## AFTER RECESS

The House resumed at 8 p.m.

## THE BUDGET

### ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

**Hon. Walter L. Gordon (Minister of Finance)** moved:

That Mr. Speaker do now leave the Chair for the House to go into Committee of Ways and Means.

He said: Mr. Speaker: It gives me a great deal of satisfaction to be able to report to the House, and to the country, on the state of our economy and of our national finances. There has been a great and encouraging improvement in economic conditions, and in the state of the budget during the past two years. This robust expansion must be continued. With the budget under control, we must use our fiscal policies to achieve the nation's goals. The primary objective now is a healthy rate of sustained economic growth.

[*Translation*]

I am glad to note that all regions in Canada have shared in this expansion. The Atlantic provinces and the province of Quebec, for example, have experienced substantially increased economic activity. I believe that it is in this context of a prosperous and expanding economy, benefiting all Canadians, that we shall best succeed not only in maintaining but in strengthening the unity of our great country.

[*Text*]

Economic Objectives

When this government first came into office we stated a number of economic objectives. Our first goal was a high level of employment for Canadians and the reduction of unemployment. The second was a high and sustainable level of economic growth. Third, we wanted a better regional balance in both employment and growth. We also wished to bring into closer balance our trade and other current international transactions. To realize these objectives, we recognized that our industry, especially our manufacturing industry, would have to become more vigorous and competitive. We expected that as unemployment was reduced and these other objectives achieved, we would also be able to move toward a balanced budget. Moreover, we sought over the long term to improve the degree of participation by Canadians in the ownership and direction of businesses operating within our borders and using our resources.

We may all take pride in the extent to which these goals have been achieved.

Almost half a million new jobs have been created since the spring of 1963.

Unemployment had fallen by last month to 3.9 per cent, on a seasonally adjusted basis, which is just about half the 7.7 per cent reached in the first quarter of 1961.

This improvement in employment was not confined to one or two favoured parts of Canada. During the past two years some of the most rapid increases in employment took place in those sections of the country where unemployment had been particularly high. The decline in the unemployment rate in the Atlantic provinces and British Columbia was of the order of one third between the last quarter of 1962 and the last quarter of 1964; in Quebec there was a reduction of one-quarter. In Ontario and in the prairie provinces unemployment by the last quarter of 1964 was down to about 3 per cent.

We have also had a rapid increase in the Gross National Product. In the two years 1963 and 1964, the value of the nation's output increased by 6.5 per cent and 8.9 per cent, or by a total for the two-year period of about 16 per cent. Incomes have improved materially. The value of construction of all kinds increased by more than 20 per cent from 1962 to 1964, and housing starts went up from 130,000 to 166,000—that is, by more than one-quarter.

• (8:10 p.m.)

In our dealings with other countries we have achieved a considerable improvement in our balance of trade and payments. Our deficit on current account in 1964 was less than one-third what it was at its peak in 1959.

**Mr. Diefenbaker:** All kinds of selective statistics.

**Mr. Byrne:** Sour grapes.

**Mr. Gordon:** This improvement was achieved not by restricting imports and travel by Canadians, but by a vigorous expansion of our exports. Our secondary manufacturing industry has accounted for an important part of this change.

The improvement in our international balance of payments, and indeed in our rate of economic growth in general, could not have come about if we had not been able to keep our prices and costs competitive. Canadian prices have risen less in the last two years than have those of any other industrial country in the world except the United States.

Along with these improvements in the performance of the economy we have been able to bring about a dramatic improvement in the federal budget. The 1962-63 fiscal year produced a budgetary deficit of $692 million. This has been reduced to $83 million for the fiscal year just ended.

If the accounts are translated into a form more suitable for measuring their impact on the economy, that is, into terms of the national economic accounts, the change in two years is from a deficit of $399 million in 1962-63 to a surplus of $332 million in the last fiscal year—an improvement of over $700 million.

These achievements have taken place against the background of the longest period of peacetime economic expansion we have enjoyed in the present century. However, the pace of our expansion has not proceeded without faltering. There was a noticeable pause in the advance at the end of 1962.

## New Policies

In no small measure the strength of the expansion, certainly since 1962, is due to the introduction of new policies. The results achieved enable us to describe them as effective policies. They include:

(a) Strong incentives in the form of capital cost allowances to Canadian-owned manufacturing and processing companies installing new machinery and equipment.

(b) Similar inducements, together with a three-year tax exemption, for new manufacturing and processing companies to establish in designated areas of slow growth and high unemployment.

(c) Special arrangements to improve the efficiency of our automobile industry and to secure a fairer share of the total automotive production of North America.

**Mr. Starr:** Sixteen hundred laid off in Windsor.

**Mr. Gordon:** There seems to be a little noise, Mr. Speaker, but this will prove to be one of the most important policies ever introduced in Canada.

(d) Establishment of the Municipal Development and Loan Fund, to assist municipalities, with provincial approval, to accelerate their capital spending programs.

(e) Establishment of the Atlantic Development Fund of $100 million to stimulate economic activity in the Atlantic provinces.



(f) The highly effective $500 bonus for winter-built houses, and other increased help for housing and urban development.

(g) The provision of massive assistance to the provinces in the fields of technical and vocational training.

(h) The provision of guaranteed loans to students to assist them with their university education costs, and the provision of youth allowances to young people 16 and 17 years of age who remain in full-time education.

(i) A vigorous expansion in the loan programs of the Farm Credit Corporation.

(j) Increased amounts and improved terms for credits and insurance to finance a rapid increase in exports.

(k) Improved fiscal arrangements with the provinces to enable them to do their important part in a growing modern economy.

(l) And last, but certainly not least, there has been a monetary policy which enabled the demands of economic growth to be met without a tightening of credit conditions.

Partly as a result of such policies, the Canadian economy in the past two years has expanded faster, and unemployment has been reduced further than in the United States.

It might interest hon. Members to know that in the United States last year, 1964, the total output of the economy of that country increased by 6.6 per cent. In Canada the increase was one third as much again.

In 1964 unemployment in the United States was reduced by 7 per cent. The rate of reduction in Canada was almost twice that figure.

## Current Situation and Outlook

The economy is currently in a very healthy state. Unemployment is at its lowest level since 1957. Our output of goods and services is at record heights and is still rising. Prices are reasonably stable. Our international competitive position remains strong. The capacity of our industry is being used more fully. Business confidence is reflected in the highest level of capital investment we have ever had. All areas of the country, almost all types of industry and agriculture, and most groups in the community are sharing in this advance.

**Mr. Winkler:** Is that why the farmers are coming to Ottawa on Wednesday?

**Mr. Pearson:** To get even more.

**Mr. Gordon:** I thought all the farmers were over there, Mr. Speaker, but they won't be like that after the next election.

We may view our prospects for the coming year with confidence. Canadians in the aggregate, both individuals and businesses, and their governments will invest and consume substantially increased quantities of goods and services in 1965.

• (8:20 p.m.)

The economies of the nations with whom we trade, subject to one or two exceptions, are continuing to expand, and the markets for our exports should continue to grow. We have sufficient productive capacity in Canada to meet our own needs and those of our trading partners. New investments now being made will increase our capacity to produce. And last—but of great importance—we have the most rapidly growing labour force in the industrialized world and it is better trained than ever before.

**Mr. Diefenbaker:** Thanks to Mr. Starr.

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

**An hon. Member:** Even he couldn't keep a straight face.

**Mr. Gordon:** It is this growth in our labour force which provides the foundation for rapid economic growth in Canada. It also makes it necessary. This necessity for growth in order to put our young and rapidly growing labour force to work was the central feature of the First Annual Review of the Economic Council, published several months ago.

## Economic Council Review

Honourable members will recall the main projections which the Council brought to the nation's attention: that between 1963 and 1970 Canada's labour force can be expected to grow by 2.7 per cent per year on the average; that the potential productivity of our workers—that is, output per person employed—can be expected to increase by 1.9 per cent per year; that, if the level of unemployment can be reduced to an annual national average of 3 per cent—which the Council regards as a realistic objective—and if we can catch up the lag in our productivity gains between 1957 and 1963—we can reach an average rate of growth in our production over this period of $5\frac{1}{2}$ per cent. The Council points out how the achievement of this rate of growth would require and make possible rapidly expanding levels of consumer expenditures, government expenditures, business investment and exports.

