*The Budget—Mr. Abbott*

**AFTER RECESS**

The house resumed at eight o'clock.

## BUDGETARY PROPOSALS

### FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

**Hon. Douglas Abbott (Minister of Finance):** Mr. Speaker, I make the usual motion:

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

Barely five months have elapsed since I last proposed that the house resolve itself into committee of ways and means, but in the light of what has occurred during the past two months the motion to which I am speaking this evening will not be unexpected. The march of events since June 25 has produced new situations requiring a considerable revision in my earlier estimates of revenue and expenditure, and it is my duty to report to the house on these matters and to propose measures to meet the new conditions.

Hon. members will recall that last March I forecast our total expenditures for this year at $2,410 million. Higher costs for material and labour have already increased the cost of many of our construction projects, and, apart from defence, there are other unforeseen expenditures that we shall have to meet. I believe, however, that we shall be able to offset these increases, other than defence, by a program of economies which we are working on and to which I shall refer later. The net result is that, apart from increased defence, my estimate of expenditure still stands at $2,410 million.

It is now obvious that as a result of defence and related requirements very large additions will have to be made to this sum. The house is being asked to approve increased expenditures totalling $144 million in this fiscal year, and in addition to vote $300 million for the production of military equipment and related services, partly for our own direct use and partly for the use of our European associates under the North Atlantic treaty. It is not possible at this juncture to say confidently how much of this latter amount will be spent by March 31. To the extent that we undertake production for our European associates, the speed of production and the rate of expenditure must wait upon decisions as to what they most urgently require. At present I am putting down a figure of $100 million as the amount which is likely to be disbursed by March 31. It may be that this sum can be exceeded. Indeed, in view of the urgency of the situation, our aim will be to expedite the defence production program by all possible means.



Putting together these figures for national defence and defence production, we must add not less than $244 million to our previously budgeted expenditures for this fiscal year, and the best estimate I can make at this time of our expenditures for this fiscal year is, therefore, $2,654 million.

In order to put our financial prospects in their proper perspective I think I should go beyond the end of this fiscal year and invite the house to consider our probable expenditures in the succeeding year. The plain fact is that we must now undertake defence measures, both on our own direct account and in association with the North Atlantic treaty countries, involving a rate of expenditure of about $1 billion a year. The policy underlying this program has received support from all parts of the house. It is obvious, therefore, the total federal budget will be further increased in the year 1951-52.

The forecasts of revenue which I made at the end of March were based on certain assumptions which were clearly set out at that time. I felt then that the inflationary pressures on this continent, following the 1949 recession in the United States, had lost most of their strength and that the prospects for this year indicated, on the average, a steady price level and a normal or moderate expansion of economic activity. It appeared then that our gross national production in 1950 would be about one or two per cent above 1949, and my revenue forecast was based upon that estimate. Some of my hon. friends opposite expressed the view that I was being too optimistic, but in fact recovery in the United States was surprisingly rapid and Canadian economic trends during the second quarter of the year, particularly in the capital investment field, improved rather more than I had anticipated. Even before the Korean episode began to unfold it seemed probable that our revenues this year would be one or two per cent greater than I had forecast.

Since June 25 the tempo of activity has stepped up again, employment and output have increased, and the general price level has advanced somewhat, with the result that I now estimate that our present tax structure will yield about 7 per cent more revenue than I had forecast last March. In March I put our revenue yield at $2,430 million; the best estimate I can make today is that our present tax and other receipts will produce $2,610 million. I would estimate that rather more than half of this increase of $180 million is due to increased employment, output and trade, and rather less than half to higher prices.

Taking, then, my present estimates of expenditure and my forecast of revenue under our present tax structure, we would face a deficit in this fiscal year of about $44 million.

The policy of this nation, upon the essentials of which all parties in this house are agreed, is to preserve three things. First, we must achieve a high degree of military security without which all else may fail. Second, we desire the highest quality of political freedom and individual liberty. Third, we want to promote economic stability and progress, both on a national scale and in terms of sustained and improved individual standards of living. Each of these objectives is now challenged by the evil forces that are abroad in the world today.

Our policy on military security is plain. It is to be achieved by building up our own defence forces, by extending timely aid to our associates under the North Atlantic treaty, and by giving all support within our power to implement the principles upon which the United Nations are based.

But my concern, as Minister of Finance, is with economic policy. In his classic budget statement of September, 1939, Mr. Ilsley, who was then acting for the Minister of Finance, laid down a set of broad principles which should govern war finance. Of course we are not in a state of war—we are at a hill of difficulty on the path of peace—but the questions we must decide are not unlike those that faced my predecessor eleven years ago. Two of the principles enunciated at that time are particularly apposite today. The first is that a "pay-as-you-go" policy should be followed to the limits of political and administrative practicability. The second is that to choose or to wander into inflationary methods of financing would be the most unjust of all methods of distributing the cost of any sharp increase in government expenditures.

In 1939, as the house will recall, the world was emerging from the long depression, and in Canada, as in other countries, there was a great deal of slack in the economy in the form of idle or under-employed resources in both manpower and equipment. It was, therefore, right and proper that in the initial stages some recourse should be had to bank credit to give a quick stimulus to increased production. But as soon as the stimulus had taken effect a policy of sharp and progressive increases in taxation was adopted and effective steps were taken to mobilize the real savings of the community in successive victory loan campaigns. But in total war, as the stage of all-out mobilization approaches, there comes a point where expenditures take so large a part of the national output that it is not humanly possible to cover them fully by taxation and by the direct mobilization of real savings, and where bonds filter back in a growing stream into the banking system and the proceeds offer themselves in the market for current consumption. It is at this point that it becomes necessary to buttress fiscal measures by comprehensive direct controls—controls of prices and wages, controls of production and distribution, controls of investment and manpower, controls by rationing and priorities. But even at best, controls cannot do much more than contain the pressure of demand for a time, and unless the process of decontrol is matched against an increasing supply of goods, a greater or lesser degree of inflation will occur.

As I said a moment ago our financial problem today has some similarities to that of September, 1939, but it has also some all-important differences. We enter upon this new phase with little or no slack in the economy and with a reasonably clear appreciation of the immediate tasks before us. We face a situation which does not engender the intense degree of patriotic fervour induced by an outright state of war, and which may smoulder its way along for a considerable time. Moreover, unlike 1939, the United States with its vast resources is not lagging a year or two behind, but is in the forefront of an active policy to promote peace by strength. Present conditions do not call for any interim period of easy financial policy; they require, on the contrary, a prompt and effective anti-inflationary program.

The defence program and the foreign policy now before the house commit us to an approximate doubling of the rate of our expenditures on defence and on military production. This means that our defence program, including north Atlantic aid, must lay claim to twice as much of the materials, equipment, skills and energies that comprise our productive resources. There is not this much slack in our economy and despite all we can do by way of increased production some part at least of this increase in the claims of defence will have to be met by postponing or foregoing goods and services that we as a community might otherwise enjoy.

The impact of our enlarged defence program will conflict much more sharply with capital investment than with ordinary day-to-day consumer goods. We have had four years of intense capital investment and the current rate of construction and investment is at an all time high. Indeed, it was chiefly the further sharp upswing in the capital investment and construction boom in the second quarter of this year that gave rise to the renewed inflationary pressures both here and in the United States. A large fraction of our additional defence expenditure