cereals, towels and dishes in soaps, kitchen utensils in boxes of oatmeal, lapel buttons and cutouts in corn flakes.

The hon. member for Hastings-Frontenac (Mr. Webb) mentioned the order in council which was passed in the province of Alberta. For his information I should like to mention that this was not particularly popular with the buying public for the simple reason that it again was a piecemeal attack on what is after all a larger problem.

When we contemplate this type of legislation, Mr. Speaker, perhaps it might be well to have in mind the feeling and the thinking of the women who do the buying and, I might say, thinking of my own wife, doing it extremely well. They get value for their dollar; otherwise they do not spend it.

In speaking on a similar bill last year the hon. member for York-Humber (Miss Aitken) said, as reported at page 744 of *Hansard* of February 4, 1960:

I can only assume that nobody likes trading and discount stamps except the women who do the buying in this country.

I suggest that he would be a heroic husband who would endeavour to tell his wife that she must not buy at this store or at that establishment because they give trading stamps. He would probably end up by sleeping on the chesterfield or putting himself out at night and keeping the cat in.

Of course, the hon. member who introduced the bill made no mention of the fact that on television last night a gas installation firm in Ottawa offered a free portable 19-inch television set if you let them put a natural gas installation in your house. I presume the hon. member would approve of this because after all it is a rather substantial gimmick to get business. That is what trading stamps are; they are a gimmick to attract business. As has been said by hon. members who preceded me, give these things time and they die a natural death, as have other similar forms of advertisements over many years.

Will you call it six o'clock, Mr. Speaker?

At six o'clock the house took recess.

AFTER RECESS

The house resumed at 7.30 p.m.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

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

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

He said: Mr. Speaker, normally 12 months transpire between budgets. Exactly six months ago this evening, I was delivering my last previous budget in this chamber. It was a supplementary to the 1960 budget. Tonight's is the second budget of the present session.

Four years ago tomorrow morning the present government was sworn into office. This is the fifth budget I have had the honour to submit to the house in these four years, not including the financial proposals introduced on December 6, 1957.

The circumstances attending each budget have differed from those associated with the others. Each was aimed to meet the financial and fiscal problems of its time. Tonight's budget is designed to meet Canada's present needs and difficulties. Flexibility has been the keynote of our financial policy in these four years. It will also characterize the approach revealed in tonight's budget.

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(Text):

GOVERNMENT ACCOUNTS 1960-61

In structure my budget speech this evening will depart somewhat from past precedents. I shall begin by placing on the record a brief summary of the government's accounts for the year that ended last March 31. I shall not embark upon any detailed analysis because all the essential facts and figures have been included in the white paper which was tabled and published last Friday.

In my March, 1960 budget statement I recorded my expectation that our revenues for the 1960-61 fiscal year would be \$5,892 million, our expenditures \$5,880 million, and that the resulting surplus would be \$12 million. Last December, in presenting to the house a supplementary budget, I explained that the rate of economic expansion in Europe had shown some hesitation and that the economic outlook in the United States and Canada, which had been most encouraging at the beginning of 1960, had rather unexpectedly reversed itself, resulting in a disappointing slow down during the last three quarters of 1960. This inevitably affected our budgetary position and my revised estimates, after making provision for certain tax changes, were that revenues would be $5,694 million, expenditures $5,980 million and the deficit $286 million.

Our books of accounts for 1960-61 have not yet been closed, but subject to some minor adjustments our revenues for the past year were $5,616 million, our expenditures $5,961 million and our deficit $345 million. In other words our revenues were $78 million and our expenditures $19 million below my December forecast, and the deficit was therefore $59 million greater. As explained in the white paper, the main factor causing the rather large drop in revenues was the timing of the long Easter week end. This year Good Friday fell on March 31 and a considerable proportion of the tax payments due at the month end were in fact not put in the mail until April 3 or 4 and therefore could not be credited to our 1960-61 fiscal year revenues. Our March tax receipts showed an unexpected short-fall of nearly $40 million.

The government's over-all cash position for 1960-61, that is, including non-budgetary as well as budgetary cash receipts and disbursements, resulted in a total cash deficit of $294 million, since our non-budgetary cash receipts exceeded disbursements by $51 million. Thus our budget deficit of $345 million was financed by a net non-budgetary cash surplus of $51 million, a net increase of $223 million in our outstanding unmatured debt, and a reduction of $71 million in our cash balances.

ECONOMIC REVIEW

The white paper also contains a full account of the economic events of 1960. It includes an analysis of the more significant longer term developments in Canada and in the world as a whole as related to the Canadian situation. I commend this analysis to the careful study of hon. members. Tonight I shall not cover the ground in the same detail as in the white paper, but I should like to refer briefly to some of the principal features.

Last year we experienced a number of adjustments in our economy including some related to normal cyclical movements, and others of a temporary, special nature. These took place at a time when other longer term influences were also compelling the Canadian economy to adapt itself to a new world environment. In these circumstances the year 1960 might have been one of serious economic maladjustment and recession. In the event, however, we achieved increases and reached new records in production, incomes, employment and trade, both domestic and foreign. At the same time price levels were more stable than they have been in the last five years.

By now, in mid-1961, we are coming to the end of those adjustments related to special and cyclical factors which, in 1960, were exercising a restraining influence on expansion. Those areas of the Canadian economy where declines took place last year are today showing signs of improvement. Capital investment, which declined in 1960, is expected to rise this year. Activity in housing, which fell off in the early part of 1960, responded well to government measures and other market forces in the latter half of the year and has been moving ahead this year. We may expect not only the housing industry, but other associated activities as well, to benefit from this improvement. The level of economic activity showed little change in the first quarter of this year, but increasing evidence of expansion is now appearing. Latest figures show that total employment has risen materially and the numbers of unemployed have begun to decline even after allowing for the normal seasonal movement. Other sectors where there was continued growth last year are showing further strength this year. In the United States informed observers consider that the recovery is now well under way. Expansion is expected to continue in western Europe and in our other important overseas markets. These welcome developments will make possible further increases in our exports, production, employment and incomes. Thus, an improvement in our situation could be expected to occur even if no further efforts were taken to stimulate our economy.

But this improvement, which could be expected in the ordinary course of events and without further stimulus, would, I believe, be modest, an increase of about 3 per cent in the G.N.P. It would be unlikely to induce the full utilization of our productive resources or to provide substantial improvement in the standard of living of our growing population. It would be unlikely to reduce the scale of unemployment to a more tolerable level.

What are the reasons for this apparent lack of resilience in our economy? Have there been new and abrupt changes in our environment which would explain our situation, or has there been a slow emergence of underlying forces which had their birth in an earlier period? Can we trace these influences to some indigenous development, or must we look beyond our own borders? The answers to each of these questions must, I believe, be a qualified affirmative.

The important longer term developments which are at the root of our present day economic difficulties have been taking place slowly since the end of world war II and to some extent were hidden during the extended period of post-war shortages of goods and capital equipment, a period when inflationary forces were constantly in the ascendant. During this period of shortages and rising prices the economies of western Europe and Japan have been rebuilt with the newest plant and equipment and with a highly skilled labour force, and the underdeveloped countries of the world have tried strenuously to achieve self-sustaining economic growth.

Within the past two or three years direct controls on the movement of goods and capital in the free world have, to a large extent, been dismantled. The pace of scientific and technological development has been rapidly accelerated. The western world has grown more interdependent and the policies of governments and business groups have become more closely linked. In the face of all these changes, the competition in world markets has become much more intense and the need for greater efficiency has been forcefully underlined.

These changes have affected all western countries. But Canada has faced additional special problems. Our largest and most important foreign market, the United States, has experienced an inadequate rate of growth in recent years. This has affected not only our exports but also our general business psychology. Meanwhile, the growth of our own labour force has been unusually rapid and much higher than in other western countries. Our growth in employment has been higher—and I wish to stress this—our growth of employment has actually been higher than in other countries, including the United States; nevertheless we have been unable to absorb into employment all the entrants into our labour force. At the same time, many of those seeking employment have not had the benefit of adequate training to meet the needs of our increasingly specialized and technical industries.

Another special feature of the Canadian situation is that many of our industries have surplus capacity. To some degree this reflects the inadequate rate of growth in the United States market to which I have already referred. In part it also reflects the "lumpy" nature of much of our investment, which for physical and economic reasons must be installed in large units, sufficient to meet prospective as well as current needs. A great deal of the investment in the resource industries was of this type. But surplus capacity in our economy also reflects to some extent the unsustainably high levels of investment which were encouraged by the inflationary atmosphere of the mid-1950's. During this period of excessive pressure on our resources it was inevitable that some speculative investment was undertaken, not only in Canada but all over the world, with expectations of continued rising prices. These expectations proved wrong.

The normal growth of real demand can be expected to overtake capacity in the not too distant future. Meanwhile, the existence of surplus capacity acts as a drag on private investment. It necessitates some transfer of resources out of temporarily overexpanded industries; unfortunately, it also contributes to attitudes and conditions which make such transfers more difficult.

In some quarter the conclusion has been drawn that the disappointing levels of production, unemployment, and our balance of payments deficits, are the reflections of major structural maladjustments and inefficiency pervading our whole economy. We are told that Canada has relied too heavily on the development of her natural resources and that she is lagging in the field of industrial development. It is suggested that efforts be made to force our economy into different channels less dependent on world demand. We are urged to balance our external accounts not by expanding exports but by erecting barriers against imports.

The analysis which supports these proposals is in my judgment basically wrong; consequently the conclusions are also erroneous. Canadian economic development since the second world war has on the whole been sound. Investment has flowed into sectors where an abundance of natural resources gave us a decided natural advantage. It also has flowed into a great variety of manufacturing industries, especially into those related to the fast growing resource industries. It is sometimes suggested that the resource industries have been stimulated in Canada to such an extent that they have expanded at the expense of manufacturing. In this connection, the house should remember that employment in manufacturing industries in Canada, while less than we would like, has been better sustained than in the United States over the past seven years.

This is not to say that we would be complacent about the present state of our economy. Far from it. There is more unemployment and unused capacity in our industries than we can possibly accept. Recent rates of economic growth have been lower than we need to absorb our rapidly growing labour force and the output of our expanding industrial capacity. Some of our industries have been stagnant in the face of strong world competition. Our technological development, the enterprise of our business community, and the skills and training of our people, great as they are, have not kept pace with the needs of a rapidly changing world. The deficit in our balance of payments, while declining, is still too high for our present economic circumstances. These are hard facts which must be faced squarely. This we propose to do.

We do not intend to let events take an unguided course in the hope that these problems will solve themselves. The government has introduced numerous measures during the past four years designed to overcome these and other difficulties. As a consequence our economic situation is very much better than it would otherwise have been. We will pursue this course with energy and determination until these difficulties are fully overcome.

Our objective will be, first and foremost, to provide fuller opportunities for the useful and profitable employment of all Canadians willing and able to work. We shall strive to attain a more rapid rate of stable and balanced growth for all sectors of our economy and all regions of our country. We shall seek to improve the technological efficiency of our industry, to heighten skills and capacities of our workers, and to stimulate the talents and initiative of our entrepreneurs. We shall endeavour to raise the levels of savings and investment by Canadians and reduce the balance of payments deficit. These, sir, are the purposes of this budget.

(Translation):

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(Text):

I need not remind hon. members that there is no royal road, no magic which a minister of finance may invoke to achieve these goals. If there were easy solutions they would have been adopted long ago. Nor can these objectives be attained by federal government measures alone. In our free enterprise system we shall need self-discipline and the full co-operation of business, labour and all levels of government—indeed of all our people—if we are to succeed. I shall have more to say about this subject later.

The budget which I bring down this evening is not an ordinary budget. In more than usual measure it is an economic budget. We shall endeavour, through an appropriate mixture of fiscal, financial and commercial policies to create more jobs, to stimulate production, and to improve the general state of our economy. I should like now to discuss the policies and measures which I propose that this house should endorse.

FISCAL POLICY

While budget policy can play an important role in attaining the objectives that I have set out, it cannot accomplish the whole task. What we need, and what I shall be putting before the house this evening, is a balanced combination of both broad and specific economic and fiscal proposals. The government has already initiated during this session a number of constructive programs to encourage economic expansion; small business loans, housing development, urban renewal and rural development, greatly increased aids to technical education and training, measures to promote the expansion of exports, and in other ways. These are all parts of an integrated economic policy.

When there is a substantial degree of slackness in the economy, in the form of excess productive capacity and idle manpower, budget deficits can provide an important stimulus. By means of such a deficit the government, through its expenditures, places in the hands of the public substantially more purchasing power than it withdraws through taxation. If appropriately planned and timed, a substantial deficit can encourage higher levels of output, employment income and savings, without incurring risks of inflation. When employment and incomes have reached satisfactorily high levels and the rate of economic growth is strong, a sound budget and tax structure should generate sufficient revenues not only to cover current expenditures but also to provide funds for the orderly retirement of debt.

The present general pattern of our tax structure is, in my judgment, sound. While particular rates and particular applications of tax legislation need to be adjusted from time to time, our present tax structure is such that, provided we do not embark upon large new types of spending, it will provide a balanced budget and some provision for debt repayments as soon as we re-enter the area of high employment and a renewed period of progressive growth.

There is, however, as hon. members know, a time lag of quite a few months between increases in the rate of growth of output and employment and the increased inflow of tax revenues. While I expect to see a significant and accelerating improvement in output, employment and incomes during the balance of this fiscal year, I cannot anticipate an equivalent increase in tax revenues in the same period. Much of the revenue benefits of economic expansion will not reach the treasury until after the end of this fiscal year.

In the circumstances confronting Canada today, it is appropriate, indeed desirable, that the federal government should, by incurring a sizeable deficit, help to stimulate the economy. This we propose to do. Accordingly, I shall not be introducing any increase in our general level of taxation. Indeed, I shall be proposing some significant tax reductions to accomplish certain specific economic objectives. This contribution in the field of fiscal policy taken together with the financial and other policy measures which have already been introduced or which I shall be announcing tonight, will bring about higher levels of production and employment, and a more satisfactory rate of growth.

CAPITAL, SAVINGS, THE BALANCE OF PAYMENTS AND THE EXCHANGE RATE

In addition to this fiscal contribution the government will be implementing other broad financial measures that will encourage general economic growth, as well as specific measures designed to encourage particular sectors or industries. These general measures are in the interrelated fields of capital flows, the deficit on international account, and the external value of the Canadian dollar.

Over the past five years we have experienced net inflows of foreign capital ranging from $1.1 billion up to $1.5 billion annually. These capital inflows have been matched by deficits on current international account, that is to say, by an excess of imports of goods and services over exports. When the economy was fully employed and expanding rapidly, and when inflationary pressures were active, such capital inflows, and the matching import surpluses of goods and services, were appropriate and beneficial. Under today's conditions they are not only unnecessary, but in some forms they can be harmful. Our excess imports of goods and services must be substantially reduced; our exports must be expanded. There are large quantities of goods and services that we are buying abroad that we can and should be producing at home at economic prices.

It was for these reasons that in my budget of March, 1960 I issued a serious warning to those Canadians, including provincial and municipal governments and business, who, it seemed to me, were over-ready to raise funds abroad, apparently regardless of the exchange risks they were running. In the December budget, as the house will recall, I took action in the field of taxation to remove certain special incentives to borrow abroad which had been built into our tax system in earlier years when there was an obvious need for foreign funds.

The public reactions to these warnings and measures have clearly been in the right direction. The capital inflow has been reduced, the exchange rate on our dollar has been reduced, the surplus imports of goods and services has been reduced; but they have not been reduced enough. Further measures must now be taken.

Accordingly, the government has reached certain policy conclusions relating to the flows of capital and terms of lending within Canada, the import of capital from abroad, the level of the Canadian dollar, and the deficit in our current international transactions. These conclusions may be set out as follows:

(a) The current deficit in our balance of payments is in large measure inappropriate; with so much unused capacity in Canada, we should be exporting substantially more goods and services and importing much less.

(b) An expansion in exports and a reduction in imports should not be brought about by export subsidies, or by higher tariff rates, or quotas, or other forms of government intervention or protection, but rather by encouraging our exchange rate to fall into a more appropriate relationship with our economic situation.

(c) The appropriate method for relieving the exchange rate of undue and unwanted upward pressures is to take every practicable step to ensure that Canadians who might otherwise be raising funds abroad are, in future, satisfied from Canadian financial sources.

(d) Since it will take time to divert demands for funds from foreign sources to Canadian sources, and since it is urgent to obtain relief from the resulting excess of imports of goods and services, the government has decided to use the exchange fund to neutralize, at least in some degree, the effects of the continuing capital inflows.

The house will no doubt wish me to elaborate on these far-reaching decisions.

First, and of most immediate interest, is the decision relating to the adverse balance on goods and services account which has been running well in excess of $1 billion annually. It is the government's aim to reduce this deficit substantially in the near future and ultimately to achieve a position much closer to balance. The improvement should be brought about partly by increased exports and partly by diminished imports. Our purpose is to put Canadian producers in a position where, as a result of these policies, they will soon be selling, at home and abroad, many hundreds of millions of dollars worth of additional Canadian goods and services. This will yield substantial benefits, direct and indirect, in the form of more jobs, more production and more business opportunities for our industries.

These results will be achieved by encouraging our exchange rate to find a level in keeping with our economic circumstances. They are not to be achieved by subsidies, by government controls or restrictions. It has been urged on me from some quarters that there is a need for direct government intervention to deal with our economic problems. I reject this argument. The policy which I am placing before the house tonight is, in terms of real economic incentives, more significant, more powerful, and more pervasive than anything that could be implemented in the way of subsidies and controls. Moreover, it is free from the arbitrary decisions and the bureaucratic delays that always attend incursions by the government into the affairs of private industry.

The high level of our exchange rate has been impairing the competitive position of Canadian suppliers of goods and services in the home market and in foreign markets alike. An appropriate downward adjustment in the value of our dollar will bring them immediate relief and encouragement. On the export side one thinks of wheat and livestock, of petroleum, metals and minerals, of pulp and paper and lumber, and of the growing range of manufactures for which, since currency convertibility was restored, we are finding increasing markets abroad. On the import side our thoughts run first to industries whose growth rates have been less than satisfactory because of the imports that have, in effect, been carried into Canada as a result of a tide of unduly large capital inflows and a consequently unduly high value for our currency; household appliances, motor cars, a variety of consumer goods, and many types of industrial machinery. The exchange rate also affects service industries such as the tourist industry where we have been incurring heavy deficits because Canadians, at the current exchange rate, spend far more abroad than foreign visitors spend in Canada.

In all these situations a further reduction in the exchange rate will exercise a positive influence. And, as I have said, it is the government's intention so to redress our balance of payments that many more Canadians will be employed producing substantially more goods and services for the domestic market and to serve our markets abroad.

While decisions regarding the balance of payments and the exchange rate are of importance, there is a further decision which is, in a sense, basic to the others. This decision is a positive one; to encourage the supply of capital from Canadian sources, that is from Canadian savings, to meet Canadian requirements for expansion and modernization. The rate of Canadian savings has not been low. In fact it has been reasonably good. But it could be better. The flow of savings varies in response to other changes in the economic and financial system. And by far the most important influence on the flow of savings is the flow of incomes. Normally the more people earn, the more they save. By increasing the level of employment and the flow of incomes and profits, we shall automatically increase the flow of Canadian savings. The measures which I am proposing tonight will help to achieve these goals.

The objective that Canadian capital requirements be met as far as possible from within Canada, rather than from abroad, is based on economic grounds and with particular concern for our international deficit and the level of the exchange rate. At the same time the government welcomes, as the Canadian people will welcome, the fact that, over a period of time, this decision will result in greater Canadian ownership and control over Canadian industry and Canadian assets. For this purpose, Canadian savings must not only be increased, they must be mobilized and put to work in the most productive directions.

I wish to make it quite clear that we do not intend to penalize or discourage foreign capital that seeks constructive employment in this country. I am not proposing, in respect of capital inflows, any substantive further taxation measures. The interim budget of last December removed the unnecessary tax incentives. Nor am I proposing any restrictions on the movement of capital which have been advocated in certain quarters. Canada, even in present circumstances, derives great benefit from certain kinds of capital from abroad. This government remains firmly committed against direct controls on capital.

CAPITAL INFLOW AND INTEREST RATES

Since our aim is to reduce substantially and fairly quickly our excess of imports, visible and invisible, over our exports, it follows that we must aim at replacing, from Canadian sources, an equivalent amount of funds that would otherwise have been raised abroad. We have been giving most careful thought to ways and means of supplying these funds from Canadian sources. This is a field in which there are no quick or easy answers. The degree of success we can achieve will depend in part on the co-operation of our financial institutions.

Capital is not a homogeneous commodity; each borrower has his own peculiar needs and each lender his own preferences. However, despite the infinite variety of capital transactions, we can see our way toward certain broad measures that must be taken.

To begin with, interest rates in Canada are out of line with those in the United States and some of the European capital-exporting countries. We should like to see these spreads narrowed. When Canada was in need of large and increasing supplies of capital from abroad, and when we could welcome the net inflow of goods and services that these capital imports generated, it was natural that our interest rates should be appreciably higher than those in the main capital markets from which we were attracting funds.

But today the situation is very different. We have no reason, in present circumstances, to be offering high interest rates in order to attract capital from abroad. On the contrary, the capital that is thus attracted simply pushes up our exchange rate and pushes up our trade deficit.

High interest rates are a double drag, at times like these, on our economic activity and expansion. Such rates traditionally are recognized as having some effect in restricting or postponing decisions to borrow and expand industrial operations and also the activities of governments and public bodies. And, much more important, with our floating rate of exchange, relatively high interest rates actually cause us to develop an import surplus of goods and services with adverse effects on employment.

Statistics indicating trends of interest rates in recent years in Canada and abroad are to be found in the white paper. These support the view that Canadian interest rates have grown out of harmony with those abroad and with our changing economic circumstances. An important step in the right direction was taken earlier this month; I refer to the reduction by the chartered banks of their prime rate on commercial loans. Further moves of this sort will be welcomed and encouraged by the government.

I am confident that the spreads between interest rates of various types in Canada and abroad can be reduced and brought into proper relationships, but I would not wish hon. members to expect that this can be accomplished by some simple or quick formula. It would be folly, for example, to attempt drastically and artificially to force interest rates down by irresponsible increases in the money supply. Such a device would be not only unsound but before long would prove to be self-defeating. We attach high importance to a climate of confidence and understanding in our financial markets. What is required is a judicious and well co-ordinated combination of fiscal, monetary and general economic measures, the elements of which vary in accordance with the needs of the times.

While the level and structure of Canadian interest rates is an important influence on our balance of payments and our exchange rate, it is clear that much of the capital that comes in from abroad is not directly responsive to interest rates. For instance, last year more than $600 million of capital flowed in under the broad heading of "direct investment". Part of this inflow can contribute immediately and directly to the Canadian economy; not only does it create new jobs and new industrial opportunities in this country but it often carries with it new industrial technology and assured access to markets abroad. On the other hand, another part of this very large total constitutes the least desirable type of inflow; it involves the purchase by people abroad of established Canadian businesses. Many of these takeovers of Canadian firms do little or nothing for our economy and, at the time of purchase, they involve an upward pressure on the Canadian exchange rate and a consequent drag on Canadian production and employment. I shall have more to say on this subject later in connection with an important expansion in the activities and the role of the industrial development bank.

Some of the capital inflow originates in Canada with borrowers who seek funds abroad, not only in response to lower interest costs but for purely institutional reasons. Access to the New York capital market is almost a matter of habit; it is often simpler to raise money there than to search out equivalent possibilities in Canada. Certain aspects of our capital markets have not been adequately developed in Canada. This does not reflect in any way upon the sound and progressive financial institutions in our country, which have been rendering an excellent service under present arrangements. But it does suggest that we must improve our institutional framework.

I have already held fruitful discussions with certain Canadian financial institutions looking toward a decline in interest rates and a reduction of the inflow of types of capital that can be met from Canadian sources. I intend to have further discussions along these lines in the near future.

DEBT MANAGEMENT

While the government will be calling for the co-operation of Canadian financial institutions in achieving our objectives regarding the supply and application of Canadian savings, we shall at the same time be taking certain positive steps ourselves. In this connection I have three important announcements to make relating to debt management.

I need not remind the house that the federal government and its agencies are by far the largest factor in the financial markets of this country. Their influence is particularly great in times such as these, when the private sector reduces its demand for capital and the federal government incurs substantial deficits as a measure to stimulate production and employment. The proper management of its financial affairs is therefore one of the most constructive contributions the federal government can make to the smooth functioning of Canadian capital markets.

Accordingly I wish to announce that in order to avoid congestion in the "long end" of the capital market, which is the part of the financial market upon which the provinces, municipalities and private business depend for much of their capital needs, I intend to confine new federal market issues for at least the next several months to the "short end" of the market.

The sale of new issues is not the only channel by which the impact of government financing is transmitted to the market. There are sizeable holdings of outstanding securities in government accounts; sales and purchases by these accounts have the same market effect as the issue of new securities or the redemption of old. One of the most important of these accounts, both in terms of size and in terms of volume of purchases and sales, is the unemployment insurance fund. The holdings of this fund have come to be regarded in some quarters as a threat to stability in the long end of the market. The government has therefore decided to remove any such threat.

The entire portfolio of the unemployment insurance fund will in due course be taken over by the treasury at book values, and in exchange the fund will acquire interest bearing but non-marketable bonds which may be redeemed by the government as required on 30 days' notice. The direct government of Canada bonds presently held by the fund will then be cancelled, and the government guaranteed bonds will in due course be traded to the Bank of Canada in exchange for equivalent government bonds which will thereupon be cancelled. This will remove the overhang of about $245 million mid and long term bonds which, as I have said, has had a psychologically disturbing effect on the market.

The third announcement I wish to make in the field of debt management concerns the establishment of a purchase fund for the orderly retirement of government debt. As hon. members know, there is at present a fund known as the securities investment account, which is used from time to time to purchase government of Canada securities, particularly those close to maturity. This fund has served a useful purpose in our management of the public debt. We have not, however, had at our disposal the regular flow of funds which is necessary for any steady retirement of debt. The experience of other governments and of private corporations suggests that the existence of such a fund through which purchases of securities are made can have a steadying effect on the market. Over a period of time it should contribute to a reduction of interest costs.

It has therefore been decided to establish a purchase fund to assist in the management of the public debt. Its initial size will be $100 million, to be used over the next twelve months for the purchase in the market of government of Canada mid and long term securities. Details, concerning the operation of the fund will be announced later.

The combination of the policies I have just outlined combined with others to be described later this evening and the indications I gave earlier concerning budget balance will have, I am confident, a salutary effect on the financial markets of this country. They represent a determined effort on our part to exert strong pressure on the level of interest rates and the exchange rate, in order to bring them more in line with our own requirements and with conditions prevailing in the world about us. The improvement in our capital markets which will flow from these measures will be of direct benefit to the provinces, municipalities, business and other borrowers.

THE INDUSTRIAL DEVELOPMENT BANK

The next link in the financial chain that the government is forging relates to the industrial development bank. The scale of the bank's lending to small and medium sized businesses has been expanding rapidly. In its last fiscal year the bank made 740 loans amounting to $38 million, as compared with 221 totalling $17 million five years earlier. In its current fiscal year which began last October loan approvals have been more than 60 per cent greater than the record rate achieved in the same period a year ago.

The number of branch offices has been increased from four to 13 over the past five years, and further branches will be opened in the near future as suitable staff can be recruited and trained. This expansion has been very desirable and has had the full support of the government.

The predominant business of the bank has been, and will continue to be, the making of term loans to small and medium sized enterprises. However, the bank also has authority to purchase a portion of the equity in an enterprise with a view to resale to the owner or to others at a later date, and to enter into underwriting agreements. These powers will be put to increasingly active use.

In order to encourage continuing growth of the bank's operations, the government has decided to provide it with additional financing capacity, and wider responsibilities. For these purposes I shall be placing a bill before the house in the very near future. Without going into detail at this time, I may say that the bill will make provision for important changes. The types of businesses which the bank may assist will be enlarged. At present it is permitted to provide accommodation to certain specified classes of industry. These include manufacturing and processing, logging and construction, air transport and some service activities. In the future it is intended that all business enterprises in Canada shall be eligible. The bank would, of course, not expect to make loans where funds are available on reasonable terms from other sources and, in particular, where special provision has already been made by parliament, as in the Small Businesses Loans Act and the Farm Improvement Loans Act. It is intended that the financial resources available to the bank should be substantially increased. These resources are now $160 million; it is intended that they should be increased to about $400 million.

In facilitating the growth of the industrial development bank, the government has in mind several important objectives. The expanded operations of the bank will provide for greater employment. They will also assist in the development of a stronger, more productive and more flexible economy in the future. The bank was formed in order to meet a special need in the Canadian financial structure. This gap exists because, while smaller and medium sized businesses have usually had access to short term credit from the chartered banks, and to long term mortgage credit from other institutions, their operations have not been of a size to enable them to sell securities in the market. To fill this gap the bank has supplied term loans for plant and equipment and also provides technical engineering, accounting and managerial advice where needed. Financial and other assistance of this kind will now be available for many businesses not previously included under the bank's operations.

While the primary purpose of the I.D.B. is to help in financing the establishment of new and the expansion of existing small and medium sized businesses, it has become increasingly apparent that it can also play a useful part in assisting with the problems arising from financial consolidation and changes in ownership.

In these days there are often pressures on the smaller firms from both domestic and foreign sources. If our economy is to grow and prosper we must help them to withstand these pressures. I have in mind, for example, the problems that face Canadian family firms. Often such a firm plays a central role in one of our smaller Canadian towns. In the life of such a firm, occasions sometimes arise when infusion of new management together with new capital becomes desirable. In the past this infusion has not infrequently come from abroad; and while foreign capital may be both desirable and helpful, I am sure that we would all be happier if such a firm had the opportunity to obtain the necessary capital and management in Canada. The I.D.B. has already assisted in situations of this sort, and it is the government's desire that activity in this field be expanded.

Similarly, problems sometimes arise where the owner of a firm is facing or anticipating difficulties in connection with estate taxes. In such a situation the owner may feel driven to dispose of a firm, or a controlling interest in it, and often the most ready purchaser may be located outside of Canada. On such occasions the I.D.B. may have a constructive role to play. The I.D.B. has the power, as I have explained, not only to make term loans but also to purchase shares with a view to resale and to enter into underwriting agreements.

The existence of these powers, and of the willingness of the bank to use them, should be made more widely known. It must, of course, always operate with good business judgment. But within this framework I am confident that the industrial development bank will make an increasing contribution to solving problems of the types I have described, to increasing Canadian productivity and improving our competitive position, and to helping retain in Canada the ownership and control of Canadian businesses.

OTHER FINANCIAL MEASURES: A ROYAL COMMISSION

I should like at this point to comment on other important steps in the financial field which the government has announced in the recent past or will take in the near future.

I should like to remind the house of certain recent measures in the financial field that are designedly in harmony with the objectives I have announced tonight and, in particular, the objectives of lowering interest rates and ensuring that, as far as practicable, Canadian demands for capital should be met from Canadian sources.

First, I am glad to say that after a naturally slow beginning, the Small Businesses Loans Act is being put to increasingly good use. The latest figures show that guaranteed bank loans under this legislation are now being made at an annual rate of approximately $100 million to a wide variety of Canadian business enterprises.

Second, I should like to refer briefly to the arrangements which we are making for a secondary market in mortgages. As my colleague the Minister of Public Works has explained, there is no intention of dumping on the market large quantities of mortgages now held by the Central Mortgage and Housing Corporation. If and when the government is in need of funds there are more effective and cheaper means of meeting our requirements. On the contrary, it is our intention to feed out to the market fairly limited quantities, in a manner designed to encourage an active market in insured mortgages. Such a market will give an element of liquidity to these instruments, and as such will harmonize with our general program of broadening and deepening Canadian capital markets and of bringing interest rates in Canada more in line with those abroad.

I now turn to the future. It has become almost trite to say that the economic environment of the sixties will be different from that of the fifties. In no field, as far as Canada is concerned, is this statement more true than in the field of financial relationships, domestic and international. In tonight's budget, as on other occasions, the government has reached decisions on certain reforms and certain improvements that should be introduced. We have, however, become aware of the need for a broader, fuller survey than is possible under the pressures of day to day government decisions.

[Mr. Fleming (Eglinton).]

Major Canadian financial institutions have developed over the years an enviable reputation for soundness, prudence and adaptability. Canada has been well served by them. In recent years there have been important changes in the institutions themselves and in the markets in which they function. Even greater changes may be in store as the Canadian economy matures and becomes more complex. So important are these institutions and markets to the smooth functioning of business and government that a careful review of them is necessary from time to time.

The last major study was made by the MacMillan commission in 1933. The Canada of that day was a much less mature country than the Canada of today, and the world in which she found herself was vastly different. Having in mind the length of time which has elapsed since this last review of our financial framework, and having in mind also the fact that the Bank Act must undergo its regular decennial review in 1964, the government has decided to appoint a royal commission to examine Canada's financial structure and institutions. The terms of reference and membership of the commission will be announced in due course.

Meanwhile, I say that the terms of reference will be broad, covering all aspects of money, banking, credit and finance. The financing of the Canadian economy will be one of the major areas of study. Such broad topics as the pattern and behaviour of interest rates, consumer credit and instalment financing, and the management of the public debt, will be included in the terms of reference. The commission will be asked to study existing financial institutions, such as the chartered banks, the Bank of Canada, and other institutions that perform banking and credit functions, and the various acts of parliament which govern their activities. The commission will also be asked to consider ways and means of encouraging the development of savings institutions. It would be our intention that the report of the commission should be available well in advance of the decennial review of the Bank Act.

EXCHANGE OPERATIONS

I now return to the exchange rate. As I have said it is the government's intention that our import surplus of goods and services, which has been running in recent years well over a billion dollars annually, should be reduced substantially, and that this should be brought about through an appropriate adjustment of the exchange rate rather than by direct government controls or subsidies, quotas or tariffs.

No one can say today what the appropriate level of our exchange rate would be when our balance of payments is in a position better suited to our present economic circumstances. But the rate will certainly be lower than it has been of late, and it may well be appropriate for it to move to a significant discount. It will be government policy to facilitate such a movement.

Accordingly the exchange fund will be prepared, as and when necessary, to add substantial amounts to its holdings of United States dollars through purchases in the exchange market. This would have the effect of increasing the foreign exchange reserves available to Canada to be used in case of need. As many competent observers have pointed out, these reserves have not grown over the past decade in line with Canada's international transactions. Once an exchange rate more closely in line with Canada's economic position is achieved, the government will use the resources of the exchange fund to ensure that the rate is kept within a range appropriate to Canada's changing economic situation. The value of our currency must, of course, ultimately depend upon our pursuit of appropriate economic policies.

It has been suggested in certain quarters in this country that any reduction in our exchange rate is inflationary. I do not think that we are in any serious danger of inflation under present circumstances, with so much unused capacity in our economy. A decline in the exchange rate will mean modest price advances for some of the goods we obtain from abroad as well as some of our export commodities. I am confident, however, that if under present conditions of unused economic capacity there is any effect on consumer prices and the cost of living, these will be minimal.

At this point I should like to issue a word of warning. A downward adjustment in the value of our dollar will open up new opportunities for Canadian industry both in our home market and abroad. The fiscal and financial measures which I have proposed or shall be proposing later in this speech should place Canadian industry in a better position to take advantage of these opportunities. But it would be a sad mistake if Canadians should thereby assume that nothing else needs to be done. Goods and services do not sell themselves. The world has become highly competitive for every type of goods and services which we produce. We must be prepared to intensify our efforts to compete in this new situation. We must work hard; all of us, not only the worker, but the entrepreneur and the business manager as well.

It is well known that adjustments in the exchange rate do not yield advantages that last forever. Recent history is full of examples where such adjustments have proven to be an asset which has been dissipated before the fruits have been harvested. If industry should seek to obtain unwarranted price increases, or labour should seek wage adjustments not justified by improvements in productivity, the opportunity will certainly be lost. It would surely be the height of folly if these new opportunities were to be lost because of lack of self-discipline or failure to achieve effective co-operation between management and labour were to result in higher costs and prices and a deterioration in our competitive position. I have in mind that our competitors abroad, particularly in western Europe, have succeeded in achieving a degree of labour-management co-operation which we in North America have yet to attain. We will need a much fuller measure of such co-operation and self-discipline in respect of profits, prices and wages if we are to take full advantage of the new opportunities which will become available.

International financial policy has been the subject of recent consideration both in the international monetary fund and also in the new balance of payments subcommittee of the organization for economic co-operation and development. I believe I can say that, in both bodies, there is a good degree of understanding of the Canadian situation.

These two groups have been paying close attention to the problems associated with massive short term international capital movements; as the house will recall, both the President of the United States and the Prime Minister of the United Kingdom have recently called public attention to the problems that are involved. Over the years Canada's difficulties in deciding upon and pursuing an effective exchange rate policy have been entirely bound up with the problems of capital movements. If we can achieve a better international understanding of these problems, and devise new international techniques for dealing with them, we shall all benefit.

In summary, therefore, our objective is to achieve an exchange rate for the Canadian dollar which will contribute to a better balance in our current account position and to substantially higher rates of domestic production and employment. We will strive to attain this goal through a combination of financial and general economic policies which will encourage Canadians to meet their capital requirements more fully from domestic sources.

Experience over the past few years suggests that there is sufficient resiliency in Canadian industry, whether producing for export markets or for the domestic market, to bring about the necessary adjustments in our foreign trade balance. This judgment is, I think, supported by the fact that although we are running a very heavy deficit in invisible transactions, we have been able, with variations from year to year, to move from a peak commodity deficit of $728 million in 1956 to less than $150 million in 1960. For the coming year we can foresee a possible surplus on external commodity account which, we believe, should be substantially enlarged through the policies we are pursuing.

We have the material means—the manpower, the resources and the industrial capacity—to obtain these results within a reasonable period of time. But the responsibility for attaining them does not rest with government alone. Indeed, they can only be reached if there is a maximum effort on the part of every segment of the Canadian community, from business and labour. We will have to produce the right goods at the right prices in competition with energetic and competent suppliers from every continent. I urge Canadian producers, encouraged and assisted by the policy measures which I am proposing in this budget, to respond fully to this compelling challenge. In this way we will attain expanded levels of efficient production and create new opportunities for the profitable employment of our growing labour force.

INTERNATIONAL TRADE AND COMMERCIAL POLICY

I now turn to consider the main developments in our external trade relations. In perhaps no other field of our economic life are events moving more quickly or dramatically. With new regional trade groupings either established or in the process of being created, Canada is confronted with fresh challenges and the need to adjust to them. In the face of these developments, and against the background of the recent slow down in our rate of economic growth, the government has been urged from various quarters to alter radically and immediately our traditional commercial policy. In some quarters it has been advocated that we should move toward economic self-sufficiency supported by a highly restrictive trade policy. Others would have us alter our course sharply in the opposite direction by merging Canadian industry and agriculture in some regional economic grouping. In these circumstances it would seem timely to examine afresh the major tenets of our commercial policy objectives.

Let me say at the outset that I reject categorically these extreme positions which are being urged upon us. These are counsels of fear and even despair. Attempts to isolate ourselves from the trading world through the imposition of trade barriers would do irreparable damage to the Canadian economy. It would mean a loss of markets and the stagnation of our most efficient export industries. Standards of living of the Canadian people would decline and our economy would atrophy. It would mean running counter to the whole trend of international economic policy in the major trading countries. It would lead to regional disunity at home and a weakened voice at international council tables.

Nor can I see any gain for Canada in abandoning our present broad trade relationships in favour of joining a regional trade grouping. We shall, of course, have to adapt to changes in the world around us and be alert and flexible in meeting new challenges and opportunities as they arise. For the present at least the situation is much too unsettled to consider seriously a sharp reorientation in our policies along these lines.

Today our foreign trade and other economic ties link us to all parts of the world. With the attainment of convertibility and the removal of quota discrimination against our goods, there are increasing opportunities to extend our markets in many directions. I find it hard to see how, in our particular circumstances, a discriminatory alignment with individual countries or regional groups can help us to diversify and expand our foreign commerce, or fail to do damage to our trade relations with countries against whom we would be turning our backs. Nor have I been convinced that a sweeping elimination of our tariffs in relation to any existing trade grouping can be reconciled with a healthy secondary industry or the balanced growth of the Canadian economy.

I do not believe that the economic problems which confront Canada today require a drastic redirection of our trading relationships; or that these problems cannot be overcome by a vigorous pursuit of our present trading policies judiciously adjusted to meet changing world conditions.

What then are the commercial policies we intend to pursue? Our broad objectives in the trade field have been stated in unequivocal terms on earlier occasions. They are clear.

1. To achieve expansion, diversification, better balance and greater stability in our over-all trade and in our trade with commonwealth and other countries.

2. To support and promote a regime of law and order in international trade; to respect our international commitments; and to stand ready to defend our rights and interest.

3. To recognize the legitimate needs of Canadian producers; to safeguard them against unfair trading practices; and to promote the balanced growth of all sectors of Canadian industry and agriculture.

These have been the guiding principles and objectives in our foreign trade relations since this government took office four years ago. I believe that they are the right policies to pursue today.

Looking back I believe that we can derive considerable encouragement from the success we have had in moving toward these aims. Our exports in 1960 were the highest in our history. The deficit in our external commodity trade for the year 1960 was less than one quarter of the peak level of 1956. Imports are no higher than four years ago and, speaking broadly, our domestic industries are supplying a higher proportion of a growing domestic market. Our trade with individual countries is in better balance and we have enjoyed a gratifying measure of diversification in our export trade both in terms of products and destination.

Looking ahead I am confident that a continued and vigorous pursuit of these objectives will lead to further successes despite the difficulties and uncertainties that exist in several important areas of world trade. As the very high levels of business investment of recent years bear increasing fruit in the form of increased export and import-displacing production, we can look to increasing surpluses in our external commodity trade accounts and reduced deficits in our current account balance of payments.

The movement to a better trade and payments balance will be substantially enhanced as we achieve an external value of the Canadian dollar more appropriate to our present economic situation.

We live in a country rich in many resources, natural and industrial, a country capable of producing many products in great quantity and at competitive prices. Our high standard of living has always depended in large measure upon our ability to sell in world markets the products in which we excel in exchange for those in which other nations have special advantages. It is self-evident that a country which depends on foreign trade for one quarter of its national income must seek to maintain the widest possible system of world trade and payments, a code of international practice to govern that system, and a reasonably diverse balance of interest among external markets.

For very good reasons, therefore, we have consistently supported the general agreement on tariffs and trade and the international monetary fund, and we shall continue to do so. This, of course, is not to say that we shall pursue a blind or inflexible adherence to the specific tariff bindings incorporated in the GATT agreements where the circumstances confronting particular Canadian industries require that they should be modified. The GATT makes provision for the renegotiation and modification of bound rates of duty and we have found it convenient from time to time to make use of this flexibility. In most cases these changes to bring our tariff up to date and adjust it to the changing needs of Canadian industry have followed comprehensive investigations and reports by the tariff board.

In the past several years we have introduced modernized tariffs for basic iron and steel, pipes and tubes, fresh fruit and vegetables, a large part of the textile schedule, as well as for other products. This evening I shall be proposing further changes affecting textile products, nails and several other items. We regard this task of modernizing the tariff as a continuing process and we have recently enlarged the tariff board to permit it to undertake more tasks and to handle its work more expeditiously. In every case where the tariff items in question were bound under the GATT agreements we have entered into negotiations with the interested countries and reached agreements satisfactory to both sides. We have endeavoured through this system of selective tariff adjustments to allocate the available protection to those products and industries which would improve the over-all efficiency of the economy and maximize production and employment in Canada. This, of course, has meant tariff decreases for some items to offset increases for others with no over-all increase in the incidence of protection.

We have pursued Canada's trade interests in the commonwealth through the commonwealth trade and economic conference and other commonwealth meetings, as well as through direct discussions with the United Kingdom and other commonwealth countries. We maintained a close contact with the previous United States administration in economic affairs and have already established an intimate and friendly working relationship with the new administration. We had a particularly valuable meeting of the joint ministerial committee on trade and economic affairs in March in Washington followed by visits to Ottawa of the United States secretaries of agriculture and the interior and then the visit of President Kennedy.

An important part of our success in achieving greater diversity and a better geographical distribution of our export trade has been associated with a substantial increase in our exports to the United Kingdom and continental Europe in recent years. Naturally we are intensely interested in the nature and direction of the regional trading arrangements in which these countries are participating.

The six continental countries comprising the European economic community have agreed upon a common external tariff to be established in stages over the next ten years or so. In accordance with the GATT rules governing customs unions, these countries have had to renegotiate their previously bound tariff rates in order to maintain the balance of their trading arrangements with other members of the GATT. This renegotiation has now been substantially completed in the current tariff conference at Geneva. I can now report that as far as Canada is concerned good progress has been made in these renegotiations although discussions on certain important agricultural and other products are still continuing.

In mid-May the countries participating in the tariff conference decided that the renegotiations with the Six had proceeded far enough that a date could be set for the opening of the fresh round of general tariff negotiations in Geneva which were first proposed by the present secretary of the United States treasury and have thus become known as the Dillon negotiations. The general negotiations began on May 29th. Canada is participating in these negotiations. It is our hope that they will result in the further reduction of tariff barriers against Canadian exports. In particular, one would like to see the reduction of the tariffs of such powerful industrial areas as the United States and the European economic community where present levels of protection on many products are still, in our view, inappropriately high.

In earlier years when the countries of western Europe were reconstructing their war-torn economies, Canada extended to them the full benefits of tariff concessions and generous access to our markets despite the fact that these countries were applying discriminatory trade restrictions against our exports in order to conserve their limited exchange reserve. Restrictions and discriminations have now largely disappeared, at least in the industrial sector. Now that these countries have regained their economic and financial strength we would like to see the remaining restrictions removed, including the restraints in the agricultural sector. We would also regard it as especially appropriate for those countries which are in a strong competitive position to take advantage of their favourable trade and payments position to reduce their tariffs and provide fuller opportunities for an expansion of world trade.

The United Kingdom government is increasingly concerned about the dangers it sees in remaining outside the European economic community of the Six, and is actively engaged in seeking a basis upon which it could join this grouping. The United Kingdom has not yet taken a decision but has indicated that should a decision be taken to negotiate with the Six there would have to be arrangements to take into account the essential trading interests of commonwealth countries. For our part we have made it very clear that vital Canadian trade interests would be affected by such a move. Other commonwealth countries have expressed similar concern.

The Canadian government has kept in continuous contact with these developments in Europe. The time has now come when full consultations on a ministerial level are required. The United Kingdom has proposed that the secretary of state for commonwealth relations should come to Canada for this purpose and arrangements are being made for such a visit in the near future. The effectiveness of this consultation will depend, of course, on the extent to which the United Kingdom is able, in advance, to provide us with specific information. While such consultations on a bilateral basis are clearly essential the Canadian government is urging that there should also be full opportunity for joint consultations among all commonwealth countries.

A very high proportion of Canadian exports to the United Kingdom enters that market free of duty, many with the benefit of tariff preferences, some without. Free entry is accorded not only to industrial materials but to agricultural products and nearly all manufactured goods as well. This is of great importance for the volume, diversity, and geographical distribution of our exports.

Moreover, this historic right of commonwealth free access to the United Kingdom market for agricultural products, industrial material and most manufactured goods is the keystone of the commonwealth trading system. Not only for economic reasons, but for political reasons as well, we would not wish to see this system abandoned.

We shall take every opportunity to ensure that the Canadian position is fully understood and our interests protected. We shall follow vigilantly the course of any discussions between the United Kingdom and the Six. Whatever may be the outcome we shall seek to preserve the most favourable terms of access to both these markets, and will pursue whatever policies may be required to achieve this end.

The new organization for economic cooperation and development may well have an important role to play at an appropriate stage in the further consideration of arrangements between the two trading groups in Europe. The house is well aware that the Canadian government has played a full and constructive part in the creation of the O.E.C.D., and we were pleased that Canada was the first country to ratify the new convention. We look to it for increasingly close co-operation in all aspects of economic policy.

We do not believe the O.E.C.D. should detract from the strength and importance of the more broadly based organizations in world trade and international finance; the general agreement on tariffs and trade, the international monetary fund and the international bank for reconstruction and development. Moreover we do not forget that many important trading countries are not members of the O.E.C.D., for example Australia, India and Japan.

Canada's trade with Japan last year reached record heights in both directions. Japan is our third largest market, and our second largest for wheat. Japan is a very efficient producer of a wide range of manufactured products and can make these available in our market at very low prices. The Japanese, however, accept the principle that the growth of their exports of products which compete with our own production should be orderly and that they should avoid market disruption. Their method of applying this principle is through the maintenance of voluntary export restraints. We believe that this system is working reasonably well to permit an orderly expansion of two-way trade with Japan, while at the same time avoiding excessive penetration in sensitive sectors of our markets. Hon. members will recall the statement I made to the house on May 19 outlining the Japanese voluntary controls for 1961.

Other low cost producers, notably Hong Kong, have thus far not been willing or able to apply a similar system, and there have been some rapid increases in imports of a number of textile products. As I reported to the house on May 23, we are urgently seeking an equitable solution to this problem in co-operation with the United Kingdom and the United States. Failing this we shall, of course, have to adopt other methods in defence of the legitimate interests of Canadian producers.

The problem of market disruption or fear of market disruption, particularly in the field of textiles, is widespread throughout the industrial countries. The real difficulties for countries such as Canada and the United States which do not impose import restrictions are unduly aggravated by the maintenance of severe restrictions by many other countries, particularly in western Europe. We are now engaged with the United States and other countries in a co-operative international effort to achieve a more equitable sharing of the impact of the international movement of textiles.

TARIFF BOARD REPORTS AND OTHER TARIFF CHANGES

The rates of duty on most items of significance in the Canadian tariff are, as hon. members well know, bound against increase under our GATT agreements, and have been since 1947. This does not remove all possibility of change, but it does make upward adjustments difficult. A necessary preliminary is to renegotiate under GATT any bindings which are affected by the proposed changes. If tariff increases are proposed, it becomes necessary to find acceptable compensation to offer in exchange. This is no longer easy, as the Canadian tariff has been combed repeatedly for concessions to offer during the successive rounds of negotiations in which Canada has participated.

For that reason I am particularly glad to be able to announce tonight that we have substantially concluded renegotiations which will permit us to implement in this budget the recommendations which were made by the tariff board in the three reports on textiles which it submitted last year. These three reports covered hosiery and knitted goods; narrow fabrics and lace; and wool clothing and manufactures. We are also implementing the recommendations made by the board in its earlier report on record changers, and subject to a modification to which I shall refer later, the recommendations contained in the board's most recent report on nails.

The details of all the proposed changes arising from these tariff board reports are set out in the resolutions which I shall table tonight. In regard to them there are only two comments of a general nature which I wish to make at this time. The first is that if parliament approves these resolutions, the government will be in the position of having implemented, without major change, every tariff board report submitted from the day we assumed office right up to date. My second comment is that such departures from the tariff board's recommendations as have been made or are now proposed will provide, on balance, somewhat more protection for struggling sectors of the Canadian textile industry than they would otherwise have had.

When hon. members examine tonight's resolutions in detail, they will discover four departures from the recommendations made by the tariff board in the various reports on textiles to which I have referred. Two of these departures relate to the items covering hosiery and knitted goods. The tariff board recommended that the most favoured nation tariff on the main knitted goods item be reduced from 35 per cent to 32½ per cent ad valorem, and that the specific component of the compound duty on non-woollen hosiery be reduced from 75 cents per dozen pairs to 60 cents per dozen pairs. However, after reviewing the position of the Canadian hosiery and knit goods industry, the government decided that it would not be desirable to introduce these tariff reductions at this time.

The third departure relates to tapes, ribbons and other narrow fabrics of man-made fibres, which are now classified under several different items at various rates of duty. The board suggested a new item to cover them at rates of B.P. 22½ per cent and M.F.N. 25 per cent. As a concession to the industry, particularly that sector engaged in the production of synthetic tapes and other narrow fabrics now classified under item 562a at higher rates of duty, I propose rates of B.P. 25 per cent and M.F.N. 27½ per cent.

The fourth departure involves a downward modification in a rate recommended by the board. This was introduced in the course of negotiations in order to meet a special problem in our trade with Italy. It involves applying a ceiling of 37½ per cent to the compound duty which the board proposed in respect of travel rugs, so as to avoid an unduly high rate on certain low priced rugs imported from Italy.

The next tariff board report to be considered relates to nails. The board recommended changes in two of the three nail items. These involved a reduction in the ad valorem M.F.N. duty applicable to tacks and small nails, and an increase in the specific M.F.N. duty on large nails, accompanied in the latter case by a smaller increase in the B.P. rate. Thus the board's recommendations, if adopted without change, would result in a small increase in the margin of preference in the one case, and a reduction in the other. The former would constitute a breach of the "no new preference rule" of the GATT. Accordingly we have decided to adopt the board's recommendations regarding the M.F.N. rates of duty, and in each case to introduce a corresponding alteration in the B.P. rate, so as to maintain each of the present margins of preference without change.

Thus far I have referred only to amendments arising from tariff board reports. These comprise the bulk of the tariff changes to be proposed at this time. There are others, and in most cases these too have been the subject of negotiations. They involve negotiated upward adjustments in the rates of duty on eviscerated chicken, paper twine, lawn rollers, hoes, forks and rakes, power lawn mowers, and filmed T.V. commercials. At the same time balance has been maintained in the over-all level of our GATT commitments and in the over-all level of the Canadian tariff by offering equivalent concessions on certain other items. These include pineapple juice, parts and engines for power lawn mowers, parts for cement block-making machinery, and motorcycles. The rate on live poultry is being equalized with that of the United States. It is expected that the effect of the proposed changes, both the increases and the decreases, will be to promote additional production and more jobs in Canada. It is hoped also that the proposed introduction of a minimum duty of five cents per pound on eviscerated chicken will materially assist the Canadian broiler industry, which has long complained of inequities between the Canadian and United States tariffs on its products.

There is also a miscellaneous group of other tariff changes to be found in the resolutions. These involve adjustments and clarifications which are not of general interest but nevertheless are important to those directly concerned. They include cabs on combines. I shall, of course, be glad to provide the house with a full explanation of these changes in the committee of ways and means.

I might add that at the committee stage I hope to be in a position to introduce a supplementary resolution relating to sodium hypochlorite laundry bleach. This product was reclassified in consequence of a recent supreme court decision. However it would seem appropriate to restore and maintain the former rates of duty pending a report by the tariff board on this and other products included in the chemical reference. Accordingly we have initiated negotiations on the matter under the "special circumstances" clause of the GATT, and I expect that these negotiations will be completed in the very near future.

As I mentioned earlier, a general round of tariff negotiations is now in progress in Geneva under the auspices of the general agreements on tariffs and trades and is expected to continue for several months. A number of the requests that I have received for reductions in Canadian tariffs are still under consideration in connection with these negotiations.

FEDERAL-PROVINCIAL RELATIONS

During the past year we have held three dominion-provincial conferences for the purpose of reaching agreement with the provinces on the form of the financial arrangements which should exist after the expiry of the present federal-provincial tax-sharing arrangements on March 31, 1962. At the first of these conferences held July 25-27, 1960, the provincial premiers presented their views. I might add that the financial substance of their proposals could hardly be described as modest since in aggregate they would have resulted in additional federal costs in excess of $2 billion per annum. Despite their rather startling character, these provincial financial proposals were carefully studied and at the conference held October 26-28, 1960, the Prime Minister made certain suggestions.

It had become evident that the tax rental system had certain major defects. It placed the whole responsibility for levying these taxes on the federal government. The provinces took no responsibility for imposing the taxes upon which they depend for revenues nor had they any freedom whatever to amend tax rates in accordance with their current needs. Defects such as these are undesirable at any time, but in a period of rapidly increasing provincial demands and heavy federal responsibilities their effects have been particularly serious. The federal suggestion made at the October conference was that the provinces might consider again imposing their own taxes in the fields of personal income tax, corporation income tax, and succession duties. To facilitate this, the federal government was prepared to recommend to parliament that federal tax rates in the three shared tax fields be reduced at the termination of the present agreements by the existing standard rates. Under the present arrangements which refer to three standard taxes, the provinces receive 13 per cent of personal income tax collections, 9 per cent of the taxable income of corporations, and 50 per cent of succession duties or estate tax, and these standard rates are referred to in abbreviated form as the 13-9-50 formula. Coupled with this suggestion was provision for the continuation of equalization payments to the provinces.

On the basis of the discussion of these suggestions and further intensive consideration, the federal government advanced certain proposals at the dominion-provincial conference of February 23-24 this year. The Prime Minister's statement to the conference was tabled as an appendix to *Hansard* of February 28. It is not my intention therefore to review these proposals in detail at this time except in so far as they have immediate budgetary implications. The main proposals were that the tax rental system be discontinued, that the provinces should impose their own taxes, and that a fairer and more realistic system of equalization be introduced. At the same time the federal government undertook to reduce its income tax rates to a larger extent than was suggested at the October conference. In addition, the federal government is prepared to collect income taxes for any province which wishes to enter into an agreement to this end. In short, it was proposed that the provinces would reassume their constitutional rights and responsibilities to impose and vary their tax levies as they saw fit.

I have mentioned that the proposal made was that a fairer and more realistic system of equalization be introduced. It has always been the contention of this government that equalization payments to the provinces are absolutely essential. Without such payments it would be quite impossible for some of the less wealthy provinces to provide a reasonable standard of services without resorting to taxation far in excess of the national average. There is no question that to preserve reasonable equality in the provision of services across this country we must provide for some equalization of revenues. The proposed new arrangements have therefore been buttressed by an improved system of equalization and special payments which is more realistic and gives greater weight to fiscal need.

In the first place, the special fiscal circumstances of the Atlantic provinces have been recognized anew by the proposal to increase the Atlantic provinces adjustment grants by 40 per cent or from $25 million to $35 million for each of the five years of the new period. Second, it is proposed that the additional grant of $8 million per annum to Newfoundland be continued for a further five years. Third, it is proposed that the equalization formula be broadened to include, in addition to the yield of the three standard taxes, 50 per cent of the three year average of natural resource revenue and that the basis of equalization be changed from the average yield in the two provinces with the highest per capita yield to the national average. Variations as between provinces in resource revenues are a major factor in the financial position of the provinces and the inclusion of this factor in the equalization formula greatly improves the position of the less wealthy provinces. Equalization based on standard tax yields in the top two provinces led in some instances to larger payments than could be defended on the basis of fiscal need. The use of a national average formula as a basis for equalization payments will give adequate recognition to the principle of fiscal need without placing unnecessary demands on the federal treasury.

One further aspect of the federal proposals merits special reference at this time. From 1947 to 1957 under agreements, and since then from year to year without an agreement, the federal government has paid to the provinces half of the federal income tax collected in respect of income derived form the distribution to or generation for distribution to the public of electrical energy, gas or steam by corporations whose main business is such distribution or generation. At the conference we proposed to continue these arrangements for another year. In compliance with the representations of the provinces it is now proposed that this sharing be continued throughout the next five years, that is, sir, during the period of the proposed arrangements. From a federal revenue standpoint, this proposal to continue sharing with the provinces on an equal basis the corporation tax from this source is equivalent to a reduction in federal tax. Under the arrangements now proposed, the provinces will be in a position to complement this federal action by policies which could benefit the industry and the consumers.

The government wishes to spare the provinces the expense of setting up separate tax collection machinery and to contribute as much as possible to simplicity, convenience and uniformity in the tax system. It therefore offered to collect on behalf of the provinces the provincially imposed personal income taxes and corporation income taxes free of charge provided the provincial tax base was identical with the federal tax base at all times. This offer could not be extended to the estate tax since the provinces do not have the constitutional power to levy an estate tax on the federal basis. The federal offer in this instance therefore was that any province not levying succession duties would receive half the yield of the federal estate tax while an abatement of 50 per cent of the federal estate tax would be granted as at present to provinces levying their own succession duties.

The federal offer to collect the provincial taxes free of charge obviously leaves the provinces with freedom and flexibility to impose their own rates of tax, a freedom they were denied under the rental system. At the same time it encourages them not to complicate the task of the taxpayer. At a later date, after the necessary legislation has been put before parliament and approved, it will be possible to work out the precise terms of tax collection agreements with those provinces which wish to avail themselves of the federal offer.

The proposal to return to the provinces the responsibility of levying taxes on the income of individuals and corporations was accompanied by a promise that the federal government would ask parliament to provide for reductions in the federal rates of tax. In the case of the corporation tax, the federal reduction is to equal the abatement of 9 per cent of taxable income now granted. In the case of the personal income tax, the reduction is to increase by one percentage point each year from 16 per cent of the level of federal tax which would otherwise prevail in the first year, to 20 per cent in the last year. The provincial share of the yield from the personal income tax will thus rise by the final year of the agreement to exactly double the level of 10 per cent in effect when the present government came into office in 1957. The provinces will of course be quite free under this system to reap higher yields by imposing higher rates of tax if they choose to do so.

I have spoken of the advantages to the provinces of the freedom and flexibility which the new arrangements can bring. From the federal standpoint there are also great advantages. It will mean that the federal government will no longer have to impose rates of tax high enough to meet the demands of provincial expenditure. The federal budget will no longer be inflated by what are essentially taxes for provincial purposes. It will mean very substantial reductions in the rates of federal tax.

I should like at this point, if I have the permission of the house, to insert in *Hansard* a table showing the amount of the federal contributions to or for the benefit of the provinces for the last five years together with the estimated amount for the year 1961-62.

Mr. Speaker: As the minister advised, he has three tables which he wishes to have inserted. Perhaps the house will give its consent to the inclusion of all three without his having to mention the other two.

Some hon. Members: Agreed.

[*Editor's note: The table referred to above, follows:*]

TABLE 1

FEDERAL CONTRIBUTIONS TO OR FOR THE BENEFIT OF THE PROVINCES
(in millions of dollars)

	1956-57	1957-58	1958-59	1959-60	1960-61 (preliminary)	1961-62 (estimated)
A. Unconditional payments—						
1. Statutory subsidies..........	22.8	22.0	21.6	21.4	21.0	23.1
2. Tax abatements (estimated).	157.3	275.6	275.1	313.8	303.7	323.5
3. Tax rentals..................	365.9	213.9	249.0	279.7	288.7	298.8
4. Equalization (including stabilization..................		139.5	149.1	180.7	191.2	191.6
5. 50 per cent share of income tax on power utilities..........	6.6	7.4	8.7	4.8	4.2	6.0
6. Atlantic provinces adjustment grants..................	—	—	25.0	25.0	25.0	25.0
7. Term 29 award (Newfoundland)......................	—	—	13.6	7.3	7.7	8.0
Sub total...............	552.6	658.4	742.1	832.7	841.5	876.0
B. Conditional payments—						
8. Agriculture..................	0.9	1.0	1.9	6.7	3.7	2.0
9. Health......................	36.4	34.6	45.9	46.0	48.0	45.4
10. Hospital insurance...........	—	—	54.7	150.6	189.4	274.5
11. Welfare......................	38.4	48.2	74.1	90.9	103.1	96.0
12. Vocational training, etc......	4.7	4.8	8.1	8.4	8.8	27.3
13. Highways and transportation.	26.9	50.9	53.7	56.7	48.7	54.1
14. Resource development.......	2.7	4.3	8.7	15.3	17.9	21.2
15. Municipal winter works......	—	—	0.2	6.6	8.9	26.9
16. Other......................	1.0	1.0	1.1	1.6	3.0	2.6
Sub total..............	111.0	144.8	248.4	382.8	431.5	550.0
C. Payments for the benefit of Provincial Institutions—						
17. University grants...........	16.0	16.6	25.5	26.1	19.0	19.4
18. Grants to municipalities in lieu of taxes on federal government property..........	9.7	17.5	21.9	22.6	24.5	24.7
Sub total..............	25.7	34.1	47.4	48.7	43.5	44.1
TOTAL.............	689.3	837.3	1,037.9	1,264.2	1,316.5	1,470.1

Mr. Fleming (Eglinton): The total of these payments and abatements has risen from $689.3 million in 1956-57 to $1,470.1 million in 1961-62, or more than double. Included in this total is an estimated amount of $298.8 million for tax rentals in 1961-62. This amount includes $13.5 million for rental or succession duties which will not be eliminated under the proposed collection agreements, but even allowing for this and assuming a modest growth in tax yields, the change to a tax collection system will remove more than $300 million from the federal budget next year which will be the first year of the new five year period. I am accordingly submitting proposals tonight to reduce federal taxes effective January 1, 1962, by $300 million per annum.

INCOME TAX

I shall proceed now with tax changes. I have already referred to the principal considerations of policy which motivate this budget. The general levels of taxes are not being altered at this time. I am bringing forward some important amendments, however. Aside from the reductions of income taxes connected with our undertakings to the provinces, with which I have already dealt, I am providing for tax reductions to the extent of about $100 million in a full year. I am also proposing several new measures pertaining to the structure of the tax laws. The various amendments are intended to improve the conditions of industry, to provide additional employment and to contribute to the general welfare. Some of them will further the efficiency and the equity of the tax system.

Reduction of the exchange rate will provide new and significant price advantages to goods made in Canada in comparison with those made in other countries. More than any other policy that could be adopted, a lower exchange rate will be of signal assistance to all of our producers, both in primary and in secondary industries, to those who export as well as to those who sell at home. It is for Canadian industry now to make the most of the new opportunity which is theirs. As I have already explained, the benefits of a lower exchange rate take the form of price differentials and they tend in time to disappear. Thus these benefits are at a maximum during a limited period of time.

Many of our industries are at present competing in fields in which large portions of domestic needs are being supplied by imported goods. Frequently the Canadian manufacturer is capable of extending his market greatly with improved efficiency, with lower costs of production and with more competitive prices. This is as true of markets abroad as of those at home.

It is of the utmost importance that Canadian manufacturers should extend their markets. More than anything else, the government is concerned about employment. To secure a maximum increase in employment it is desirable, I should say essential, that every industry, every business and every labour organization should give renewed thought to the increase of productivity, the improvement of efficiency and the competitiveness of costs and prices. This is the constructive and effective way to deal with the problem of employment in our free enterprise economy.

Many of our major industries are well equipped, up to date and fully competitive with those of other countries. Huge capital investments have been directed to this end. Other industries are not at present as well able to compete for business at home and abroad. Probably every enterprise in the country is capable of doing more than at present and of doing it better.

Frequently, the most difficult aspect for an individual business to undertake unaided is the financing of expensive new capital installations, including machinery, equipment and buildings. The government has decided to give help at this point by introducing an allowance for re-equipment and modernization.

This special incentive will take the form of a 50 per cent increase in the first year in the rates of capital cost allowance applicable to new assets acquired for use in Canada from tonight until March 31, 1963. This special allowance will be available in respect of all depreciable assets which are eligible for depreciation by the diminishing balance method. A business will be permitted at its own option to take advantage of this substantial tax concession to the extent that its investment during a taxation year on new depreciable assets for use in Canada is in excess of its expenditure on such assets in its last complete fiscal period that ended before tonight, or in excess of the average of its expenditures in that period and its two immediately preceding fiscal periods.

The purpose of this latter limitation is to provide the desirable incentive at a minimum cost. As any businessman would do, I am trying in this case to obtain a maximum result in return for treasury dollars. By applying the re-equipment and modernization allowance only to expenditures in excess of those in a recent base period, I am attempting to establish a rule by which to make this valuable concession available to those who are genuinely increasing the level of their investment in new depreciable assets but not to that large total of depreciable assets most of which would have been acquired in any event.

As far as new companies and new operations are concerned, it has been decided that the same formula should apply as in other cases. A new company, for example, will be able to claim the special allowance with respect to the whole of its investment in new depreciable assets for use in Canada since it has made no comparable investments in former years. On the other hand, the Department of National Revenue will be empowered to withhold the re-equipment and modernization allowance in cases where existing operations are split up into new ones merely for tax-defeating purposes. Capital cost allowances will continue as before to be limited in total by the cost of acquisition. They are not to exceed 100 per cent.

Hon. members are familiar with the new program which was inaugurated in the supplementary budget of December 20, 1960. Double depreciation for the first year or its equivalent in a later year was offered with respect to capital investments for products which are new to Canada as a whole or to designated areas of surplus manpower. As is usual with such matters, interested persons took some time to consider the possibilities in relation to their own affairs and their own plans. Following a time lag that was not unexpected, an increasing display of interest is being shown on the part of potential manufacturers of new products. Since the announcement of the regulations covering the plan, close to 300 inquiries had been received by the Department of Trade and Commerce by the end of May. Furthermore, interest in the program has increased in recent weeks as reflected by the fact that the number of applications received by the Department of

Trade and Commerce doubled in May, compared with March and April combined.

Applications for accelerated depreciation have been made by firms producing a wide variety of products. These include chemicals, steel, textiles, electronics, plastics, foods and other products. Thus, a representative cross section of Canadian secondary industry is seeking to take advantage of accelerated capital cost allowances under the December program. Some firms are establishing new plants, while others are enlarging their present facilities in order to make new products and thus diversify their output. These enquiries and applications have been made by firms located in many regions of Canada. The value of the assets covered by these applications exceeds $27 million. We anticipate that a steady increase will occur in the number of applications as businessmen develop a better understanding of the program.

Considering the fact that this program has been in effect a limited period of time, the government is pleased with its acceptance to date. The new projects resulting from the program will create additional employment in the industries supplying the new plants and facilities. Further, there will also be additional jobs for those working in the new plants. Another benefit is that new products are likely to be introduced which should make a useful contribution to further diversification of our secondary industries.

It is not intended to modify or amend this double depreciation program. Rather it is intended that the new re-equipment and modernization allowance can be claimed in addition by those who qualify for double depreciation in either the new product or the new designated area categories.

In the conditions that exist today, scientific research is to be assigned a top priority of urgency and importance. It must play an increasing and indispensable part in all sections of industry and in many aspects of every day life. Much has been done in the laboratories maintained by the government, both in basic and applied research and in development. In addition, the federal government has given greatly enlarged assistance to universities and private industry to stimulate scientific research and it will be giving more. If Canada is to maintain its due place in the world, advances must be made in these fields of science. I am proposing to extend the deductions now allowed to taxpayers in respect of expenditures on scientific research undertaken in Canada. These are already extensive but it now seems appropriate to take further steps in this direction as part of the government's program to assist Canadian business to be efficient and up to date.

Canadian industries, particularly the subsidiaries of foreign companies, are too dependent on research done abroad. The government believes that more industrial research should be done right here in Canada. The measures being introduced tonight are designed to stimulate industrial research in our own country.

The Income Tax Act now provides that expenditures of a capital nature made on scientific research in Canada may be fully written off in three years. I am proposing that henceforth taxpayers be allowed if they wish to deduct such expenditures in full in the year incurred.

The act now provides that amounts deducted under the provision dealing with scientific research shall be limited to 5 per cent of the taxpayer's previous year's taxable income unless the research program has been approved by the Minister of National Revenue with the advice of the national research council. Although in practice approval is normally given, I believe that a modification of this requirement will give encouragement and certainty to taxpayers who are planning to increase their scientific research programs. I am accordingly recommending removal of this limitation with respect to expenditures so far as it affects current expenditures.

Finally, I am proposing that taxpayers be permitted a deduction from income in respect of expenditures on scientific research made at one stage removed, that is, in respect of amounts paid to a foundation established for the purpose of expending all its resources on scientific research in Canada.

I turn now to some rather different problems that have attracted an increasing amount of interest and concern. It has been concluded that the next major step in the private pension field should be to use the resources of government to encourage and assist the more widespread expansion of private pension plans on a secure basis. It is desirable that those who have been employed throughout their working years should be able to retire without fear of want. Having in mind the extensive provision now available to meet these needs through private pension plans it is important to ensure that such plans are generally available and adequate. To these ends, action is required at the appropriate government levels to fulfil two objectives, namely to protect the solvency of private pension plans and to help promote the portability of pensions. The house will recall that on May 9 and on May 24, 1960, I drew attention to the fact that federal jurisdiction in this field is limited. While there is a confined area within which the federal government has powers there are wider areas of provincial jurisdiction.

By the portability of a pension is meant the ability of a worker to accumulate a pension throughout his working lifetime even though he may change from one pensionable employment to another, perhaps on successive occasions. The government is concerned about persons who have worked with more than one employer but who on retirement can receive pensions based only on their service under the pension plan of their last employer. The income after retirement of those affected is a matter of great importance. In addition, the inability to carry pension rights away from a job, that is to say the absence of portability, may deter workers from transferring to more productive jobs. The portability of pensions may serve in a very constructive way as a stimulus to the productivity of the whole economy, by providing the individual worker with a wider range of free choice in seeking employment. In due course a contribution will be made by this means to increased employment.

In addition to these problems there is another which, fortunately, has seldom confronted us in recent years, namely the solvency of pension funds. The most important single requirement of a private pension plan is quite obviously that the requisite funds should be on hand when needed to pay the pensions. The insolvency of a pension fund could just as well prove to be disastrous to an employee who had spent all his working life with one employer as to another who changed his employment frequently.

The expansion of pension plans in the last 25 years has been phenomenal. In 1959 there were over 10,000 such plans in Canada of which 90 per cent were handled by insurance companies or the annuities branch of the Department of Labour. The remainder were trusteed plans where the contributions are deposited with a selected trustee for investment. Although constituting only 10 per cent of the number of plans, the trusteed plans in 1959 covered almost 1 million employees or 61 per cent of all employees under pension plans and their assets represented 64 per cent of the total.

As hon. members are aware, these pension plans are accorded valuable income tax concessions provided they are registered for this purpose with the Department of National Revenue. In general, tax deferral is granted during the period of accumulation and the pension benefits are taxed as personal income as and when they are received.

I doubt very much whether it is as well known as it should be that the federal government does not supervise or control the solvency of private pension funds; neither do the province, aside from establishing certain statutory responsibilities of trustees which pertain to only a small portion of this problem. These observations do not, of course, apply to pension plans whose detailed benefits are covered by a contract with an insurance company which guarantees the amount of pension to be paid in return for the contributions made by the employer and employees. There is, however, no governmental supervision to ensure that the assets of other plans are being accumulated at an appropriate rate to meet the future liabilities of those plans. Among these other plans I include both trusteed plans and those plans where an insurance company enters into a deposit administration contract and simply receives contributions on deposit without entering into a contract to pay specific amounts of annuity.

I should make clear at once that there is no necessity and no intention to cast doubts upon the vast majority of private pension plans which are efficiently and conscientiously administered by insurance companies and by personal or corporate trustees. What is projected is a degree of supervision of trusteed pension plans, in the public interest, comparable in some respects with the supervision traditionally exercised over insurance companies. Many people may be surprised to learn that no such supervision has existed in the past.

I warmly welcome the growing indications of provincial interest in this field. The governments of both Ontario and Saskatchewan have recently given evidence of their concern. The government of Ontario has indicated its desire to discuss this question with the other provincial governments and the federal government during the coming months. This interest of these provinces is particularly important because of the constitutional aspect of the problems.

This government shares the view that a joint federal-provincial approach should be made. To this end the government intends to arrange consultations with any interested provinces to give further definition to such a program and thus to provide encouragement for the more widespread establishment of pension plans. Accordingly, I am announcing at this time that the federal government has decided to seek the co-operation of the provinces in a program to deal with the solvency and portability of private pension plans.

Mr. Martin (Essex East): Two years too late.

Mr. Fleming (Eglinton): Better two than 22.

In the March, 1960 budget I announced the intention of the government to introduce legislation to incorporate a new approach to the taxation of employees' profit sharing plans. Hon. members will recall that a bill dealing with the taxation of deferred profit sharing plans was given first reading only. This course was followed in order to give full opportunity to all interested citizens and organizations to study this complex issue.

The interest shown in the proposals introduced for study last year has been most gratifying. The briefs, letters and comments I have received have been of great assistance in preparing the legislation which I am now proposing. The substance of last year's draft bill will be brought forward, with several alterations and improvements, into this year's bill to amend the Income Tax Act. The legislation will provide that an employee will not be subject to income tax on amounts contributed to a profit sharing plan on his behalf by his employer until actually received as proceeds from the plan. As I stated last year, the improved facilities provided for employees' profit sharing plans will constitute an important piece of social legislation and provide fresh opportunities for labour and management to work out new forms of co-operation amongst themselves.

If parliament approves the recommendation for deferred profit sharing plans it will greatly increase the number of cases where an employee may receive a lump sum payment representing accumulated earnings which have not borne tax. If a taxpayer becomes a non-resident before receiving these payments there is at present no provision for levying a tax. This incentive to become a non-resident for a short time in order to gain a tax advantage should be removed. I am proposing that lump sum payments which represent deferred remuneration earned in Canada be regarded as income earned in Canada. This will apply only to lump sum payments. On the other hand, pensions paid to former Canadians who have become residents of other countries will continue to be free of Canadian tax.

There will be several amendments to the personal income tax designed to give relief. Last year this house approved a proposal to increase substantially the maximum amount of medical expenses for which a deduction may be claimed in arriving at taxable income. I believe that the amounts now deductible are sufficiently high to give full relief to most taxpayers who have incurred extraordinary medical expenses, but I am impressed with the intolerably heavy burden being borne by a small number of taxpayers whose expenses are in excess of the present limits. A single motor accident, for example, may cause a taxpayer more extraordinary medical expense in one year than another taxpayer would incur in a lifetime. Since the whole purpose of the deduction for medical expenses is to give relief to those taxpayers whose ability to pay income tax has been reduced by extraordinary expenses, it seems both logical and fair to remove the limits entirely, and I am so recommending. I am also proposing that the cost of an instrument which assists those who have suffered from cancer of the throat, an electronic larynx, be classed as a medical expense.

An intensive review is being made by the United States tax authorities of the treatment for tax purposes of contributions by residents of the United States to charitable institutions in other countries. During the past year there have been expressions of concern by Canadian universities and by their graduates and other supporters in the United States that the existing system might be changed to their detriment as a result of this review. In the past donations made through a United States corporation to a charitable institution in another country have been treated as deductible for purposes of taxes in the United States. There has never been a corresponding privilege in our income tax law, although there are, of course, residents of Canada who make contributions to universities and other charitable organizations in the United States. Because of the particularly close relations between Canada and the United States it is desirable and feasible to permit some exceptions to the general rule which denies a deduction in respect of donations to charitable organizations located outside Canada. Thus our income tax convention with the United States provides some limited exceptions and our estate tax convention with the United States recently approved by the house, contains a more general provision for ignoring the border as far as charitable organizations are concerned. We have accordingly notified the United States authorities that whenever they are ready, Canada is prepared to enter into negotiations to amend the provision of the income tax convention that deals with charitable donations. In the meantime, it is understood that the United States authorities are aware of the close relations between universities in one country and their graduates and friends residing in the other and are anxious to maintain and foster these traditional relationships.

In the 1960 budget speech I drew attention to another matter which was marked for special study during the year. This was the problem of the taxation of corporation surpluses and the designation of surplus under section 28(2) of the act. I appreciate the many carefully considered observations and suggestions that have been submitted in answer to my request. With the assistance of these submissions members of the Department of Finance and the Department of National Revenue have been engaged in a comprehensive study of these provisions of the income tax law. This study has not yet advanced to the stage where

I can place specific proposals before parliament. This subject will continue to receive close attention during the coming year.

I am proposing a comprehensive overhaul of the definition of a personal corporation and the rules for taxing shareholders of such corporations. A personal corporation is one used to hold the investments of the individual and persons related to him. All the income of such a corporation is deemed to be distributed to its shareholders each year. It has become apparent that this legislation contains some anomalies and some provisions which are lacking in clarity. I have reached the conclusion that the time has come for a revision of this complicated piece of legislation. Some of the proposed changes will be relieving. For example, I am proposing amendments concerning the right to carry forward losses and the option to compute tax in a special way on the recapture of capital cost allowances. These are introduced in response to requests that income received through a personal corporation should be granted the same tax treatment as income received directly. Other changes will be designed to prevent personal corporations being used to split income with members of a taxpayer's family and to thwart devices for postponing tax on income from investments.

Hon. members are aware of the many ways in which the income tax law provides incentives to taxpayers to develop our natural resources. At present, in addition to corporations whose principal business is mining or producing petroleum or natural gas, corporations whose principal business is processing mineral ores and metals recovered therefrom are allowed to deduct expenses incurred in exploring and drilling for minerals, oil and gas. I am proposing to extend these incentives by permitting companies whose principal business is fabricating metals to deduct such exploration expenses. In future, therefore, these companies will have a greater incentive to search for their own supplies of raw materials.

Other amendments proposed for natural resource industries will permit a mining, petroleum or natural gas company to deduct preproduction expenses incurred by a former subsidiary.

Our income tax law must be continually reviewed and adjusted not only to provide appropriate encouragement to the legitimate needs of taxpayers but also to achieve equity among them. The government has become increasingly concerned over the evidence of abuse by some taxpayers of the provisions for the deduction of amounts expended for the purpose of gaining income from a business. The question is to what extent amounts spent by a firm for the entertainment of its customers and the travelling expenses of its employees are really required in order to gain income. Since ours is a free enterprise economy, our income tax law assumes that the businessman is the best judge of the extent to which he should incur expenses of this nature, and naturally the government has been reluctant to recommend, and parliament to impose, rules that would restrict him unduly in this respect. However, the government has no intention of allowing so-called "expense account living" to thrive and I am consequently serving notice that in future the allowance of expenses of this nature will be subject to more intensive scrutiny. I am hopeful that more stringent legislation will not prove to be necessary.

One of the most important factors affecting the income tax status of a person, either individual or corporate, is the determination of his country of residence. I am proposing that a corporation incorporated in Canada which is carrying on business in this country be deemed to be resident here. I am also proposing that the provision deeming an individual who is a member of the military or public services on duty outside of Canada to be a resident shall extend to his wife and dependent children so that they will have the same tax status.

Finally, I am proposing that volunteer firemen be relieved of income tax on amounts up to $300 per year paid to them to cover expenses they incur while engaged in fire-fighting duties.

SALES AND EXCISE TAXES

I am proposing a number of changes in commodity taxes. The first of these concerns the structure of the tax on cigarettes imposed under the Excise Act. This tax is levied at the rate of $4 per thousand for cigarettes weighing not more than 2½ pounds per thousand. If cigarettes weigh more than this limit the tax is $5 per thousand. I am recommending that this dividing point where the higher rate of tax commences to apply be raised so that in future cigarettes may be manufactured weighing as much as three pounds per thousand before becoming subject to the higher rate of tax. This will permit manufacturers to increase the amount of tobacco in each cigarette without becoming liable for a higher tax. I am assured that this will lead to a signifiant increase in the amount of tobacco used in the cigarette industry. This will bring substantial benefits to Canadian tobacco growers. In order to give all cigarette manufacturers time to make any necessary modifications in their equipment to take advantage of this change the amendment will not become effective until January 1, 1962.

With the exception of the taxes on tobacco products and wines, most of the taxes imposed under the Excise Tax Act are on an ad valorem basis. A tax in this form at the rate of 10 per cent or 15 per cent amounts to a very small amount per article where the taxable items are manufactured or imported at a very low price per unit. I have reached the conclusion that greater uniformity in the amount of tax on a number of items is desirable, especially as between imported and Canadian manufactured commodities. For this reason I am proposing that the present 15 per cent ad valorem excise tax on electronic tubes for radios, television sets and record playing devices be modified to provide that the tax shall in no case be less than 10 cents per tube. Similarly I am proposing that the 15 per cent ad valorem tax on radios shall bear a minimum of $2 per radio and the 10 per cent ad valorem tax on mechanical lighters shall be not less than 10 cents.

Turning to the sales tax, I am proposing several technical changes for clarification and also a number of exemptions from tax. These new exemptions, which are intended to recognize new products and technological changes, include laminated timber for bridges purchased by municipalities, self-propelled forage wagons for farm use, a new kind of casing used for seismic tests in oil and gas exploration and propane tanks for use with furnaces.

In addition to taxes on commodities, the Excise Tax Act contains a provision for imposing a 10 per cent tax on insurance premiums when insurance is placed with non-authorized insurers. There appears to be an increasing tendency on the part of non-resident corporations carrying on business in Canada, and also Canadian corporations which are controlled outside of Canada, to arrange their fire and casualty insurance in respect of risks in Canada either with insurers which are not authorized to transact the business of insurance in Canada or with insurers that are so authorized but through agents or brokers located outside Canada. Undoubtedly these practices stem from a desire to make all insurance arrangements at the head office of the corporation or at the head office of the parent corporation, as the case may be, rather than from any lack of adequate insurance facilities in Canada.

Since the practices referred to result in loss of insurance business that would otherwise be transacted in Canada and some loss in tax revenue otherwise payable to Canada, it is proposed as a first step to amend the provision of the Excise Tax Act which at present imposes a tax of 10 per cent of premiums paid by Canadian residents to unauthorized insurers in respect of insurance of property in Canada. The amendment will extend the tax to make it apply to all classes of insurance, whether of property or not, subject to certain exceptions. The exceptions proposed will be marine risks, as at present, life insurance, personal accident and sickness insurance and, to the extent that such insurance is not available in Canada, insurance against nuclear risks. The practice of arranging insurance of risks in Canada through non-resident agents and brokers is currently being studied and further steps, if found necessary, may be taken to curb this undesirable practice.

ESTATE TAX

I am not proposing any amendments to the Estate Tax Act this year. This act, originally passed in 1958 and amended last year, appears on the whole to be working satisfactorily. There have been a few representations suggesting changes, and these have been given careful study, but I believe that more experience with the law as it stands would be desirable before further amendments are made.

THE ROYAL COMMISSION ON THE AUTOMOTIVE INDUSTRY

Last August the government appointed Professor V. W. Bladen as a commissioner to inquire into the problems of the Canadian automotive industry. May I now, on behalf of the Prime Minister, and with the consent of the house, table copies of his report in French and English.

The most complex of the recommendations are those relating to the tariff rates on vehicles, and parts and components for assembly into vehicles. Hon. members will recall that the structure of our present automotive tariff schedule, which took shape a quarter of a century ago when Canada was a large exporter of vehicles, presents the following features. The rate against complete vehicles is 17½ per cent when imported from countries eligible for most favoured nation tariff rates, but free when imported from British countries. Most parts may also be imported free from British countries, although little use has been made of this provision. When parts are imported from M.F.N. countries they are subject to duties ranging from 17½ per cent to 25 per cent; but many of these parts may nevertheless be imported duty free, even from M.F.N. countries, if they are not made in Canada and if the Canadian manufacturer uses them in producing vehicles that attain specified levels of commonwealth content.

Professor Bladen proposes that we should build upon, but substantially develop and modify, this system. The essential features of his proposals in the tariff field are as follows. A tariff of 10 per cent should be imposed against imports of both parts and vehicles from British sources, while present tariff rates against vehicles and parts from M.F.N. countries, ranging from 17½ per cent to 25 per cent, would remain in effect. However, a manufacturer could, under this system, "earn" free entry not only of parts but also of vehicles by achieving or arranging a sufficiently high volume of production in Canada; this production, which could be of completed vehicles or of parts, might be sold in Canada or abroad. For example, exports of particular parts or vehicles from Canada to other countries would earn, for a manufacturer, free entry for other parts or vehicles. Thus, it is argued, the Canadian industry would be more effectively integrated with industry abroad, and the economies of longer runs and greater output would be available here. The objectives would be higher production and more jobs in the Canadian automotive industry, combined with lower prices for Canadian consumers. These goals involve the general expansion, not restriction, of trade in motor vehicles and parts.

The government warmly approves these objectives, and it is grateful to Professor Bladen for the constructive and imaginative suggestions that are embodied in his report. Nevertheless, his recommendations relating to tariffs are complex and sweeping, and would require extensive readjustments in the industry. It is essential that those concerned, both management and unions, should have an opportunity to assess not merely the objectives but the desirability and practicability of the means by which these objectives are to be obtained. Accordingly the government, in releasing this report tonight, urges careful study of the tariff proposals by all those Canadian groups concerned: the vehicle manufacturers, the parts manufacturers, the labour unions, the municipalities, others who gave evidence before the Bladen commission, and the general public.

If, when the views of such groups have been received and analysed, it was decided to take action in the field of tariffs along the lines of the Bladen report, or along some similar lines, the government would fully respect Canada's commercial obligations and would thus protect Canada's trading interests. The government is fully aware of its various obligations under the GATT, including the undertakings most recently given to the United Kingdom at the time of the commonwealth trade and economic conference in 1958 to bind free entry for these items under the GATT. However, as I have already indicated, the consultations or renegotiations with governments abroad would not be undertaken unless and until the government had reached decisions to proceed in the national interest, taking into account the views of interested parties in Canada.

I proceed now to the recommendation that relates to valuation for purposes of the sales tax. According to the present law, sales tax on imported vehicles is levied on the price in the country of export plus Canadian tariff, if any. On the other hand, on vehicles of domestic manufacture it is levied on the price paid by dealers. As a result of his studies Professor Bladen has concluded that this system discriminates in favour of imported vehicles. In effect he recommends that imported vehicles should be valued on the basis of the selling price to the dealer. Along with the tariff recommendations, the government proposes to give careful study to this recommendation which touches upon a basic principle of the Excise Tax Act.

Professor Bladen's report contains a secondary and much less important recommendation which also relates to valuation. It is proposed that a "notional" valuation should be established, for tax purposes, as if there were a wholesale intermediary between the manufacturer and retailer. This recommendation also will be carefully studied.

Finally I come to the recommendation of far-reaching importance relating to the excise tax on passenger cars. This tax, which is now 7½ per cent, constitutes according to Professor Bladen, a serious drag on sales of automobiles in Canada. He anticipates that the abolition of this tax will increase sales of automobiles substantially, and enlarge employment and production in the Canadian industry. Accordingly he recommends that this tax be abolished.

Mr. Martin (Essex East): Hear, hear. We have been pushing this for years.

Mr. Fleming (Eglinton): I am glad to announce that the government has decided to implement this recommendation. This tax will be repealed effective midnight tonight.

Some hon. Members: Hear, hear.

Mr. Pickersgill: At last.

Mr. Fleming (Eglinton): A refund of the 7½ per cent excise tax will be given to authorized dealers and distributors in respect of tax already paid on stocks of new cars on hand.

Mr. Martin (Essex East): A victory for the opposition.

Mr. Fleming (Eglinton): Mr. Speaker, I seem to hear a voice that says, "A victory for the opposition".

Mr. Martin (Essex East): Hear, hear.

Mr. Fleming (Eglinton): I recognize a voice which belonged to a former government that raised this tax, not lowered it.

Mr. Martin (Essex East): The former government cut it 15 per cent.

Mr. Fleming (Eglinton): This will relieve them of any loss resulting from the tax decrease. Dealers will apply for the refund through the automobile manufacturer. I expect, of course, that automobile producers and dealers will pass on to the consumers this tax saving in full.

After taking into account the increase in production which is expected to result, I estimate that the elimination of the 7½ per cent excise tax will result in a net loss in revenue for a full year in the order of $66 million. For the current fiscal year the loss in revenue, including refunds to dealers, will be about $55 million.

THE 1961-62 BALANCE OF WAYS AND MEANS

I return now to a reassessment of our budgetary prospects for the current year in the light of the fiscal proposals and economic policies which I have put before the house.

In the opening sections of my speech this evening I said that in the absence of any changes in the current economic outlook or of any additional stimulus we might anticipate this year an increase of about 3 per cent in our levels of economic activity.

As a result of the policy statements and legislative proposals I have now made I would expect a significant improvement in our economic prospects. It is difficult, however, to be precise in forecasting the exact degree or timing of this acceleration, since it depends to a considerable extent on the co-operation and vigour of business and labour and of the financial markets and investment institutions.

To the extent that our expansion is accelerated there will be an increase in revenues, although, as I said earlier, the time lag in revenue receipts means that a considerable amount of the benefits of economic acceleration will not reach the treasury until after the end of this fiscal year. There will also be some reductions in expenditures as, for example, in unemployment assistance and unemployment insurance expenditures, and perhaps in the deficits of the C.N.R. and other crown companies.

As the expansion of output, employment and incomes accelerates, taxation revenues will in due course increase still more rapidly. On the basis of the present situation and anticipated trends it is not unreasonable to expect that the current flows of revenue and expenditures will be approaching a balance by the end of 1962. Indeed, as our economy reaches high levels of employment, it is essential that the budget should achieve a balance, and that provision should be made for an orderly retirement of debt.

I estimate that the effect of the income tax changes proposed, not including the reduction in personal and corporation income taxes which are part of the proposed fiscal arrangements with the provinces, will be about $35 million in a full year and $10 million in 1961-62. The effect of the proposed changes in sales and excise taxes will be $66 million in a full year and $55 million in 1961-62. The total tax reductions therefore will be about $100 million in a full year and $65 million in this fiscal year. As I have already indicated, the other federal tax reductions effective January 1, 1962 will amount to $300 million per annum.

With the stimulus imparted by these budget proposals to the levels of economic activity I would expect a general rise in our tax revenues between now and next March 31 to offset the particular tax reductions I have proposed. Assuming some consequential reductions in expenditures I would anticipate a budgetary deficit of the order of $650 million. May I remind hon. members that in as large and as complex an operation as our national government any forecast of revenues or expenditures is inevitably subject to variations. One per cent of our revenues or expenditures is approximately $60 million. Hence it would be more realistic to say that our prospective deficit is in the $600 million to $700 million range. I estimate that our non-budgetary cash requirements, excluding the exchange fund, will be about $330 million. Thus our over-all cash requirements will be of the order of $1,000 million.

For the record, Mr. Speaker, may I have the consent of the house to insert here two tables indicating our revenues, expenditures and cash requirements for the past year and for the current year.

TABLE II

Budgetary Revenues and Expenditures
(in millions of dollars)

	1960-61 (Preliminary)	1961-62 (Estimate)
Revenues		
Income taxes		
Personal	1,711	1,815
Corporate	1,277	1,200
Non-resident	88	115
Estate taxes	85	90
Customs duties	499	500
Sales taxes	721	785
All other taxes	635	645
Total taxes	5,016	5,150
Non-tax revenues	600	615
Total revenues	5,616	5,765
Expenditures	5,961	6,415
Deficit	345	650

TABLE III

Non-Budgetary Transactions and Net Cash Requirements
(in millions of dollars)

	1960-61 (Preliminary)	1961-62 (Estimate)
Net Receipts		
Annuity, insurance and pension accounts	254	275
Other	94	—20
Total	348	255
Net Loans, Investments and Advances		
C.N.R.	—116	110
Housing	192	240
Unemployment insurance	67	170
Farm credit	40	50
Exchange fund	64	—
Other	50	15
Total	297	585
Net non-budgetary transactions	+51	—330
Budgetary deficit	345	650
Net cash requirements	294	980

RELATIONS WITH THE BANK OF CANADA

It is necessary, in the light of recent events, that I say something tonight about relations between the government and the Bank of Canada. What I have to say relates in part to the past and in part to the future.

Let me begin with the past. On June 14, when I explained to the house the reasons why the government had been compelled to ask for the resignation of the governor of the bank, I said that Mr. Coyne's continuation in office "would stand in the way of the implementation of a comprehensive, sound and responsible economic program designed to raise the levels of employment and production in Canada". Such a program is contained in the budget that I have presented tonight.

No doubt there are some proposals in this budget with which Mr. Coyne may find it possible to agree. It is in the basic elements that the differences lie. This budget is built, as hon. members will have observed, on four foundation stones.

Mr. Pickersgill: Rolling stones.

Mr. Fleming (Eglinton): The hon. member for Bonavista-Twillingate had better look out that they do not roll over him.

Each sustains an element of economic policy which is central and indispensable. Yet not one of the four is compatible with statements, many times reiterated in various and sometimes extreme forms, by Mr. Coyne.

First, the government believes that Canada is, and for her prosperity must remain, a law-abiding member of the international financial and commercial community. The financial and commercial proposals that I am laying before the house tonight accord not only with Canadian interests, but also with Canadian international obligations. Mr. Coyne's speeches, on the other hand, exude ultra-protectionism and isolationism. The purposes and policies which they represent could not be carried out within the framework of the international institutions of which Canada is and must be a member. When he speaks of "living within our means" he really invites us to "live unto ourselves", in a private restrictionist world of our own. As a member of the government of one of the great trading nations of the world, I categorically reject any such invitation; the policies involved would be as damaging to our domestic prosperity as they would be to our international influence.

Mr. Pickersgill: Poor old R.B.

Mr. Fleming (Eglinton): Poor old Bonavista-Twillingate.

Second, the government believes that flexibility in our structure of interest rates can often be, and is indeed in times like the present, of importance to the pace of economic expansion, and the level of employment, particularly through its influence on the balance of international payments; and the government also believes that the Bank of Canada has an important role to play in this connection. Mr. Coyne, on the other hand, in his last annual report and in many other statements, argues that interest rates have little influence on economic development and that the central bank has, in any case, little influence on interest rates and the balance of payments.

Third, the government believes that the exchange rate, like rates of interest, should be flexible and should move with the times; while a premium over the U.S. dollar may well have been appropriate and helpful to Canada's economic position some years ago, today a discount will be appropriate and helpful to agriculture and fisheries, to primary and secondary industry, to our exporters, our tourist industry, and to the community at large. Further, the government believes that monetary policy and interest rates in Canada have an important role to play in relation to a flexible exchange rate. Mr. Coyne, on the other hand, in frequent speeches and most recently before the Senate committee on manpower and employment on April 26, reserved his most extreme strictures for proposals for "depreciation of the international exchange value of the Canadian dollar" and for use of monetary policy in this connection.

Fourth, the government believes that, in times like the present, a substantial budget deficit can promote economic expansion, with more jobs and better living standards for many thousands of Canadians; and such a fiscal policy will be the more effective if it is accompanied by appropriate flexibility of interest rates and exchange rates. Mr. Coyne, on the other hand, has been preaching all across the country a far more austere and rigid doctrine. Government fiscal policies in general, and government deficits in particular, have received more of his broadside attacks than any other element in our economy.

Mr. Coyne has publicly and repeatedly rejected all the four foundation stones of this budget. Moreover, at both my meetings with the governor on March 18 and again on May 30, after I had told him of the harm done by his public speeches, he asserted firmly and emphatically that he took back nothing he had said in those speeches, that he had been right in what he had said, and withdrew nothing. How then could the government invite him to consider and support it? How could the government ask him to co-operate in its implementation? I can think of nothing more cynical or more insulting than to approach the governor of the Bank of Canada with a request that he should approve and implement policies with which he is known to be in fundamental disagreement. Accordingly, rather than allow Mr. Coyne to continue to stand in the way of constructive and expansionist measures of a kind which he had publicly opposed, the government asked him to resign. This budget and Mr. Coyne were simply not compatible.

Let it not be thought that this incompatibility was just another instance of the age-old battle which, so the historians tell us, has from time to time been waged between the bankers and the politicians, with the bankers attempting to "crucify mankind upon a cross of gold" and the politicians seeking to remedy every economic malady with a dose of inflation. It is nothing of the kind. Long before the government decided that it would have to ask for Mr. Coyne's resignation, leading Canadian bankers, were criticizing the policies and activities of the governor of the bank. These criticisms by presidents or general managers of the following chartered banks were made in prepared public speeches at their annual meetings last winter or subsequently: the Canadian Bank of Commerce, the Imperial Bank, the Bank of Montreal, the Bank of Nova Scotia, the Royal Bank of Canada, and the Toronto-Dominion Bank. The policies and activities about which the senior officers of these banks expressed their concern related to the level of Canadian interest rates, the level of the Canadian exchange rate, or to the manner in which central banking operations had been carried on. How could the government ask Mr. Coyne to share in the implementation of programs and policies in fields where he had already provoked an unprecedented round of protests from so many of our leading financial institutions?

When speaking in the house on June 14 I indicated that Mr. Coyne did not command the confidence of his board of directors or of the government. It is also clear that he has not been able to enlist the confidence of the financial community. This has emerged from their public statements. It has also emerged from their inability to interpret his activities in the purely monetary sphere. To my deep regret he has been unable to achieve any real meeting of minds with those with whom he should be in constant and confident contact. In these circumstances it became impossible for the government to rely on him to give the type of leadership which is expected at all times from the governor of a central bank and which will be particularly needed in the months ahead.

I am quite aware that without consulting the governor I am tonight proposing policies, including those affecting interest rates, which extend into the area of influence and authority of the central bank. It was necessary to do so on this occasion only because Mr. Coyne refused to make way for a successor with whom, had he been appointed in time, I could and would have consulted. I make this explanation tonight, not only for the benefit of the many people, at home and abroad, who are naturally and properly concerned about the status and stature of our central bank, but also for the benefit of those who are naturally and properly concerned about the status and stature of the new governor.

It is the intention of the government that the position and prestige of the Bank of Canada should be restored. Let it be recalled that the first governor, who graced that office for 20 years, was appointed by a government headed by the late Right Hon. R. B. Bennett. It is the intention of this government to restore the active and intimate cooperation between the bank and the government, the bank and the public, which was maintained so effectively and continuously in earlier years.

It will remain the duty of successive governments and successive ministers of finance to protect the bank and its governor from the transient and irresponsible pressures to which those who manage our money supply will, in the nature of things, be subjected from time to time. But this does not and cannot mean that any government can continue to stand idly by when a governor is espousing policies which, in its best judgment, are not in conformity with the public interest and when he is also stating opinions that are in fundamental conflict with government policies outside the field of central banking. In such a situation it would always be the duty of the government to ask the governor to resign and, in the almost incredible event that he should refuse, to submit the matter to the ultimate high court of parliament.

CONCLUSION

Mr. Speaker, I said at the outset that in more than usual measure this is an economic budget. In that respect it is a logical sequel to the supplementary budget of last December. It proposes through an appropriate blending of fiscal, financial and commercial policies to impart an impetus to the economy, to enlarge production, to employ unused productive capacity, to stimulate growth, to increase trade, and thus to expand employment opportunities for our people. It seeks to raise the levels of savings and investment by Canadians and to make better use of Canadian capital in the development of our resources. It aims to achieve a more dynamic pace of growth and a balanced development for all regions of our country and all sectors of our economy. It offers credit, incentives and research aid to assist industry to gird itself to meet the challenge of new and vigorous competition. It brings a flexible program of action to bear upon the needs of this time and to serve the nation's long term interest. It challenges all people to hard work and self-discipline. It appeals for co-operation between business and labour.

It contemplates a large deficit and proposes to use that deficit as a means of stimulating the economy. It offers, notwithstanding, a reduction of $100 million in taxation where the reduction is most needed and can be fruitful in stimulating productive effort. It reminds the country that three years ago we faced the prospect of an even larger deficit during a recession when inflation also threatened, and that the country achieved recovery in that year.

(Translation):

Canada becomes an ever more mature nation, both politically and economically. Her growth in this past year has experienced a slackening and a pause, but there has been growth. From that experience she can draw renewed confidence, strength and fitness for the tasks and challenges ahead. These recent toils and trials Canada will transform to new triumphs.

(Text):

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RESOLUTIONS

INCOME TAX ACT

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