The realization of the true potentials of the Canadian economy is a goal which all of us can accept. The problem has been, and will always be, to develop and put into effect the kind of policies needed so that each major part of the economy can make its full contribution. The Council has given us helpful advice in this regard.

There are, as the Council has pointed out, some especially difficult problems before us. Canada must train and place in the right jobs an enormous number of young people if we are to achieve the potentials the Council anticipates. Industry must grow at a pace which will provide these jobs and must increase its productivity. The capital must be found which industry, and governments, will require to finance this expansion. And above all, Canadians must find, and be efficient in competing for, the domestic and foreign markets for the goods which an expanded economy will be capable of producing.

To achieve all of this will be difficult enough, but our very success in doing so will itself pose problems. A higher rate of productivity is essential to the achievement of the nations's economic potential, and its ability to compete, but it means we have to find more markets to employ our manpower. Rapidly rising production generates more employment, but it could also lead to the large deficits in international payments which the Economic Council has projected in its model. These must be avoided.

## Balances of Payments

We hear a great deal these days about the balance of payments problems of our friends the British and the Americans. The British problem springs in considerable part from the strain which has been placed on their productive capacity and which their recent budget is designed to relieve. The essence of the Americans' problem is that the very large surplus they earn in trade and other current transactions is substantially less than what is needed for the large scale private investment by Americans all over the world, in addition to the requirements of defence overseas and foreign aid.

Our problem is unlike either of these. Although we still have some room in our economy for increased production without undue strain, we continue to have a deficit in our current transactions with the rest of the world. To be sure, last year we achieved a trade surplus of $700 million. But we used up this surplus and more in servicing past debts, in paying dividends to foreigners, and in making other kinds of current payments. Our current operating deficit was, I am glad to say, lower than it had been for ten years. But it is still sizeable. Furthermore, last year we exported large quantities of wheat to Russia, and we cannot count on having such large markets for our wheat on a continuing basis.

Our persistent international payments problem is apparent not only in the total size of our current account deficit, but also in its structure. Last year our current account deficit with the United States reached nearly $1.7 billion. This was largely offset by a surplus of $1.2 billion on merchandise and non-merchandise trade with the rest of the world, including the large wheat sales to communist countries. These transactions still left us with a current account deficit of $453 million which we had to finance.

In order to provide jobs to match the quite exceptional growth of our labour force we will need high levels of capital investment in the next few years, higher than the present physical capacity of the economy can be expected to meet. I do not anticipate difficulties in financing outside Canada the moderate amounts really required for this purpose, but this dependence on foreign savings should not be permitted to persist indefinitely. The world is hungry for capital for investment both in developing and in industrialized countries. The major source of capital, the United States, is having to restrict its investments abroad. We would be foolhardy if we assumed that over the long term the capital needed to cover our continuing current account deficits, whatever their size, would always be ours for the asking.

## Financial Markets

The performance of our financial markets during 1964 was remarkably good. Through the first half of the year, they weathered successfully the continuing uncertainties arising out of the United States' Interest Equalization Tax. Later they adjusted readily to the disturbances arising out of the United Kingdom balance of payments problems. In spite of these difficulties the Canadian capital markets handled a greater volume of new issues than in the previous year.

The substantial improvement in the federal government's financial position enabled us to reduce our demands on the market, thereby making room for other borrowers. The improvement in the government's position also made it easier for monetary policy to continue to give support to economic expansion. Interest rates were slightly lower at the end of the year than they had been at the beginning.

The House will recall that, at the time the United States' Interest Equalization Tax and the Canadian exemption were announced in July, 1963, the Canadian government stated its intention not to seek to increase Canadian exchange reserves through borrowing in the United States. During 1964 Canadian monetary and debt-management operations were undertaken with a view to their effect on Canadian borrowers who might seek funds in the United States, as well as with a view to domestic conditions. The interest rate differentials between Canada and the United States fell, during the course of 1964, to the lowest level for some time.

The financial disturbances at the time of the sterling crisis and the raising of the bank rate in Canada were not allowed to interfere with this development. In fact, the careful handling of that situation by the Bank of Canada considerably assisted in meeting this objective and keeping our capital market working effectively.

The past year was marked by a further evolution of the international financial machinery. Just as Canada benefited from the rapid assembly of massive financial assistance at the time of her exchange crisis in 1962, so Britain was the recipient of even more massive aid in the autumn of 1964. Canada was an active and major participant in this operation.

• (8:30 p.m.)

## International Liquidity

During the year representatives of the government took part in a series of international discussions on world liquidity. The question at issue has been whether the total of international reserves, such as our own reserves of gold and foreign exchange, when combined with official international credit arrangements such as those provided by the International Monetary Fund or by arrangements between central banks, is sufficient to support the growing level of international trade and payments both now and in the years ahead.

As Minister of Finance I attended meetings of the so-called "Group of Ten" in Paris last June and of the Board of Governors of the International Monetary Fund in Tokyo last September. The most immediate result of these discussions is that the Fund itself is to be enlarged by a 25 per cent increase in the quotas of all members, plus special additional increases for member countries such as Canada whose growth has been well above the average. I have made it quite clear that Canada would have welcomed a greater increase than this in world liquidity in order to ensure expansion of world trade and payments without any drag or interruption.

Trade Policies

In the Budget Speech last year I described our preparations for the "Kennedy Round" of tariff negotiations in Geneva, and outlined the principles that would govern Canada's participation. The formal opening of the negotiations occurred last November when the offers of reductions in duties on industrial goods and materials were exchanged. Our delegation is now engaged in a detailed examination, with other delegations, of the scope for tariff reductions of mutual benefit.

The negotiations on agricultural products are only now getting under way. This means that for Canada, with its important export interests in agriculture, the Kennedy Round is not yet in full swing.

Consequently it would be premature to offer any firm or final judgment as to the probable outcome of this tariff conference. Nevertheless I believe there are real possibilities for important tariff reductions covering a broad range of our exports. We have a strong delegation in Geneva, headed by Mr. Norman Robertson, one of the most respected senior public servants of Canada. I can assure the House that our representatives will bargain vigorously and realistically to advance the interests of Canada at this conference. It is in our interests that barriers to trade throughout the world be progressively reduced.

There has been a good deal of interest recently in our trading relations with the United Kingdom. The United Kingdom has always been a very important market for Canadian raw materials and foodstuffs which Britain requires in great volume. For a wide range of such products Canada is Britain's nearest, and most reliable and cheapest source. As a result, our sales to Britain over the years have normally exceeded her sales to Canada.

In the last three years this excess has been increased because United Kingdom export markets in Canada were adversely affected, first by the devaluation of the Canadian dollar in 1962, and then by the Canadian import surcharges that were in effect for some nine months.

Understandably the British are concerned about the large deficit in their trade with Canada. We can appreciate this because we face the same sort of problem, but in a more exaggerated form, in our current account transactions with the United States. It would be better in both cases if increased exports enabled these large bilateral deficits to be reduced.

I am glad to note that for a good many products the United Kingdom has now significantly improved its position in this market. For 1964 as a whole its merchandise exports to Canada were $60 million more than in 1963. This improvement is reflected in a variety of British exports to Canada, of which automobiles are one of the most notable examples. Our imports of cars from Britain in 1964 increased by 100 per cent over 1963. Here is a real example of energetic British exporters adapting their products and their dealer and service organizations to meet the needs of Canadian consumers. We expect now to see further substantial improvement in the sale of British products in the Canadian market.

Federal-Provincial Relations

The achievement of Canada's economic goals—of our potential growth—will require the use of the whole range of policies available to us and to provincial governments and local authorities. These include not only general policies, fiscal and monetary, trade and industrial, but also particular policies. These particular policies are reflected in measures relating to the development and use of our natural resources, the education and training of our young people, the planning and proper use of our land, the develpment and the redevelopment of our cities and towns, and the proper planning and building of the roads and other utilities on which both our production and our living are dependent. That is necessary if business, labour, agriculture and other private interests are to play their full part in carrying forward the progress of our economy, and improving our productivity.

All this implies that the federal government must work with the provincial governments and that the latter, in turn, must work not only with us, but with the municipalities. The federal government's responsibility in the field of fiscal policy, monetary policy and trade policy is primary and indisputable. And that is as it should be. To work to best advantage, however, such policies should be co-ordinated with plans and policies in areas which come under provincial jurisdiction.

Moreover, we must recognize that the sum total of the effects of the fiscal policies of the provinces is also of national importance. The provinces and the municipalities together are now spending more than is the federal government. It follows that changes in provincial revenues and expenditures, and in their budgetary balance, have a major effect upon growth and stability in the Canadian economy. It follows too that the timing of their expenditure measures can be such as to contribute to a steady growth of production and jobs, or the reverse.

• (8:40 p.m.)

An essential part of the job of good economic management in Canada is to achieve a reasonable harmony in the policies of the different governments. That is why we spend much of our time, both Ministers and officials, in consultation with the provinces. For example, the Provincial Treasurers and Ministers of Finance met with me in what might be called a pre-budget meeting in December, in order that we might jointly review the state of the economy and compare our views as to its prospects.

During the next 18 months, the federal government and the provinces must also review and revise the federal-provincial fiscal arrangements between them in order that we can propose legislation for the five-year period commencing in 1967. It was for that purpose that the federal-provincial conference last year appointed the Tax Structure Committee of Ministers from Ottawa and from the provincial governments. The representatives of the eleven governments will examine the fiscal outlook of federal and provincial governments in an effort to determine the probable requirements of each of them in the six years ahead. We shall endeavour to find a division of the tax fields and a formula for equalizing fiscal capacity which will assure to Parliament and to each provincial legislature effective means of carrying out its own responsibilities under the Constitution.

## Royal Commission on Taxation

During the same time that we are discussing and revising our fiscal arrangements with the provinces, we shall be making a thorough review of our own federal tax system—both in its general plan and in detail—with the aid of the report of the Royal Commission on Taxation appointed in September, 1962. Last year I said I expected the report would be published in time to find some reflection in this year's budget. Unfortunately the Commission was not able to conclude its work when it planned to do so, and now I do not expect the report to be available before fall. Consequently we are having to defer the thorough review of our tax laws until later.

## University Finance

This government, as well as its two predecessors, has taken a vital interest in doing what it properly could to help young Canadians to be trained to work effectively in the modern world. Our program of assistance to the provinces for technical and vocational training now involves annual expenditures of over one hundred million dollars. Parliament last year provided for youth allowances to young people of 16 and 17, and also instituted with the co-operation of the provinces a large and already successful program of guaranteed student loans. The Central Mortgage and Housing Corporation has been making loans to universities for student residences that are helping to transform the character as well as increase the size of our universities. We are paying unconditional grants equivalent to $2 per capita to the universities in nine provinces and providing the equivalent in Quebec by a tax abatement formula. We are making large grants to universities for scientific research. It is evident, however, that more needs to be done in financing higher education in Canada, though just what should be done and in what way are unresolved questions.

The universities have established their own committee of enquiry into university finance which should be reporting later this year. Its report should be of much help in re-appraising not only what is needed but how it should be supplied. We shall be anxious to discuss the subject of university finance with the provincial governments when there has been an opportunity to study the forthcoming report of Dean Bladen and his colleagues.

## Accounts for 1964-65

I come now to review briefly the outcome of our budgeting for the past year and assess the prospects for the year ahead, before putting the government's proposals before you. The figures are all given in part 2 of the White Paper which I tabled two weeks ago and I will refer only to the highlights. Revenues exceeded all expectations because of the excellent improvement in the economic situation, a greater improvement than I could properly forecast a year ago. At $7,136 million they were $436 million more than the figure in last year's budget. Expenditures are estimated at $7,219 million, $64 million, or less than one per cent, higher than originally forecast. This leaves a budgetary deficit of $83 million, less than one-fifth the amount originally forecast.

Last year, for the first time, I included with the budget a forecast of our revenues and expenditures in terms of the national economic accounts. Part 1 of the White Paper explains the nature of these accounts and gives some of the figures for past years, and for the calendar year 1964. For the past fiscal year our revenues are estimated in these terms at $8,313 million and our expenditures at $7,981 million. This means that in place of the small deficit originally anticipated, in these terms, the national economic accounts reflect a federal government surplus of $332 million.

These results—a deficit of $83 million by our parliamentary public accounts, and a surplus of $332 million by the national economic accounts—are the best in seven years. In practical terms it seems fair to say that after a long period of troublesome deficits the nation's finances are now under firm control.

In this new fiscal year we can anticipate further increases in our revenues based upon the growth to be expected in the economy itself. We can be confident that the recent rates of economic growth will continue well into the summer, although the outlook for the latter part of the year is less certain. We can reasonably forecast an increase of about 7 per cent in the Gross National Product in 1965 compared with 1964, of which increase nearly 5 per cent would be in volume. This will mean that for the first time the Gross National Product of Canada this year will exceed $50 billion.

Outlook for Revenue and Expenditure

Without any changes in our tax laws I would expect our revenues to be about $7,525 million. With the consent of the House I would propose to include a table in *Hansard* at this point giving the details of this forecast, and comparing them with the estimated figures for last year.

**Mr. Speaker:** Does the House give unanimous consent?

**Some hon. Members:** Agreed.

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

Budgetary and Old Age Security Fund Revenues

| | 1964-65 Preliminary ($ million) | 1965-66 Forecast Before Tax Changes ($ million) |
|---|---|---|
| Personal income tax | 2,108 | 2,175 |
| Corporation income tax | 1,510 | 1,570 |
| Non-resident withholding tax | 144 | 148 |
| Estate tax | 90 | 97 |
| Customs duties | 617 | 670 |
| Sales tax | 1,193 | 1,300 |
| Other duties and taxes | 676 | 725 |
| Total taxes | 6,338 | 6,685 |
| Non-tax revenues | 798 | 840 |
| Budgetary revenues | 7,136 | 7,525 |
| Old age security fund revenues | 952 | 1,145 |
| Total revenues | 8,088 | 8,670 |

**Mr. Gordon:** I should point out that the details of these forecasts are inevitably complicated and involve many special factors affecting particular items, especially in the case of corporation income tax. The forecast for personal income tax takes into account the higher abatements in favour of the provinces, and also some movement toward prompter remittance of tax deducted at the source.

I am forecasting budgetary expenditures for this year at $7,650 million. This figure, like that for revenues, is based on the expectation that Quebec will take full advantage of the opportunity to contract out of established shared-cost programs recently authorized by Parliament, but that other provinces will not avail themselves of this opportunity this year. My forecast includes allowances for supplementary estimates and for the anticipated shortfall of total expenditures below appropriations requested. It includes all items I know of that are already authorized or that we plan to place before the House. On the basis of these forecasts of revenue and expenditure before budget changes, we would have a deficit in our budgetary accounts of $125 million.

I expect the Old Age Security Fund this year to have revenues of $1,145 million from which pensions of $905 million will be paid.

The remainder will be used to repay the outstanding loans to the Fund of $36 million and to be applied in future years to meet the cost of paying pensions at ages below 70.

Taking into account our non-budgetary loans, investments, receipts and credits—particularly the accumulations in our employee superannuation accounts—we estimate our net total non-budgetary cash requirements at $225 million. Adding this to the anticipated budgetary deficit we get a total cash requirement of $350 million for the year, apart from government security transactions or variations in our exchange reserves, and before allowance for the proposals I will now be making.

As I did last year, I would like to table and have included as an appendix to the budget, tables showing how these forecasts of revenue and expenditure appear when expressed in terms of our national economic accounts. They show an expected surplus in these terms of $343 million, compared with the surplus for the year just completed of $332 million.

**Mr. Speaker:** If I may just interrupt, is it agreed that these tables be printed in *Hansard?*

**Some hon. Members:** Agreed.

[*Editor's note: For tables above referred to see Appendix "A"*].

• (8:50 p.m.)

PROPOSALS

**Mr. Gordon:** I turn now, Mr. Speaker, to the proposals which I wish to lay before the House.

Canada Development Corporation

The first is a financial measure which does not involve tax changes. One of our important objectives is to encourage the development of industrial opportunities in Canada by Canadians. There has been over the years increasing evidence of the need for additional Canadian sources of financing for businesses in Canada, particularly where substantial sums of equity funds are required. The recent actions taken by the United States and by the United Kingdom to protect their balance of payments have emphasized the need for industrially developed countries to be able to stand on their own feet more than in the past. In the future, new business developments in Canada should be looking to domestic sources for more of their financial requirements.

Canadian provinces will find their financing problems much easier with the inauguration of the Canada Pension Plan and the Quebec Plan next year. Municipalities have already benefited greatly by the establishment of the Municipal Development and Loan Fund, and I expect they will derive at least indirect benefits from the accrual of funds under the the Canada Pension Plan. Canada now needs some new institutional channel through which Canadians can invest their savings in a form that carries with it a share in the ownership and direction of businesses operating in this country.

To assist in meeting this requirement, Parliament will be asked to approve a measure establishing a Canada Development Corporation. It would be the function of this Corporation to share in financing the initial development, or expansion of large scale industrial projects in Canada, and to provide financing, including refinancing, for large Canadian enterprises which might otherwise be led to seek funds outside Canada, with a consequent loss of ownership and control to non-residents. The Corporation would be expected to invest in projects and enterprises which are likely to contribute to the sound economic development of Canada and to be profitable in the long run.

The Canada Development Corporation would be authorized to purchase from the government the equity interest in Crown corporations that have become viable commercial operations. In particular the government would propose to sell to it Polymer Corporation, which has been a highly successful and profitable government enterprise of which Canadians can well be proud.

The sale of one or more Crown corporations in this way to the Canada Development Corporation would conform with the views expressed by the Glassco Commission.

The Canada Development Corporation would have an authorized share capital of about one billion dollars. The shares would be of the mutual fund type, the shareholder having the right of redemption at values to be established by the Corporation based on the value of its investments. There would be restrictions on the ownership and voting rights of the share of the Corporation to ensure that it is essentially Canadian owned.

The Corporation would be mainly financed by the sale of its shares to the public. Individual investors would be given priority in purchasing shares but support would also be sought from a wide variety of Canadian institutions, including insurance companies, banks, trust companies, pension funds, estates and trusts, credit unions, charitable foundations and, I may add, provincial governments and their agencies.

**Mr. Herridge:** We proposed the establishment of a Canadian development fund 15 years ago.

**Mr. Gordon:** I hear an interruption from my friend across the way. It is too bad he was not in a position to do anything about it.

No investor other than the federal government would be permitted to own more than 3 per cent of the outstanding shares.

The government would subscribe on its own account for 10 per cent of the issued share capital. In addition, the government might acquire additional shares from time to time, either as partial compensation for the sale of Polymer Corporation or in connection with underwriting the sale of shares to the public. In order to ensure the independence of the Corporation, any shares taken up by the government in excess of 10 per cent of the issued capital could be redeemed by the Corporation whenever the Board of Directors wished to replace them with shares sold to the public.

The government would also have authority to purchase debentures of the Corporation or to make loans to it up to a maximum of $100 million.

The Corporation would be directed by a Board of Directors to be appointed initially by the Government, with provision for election of the directors by its shareholders when the Corporation's shares have been sold to the public. In this way the Corporation would stand on its own feet, free of government control. In view of its proposed investment in the Corporation, the government would retain the right to appoint a small proportion of the Directors.

We are convinced that thousands of Canadians will welcome an opportunity to share in the future growth and development of our country; that they will take pride in owning even a small interest in expanding Canadian industries. Participation in the Canada Development Corporation will provide this opportunity.

I am placing a Resolution on the notice paper immediately to pave the way for the introduction of a bill to establish this Corporation.

## Publications

I turn now to a measure of a very different character. The government has given considerable thought to the best method of dealing with the magazine problem, and to the equally important matter of preserving Canadian ownership and control of Canadian newspapers. At the present time there is no law or other impediment standing in the way of the purchase by non-residents of any of our newspapers. Given the vital role newspapers play in influencing public opinion, we do not believe we should run the risk of them falling under foreign control.

• (9:00 p.m.)

In the Resolutions which I am presenting this evening we propose that the Income Tax Act be amended to disallow, as a business expense of a Canadian advertiser, the cost of advertising primarily directed to a Canadian market in a non-Canadian periodical or non-Canadian newspaper. This measure would become effective next January. Advertising in the so-called "Canadian editions" of non-Canadian periodicals now being published and printed in Canada will not be affected by this provision, nor will advertising in the two small foreign-owned weekly newspapers already being published in this country. The question of the subsidized postal rates now enjoyed by the Canadian editions of non-Canadian periodicals will be studied as part of a general review being made of postal rates.

The purpose of this measure as it affects newspapers is purely preventive. No existing commercial interests will be affected, nor will any changes in existing advertising patterns be required. Foreign newspapers can enter Canada freely and will continue to do so, but we intend that our Canadian newspapers shall remain under the control of Canadian owners. They will be as free as ever to determine their own editorial content; they will be free to use whatever foreign commentaries and other features they wish; they will be free to rely upon whatever foreign or international news services they favour.

I shall also be proposing tonight a Resolution to amend the Customs Tariff to prohibit the entry into Canada of non-Canadian periodicals, such as split runs, containing advertising primarily directed to the Canadian market, as well as periodicals in which more than 5 per cent of the advertising contains specific references to sources of availability in Canada or conditions of sale in Canada. This is essentially the same as the Resolution which stood on the order paper last session.

## Accelerated Capital Cost Allowance

I wish to turn now to measures designed to encourage industrial development and increased productivity.

The first is one which does not require action by Parliament but which, I hope, will meet with general approval. It will be recalled that in 1963 the government introduced a highly accelerated rate of capital cost allowance on new manufacturing machinery and equipment, acquired by companies with a degree of Canadian ownership and by individuals carrying on business. This incentive measure is scheduled to terminate on June 13th of this year. It has permitted the cost of machinery and equipment to be deducted from income for tax purposes over as little as two years, and has greatly helped in bringing about the expansion and modernization of Canadian manufacturing and processing industries. It has been responsible in large measure for the great increase in private capital expenditure and thus for stimulating total employment and production. We have decided that this measure should be extended to cover machinery and equipment acquired up until the end of December, 1966. Before that date it will be thoroughly reviewed in the light of the analysis and conclusions of the Royal Commission on Taxation.

The effect upon our revenues in this fiscal year of this extension of the accelerated rate of capital cost allowance is estimated to be $15 million. The effect next year will be much greater.

I am also proposing some changes in capital cost allowances to help farmers who are facing difficulty in marketing corn and other grain crops in areas where there is a shortage of grain storage facilities. I am thinking of many areas, including the area comprised by the constituency of Essex East, a great corn belt. Under this plan, which will be incorporated in a regulation, the cost of all new grain storage facilities constructed in the period May 1, 1965, to December 31, 1966, may be written off for tax purposes over a four-year period. This will apply to farmers and taxable co-operatives as well as to others. The new arrangement will be helpful both in the east, where corn production is expanding rapidly because of changes in harvesting techniques, and in the west where rationalization of transportation and grain handling facilities should go hand in hand.

An important tax concession will also be provided to encourage industry to take new steps to prevent the waste products from their operations polluting our streams and lakes. This will take the form of an amendment to the Income Tax Regulations to permit capital expenditures made until the end of 1966 by businesses primarily for the purpose of preventing water pollution to be deducted at the rate of 50 per cent. This provision will also be reviewed following the report of the Royal Commission on Taxation and after we have the results of studies being made of the problems of pollution and the means of dealing with them.

## Scientific Research and Development

The Income Tax Act includes a provision introduced in 1962 which permits those making expenditures on scientific research to deduct not only the amount of these expenditures from income in the year in which they are incurred, but also an additional 50 per cent of the increase in research expenditures over those in the 1961 base year. This results in a reduction in taxes, which is equivalent to making a grant in support of such research.

I have received many representations and suggestions in regard to this extra 50 per cent deduction, as well as enquiries as to its future beyond the 1966 taxation year when the present provision expires. The government believes it is highly important to continue to offer a general inducement to industry to expand its effort in scientific research and development. We consider, however, that this inducement could be made fairer and more effective if it were in a form that was of more value to new and small companies, subject to the lower rate of tax, and of those faced with losses. The assistance now proposed would take the form of grants of defined amounts to be taken in cash or applied as credits against the tax liability of the businesses concerned. Such benefits would then be accounted for to Parliament in the same way as other expenditures.

For this purpose we propose to bring forward a bill that will provide in 1967 and later years a grant or a credit against tax liabilities equal to 25 per cent of the defined amount of expenditures on scientific research or development carried out by a business, either directly by its own staff or by contract with others in Canada. For 1966 a business will be permitted to elect whether to get the benefits available under the Income Tax Act or the benefits under this new legislation.

It is proposed that the whole amount of capital expenditures for scientific research or development would be eligible to qualify for the bonus, subject to certain safeguards. In regard to current expenditure, it is proposed that the bonus be calculated on the increase in research and development expenditures in any particular year over the average of such expenditures in the three preceding years.

• (9:10 p.m.)

This assistance for research and development will be administered by the Department of Industry. It will be available automatically to all businesses whose expenditures on research and development are less than $50,000 a year. Those who wish to receive assistance based on larger expenditures than this will be able to do so by getting prior agreement from the Minister of Industry that the research and development proposed, if successful, would be likely to benefit Canada.

I have set forth the government's intention here so those making long term plans will be able to take these intentions into account. The legislation proposed will not be required until 1966, and we will welcome comments and suggestions based on the outline I have given.

Improvements to Income Tax Act

I have reviewed the Income Tax Act again this year, and considered carefully the many requests and suggestions received from taxpayers across Canada. It will not be possible to accede to all of them. If we were to do so the government would be left with no revenues at all.

I wish to propose a number of amendments to increase the equity of the Act in its application to individuals. One of these will be to allow a taxpayer to claim a deduction for supporting his niece or nephew where the parents of the niece or nephew are not able to provide support. A taxpayer will also be allowed a deduction for amounts spent to support his aunt or uncle if she or he is dependent by reason of mental or physical infirmity.

There will also be an amendment to ensure that contributions to the Canada Pension Plan and the Quebec Plan will be fully deductible in calculating taxable income.

Amendments will be introduced to permit individuals to transfer lump sum retiring allowances into a pension plan, deferred profit-sharing plan or registered retirement savings plan without attracting tax at the time of transfer. The percentage of earned income that an individual may deduct as a premium under a registered retirement savings plan will also be increased.

It is proposed that amounts paid as annual trade union dues or professional dues, which now may be deducted from income under Section 11 of the Act, will no longer be included in amounts covered by the $100 optional standard deduction. This will permit both the amount of dues and the $100 standard deduction to be claimed in future.

I propose that corporations and individuals in business be granted the right to deduct certain expenditures made in connection with their businesses that have hitherto been ruled as non-deductible, on the grounds that they were capital in nature or not related directly to earning income. This amendment will permit a taxpayer to deduct expenditures such as the costs of making representations to a government or municipality for the purpose of obtaining a licence, franchise or trade mark in connection with his business, or amounts spent investigating the suitability of a site for a new factory or power development. It will also permit a taxpayer to deduct the cost of landscaping his place of business or an apartment building, and it will permit a farmer to deduct amounts spent for clearing land or laying drainage tile.

**Mr. Herridge:** You can aspire now to receiving grateful credit for this.

**Mr. Fisher:** You can retire now.

**Mr. Gordon:** Well, Mr. Speaker, I would just like to thank the hon. Member for Kootenay West for bringing this to my attention, and say I hope he does not retire. That, however, does not go for all his colleagues.

In 1963 a number of provisions were placed in the Income Tax Act to prevent tax avoidance by means that were prevalent at that time. These deterrents have been effective. Other loopholes in the law continue to be found, however, and exploited in a way which is unfair to others as well as costly to the Crown. When the Act is extensively revised in the light of the report of the Royal Commission on Taxation we hope that we can make some general changes that will safeguard against abuses. In the meantime we will continue the 1963 measures, and I propose to add several more of a specific character, some of which are in the Resolution, while others will first appear in the Bill itself.

Section 36 of the Act, which is intended to provide tax relief for lump sum payments, is being abused in some cases. Some persons arrange to have inordinately large amounts placed to their credit in pension or profit-sharing plans and then, having received this amount upon termination of their employment or the winding up of the plan, they elect to have it taxed at a low rate under section 36. I propose that the major abuses in this area be blocked by restricting the amounts that qualify for taxation under Section 36.

I also propose an amendment to prevent persons from arranging to have business income taxed at no more than the non-resident withholding tax rate of 15 per cent through the use of trusts with non-resident beneficiaries. Because of the varied use of trusts it is difficult to foresee the effect that the proposed amendments in this area may have in all cases. Consequently modifications of this proposal will be considered if representations should show that the amendments outlined in the Resolution will have an unintended impact upon trust arrangements where tax avoidance is not a factor.

Some companies and their principal shareholders have found it possible to avoid taxation on the distribution of accumulated surpluses, or to avoid the withholding tax on payment of dividends to non-residents, by changing the residence of these companies to another country of companies incorporated in Canada. To prevent this form of tax avoidance I propose that henceforth companies incorporated in Canada shall be deemed to remain residents of Canada.

Several amendments will be introduced to prevent certain of the concessionary provisions applicable to the oil, gas and mining industries being used in ways that were not intended.

We propose to require annual returns from trustees administering pension plans, retirement savings plans, and deferred profit-sharing plans. These plans involve very large sums of money representing accumulations of income on which tax has been deferred. We believe that the tax authorities should receive an annual account of their operations.

## Customs Tariff Changes

I turn now to matters relating to the Customs Tariff. As honourable members are aware, the Kennedy Round of trade negotiations which is being conducted under the auspices of the GATT is now in progress in Geneva. A number of the requests which have been received in the past year for reductions in rates of duty are being taken up in these negotiations. Accordingly the Resolutions relating to the Customs Tariff which I shall table at the end of my remarks contain fewer changes than usual, and I do not feel it is necessary to describe them here.

[Mr. Gordon.]

I shall be seeking authority to renumber the items in the Customs Tariff by Order-in-Council. The present numbering of the Tariff has evolved over the years and is a mixture of numbers and letters, making it difficult to relate import statistics to individual tariff items. A purely arithmetic numbering of the tariff will permit the use of modern tabulating equipment for correlating import statistics and tariff items. As the Resolution makes clear, the proposed renumbering will not affect the substance of any item in any way.

During 1964 the Tariff Board submitted two reports, one covering mining equipment and the other covering oil-seeds, vegetable oils and related products. On March 29 of this year I tabled a report by the Board on radio, television and related products, and on April 9 I tabled a report on live turkeys. These four reports are now under consideration in preparation for international negotiations in connection with items which have been bound under the General Agreement on Tariffs and Trade.

I am proposing to send two new references to the Tariff Board. One will cover machines used in the grading, packing and storing of fresh fruits or fresh vegetables. The other will relate to precision instruments used in such activities as engineering, surveying, drafting and machining.

## The Customs Act

I am proposing several changes in the Customs Act this year. One is being introduced to deal with the case put forward by the British government that there are some features of our Customs law which bear inequitably or unreasonably on British goods by comparison with goods from other countries.

What is involved in the operation of the value for duty provisions of the Customs Act as they relate to the quantities of goods sold and to the trade level at which they are sold in the country of origin. We have accepted the British contention that there are certain circumstances in which these provisions work a particular hardship on their exporters as compared with exporters in certain other countries. Accordingly I shall be moving an amendment to the Customs Act to provide power to deal with such cases by means of a new Section 37A of that Act. If Parliament approves it, we shall make effective use of this section to remove any discrimination of this nature against British goods.

It is the government's hope that this proposal will be taken by British exporters as a decisive response to their pleas that Canada give a clear signal that we welcome their goods; we hope, too, they will respond by seeking out and serving the very substantial demand which certainly exists here in Canada for imported goods.

There are a number of other less important amendments which will be advanced in the Resolution on the Customs Act.

Estate Tax Act

I do not propose this year to introduce any amendments to the Estate Tax Act. We amended the Estate Tax Act last year, as you will recall, in a number of particulars, and I said that any material changes would now affect provincial revenues more than they would affect our own budget position. I went on to say we felt action should be deferred on such changes of substance until we had seen the results of both the federal and provincial commissions of enquiry, and had consultations with the provinces. That is still the situation.

Excise Tax Act

In regard to the Excise Tax Act, I have had many representations on the present exemptions from the sales tax, and proposals for new exemptions. I have considerable sympathy with a number of these proposals; their implications, however, raise still further problems of equity, and consequential changes. It is my belief that we must make a thorough review and revision of the sales tax as soon as possible after we have received the views of the Royal Commission on Taxation. I intend that it should be given priority and my department has already put in hand preparatory work to enable them to get ahead with the review quickly once we know what the commissioners' conclusions are. In the meantime, I do not propose to put forward any proposals for amendments in this Budget.

Drugs

There has been much concern expressed about the high prices of drugs in Canada and proposals made that they should be exempt from the sales tax, which has always applied to them. The government has considered these representations but does not wish to act on them until the matter has been considered by the special Committee of the House on Food and Drugs.

**Some hon. Members:** Shame.

**Mr. Gordon:** Hon. Members across the way are making remarks but I would remind them that this is a Committee of the House on which I am sure some of them are important members. If the Committee comes to the conclusion that, as part of a comprehensive and effective program to reduce the prices of drugs, they should be exempt from the sales tax, I would expect to see this done in a special statute covering all the measures required to give effect to the program, and I am quite sure the hon. Member for Halton (Mr. Harley), who is Chairman of this Committee, will see it proceeds with this very important matter just as expeditiously as it can.

Tax Cut

I come finally, Mr. Speaker, to the question of what should be the general weight of our taxation in this coming year and, if it should be altered, what should be the amount and form of the change. I have already given the House the highlights of the economic situation, which are set forth in detail in the White Paper. From this it is evident that we have enjoyed an excellent rate of economic expansion in the last few years, and our situation now is good, though not completely satisfactory.

Looking ahead we foresee a further advance this year over 1964. However, we must plan to accommodate a rapid increase in our labour force this summer and in the next several years. We need to assure the market demand to put it to work productively. At the beginning of 1966, within this fiscal year, the commencement of the payment of contributions into the Canada and Quebec Pension Plans will exercise some restraining influence on the growth of consumer expenditure, which may not be fully offset by increased capital spending by the provinces or their agencies out of moneys from the Pension funds.

Our budgetary position for the last fiscal year came close to a balance in our normal accounting terms, and showed a sizeable surplus in terms of the economic accounts. For this new fiscal year our budgetary accounts will not be quite so close to a balance, because of changes already authorized by Parliament or proposals already placed before you. In terms of our national economic accounts, however, the federal budget will be a restraining influence this year unless we make some further changes.

*The Budget—Mr. Gordon*

• (9:20 p.m.)

Accordingly, after weighing up these considerations and the advice I have received from many quarters—including business men, trade unions, academic circles and the Review of the Economic Council—I believe this budget should be an expansionary one. To achieve this affect we should reduce moderately the weight of our taxation.

In choosing the nature and form of the reduction, I have been influenced by the fact that we are expecting to make a thorough revision of our tax structure after receiving the report of the Royal Commission and discussing the whole situation with the provinces. While we can count on none of our taxes being unaffected by such a revision, I have concluded that we should leave both the sales tax and the Corporation income tax largely as they are pending this review. Consequently we propose to concentrate the reduction in the personal income tax.

**Some hon. Members:** Hear, hear.

**Mr. Nowlan:** Wait till you hear it before you cheer.

**Mr. Gordon:** Those who pay this tax provide a very important part, indeed the largest single part, of federal government revenues. I am happy to recognize here their essential contribution in the last few years toward bringing the budget under control. I also recognize the very natural feeling among people generally that taxes should be kept as low as possible. As Minister of Finance, I am happy that the present budget provides an opportunity to carry out that most desirable objective.

We have chosen a form of reduction that will not reduce provincial revenues, nor be too complicated for the typical taxpayer to apply in making out his return. In determining the amount of the reduction I have had to consider the condition of the budget and the economic consequences of the change. There is no precise mathematical formula that can be applied in our present situation. It must be a matter of judgment.

Taking all these factors into account, I propose, Mr. Speaker, that effective from the first of July we make a reduction of our federal tax equal to 10 per cent of the basic tax payable under our personal income tax law, subject to a maximum reduction of $600 per year.

**Mr. Diefenbaker:** Just under one cent a day.

[Mr. Gordon.]

**Mr. Gordon:** In most provinces this basic tax equals the total income tax payable to the federal and provincial governments combined. After allowing for the abatements from the basic tax in favour of the provinces, the reduction in the federal tax will be about 12½ per cent, except for the higher incomes.

[*Translation*]

The amount of this tax reduction will be the same for all persons having the same taxable income. This means that people residing in the province of Quebec, for example, will benefit from tax cut just as much as people in all other parts of Canada. This is as it should be.

[*Text*]

The direct effect of this tax reduction would be to reduce our revenues by about $170 million this fiscal year and by about $265 million in a full year. The amount retained by individuals as personal disposable income —that is "take-home pay"—will be correspondingly increased. As a result, we can expect the rate of private expenditure to increase by nearly this amount, and there should be secondary effects which ultimately should increase the rate of Gross National Product by something more than the amount of the tax reduction.

Apart from these effects upon private expenditures, I believe that this substantial cut in personal taxes will encourage and stimulate our working force—including those in management and the professions—upon whose efforts our prosperity and progress depend. This is one of the main reasons for concentrating the whole amount of the reduction on the personal income tax.

Since this tax reduction is being deliberately made to achieve these economic effects, I would not expect provincial governments to move in to raise their income taxes to take advantage of our action. If we in Parliament are to manage the nation's economic affairs properly we must be able and prepared to take action of this kind from time to time, both in putting taxes down and in putting them up when the occasion demands it. The larger the share of the provinces and municipalities in the total public revenues of the country, the larger must be the proportionate change in our own taxes necessary to achieve the objectives of fiscal management.

The particular form of this tax cut should be regarded as provisional until we have completed the basic review of our structure that is under way. I would expect that by 1967 we will enact a new schedule of tax rates and make a number of modifications in the base of the tax.

I would like to insert in *Hansard* here tables showing the effects of the tax cut on the annual tax payable by taxpayers at various income levels.

**Mr. Speaker:** Does the house agree?

**Some hon. Members:** Agreed.

*[Editor's Note: The tables above referred to are as follows:]*

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX REDUCTION
(Single Taxpayer with no Dependants)

| | Tax for 1965 before reduction | | Tax reduction in a full year | | |
|---|---|---|---|---|---|
| Income | Combined federal and provincial tax | Federal tax only | Amount of reduction | % of combined federal and provincial tax | % of federal tax only |
| $ | $ | $ | $ | % | % |
| 2,000 | 99 | 78 | 10 | 10.0 | 12.7 |
| 3,000 | 236 | 186 | 24 | " | " |
| 4,000 | 403 | 318 | 40 | " | " |
| 5,000 | 591 | 467 | 59 | " | " |
| 7,500 | 1,154 | 912 | 115 | " | " |
| 10,000 | 1,795 | 1,418 | 180 | " | " |
| 15,000 | 3,520 | 2,781 | 352 | " | " |
| 20,000 | 5,645 | 4,460 | 565 | " | " |
| 30,000 | 10,195 | 8,054 | 600 | 5.9 | 7.4 |
| 50,000 | 20,333 | 16,063 | 600 | 3.0 | 3.7 |
| 100,000 | 49,295 | 38,943 | 600 | 1.2 | 1.5 |

The "Combined federal and provincial tax" shown for 1965 before tax reduction includes provincial tax computed at the rate of 21% of basic tax. The "Federal tax only" is after deducting the abatement of 21% in accordance with current federal-provincial arrangements.

The old age security tax is not included in the taxes shown.

In calculating these taxes it has been assumed that taxpayers with incomes under $10,000 deduct only the optional standard deduction of $100 but that taxpayers with incomes of $10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income.

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX REDUCTION
(Married Taxpayer with no Dependants)

| | Tax for 1965 before reduction | | Tax reduction in a full year | | |
|---|---|---|---|---|---|
| Income | Combined federal and provincial tax | Federal tax only | Amount of reduction | % of combined federal and provincial tax | % of federal tax only |
| $ | $ | $ | $ | % | % |
| 3,000 | 99 | 78 | 10 | 10.0 | 12.7 |
| 4,000 | 236 | 186 | 24 | " | " |
| 5,000 | 403 | 318 | 40 | " | " |
| 7,500 | 918 | 725 | 92 | " | " |
| 10,000 | 1,505 | 1,189 | 151 | " | " |
| 15,000 | 3,120 | 2,465 | 312 | " | " |
| 20,000 | 5,195 | 4,104 | 520 | " | " |
| 30,000 | 9,695 | 7,659 | 600 | 6.2 | 7.8 |
| 50,000 | 19,783 | 15,628 | 600 | 3.0 | 3.8 |
| 100,000 | 48,645 | 38,430 | 600 | 1.2 | 1.6 |

The "Combined federal and provincial tax" shown for 1965 before tax reduction includes provincial tax computed at the rate of 21% of basic tax. The "Federal tax only" is after deducting the abatement of 21% in accordance with current federal-provincial arrangements.

The old age security tax is not included in the taxes shown.

In calculating these taxes it has been assumed that taxpayers with incomes under $10,000 deduct only the optional standard deduction of $100 but that taxpayers with incomes of $10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income.

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX REDUCTION
(Married Taxpayer with Two Dependent Children Eligible for Family Allowance)

| | Tax for 1965 before reduction | | Tax reduction in a full year | | |
|---|---|---|---|---|---|
| Income | Combined federal and provincial tax | Federal tax only | Amount of reduction | % of combined federal and provincial tax | % of federal tax only |
| $ | $ | $ | $ | % | % |
| 3,000 | 33 | 26 | 3 | 10.0 | 12.7 |
| 4,000 | 152 | 120 | 15 | " | " |
| 5,000 | 301 | 238 | 30 | " | " |
| 7,500 | 786 | 621 | 79 | " | " |
| 10,000 | 1,349 | 1,066 | 135 | " | " |
| 15,000 | 2,880 | 2,275 | 288 | " | " |
| 20,000 | 4,925 | 3,891 | 493 | " | " |
| 30,000 | 9,395 | 7,422 | 600 | 6.4 | 8.1 |
| 50,000 | 19,453 | 15,367 | 600 | 3.1 | 3.9 |
| 100,000 | 48,255 | 38,121 | 600 | 1.2 | 1.6 |

The "Combined federal and provincial tax" shown for 1965 before tax reduction includes provincial tax computed at the rate of 21% of basic tax. The "Federal tax only" is after deducting the abatement of 21% in accordance with current federal-provincial arrangements.

The old age security tax is not included in the taxes shown.

In calculating these taxes it has been assumed that taxpayers with incomes under $10,000 deduct only the optional standard deduction of $100 but that taxpayers with incomes of $10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income.

[Mr. Gordon.]

**Mr. Gordon:** It will be seen that in a full year the federal tax for a single person with an income of $3,000 will be reduced from $186 to $162, that is, by $24; for a married man with two children and an income of $5,000, the reduction will be $30 a year; for a married man without children having an income of $10,000, the reduction will be $151 a year.

I would also like to include two tables showing how the prospective Canadian income tax for 1966, including the Old Age Security Tax the Canada Pension Plan contributions and the provincial income tax in Ontario, as an example, would compare with the United States income taxes including social security contributions and the State income tax in New York. It must be recognized that the comparison in any individual case will be affected substantially by the deductions which can be claimed under the tax laws of the two countries. In the United States deductions are permitted for state taxes paid, mortgage interest, etc., which will vary from person to person. The deductions used for the comparisons in these tables are set forth in the footnotes.

[*Editor's Note: The tables referred to above are as follows:*]

COMPARISON OF PERSONAL INCOME TAXES IN CANADA AND THE UNITED STATES
(Single taxpayer with no dependants)

| | Canada—taxes at rates proposed for 1966 | | | | U.S.A.—taxes at rates for 1966 in present law | | | |
|---|---|---|---|---|---|---|---|---|
| Income | Federal income tax | Provincial income tax | O.A.S. tax and C.P.P. contribution | Total taxes | Federal income tax | State income tax (New York) | Social Security tax | Total taxes |
| $ | $ | $ | $ | $ | $ | $ | $ | $ |
| 1,000 | — | — | 7 | 7 | 14 | — | 41 | 55 |
| 2,000 | 65 | 24 | 61 | 150 | 161 | 16 | 83 | 260 |
| 3,000 | 156 | 57 | 119 | 332 | 329 | 43 | 124 | 496 |
| 4,000 | 266 | 97 | 177 | 540 | 500 | 70 | 165 | 735 |
| 5,000 | 390 | 142 | 199 | 731 | 671 | 106 | 198 | 975 |
| 7,500 | 762 | 277 | 199 | 1,238 | 1,168 | 203 | 198 | 1,569 |
| 10,000 | 1,185 | 431 | 199 | 1,815 | 1,742 | 334 | 198 | 2,274 |
| 15,000 | 2,323 | 845 | 199 | 3,367 | 3,170 | 706 | 198 | 4,074 |
| 20,000 | 3,726 | 1,355 | 199 | 5,280 | 4,838 | 1,190 | 198 | 6,226 |
| 30,000 | 7,148 | 2,447 | 199 | 9,794 | 8,885 | 2,190 | 198 | 11,273 |
| 50,000 | 14,853 | 4,880 | 199 | 19,932 | 18,242 | 4,190 | 198 | 22,632 |
| 100,000 | 36,864 | 11,831 | 199 | 48,894 | 45,333 | 9,190 | 198 | 54,721 |

The taxes shown for each country are the federal income tax, the provincial or state income tax and the federal social security charge. The federal income tax shown for Canada is the tax in all provinces except Quebec. The provincial income tax is the provincial income tax in any province except Quebec, Manitoba or Saskatchewan. The state income tax is the New York State income tax. In the United States thirty-five states impose income taxes.

In calculating the Canadian taxes it has been assumed that taxpayers with incomes under $10,000 deduct only the optional standard deduction of $100 but that taxpayers with incomes of $10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income. The Canadian federal income tax is after the proposed reduction of 10% of basic tax with a maximum of $600.

In calculating the United States taxes it has been assumed that taxpayers with incomes of $10,000 or less deduct only the optional standard deduction. This is 10% of income with a minimum of $300 for single taxpayers and a maximum of $1,000. It was also assumed that taxpayers with incomes in excess of $10,000 use the optional standard deduction for purposes of their state income tax and for federal tax purposes deduct charitable donations, eligible medical expenses, mortgage interest, property taxes, etc., which aggregate 5% of their income and in addition deduct their state income tax.

The old age security tax in Canada is 4% of taxable income with a maximum of $120 and the Canada Pension Plan contribution is 1.8% of income in excess of $600 with a maximum of $79.20. The social security tax in the United States for 1966 as provided in the present law is 4.125% of adjusted gross incomes with a maximum of $198 and this has been used in the above table. However, the Budget Message of the President on January 25, 1965, recommended that this be increased to 4.25% with a maximum of $238 for 1966.

COMPARISON OF PERSONAL INCOME TAXES IN CANADA AND THE UNITED STATES
(Married taxpayer with no dependants)

| | Canada—taxes at rates proposed for 1966 | | | | U.S.A.—taxes at rates for 1966 in present law | | | |
|---|---|---|---|---|---|---|---|---|
| Income | Federal income tax | Provincial income tax | O.A.S. tax and C.P.P. contribution | Total taxes | Federal income tax | State income tax (New York) | Social Security tax | Total taxes |
| $ | $ | $ | $ | $ | $ | $ | $ | $ |
| 1,000 | — | — | 7 | 7 | — | — | 41 | 41 |
| 2,000 | — | — | 25 | 25 | 56 | — | 83 | 139 |
| 3,000 | 65 | 24 | 79 | 168 | 200 | 10 | 124 | 334 |
| 4,000 | 156 | 57 | 137 | 350 | 354 | 37 | 165 | 556 |
| 5,000 | 266 | 97 | 195 | 558 | 501 | 67 | 198 | 766 |
| 7,500 | 606 | 220 | 199 | 1,025 | 915 | 163 | 198 | 1,276 |
| 10,000 | 993 | 361 | 199 | 1,554 | 1,342 | 283 | 198 | 1,823 |
| 15,000 | 2,059 | 749 | 199 | 3,007 | 2,363 | 639 | 198 | 3,200 |
| 20,000 | 3,429 | 1,247 | 199 | 4,875 | 3,452 | 1,115 | 198 | 4,765 |
| 30,000 | 6,768 | 2,327 | 199 | 9,294 | 6,087 | 2,115 | 198 | 8,400 |
| 50,000 | 14,435 | 4,748 | 199 | 19,382 | 13,189 | 4,115 | 198 | 17,502 |
| 100,000 | 36,370 | 11,675 | 199 | 48,244 | 36,057 | 9,115 | 198 | 45,370 |

The taxes shown for each country are the federal income tax, the provincial or state income tax and the federal social security charge. The federal income tax shown for Canada is the tax in all provinces except Quebec. The provincial income tax is the provincial income tax in any province except Quebec, Manitoba or Saskatchewan. The state income tax is the New York State income tax. In the United States thirty-five states impose income taxes.

In calculating the Canadian taxes it has been assumed that taxpayers with incomes under $10,000 deduct only the optional standard deduction of $100 but that taxpayers with incomes of $10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income. The Canadian federal income tax is after the proposed reduction of 10% of basic tax with a maximum of $600.

In calculating the United States taxes it has been assumed that taxpayers with incomes of $10,000 or less deduct only the optional standard deduction. This is 10% of income with a minimum of $400 for joint returns of married taxpayers and a maximum of $1,000. It was also assumed that taxpayers with incomes in excess of $10,000 use the optional standard deduction for purposes of their state income tax and for federal tax purposes deduct charitable donations, eligible medical expenses, mortgage interest, property taxes, etc., which aggregate 5% of their income and in addition deduct their state income tax. It was further assumed that taxpayers take advantage of the income splitting provision in the federal tax law.

The old age security tax in Canada is 4% of taxable income with a maximum of $120 and the Canada Pension Plan contribution is 1.8% of income in excess of $600 with a maximum of $79.20. The social security tax in the United States for 1966 as provided in the present law is 4.125% of adjusted gross income with a maximum of $198 and this has been used in the above table. However, the Budget Message of the President on January 25, 1965 recommended that this be increased to 4.25% with a maximum of $238 for 1966.

It will be noted that the combined Canadian levy is below that in the United States throughout for single persons. For married persons the Canadian combined levies are less up to a level of about $17,000 a year; above that level the effect of "income splitting" for husband and wife in the United States puts their tax slightly lower than ours.

It must of course be borne in mind that these are comparisons of levies on personal incomes only, and there are many other taxes in both countries which have to be taken into account in comparing the total weight of taxation. On the whole, however, after this tax cut, income taxes and social security contributions based on income will be less in Canada than in the United States. This means there will be no inducement from an income tax point of view for young Canadians to move to the United States or to continue to live there rather than in Canada.

[Mr. Gordon.]

This major tax cut of $265 million a year, together with the other changes outlined, will alter our revenues for this new fiscal year directly and also indirectly by reason of their effect on the economy. I would expect the Gross National Product for 1965 as a whole to increase over 1964 by slightly more than the approximate figure of 7 per cent I mentioned earlier. Taking this and direct effects of tax changes into account, we estimate that our revenues for this fiscal year should be about $7,350 million. Our expenditures I have forecast at $7,650 million. This will leave a deficit in terms of our public accounts of approximately $300 million.

Taking all our expected non-budgetary receipts and disbursements into account, we would anticipate a total cash requirement, for other than transactions in government securities, or changes in our foreign exchange reserves, of $525 million.

In terms of our national economic accounts the federal government's revenue and expenditure transactions would show a modest surplus of $152 million. Given the economic and fiscal prospects for the year ahead, I think this outcome of the budget is about right.

In conclusion, Mr. Speaker, may I emphasize that our national finances have been brought under control; our national economy is moving ahead in a satisfactory way; and we are now able to lead from strength.

The times call for an expansionary approach in our financial and economic affairs. Consequently this is a growth budget. It expresses the determination of the government to give a lead in achieving our national potential. It is intended as a challenge to Canadians in all provinces to share in the great future that can be ours.

## RESOLUTIONS

### CANADA DEVELOPMENT CORPORATION

Resolved: That it is expedient to introduce a measure to establish an investment corporation, to be known as the Canada Development Corporation, to provide through savings by Canadians a supplementary large-scale source of financing where substantial sums of equity capital are required for the initiation or expansion of larger enterprises in Canada and for facilitating, in the case of offers to purchase or sell shares of such enterprises, the acquisition of such shares by Canadian residents rather than non-residents; to authorize the issue by the Corporation to Canadian residents, at an initial issue price of five dollars per share, of shares of the Corporation the total number of which outstanding at any time shall not exceed two hundred million; to authorize the Government of Canada to underwrite the issue of shares of the Corporation, and at its discretion to invest in shares of the Corporation on its own account not exceeding in number ten per cent of the total number of issued and outstanding shares of the Corporation, the amount of which underwriting commitment, together with the total amount invested by the Government of Canada in shares of the Corporation, shall not exceed two hundred and fifty million dollars; to authorize the Government of Canada to make loans to or purchase debentures of the Corporation to an aggregate amount not exceeding one hundred million dollars and to sell to the Corporation the holdings of Canada of shares of certain Crown corporations; and to provide further for other necessary and incidental matters relating to the establishment of the Corporation, its objects and powers, and its management, operation and control.

### THE CUSTOMS ACT

Resolved, that it is expedient to amend the Customs Act by:

1. Striking out subsection (1) of section 22 and substituting the following:

22. (1) Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry,

(a) pay or cause to be so paid, all duties upon all goods entered inwards; or

(b) in the case of goods entered in accordance with the terms and conditions prescribed by regulations made under subsection (3), present in respect of the duties upon such goods a bond, note or other document as prescribed by such regulations;

and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

2. Adding to section 22 the following subsection:

22. (3) The Governor in Council may make regulations prescribing

(a) the terms and conditions upon which goods may be entered into Canada free of any requirement that the importer shall, at the time of entry, pay or cause to be so paid all duties on the goods so entered inwards; and

(b) the terms and conditions of any bond, note or other document presented upon the entry of such goods in respect of the duties thereon.

3. Striking out subsection (1) of section 35 and substituting the following: