taxpayers in the industry were being, and had in the past been assessed. The reasons for judgment given by the court in the Home Oil case have created some uncertainty as to whether the present law and regulations as amended in 1951 are in sufficiently clear terms to support assessments made since 1951. It is proposed, therefore, to amend the law and regulations now to ensure that the intent of the 1951 amendment shall govern for the intervening period and for the future. This amendment will not deprive any taxpayer of his rights under the Supreme Court decision for the years prior to 1951.

In recent months there have been frequent references to foreign ownership and control of Canadian companies. It has been suggested that a certain feature of our tax law may be discouraging the foreign owner from allowing Canadian participation in his enterprise. Under our law the standard rate of tax payable by non-residents on dividends from Canada is 15 per cent. However, the tax is only 5 per cent on a foreign corporation if it owns all the shares which, under all circumstances, have full voting rights. It might be noted in passing that the tax position of the foreign company is not adversely affected by issuing for public participation in Canada other kinds of shares in the Canadian company.

This general provision in our tax law to which I have just referred has in many cases been modified by tax treaties with various countries in recent years. For example, in our treaties with Sweden, Ireland and Denmark a company may secure the preferred rate of 5 per cent on dividends if it has more than 50 per cent ownership of the Canadian company. Negotiations for tax conventions are currently active in South America, Australia, Holland and Germany.

By amendment to our treaty with the United States six years ago the percentage ownership required for the 5 per cent rate was reduced from 100 per cent to 95 per cent. For some time we have had this item on our agenda for discussion with the United States administration, and toward the end of last year the question of a further reciprocal lowering of the percentage ownership requirement was proposed. I have reason to hope that this proposal will be acceptable to the United States and that an amendment to our tax convention will in due course be effected.

Other changes in the Income Tax Act which are contemplated will be explained upon introduction of the amending bill.

CUSTOMS TARIFF

The resolutions which I am placing before the house tonight contain, as usual, some tariff changes. These are rather fewer than in recent years. One of the reasons is that tariff negotiations are in progress in Geneva under the general agreements on tariffs and trade, the results of which will be announced when they are complete.

Many of the tariff changes I am announcing tonight are matters of form, to facilitate administration, rather than substance. In a certain number of cases, however, the rates of duty are being altered. While all these individual changes are in a downward direction, the total effect on the revenue will not be significant.

Only one change is of sufficient general interest to warrant mention at this time. This relates to parts for agricultural machinery and equipment. Government policy has, of course, been that the parts, like the machinery and equipment itself, should enter Canada duty-free. However, certain judicial decisions by the tariff board, relating to the wording of particular tariff items, have resulted in important changes in tariff classification practices, and the scope of duty-free entry has been substantially narrowed. This undesirable result has been brought to my attention by many interested persons and organizations. The action taken tonight is intended fully to restore duty-free entry in this important field.

As I explained in my last budget, it is my intention to keep our tariff abreast of technical and industrial changes and, for this purpose, to refer tariff items or groups of tariff items to the tariff board from time to time. Since my last budget I have made three references and have received one report.

The board's report on potatoes reached the government in November; last month its contents were studied and discussed at a joint meeting between our officials, representatives of the growers, and representatives of various provincial departments of agriculture. I hope to be able to make a statement to the house on this subject fairly soon.

The next reference to the tariff board was primary iron and steel and the board is now well into its investigations. These will be followed by investigations into the closely related area of pipes and tubes of iron and steel. The reference on chemicals will be going forward soon.

I have two or three new tariff board references in mind for the coming year. One covers zinc and manufactures of zinc; another covers fire brick. Then if the board's program allowed, I would also think of referring to it a group of tariff items relating to the manufacture and assembly of radio and television sets.

It is clear that the tariff board will continue to bear a heavy burden. This point has been brought to my attention both by the chairman of the board itself and also by others concerned with the board's work. Accordingly it is our intention to enlarge the membership of the board from three to five; later in this session I shall introduce a bill for this purpose.

SALES AND EXCISE TAXES

I now turn from tariffs to sales and excise taxes.

For reasons already stated I am unable to propose any reduction in the general rate of sales tax, or in the standard level of 10 per cent for the special excise taxes.

A year ago I told the house of our intention to appoint a committee to study various aspects of the Excise Tax Act. This has been done and I am tabling at this time a copy of the committee's report. I should like to take this opportunity of thanking the committee publicly for the high quality of their work in this specialized field. It is a tribute to the business community of this country that objective and painstaking studies can be obtained so willingly from those who would otherwise be so busy with their own affairs. I think the country owes them a debt of gratitude for their willingness to take on these arduous duties in the public interest.

The committee's report is being given careful study by the departments concerned. I am unable to say at the moment how far the recommendations made by the committee will find a place in this year's amending act. Some of the recommendations involve some rather fundamental changes in the structure of the law. These we shall have to consider carefully. I think the most I can say at this time is that we are adopting some of the committee's recommendations for greater simplicity and certainty through making certain additions to the exemption list. These, along with some other additions, will be found in the resolution which I shall be tabling at the conclusion of this statement. The most important additional exemptions arise out of a broadening of the definitions of building materials and of production goods. It is estimated that the total reduction in taxes through these additions to the exemption schedule will amount to about $12 million in the forthcoming fiscal year. As usual it will be provided that the above commodity tax changes will be effective from midnight tonight. In accordance with standard practice my colleague the Minister of National Revenue has asked me to give notice that no claims for refunds arising out of tax reductions in respect of goods on which tax has been paid will be entertained.

Mr. Speaker, as usual, but with the utmost sincerity, may I express my appreciation to the Minister of National Revenue (Mr. McCann) and his staff for collecting such a tremendous sum of money.

For several years past the publishers of Canadian magazines have made representations to the government regarding the increasing inroads of magazines from abroad both into their circulation in Canada and also into their sales of advertising. We have been able to help them to a small extent by some redistribution of routine government advertising. Nevertheless, their relative position has declined. A number of Canadian magazines have been abandoned and others have had to reduce the number of issues per year. Magazines from abroad have meanwhile extended their activities to such an extent that the long run continuation of Canadian magazines appears to be in jeopardy. Already, something like four-fifths of the magazines read in Canada are not Canadian, and the proportion has been creeping ominously upward.

Competition from abroad takes two forms. First, we have what may be described as normal imports; scores of magazines normally on sale in London, Paris, New York or elsewhere, are brought in and sold in Canada. Second, in a few cases, the publisher of a magazine abroad has arranged to put on sale in Canada an edition of his magazine that is quite similar to the magazine he sells in his home market but not identical with it. This special edition will usually differ from the home edition both because it prints a few pages of reading material about Canada and also because it sells some pages, often a great many pages, to Canadian advertisers.

We have been considering this problem for some time, and we have decided that, in this field, very exceptional measures can be justified—measures that certainly could not be justified in connection with any ordinary line of business or commerce. The publication and circulation of magazines by Canadians, for Canadians, telling about Canadians and what they are doing and what they have to sell, seems to us a basic and essential thread in the fabric of our national life. And I am talking now, not merely of the magazines that deal to a greater or lesser extent with broad political and economic affairs, but also about the magazines that circulate among housewives and businessmen and members of trade associations.

I wonder whether we could contemplate a time when we would not have a Canadian magazine, when there would not be an opportunity for persons with the talent and with the time to sit down and contribute an article of a critical nature on government or scientific matters or on some other topic, or if we could contemplate a time when our children could not read a magazine in which there would be Canadian stories based on Canadian history or Canadian fiction. I doubt very much, sir, if we could look to an occasion like that.

The government would be very reluctant, however, to interfere with the normal and traditional imports of ordinary magazines into our country but the special editions constitute a very special problem. They are relatively new arrivals on the scene. Each is essentially a by-product of some magazine published abroad and, being a by-product, its costs of production are well below the costs of a comparable purely Canadian magazine. It uses its advantage not only to enlarge its circulation but also, and far more serious to Canadian publishers, to sell its advertising services, thus diverting revenues from Canadian publishing houses. In recent years this diversion has become very substantial.

Accordingly, we have decided to put a special excise tax on these special editions. It will be at the rate of 20 per cent and will be levied on all revenues they receive from advertising. It will not come into effect until January 1, 1957 so that those concerned may have time to adapt their affairs to it. The tax will apply to all special editions, whether printed in Canada or abroad, in English or in French.

CONCLUSION

This concludes my review of our proposed tax changes, and I can now summarize my budgetary position. The total reductions in taxes I am recommending to the house amount to $12 million, and my expected revenues for the coming year will be $4,763 million, and my prospective surplus $113 million. I should again remind the house that in figures of these magnitudes there will always be some uncertainty in estimation, and that a variation of as little as one per cent in our estimates in either direction is a matter of close to $50 million.

I should like now to say a further word about federal-provincial relations.

I have seen it suggested that we have been seeking political rather than economic solutions in this field.

If by political solutions is meant taking account of national interests greater than mere dollars and cents, I believe that the objective historical verdict on the past year will be that we have in our frequent federal-provincial meetings given first place to the highest political considerations: the unity and welfare of the whole Canadian people.

At these meetings we have laid the foundation for a working arrangement with the provinces for assistance to the unemployed who cannot qualify for unemployment insurance under existing federal law; we have laid the foundation for a joint federal-provincial plan for hospital care whenever a majority of the provincial governments representing a majority of our people signify their agreement.

We have proposed a new—and for the provinces a more advantageous—tax-sharing plan to replace the tax rental agreements which expire early in 1957.

This is a record of achievement in this field which will be unmatched for some time.

Since I became Minister of Finance in July, 1954, fiscal relations with the provinces have been receiving the continuous attention of my department and of the government.

It appeared to me that, with the tax rental agreements running out soon, a very careful review of what had been accomplished by that system was in order.

Hon. members will recall that there were three main purposes given for the tax rental agreements—and I am referring here only to the post-war agreements.

These purposes were:

(a) To eliminate duplication and inefficiency in taxation as much as possible;

(b) To place the provincial governments in a more stable financial position, having in mind the necessity for providing a certain minimum standard of provincial services;

(c) To give the federal government in co-operation with the provinces sufficient control over the fiscal policies of Canada to permit the effective combating of economic difficulties.

The house, of course, knows that when I entered the Department of Finance I had no experience in these particular matters except as a supporter of this party and this government.

In considering our fiscal relations with the provinces, we have had the advantage of the unequalled experience and knowledge of the Prime Minister, who has lived with these problems since some eighteen years ago he became counsel to the Rowell-Sirois commission.

We have also had the advice and careful consideration of the Minister of Justice, who in 1937, as provincial treasurer of Manitoba took the initiative which was the real beginning of all the activities which have resulted in our present federal-provincial fiscal proposals.

It appeared to all of us that the objective of the tax rental agreements with respect to provincial revenues was much the most important.

Today it is inconceivable to think of going back to the pre-war situation where the provinces with smaller tax potentials had to fend for themselves.

If all the provinces are to carry out their constitutional responsibilities, there has to be some system of tax sharing, of equalization, which will make it possible for them to provide provincial services.

The other objective: to eliminate duplication and inefficiency in taxation is also a valid objective. The British North America Act gives parliament no power to limit the exercise of the rights of the provincial legislatures to tax their peoples for provincial purposes. What we can do is to shape our policies so as to remove the need for duplication as much as possible.

And we are doing that just as effectively with our new proposals as with the tax rental agreements.

As for the third objective, it is still desirable; though we can hope it will not be necessary for a long time to combat grave economic dislocations.

But, under our constitution we cannot control the fiscal policies of the provinces; all we can do is to make co-operation as easy and natural as possible, and our new policies, just because they do not require hard and fast agreements, will, I believe, make co-operation easier.

The situation as we saw it some months ago was this. One provincial government had steadfastly refused to make a tax rental agreement; the government of another province had entered into an agreement which the premier of that province called a stopgap and a second best; and the representatives of another province were reported to be quite unhappy about being bound by a tax rental agreement.

Our task was to find a substitute for a system which was not acceptable to the government of a province containing almost one-third of our people, and which had won only the reluctant acquiescence of the governments of two other provinces containing more than one-half the rest of the people of Canada.

The tax rental system—good as it was—and it was a great advance over the pre-war fiscal chaos—had to be improved if at all possible.

There has hardly been a week in the past twenty months that we have not given consideration to alternative plans.

The new proposals were evolved gradually and the original suggestions have been greatly modified and refined to remove objections and difficulties.

This new tax sharing plan is a reaffirmation of our belief that the government of the nation has a duty to provide some means of sharing tax returns with those provinces which cannot, without extraordinary measures, find the funds to provide a Canadian standard of public services; it recognizes that double taxation can be costly and inefficient; and it is a reaffirmation of our belief that the federal system has virtues which, if maintained, will benefit us all.

I am confident that every Canadian today believes we should all assist the provinces to provide a reasonable Canadian level of public services in all parts of Canada; nationhood would be meaningless if it were not so.

I am also confident that our tax-sharing plan is not open to serious constitutional or practical objections; though, of course, I do not suggest that it is perfect or will receive universal approval.

But may I make it quite clear that not one provincial premier is on record as saying that this new tax-sharing plan is not as good as the present tax rental agreements; and I am prepared to go further and say that almost all of them have stated that the principle of the new plan is better than the present system.

As the house will understand, these matters have taken a great deal of time in the past eighteen months—not only our time, but the time of the provincial governments as well.

In all our conferences there has been complete frankness and a full measure of goodwill.

This, I attribute to the good sense of everyone present and to the fact that, while every one represented those for whom he spoke vigorously and firmly, all who sat at the table unhesitatingly conceded the fair-mindedness, the integrity and the sympathetic approach to the problems of the chairman of the conferences: the Prime Minister.

And I believe that what we have achieved will be a lasting tribute to his patience and his wisdom.

EXCISE TAX ACT

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

1. That the sales tax on the following goods be repealed:

(a) boxes for farm wagons, and articles and materials to be used exclusively in the manufacture thereof;

(b) poisons used in agriculture or horticulture;

(c) vermiculite;

(d) material for use exclusively in the production of vaccine for prevention of poliomyelitis;

(e) certain building materials which are in addition to those already exempted, viz.:—additives for concrete; ceiling and acoustical material for buildings; hard surface composition yardage flooring for permanent bonding to floors; material for waterproofing and moisture proofing buildings; additional structural steel for buildings; soil pipe for buildings; tar and asphalt for roofing; skylights; ventilators and louvers, not motor operated;

(f) certain machinery and apparatus for manufacturing or producing goods which are in addition to that already exempted, viz:—structures which are adjuncts to or provide access to the machinery and apparatus for manufacturing or producing goods; repair and maintenance equipment used by manufacturers or producers for servicing their machinery and apparatus for manufacturing or producing goods; safety devices and equipment for the prevention of accidents in the manufacturing or production of goods; systems installed by manufacturers or producers for exhausting dust and noxious fumes from their manufacturing operations; equipment used to carry refuse or waste from production machinery; equipment for hospitals and first aid stations in manufacturing establishments;

(g) identification tags or labels for designating the grades or quality of meat, poultry, fish, eggs, fruit and vegetables, and materials to be used exclusively in the manufacture thereof;

(h) goods enumerated in Customs Tariff items 409t, 409u and 409v, and articles and materials to be used exclusively in the manufacture thereof;

(i) antiques, as enumerated in Customs Tariff item 693 (ii) and (iii);

(j) national manufacturing, industrial or mercantile trade directories but excluding statistical, financial or biographical surveys, reports, year books or directories, and transportation, telephone, municipal or street directories, guides or rate books.

2. That the excise tax on the following goods be repealed:

(a) antiques, as enumerated in Customs Tariff item 693;

(b) settlers' effects.

3. (a) That the exemption from excise tax on the goods enumerated in sub-paragraphs (a) and (b) of item 12 of Schedule I be repealed when the sale price is one dollar or less;

(b) That the exemption from excise tax on the goods enumerated in sub-paragraph (c) of item 12 of Schedule I be repealed when the sale price is fifty cents or less.

4. (a) That there be imposed, levied and collected in respect of each copy of a special edition of a non-Canadian periodical issued to the public in Canada a tax of twenty per cent of the value of the advertising material contained therein;

(b) That for the purposes of sub-paragraph (a) a "special edition of a non-Canadian periodical" means a periodical printed in or outside Canada for publication in Canada

(i) containing editorial material at least twenty-five per cent of which is the same or substantially the same as editorial material contained in a non-Canadian periodical, whether in the same or in some other language, and

(ii) containing any advertising material that is not contained in such non-Canadian periodical;

(c) That any enactment founded upon this paragraph shall come into force on the first day of January, nineteen hundred and fifty-seven.

5. That any enactment founded upon paragraphs 1, 2 and 3 of this resolution be deemed to have come into force on the twenty-first day of March, nineteen hundred and fifty-six.

CUSTOMS TARIFF

1. Resolved, that Schedule A to the Customs Tariff be amended by striking out tariff items 13a, 172, 206c, 219d, 279, 288b, 326e, 372, 376a, 390, 390a, 390b, 409e(1), 409f, 410t, 410u, 410w, 425a, 428g, 437b, 442, 443, 445m, 476b, 476c, 478(2), 549a, 657b and 700, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting therein the following items, enumerations of goods and rates of duty: