questions to be raised at the time of adjournment tonight are as follows: the hon. member for Brandon-Souris (Mr. Dinsdale); technical and vocational training—request for subsidization of teacher training programs; the hon. member for Winnipeg North Centre (Mr. Knowles); the Canadian economy—effect on pensioners of increasing cost of living; the hon. member for Gaspé (Mr. Keays), northern affairs—construction of replica of *Grande Hermine* for Expo '67.

Hon. Michael Starr (Ontario): Mr. Speaker, in view of the fact that tonight is the presentation night of the budget by the Minister of Finance, and to enable time to be available for reply by the opposition critic to the minister, I wonder if there is any provision that these questions not be taken up at ten o'clock, but postponed to some other time?

Some hon. Members: Agreed.

Mr. Deputy Speaker: Order, please. The three questions to be taken up on proceedings under the adjournment motion can be suspended by unanimous consent of the house.

Some hon. Members: Agreed.

Mr. Deputy Speaker: Is there unanimous consent?

Some hon. Members: Agreed.

Mr. Barnett: It is understood that they are simply to be deferred, and will hold their order.

Mr. Deputy Speaker: It is the understanding that the house will dispense with these questions on tonight's adjournment proceedings.

I should point out to the house that since the hour for private members was not taken up, that this hour also was deferred, and is not to be counted.

Mr. Starr: Agreed.

Mr. Deputy Speaker: Order, please. The sittings of this house are suspended until eight o'clock, pursuant to a special order made on Monday, March 28, 1966.

At 7.15 p.m. the sitting was suspended.

SITTING RESUMED

The house resumed at 8 p.m.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Mitchell Sharp (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:

[*Translation*]

Mr. Speaker, a year ago my predecessor in office, the hon. member for Davenport (Mr. Gordon), reported to the house that there had been a great and encouraging improvement in the economic situation. I am happy to say that this trend continued in 1965. The fiscal policies he initiated have resulted in further rapid economic growth.

[*English*]

Royal Commission on Taxation

For all those concerned with fiscal affairs and economic policy generally, 1966 will be a busy and important year. We expect to receive and publish within the next two months the report of the Royal Commission on Taxation which was appointed in 1962 to review the whole of our federal tax system.

It is clearly desirable that following the publication of the report sufficient time be made available for people to study it and make known their views on it. I found on taking office that it would not be possible to take action on the report in the Budget this year. To avoid any uncertainty about it I made clear in January that this budget would not reflect the proposals of the Royal Commission and such is the case.

When the Royal Commission was asked to make a comprehensive review of our tax system it was given a difficult task, to which the Commissioners and many experienced advisers have devoted much thought and work. We in turn will be faced with a difficult and controversial task when we come to reform our tax laws in the light of its report. Naturally we will not be able to consider the Royal Commission's recommendations in isolation. We shall have to take into account the issues we are discussing with the provinces concerning federal-provincial fiscal arrangements. Our reform of the tax system will be governed by two principles: equity and efficiency. Governments are going to need increasing revenues to meet the social and economic requirements of a nation determined to abolish poverty—and I personally share this determination. I believe Canadians generally are willing to play their part in this endeavour, but they must be satisfied that what is asked of them is fair and that the fiscal system does not stand in the way of work and enterprise.

Federal-Provincial Fiscal Arrangements

This will be the crucial year for the Federal-Provincial Tax Structure Committee which, as the House knows, is conducting a broad review of the fiscal relationships between the federal and provincial governments. One of the important elements underlying these discussions is the rapid increase in the expenditures of the provincial governments and their municipalities. Many of the major social requirements of Canadians today fall within the sphere of provincial responsibility, and provincial expenditures naturally reflect this trend. I have in mind chiefly education, health, a variety of welfare requirements, and highways. The trends in federal expenditure on the one hand appear to be increasing roughly in line with the Gross National Product. The requirements of the provincial governments and their municipalities on the other hand appear to be growing at a higher rate. The Provincial Treasurer of Ontario said in his Budget Speech last month, "It is becoming increasingly clear that the combined total of provincial and municipal expenditures will continue to grow at a much more rapid rate than the corresponding federal commitments."

• (8:10 p.m.)

In our federal system there are three lines of approach to ensuring that the provinces will be able to provide an adequate level of public services. First, the provinces must have access to an appropriate share of the sources of available revenue. This is the tax sharing problem. I have reached the conclusion that it will be possible both to ensure that the provinces have access to sufficient revenues to finance their responsibilities and to ensure that the Federal Government will have sufficient scope to make effective use of fiscal policy for economic purposes. In the second place, there has to be a system of equalization payments made by Parliament to underwrite the ability of the less wealthy provinces to provide adequate services. The present equalization formula is not entirely satisfactory. We would like to develop a formula that would take into account a wider concept of fiscal capacity based on a comprehensive range of provincial revenues. The third element comprises the conditional grants made by the Federal Government to specific provincial programmes.

Here, and this is the central problem, we must find a balance between two important considerations: on the one hand the responsibility we feel here in parliament, and I feel here in parliament as one of its members, to give leadership on matters of national importance, and on the other hand the need to respect provincial responsibilities and provincial judgments about matters within their jurisdiction.

This will be no easy task but, given sufficient imagination and good will, I have no doubt whatever that we can find workable solutions.

Tariffs

In international economic affairs too this will be an important year. The Kennedy round of tariff negotiations sponsored by the members of the General Agreement on Tariffs and Trade must come to a head later this year if the negotiations are to be completed on time. In mid 1967 the powers accorded to the U.S. Government by the Trade Expansion Act expire. It would be a tragic waste if the world trading community failed to make effective use of that imaginative legislation which was one of President Kennedy's great achievements.

For our part, and I believe I speak not only on behalf of the government of Canada but on behalf of all of us in this house, we shall do our utmost to ensure the success of these negotiations.

Tonight I shall be proposing very few changes in the Customs Tariff. They are set forth in the resolution. We have received a great many suggestions and requests for tariff changes.

I am glad to see, as a former minister of trade and commerce and as one who believes in liberal trade, that the great majority are suggestions for decreases rather than increases. Many of these have considerable merit.

But at a time when we are engaged in one of the largest international tariff negotiations in our history I think the House will appreciate the desirability of using whatever tariff reductions we contemplate to help us obtain better access to foreign markets for our own exports.

International Monetary Co-operation

We are also playing an active part in the international consideration of methods for improving the international monetary system. Supplies of traditional forms of reserves such as gold and the reserve currencies are not likely to be adequate in the future to meet the needs of a growing volume of world trade and payments. We would like to see machinery established which would enable some conscious action to be taken in the future to create international reserve assets much as a central bank influences the growth of the money supply within an individual country. We also want to see improvements in the process whereby countries adjust imbalances in their international position quickly and with the least damage to their trading partners.

In these discussions the Canadian Government has urged that a new reserve asset should be created through the joint action of a group of countries which are able to contribute strong backing for such a new asset and which have had considerable experience of co-operation together in monetary matters. We believe the decisions concerning issues of the new asset should be made within the general framework of the International Monetary Fund, and that all members of the Fund should be entitled to hold and to use the new asset. It is too early to say what the outcome of these discussions will be.

As many people in this house who follow these matters know, there are still differences of opinion among the countries involved as to the need for any new arrangements at this time and as to the form which such arrangements might take. However, Canada is making every effort to achieve as wide an area of agreement as possible, consistent with the sound evolution of the international monetary system.

Economic Situation and Outlook

In 1965 the dollar value of the nation's output of goods and services was about 9½ per cent higher than in 1964. In terms of volume the increase in Gross National Product was about 6½ per cent.

This growth in the economy was broadly based and brought benefits to people in all walks of life and in all parts of the country. Capital investment by governments and by private business was up very sharply; consumers spent substantially more than in 1964. Employment rose rapidly by just over a quarter of a million workers. By the end of 1965 not only had another 208,000 workers been added to our labour force, but by the end of the year the rate of unemployment had been reduced to 3½ per cent. The expansion in the economy, which has now lasted five years, is the most sustained in Canada's history and it shows no signs of slackening.

In recent months indeed it has become evident that the rate of increase in expenditures is becoming too rapid and that we Canadians are trying to take on a bit more than we can handle. In this respect our position is quite different from what it was a few years ago. As late as 1963 the economy, although already expanding, was still operating well below its potential. The rate of unemployment then was much higher, our industries were operating well below capacity, and supplies of resources of all kinds were readily available. In short, even as late as 1963 there was considerable slack in the economy.

This is not the case today. Despite substantial additions to plant and equipment throughout the economy in the last few years and an unusually large growth in the labour force, most sectors of the economy today and most regions of the country are working at or close to capacity. Shortages of skilled labour have become widespread, shortages of other labour have appeared, and unit labour costs have been rising. Our task this year must be to maintain a reasonable balance between the increases in production which are physically possible and the increase in the demands we place on our resources. Since there is no appreciable slack in the economy to take up this year, we cannot look for as large an expansion of output as was achieved in 1965.

• (8:20 p.m.)

The capacity of the economy at any point in time is limited by the availability of manpower in the right places with the right training, and by our stock of industrial plant and equipment. With the labour force growing and with high annual rates of capital investment, our capacity increases year by year. But to achieve the full potential of our economy, as projected for example by the Economic Council for the year 1970, more than this is needed. We have to improve the quality of our resources and improve our methods of using them. We have to improve the skills of our labour force and organize the labour market more effectively so that people can move readily into the jobs for which they are suited. We have to improve our industrial organization, increase research and development, and ensure that we are using the most modern techniques in industry. The Government has adopted a variety of policies and programs along these lines to help bring our capacity up to our full potential Even so, these will need some years to take full effect. In these terms to speak of a margin between our present performance and our potential may be useful as a guide to assessing and as a spur to developing our longer-term capabilities. But there is no such margin between our present performance and our present capacity.

Our capacity will of course grow in 1966. The labour force will increase by a further 220,000 workers, although not all of them will be located where there are jobs available, nor will they all have the needed skills. There are pockets of unemployment in some regions which will be drawn on more effectively as our manpower programs and area development measures make themselves felt.

During the coming months, with new plant and equipment coming into production, we should be able to achieve higher levels of output per man-hour in many industries. For the nation as a whole, an expansion in the order of 5 per cent in the volume of output over 1965 levels should be within our reach.

However, even this rate of expansion may well be insufficient to meet the additional demands that appear likely to be made on the economy during the current year. Governments at all levels have already indicated that they intend to increase their total capital outlays in 1966 substantially above those of 1965. Growing requirements for schools, universities, hospitals and roads bulk heavily in provincial and municipal budgets. Other forms of government expenditures are almost certain to rise. The latest survey of the investment intentions of private business firms points to a continuation of the present investment boom. In manufacturing for example the business firms apparently intend to increase their capital investment by 20 per cent in 1966 following a similar increase last year. Substantial increases in private investment outside of the manufacturing sector are also expected. With continued high levels of employment and rising rates of wages and salaries, consumers will have more money to spend. Finally we can expect further increases in our exports during the current there is a growing demand for our goods in year. Prospects for wheat sales are good and many markets, particularly in the United States where the economic expansion appears to be accelerating. Indeed, Mr. Speaker—and I would like to emphasize this point—the change in the outlook in the United States in the past three months is an important influence on our present situation, and necessarily upon the policies which we must follow.

All of this being so, 1966 presents a great challenge to Canadians. We have been successful during these past few years in stimulating the economy until it is now operating close to capacity. Are we now prepared to exercise the moderation—as well as the enterprise—needed to keep the economy operating at full capacity not only in 1966 but in the years to come? In other words can we now pace and prolong our prosperity? That is the question we have to face as a people. If Canadians try to achieve more than is physically possible the result can only be severe strains on key industries, shortages of materials, and rising costs and prices; productivity would be adversely affected and our competitive position would deteriorate. Moreover imports would be drawn in at a rate that would bring about a substantially larger deficit in our balance of payments on current account. In recent months imports have been increasing more rapidly than exports; this was reflected in the increase in our current account deficit in 1965, and is likely to result in a further increase in 1966. This is not unreasonable in present circumstances, but we must keep it within sensible bounds.

Balance of Payments

It has been customary for Canada's external deficit on current account to increase during periods of economic expansion. As the domestic demands on our resources approach the limits of our capacity a larger import surplus makes available additional resources. The additional supplies of machinery, industrial products and consumer goods that we thus obtain from other countries help to avert shortages in Canada and help to avoid increases in prices and costs. They enable us to produce more and to consume more. Thus import surpluses help to alleviate pressures on the economy when it is operating at full capacity. By contrast large import surpluses several years ago, when the Canadian economy was running well below capacity, aggravated our own underemployment.

While there are short-term advantages in having a large current account deficit when the economy is at full stretch, we should not blind ourselves to the disadvantages of running such a deficit year after year. The deficit enables us, through borrowing, to use resources today which, as a nation, we have not yet earned and which will have to be repaid out of future earnings. There are dangers in trying to enjoy, through borrowing, a standard of living over the years that is higher than our own productivity allows. Borrowing from abroad at a time when we are undertaking a large investment program is justifiable; but relying on borrowed external capital to sustain a high and rising rate of consumption can be as dangerous a temptation for a nation as for an individual.

From 1962 until our economic expansion gained greater momentum last year we made good progress in reducing our current account deficit. Even in 1965, during a period of rapid expansion, the deficit was much less than in 1959, which was a year of considerable slack. The trend therefore seems to be in the right direction but in the years ahead we must make further progress in reducing this deficit. We have preserved our access to the United States capital market with the co-operation of the United States Government, which recognizes the fact that Canada does not contribute to the United States balance of payments problem. But in the longer run, with the whole world hungry for capital, we cannot assume that it will always be feasible for Canada to import such large amounts of capital as we have in the past. This is not an immediate problem to be solved this year or next. It is a matter of developing a long-term balance of payments policy consistent with our international position as an open economy in an increasingly competitive world. Our basic approach is two-fold: first, through industrial, commercial and manpower policies, to adapt the structure of the Canadian economy to exploit effectively the most rapidly growing markets at home and abroad; and second, to develop and encourage the growth and use of Canadian savings. Canadians should be prepared to forgo some of the apparent advantages of immediate expenditures in order to invest in the expansion and productivity of their own economy.

Economic Council

Mr. Speaker, it is very useful to me as Minister of Finance to have had the opportunity of reading and studying the reports of the Economic Council of Canada. In its last report the Economic Council of Canada pointed out that the recent rate of expansion of investment spending is clearly not sustainable on a long-term basis. Our economy will grow more if the rate of expansion of investment keeps broadly in line with our longer-term potential requirements instead of fluctuating on the basis of the short-term outlook. We need to plan now to maintain our growth in the years beyond 1966. Investments by governments as well as by private business that can be postponed to a later time will help then to maintain stability and growth.

We have all, in government, in business and in labour circles, received much useful information and advice from our Economic Council on how to make our efforts, our labour and resources more productive; and on the proper choice of priorities.

• (8:30 p.m.)

I find myself generally in agreement with the substance of much that the Council has said in both its First and Second Reviews. I have taken to heart the concern that it expresses and implies about the way time lags can impair the effectiveness of fiscal measures and its concern that we must not lose sight of our longer-term goals in dealing with immediate problems. On the other hand I consider unduly pessimistic its opinion that fiscal measures should not be used to deal with what it calls "shorter term cyclical instability" and I do not share its view that fiscal policy can and should be reduced to an arithmetical formula. Appraisal, judgment and flexibility must have their place if we are to succeed.

While our present situation clearly calls for restraint on the increases in spending, rather than stimulus, this could change fairly quickly. Our objective is a steady and sustained rate of growth. Our intention is to keep our fiscal policies flexible, and readily adaptable to changing circumstances.

Mr. Speaker, if we do not by one means or another succeed in moderating the increase in aggregate expenditures this year the most immediate penalty we shall suffer is an inflationary increase in prices. Public and indeed parliamentary concern over this danger is already evident. It was only a few days ago that we were debating this very issue. As a practical matter in our society this danger cannot be avoided by trying to regulate prices and wages. We must deal with the basic issue which is at the present time an excess of spending power over what is available to meet demands. It is this excess which causes rising prices, costs and profits and which harms those in our society whose economic power and bargaining position are weak.

The Out-turn of Last Year's Budget.

Mr. Speaker, I should like to turn now to a review of our government accounts. The outcome of the Government's accounts over the past year has been laid before you in detail in Part 2 of the White Paper. I propose simply to note a few highlights.

Budgetary revenues in the fiscal year now ending are estimated to have been $7,673 million. You may recall that my predecessor in office expected, nearly a year ago, that revenues would rise by some 5½ per cent in the absence of any tax changes, and that he proposed to reduce this growth to just over 3 per cent by a reduction in personal income tax, which took effect last July. These revenue forecasts were based on an expected increase in the value of the Gross National Product of about 7½ per cent. In the event, our rate of economic expansion was such that the value of the GNP rose by about 9½ per cent; and revenues rose as a consequence, in spite of the tax cut, by $493 million, or 7 per cent. This is telling evidence of the considerable momentum which the expansion acquired during the course of 1965.

Expenditures within the framework of the budgetary accounts in the year now at an end are estimated at $7,707 million. This is only three-quarters of one per cent higher than was forecast in last year's budget.

I should like to congratulate my predecessor in office.

Some hon. Members: Hear, hear.

Mr. Sharp: Indeed, I should like to congratulate him again because the resulting budgetary deficit of $34 million was the lowest since the fiscal year which ended on March 31, 1957, nine years ago. To all intents and purposes therefore the budget was in balance this year.

Federal revenues and expenditures on the national economic accounts basis, which takes in non-budgetary government transactions affecting the incomes of individuals and businesses, are again explained and reconciled with the budgetary presentation in Part I of the White Paper. I should like to point out to the house, however, that there was a surplus on the National Accounts basis of some $494 million, compared with the surplus of $279 million in the previous fiscal year. In terms of the impact of the Federal Government's total receipts and payments upon the incomes of the rest of the community, this healthy federal surplus of nearly half a billion dollars was no more than was needed to absorb a substantial volume of potential private demand which would otherwise have largely been translated into higher prices and a larger deficit on current account in the balance of payments.

The Outlook for Revenue and Expenditure in the Coming Year.

I have described our economic situation and prospects and have reviewed the outcome of Federal Government transactions in the fiscal year now ending. Let me now move ahead to discuss the outlook for the new fiscal year.

First of all, without taking into account the effects of this Budget my advisers would now expect another increase of rather more than 9 per cent in the Gross National Product in 1966. Of this, a little more than 5 per cent would be in volume and 4 per cent in price. That is the prediction my advisers made without taking into account any of the proposals that I shall make subsequently. Part of the expected price increase is attributable directly to contributions under the Canada and Quebec Pension Plans and to the recently announced increase in the Ontario provincial sales tax, both of which reflect improvements in public and social services.

On the basis of present taxes and this increase in Gross National Product I would expect our budgetary revenues to be about $8,220 million in the coming fiscal year, an increase of 7 per cent. There are special reasons why this increase in revenue will be less than would normally result from such a large increase in Gross National Product. First of all, the income tax cut of 1965 applied only from July 1 last. In a full fiscal year the cost would be considerably more. In the second place, in 1966 there is a further abatement of three percentage points of basic income tax in favour of the provinces. In the third place, contributions by individuals and employers to the Canada Pension Plan and the Quebec Pension Plan, which commenced at the beginning of this year, are deductible for personal and corporation income tax purposes. Finally, corporation income tax receipts in 1965-66 included some extra revenue in respect of the movement forward of the payment period for this tax which we will not have this coming year.

I am forecasting budgetary expenditures for the coming fiscal year at $8,450 million representing an increase of nearly 10 per cent above the previous year's level. This takes into account not only the Main Estimates which have already been tabled but the expenditures normally made from supplementary estimates. It also takes account of new legislation and programs that have been announced. It reflects as well the efforts to which I shall refer in a moment that my colleagues and I have recently made to defer capital expenditures previously planned for this coming fiscal year.

On the basis of these forecasts, before taking into account my following proposals, we would have a deficit of $230 million in our budgetary accounts. In terms of the national economic accounts there would be a surplus of $370 million.

Policy and Proposals—General

I turn now to the policies and proposals for dealing with the economic and budgetary situation I have been describing. I take this occasion to express my thanks to the numerous Canadians who, in response to my invitation, sent me their recommendations for this Budget.

Some hon. Members: Hear, hear.

Mr. Sharp: I received a great variety of suggestions, some of them quite unorthodox, which I may reveal at some time, but many of them, indeed a very large number, were constructive. If I may be pardoned a parenthetical remark, a great many of the letters said either expressly or implicitly, "I did not know you were interested in my views."

Mr. Fulton: They will find out later that you weren't.

Mr. Sharp: However, I have never regretted having sent out this general invitation.

It is clear that action should be taken promptly to moderate the present boom and to maintain a steady and sustainable rate of growth in our economy. We must avoid the kind of boom that will lead to a bust.

In seeking this major objective we wish also to protect and enhance our productivity and our ability to compete in trade with other nations. We also want to restrain the increase in our balance of payments deficit.

To achieve these aims we must moderate the increase in the total of demands being placed on the Canadian economy this year and next year. These demands include those of governments, of business, of consumers, and of those who buy our exports. We do not want to restrain export demands—we need the proceeds of exports to pay for imports and meet our very heavy obligations in respect of interest and dividends payable outside Canada.

We should restrain in some degree the increase in all the other demands this year on Canada's production.

• (8:40 p.m.)

Government Expenditures

First, in regard to our own government substantially higher this new fiscal year than in the one just closing—higher by some $743 millions, or 9½ per cent. Since last August we have been reviewing our construction programs and deferring a number of projects —both those announced at the time and others that came up subsequently for decision.

Now that we are better able to appraise the total economic situation this year, and our part in it, the Government believes it should exercise further restraint upon its own expenditures, particularly in the field of construction, during this coming fiscal year.

As a consequence the Government has made several decisions. First, that it will not undertake any substantial new programs or projects requiring expenditures in 1966-67 that are not already provided for in the Estimates or are already announced, except for what are clearly unforeseen emergencies. This will mean deferring a number of plans that have been under consideration, or which we have been requested to undertake by the provinces or others.

Second, we will limit our departmental construction programs this year to a total that will be 10 per cent less, in terms of expenditures in 1966-67, than the total figure of $348 million submitted in the Main Estimates now before the House. This will require deferment of a number of projects already included in the Estimates or otherwise announced. We have already decided to defer or re-schedule a number of specific projects which we think can and should be deferred or re-scheduled at this time, among which the following are examples:

(a) a grain elevator at Prince Rupert that we had intended to proceed with immediately but on which the tenders for construction came in at figures much higher than we thought were necessary;

(b) the proposed new Taxation Building in Ottawa, the National Museum, the National Research Council Structures Laboratory, and the commencement of buildings on the Satellite Experimental Farm;

(c) some less urgent work at airports in various parts of the country;

(d) a readjustment of the timetable for the next phase of the Northumberland Causeway project in order to minimize the pressures on the peak summertime employment market and maximize winter employment possibilities;

(e) some harbour and marine works in coastal areas where there is serious pressure on the construction industry;

(f) some smaller public buildings in Ontario and British Columbia.

I regret, and I am sure everyone in this house regrets, that it is necessary to defer these projects and others as well to which I have not referred, but I feel that it is essential to do so if we are to avoid an unreasonable level of demand on the economy this year. I hope that the provincial governments, whose construction programs have apparently increased even more than ours this year, will be able to contribute to this desirable restraint upon aggregate demand by holding back until a later year some of the projects they have scheduled for this year. I recognize that some of their requirements—particularly for schools and universities—are urgent, but there are others—for example some highway building—that could be delayed at some inconvenience but without serious economic or social consequences.

In order to permit deferment of projects, we have already agreed with the provincial governments to place before you amendments to some of our legislation to extend the deadlines for federal grants for various construction programmes. May I say to hon. members of the house that I know that this policy that I am announcing will be acceptable to most provincial governments across this country who are just as concerned as we on this side with the excessive demands that may be placed upon the construction industry this year. This was announced last August 2. We are now prepared to agree to delaying completion of centennial projects to which we are contributing, so that there will be no arbitrary pressure on this score in seeking to complete them by 1967. As a practical matter there is nothing we can do to reduce the abnormal pressure to complete work on many projects in Montreal that are part of Expo '67 or related to it. We are asking our Crown corporations to exercise restraint in respect of any of their projected building plans which can be deferred, as the Bank of Canada has done.

Income Tax

Turning now from expeditures to revenues, I shall lay before you a number of proposals affecting taxation. In the main these are designed to moderate the increase in demand of private individuals and business firms.

Let me begin with the Income Tax, the keystone of our tax system. It is the fairest of our taxes. It must be reformed, however, and made fully effective if it is to be really equitable. I believe it should be used by both Parliament and the provincial legislatures.

I should recall here some remarks I made in answer to press inquiries following the Budget Speech of the Provincial Treasurer of Ontario. He had announced Ontario's decision to increase its personal income tax for the purpose of financing its growing expenditures, a decision which has recently been embodied in a Bill placed before the Ontario Legislature. He made clear that Ontario would need to take such action whether or not there was an additional abatement of the federal tax. I said: "Any province is quite free to increase its income tax under its present arrangements with us—and I hope it will be just as free to do so under the new arrangements we will be working out this year. I think there should be as little suggestion as possible in our new arrangements that the provinces are entitled to use only a specified portion of the income tax and that in going beyond it they are somehow indulging in double taxation ... It is of course the right of a provincial government to decide what is the right combination of taxes for it to use, having in mind both equity and economics. We and they should both take into account as best we can what one another is doing." I regard what Mr. Allan has said and done as being quite consistent with what I am proposing tonight.

[*Translation*]

We will discuss these matters in the Tax Structure Committee this year and no doubt in a full federal-provincial conference of Prime Ministers and Premiers as well. I hope we shall be able to come to understand each others' views on the use of the personal income tax by both levels of government, and that each will accept responsibility for the extent to which it uses this tax, knowing the others' views. I would hope, moreover, that the provinces will be prepared to continue to follow our lead in regard to the various detailed provisions of the law in order to minimize the trouble to which taxpayers may be subject in preparing their returns.

[*English*]

Last year Parliament reduced the income tax by 10 per cent of the basic tax with an upper limit of $600. This was done on the basis of the Government's appraisal of the economic situation at that time and the desirability of stimulating the expansion and growth of the economy.

Some hon. Members: Oh, oh.

Mr. Sharp: It is quite clear, Mr. Speaker, from what I have been saying that this stimulus served to make 1965-66 the most prosperous year in Canada's history.

The stimulus has served its purpose and is no longer appropriate. As a consequence I feel we should now withdraw most of last year's tax cut.

In making the change I feel that we should, however, lighten the load upon those with the lowest incomes. I do so having considered the total tax load being imposed by all governments in all forms.

• (8:50 p.m.)

Accordingly I now propose that effective June 1 we reduce the present limit on the tax cut from $600 per annum to $20 per annum. At the same time I propose that the rate of the tax cut, now 10 per cent, be changed to 20 per cent. With the new limit of $20 only the lowest brackets will benefit from this change in the rate. The result of these changes will be that those with average or better than average incomes will revert to tax levels slightly below the levels that prevailed in 1964. Those with lower than average incomes will pay less tax than they did at that time and less than they are now paying. This new rate of tax will prevail after June 1 this year and will be reflected in the deductions then made. The tax liability for the year 1966 will be a blend of what was enacted in 1965 to be in effect this year and the revised rates proposed to apply after June 1. I would ask permission at this point to insert in *Hansard* tables to illustrate the effect of these changes.

Mr. Speaker: Is that agreed?

Some hon. Members: Agreed.

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

TABLE 1

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX CHANGE

Single Taxpayers—no dependants

Income	Net Federal tax for 1966 if no change made	1965 tax cut to be cancelled	New tax cut for a full year	Change in tax for a full year		Net Federal tax for 1966
$	$	$	$	$	%	$
1,300	15	2	4	− 2	− 15	13
1,500	20	4	9	− 4	− 15	26
2,000	65	10	20	− 10	− 15	59
2,500	110	17	20	− 3	− 3	108
3,000	156	24	20	+ 4	+ 2	158
5,000	390	59	20	+ 30	+ 10	414
7,500	762	115	20	+ 95	+ 13	819
10,000	1,214	184	20	+164	+ 14	1,313
15,000	2,396	363	20	+343	+ 14	2,602
25,000	5,537	600	20	+580	+ 11	5,885
50,000	15,333	600	20	+580	+ 4	15,741

The amounts shown above as net Federal tax are after deducting an abatement of 24% in accordance with current federal-provincial arrangements. The Federal tax in Quebec is lower because of additional abatements but the amount of tax cut is the same in each case. The amounts shown do not include provincial income tax or the old age security tax. It was assumed that taxpayers take the optional standard deduction of $100.

For 1966 the "1965 tax cut" will remain in effect for the first 4/10ths of the year and the "new tax cut" will be in effect for the remainder of the year. The "Net Federal tax for 1966" is after deducting a blend of these two tax adjustments.

TABLE 2

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX CHANGE

Married Taxpayer—no dependants

Income	Net Federal tax for 1966 if no change made	1965 tax cut to be cancelled	New tax cut for a full year	Change in tax for a full year		Net Federal tax for 1966
$	$	$	$	$	%	$
2,300	14	2	4	− 2	− 15	13
2,500	29	4	9	− 4	− 15	26
3,000	65	10	20	− 10	− 15	59
4,000	156	24	20	+ 4	+ 2	158
5,000	266	40	20	+ 20	+ 7	278
7,500	606	92	20	+ 72	+ 12	649
10,000	1,019	154	20	+134	+ 13	1,100
15,000	2,132	323	20	+303	+ 14	2,314
25,000	5,195	600	20	+580	+ 11	5,543
50,000	14,915	600	20	+580	+ 4	15,263

The amounts shown above as net Federal tax are after deducting an abatement of 24% in accordance with current federal-provincial arrangements. The Federal tax in Quebec is lower because of additional abatements but the amount of tax cut is the same in each case. The amounts shown do not include provincial income tax or the old age security tax. It was assumed that taxpayers take the optional standard deduction of $100.

For 1966 the "1965 tax cut" will remain in effect for the first 4/10ths of the year and the "new tax cut" will be in effect for the remainder of the year. The "Net Federal tax for 1966" is after deducting a blend of these two tax adjustments.

TABLE 3

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX CHANGE

Married Taxpayer—2 dependent children eligible for family allowance

Income	Net Federal tax for 1966 if no change made	1965 tax cut to be cancelled	New tax cut for a full year	Change in tax for a full year		Net Federal tax for 1966
$	$	$	$	$	%	$
3,000	22	3	7	− 3	− 15	20
3,500	58	9	18	− 9	− 15	53
4,000	100	15	20	− 5	− 5	97
5,000	199	30	20	+ 10	+ 5	205
7,500	519	79	20	+ 59	+ 11	554
10,000	916	139	20	+119	+ 13	987
15,000	1,973	299	20	+279	+ 14	2,141
25,000	4,986	600	20	+580	+ 12	5,334
50,000	14,665	600	20	+580	+ 4	15,012

The amounts shown above as net Federal tax are after deducting an abatement of 24% in accordance with current federal-provincial arrangements. The Federal tax in Quebec is lower because of additional abatements but the amount of tax cut is the same in each case. The amounts shown do not include provincial income tax or the old age security tax. It was assumed that taxpayers take the optional standard deduction of $100.

For 1966 the "1965 tax cut" will remain in effect for the first 4/10ths of the year and the "new tax cut" will be in effect for the remainder of the year. The "Net Federal tax for 1966" is after deducting a blend of these two tax adjustments.

[Mr. Sharp.]

Mr. Sharp: Mr. Speaker, the Department of Finance estimates that this change in the income tax will increase our revenues at a rate of approximately $210 million per annum. The direct effect in the fiscal year 1966-67 should be about $140 million. It is designed to reduce moderately the rate of increase of consumer expenditures.

I am proposing a few technical changes in the Income Tax Act.

The first is to make more clearcut and specific arrangements in regard to charitable donations. All charitable organizations will be asked to register and to file annual returns of information. Only donations to such registered charitable organizations will be permitted as deductions from income in future years. This will not however affect the existing provision whereby a taxpayer may deduct up to $100 for charitable contributions or medical expenses without submitting receipts. In addition, donations to certain specified classes of charitable organizations outside Canada will be allowed as deductions. The essential points are given in the resolution and the Minister of National Revenue can explain the plans regarding registration when the resolution is under consideration.

Like all Ministers of Finance, I am concerned about the loopholes that remain in the law despite the vigilance of all my predecessors, and I am proposing a number of provisions on this score.

I should like to draw attention to some of them. In recent months there has been evidence of increasing abuse of the section of the Act providing special tax treatment for deferred profit sharing plans. In 1960 and 1961 my predecessor, then the hon. member for Eglinton, with the worthiest of motives, introduced a section in the Act to provide for these plans, which he described as an important piece of social legislation. Since then various businessmen and their professional advisers have exploited this well-intended but vulnerable section in various ways. Essentially what happens in typical cases is that contributions of profits from a business, made deductible in computing income for tax purpose and held in a tax free fund, which were intended to benefit the employees of the business generally are being diverted to benefit a few key people, chief shareholders or their relatives or heirs. The Minister of National Revenue will not accept any more deferred profit sharing plans for registration until we deal with the matter by a revision of the Act. There is a fairly general paragraph in the Resolution covering the essential points, which would apply to existing plans as well as new ones.

In the income tax regulation there are a number of special rates of capital cost allowances that have been granted for limited periods as inducements to action of one kind or another. These will be allowed to expire at the dates now specified, with one exception, namely the special rate on property acquired for the prevention of water pollution. This will be extended until the end of December 1967. Some of these special capital cost allowances are being replaced by grants, which in our view represent a more effective and fairer method of encouraging investment in designated areas, and industrial research and development.

The Resolution includes a paragraph to extend from April 1967 until April 1968 the deadline for the commencement of production for manufacturing projects in designated areas, on which construction has already started, if they are to qualify for the three-year exemption from income tax. Some of these projects are being delayed by events beyond the control of the companies concerned. The purpose of this action is to reduce the pressure that now exists to compete strenuously for equipment, materials and skilled labour which are in short supply. This is similar in principle to the proposed extension of the deadlines in the incentives offered provinces and municipalities to undertake certain types of construction work.

We also propose to extend the three-year tax exemption for new mines to wells for extracting potash by the solution method.

Withholding Tax

I come now, Mr. Speaker, to a major change affecting the sale of Canadian bonds to foreign buyers. The 15 per cent non-resident withholding tax on interest now constitutes in some measure an impediment to the sale of Canadian bonds in the United States and Europe.

In order to improve the market for such securities I propose that interest on bonds and debentures dated after April 15, 1966, issued by the federal or provincial governments or their agencies guaranteed by those governments, or issued by municipalities, or by hospitals and educational institutions guaranteed by a province, shall be exempt from this withholding tax. I have given consideration to whether this exemption should be extended to bonds and similar obligations

[Mr. Sharp.]

issued by businesses or individuals in Canada but I have concluded that I should not come to a decision on this point pending the general review and revision of the Income Tax Act.

This new exemption from the withholding tax will not reduce our revenue from outstanding issues, interest on which is already subject to the tax and will remain subject to it. It will eliminate our revenue from new issues that we would otherwise have expected to yield a tax, and this may cost the Treasury two or three million dollars in 1966-7. There should on the other hand be some saving to provinces and municipalities in what it is necessary to pay in interest to foreign lenders. I hope it will enable some borrowing to be done in Europe, despite the high cost of borrowing there.

I have described the steps to be taken to moderate the growth of government expenditure and consumer spending. I am going to propose three important measures affecting private capital investment. These are complementary, and taken together, should in my judgment effect a reasonable but not excessive degree of restraint on the rate of increase in investment demand.

Sales Tax and Excise taxes

First, the sales tax. I intend to review it thoroughly in the light of the Royal Commission report, our experience with the Tax and the criticisms we have received. Meanwhile several changes should be enacted now.

Beginning in 1963 the house will recall that the exemption from sales tax of building materials and of production machinery and equipment was withdrawn in several stages. The revenue that accrued from this step made a vital contribution to the improvement of the financial position of the Federal Government and the restoration of confidence in our fiscal capacity. It has not stood in the way of a rapid increase in capital investment, and indeed in the past few months has probably assisted in moderating an excessively rapid rate of increase. For a country such as Canada, however, where the ability to compete internationally is so important and where we must maintain a high rate of investment in modern machinery and equipment in order to achieve the increases in productivity which we all want, we should not have a sales tax on—

Some hon. Members: Hear, hear.

[Mr. Sharp.]

Mr. Sharp: I repeat, Mr. Speaker, that we should not have a sales tax on production machinery and equipment as a permanent feature of our system.

Some hon. Members: Oh, oh.

Mr. Sharp: On the other hand, the immediate removal of the tax on the whole of this category at the present time would only tend to exaggerate the capital investment boom now in progress.

• (9:00 p.m.)

There is, however, a certain type of machinery and equipment with very short lifetime, expenditures on which are really part of the current costs of production and which bear significantly upon our export trade and upon production that competes with imports. I refer to dies, jigs, fixtures and moulds, and tools for use in production machinery for shaping and working materials. I have come to the conclusion that these should be made exempt from sales tax forthwith. This is covered in the resolutions that I am placing before you and will go into effect provisionally at midnight tonight.

I next propose that Parliament legislate now to provide for the future restoration of the exemption for the remaining categories of production machinery and equipment. I propose that the exemption be restored partially a year hence, at the beginning of April 1967, by a reduction in the rate then by 5 percentage points, and that it be restored fully a year later, at the first of April 1968. Should the economic circumstances change in the meantime and make an earlier removal of this tax on machinery and equipment economically desirable, I will not hesitate to recomment to parliament in my next Budget that the remaining tax be removed at an earlier date.

The advance enactment of this exemption is proposed deliberately so that businesses can take it into account in their planning. It will constitute some inducement to defer the acquisition of machinery and equipment at a time when the expenditures on these categories seem likely to be exceedingly high, if not in fact excessive, judging from the figures that have just been published in the survey of intentions for private and public capital expenditures this year.

I am not convinced that the exemption from the sales tax for building materials should be restored. The arguments for this are not as strong as those that apply to machinery and equipment, and I am reserving judgment on it until I am able to review our tax system as a whole.

I am also recommending a few minor revisions in the sales tax which will be found set forth in the resolutions and can best be explained and discussed when they are under consideration.

I renew the undertaking given last year by my predecessor, the hon. member for Davenport (Mr. Gordon), that if the considerations of the Special Committee of the House on Food and Drugs lead it to recommend that drugs should be exempt from sales tax as part of a comprehensive and effective programme to reduce the prices of drugs, then the Government would be prepared to recommend such action by means of a special statute covering all the measures required to give effect to such a program.

I have considered the various special excise taxes that are imposed on a number of commodities under the Excise Tax Act. I cannot afford any wholesale revision of these until it can be done in the light of a general program of reform. I am proposing a minor simplification of the excise tax on electronic tubes and cigarette lighters.

The reduction in revenue consequent upon the actions I have proposed for immediate application in regard to the Excise Tax Act would be $21 million in the coming fiscal year. The cost of the first reduction in the present rate of sales tax on production machinery and equipment is estimated to be an additional $63 million in the fiscal year 1967-68. Given the present economic and budgetary outlook, this prospective reduction in revenue and the further reduction in the following year will have to be replaced, when the time comes, by increases in other tax revenues.

Special Temporary Measures

The proposal to provide now for the future reduction and later elimination of the sales tax on production machinery and equipment is the first of my three proposals designed to encourage the postponement of some private investment. I now wish to propose two temporary measures with the same objective.

In designing these measures I have been especially concerned to avoid tax increases of a kind that would get built into production costs and impair our future competitive position. After reviewing measures we have taken in the past, such as the deferred depreciation rules of 1951 and 1952 with which I was closely concerned as an official, and the well known Swedish tax free reserve plan, and several other possibilities put forward by the Department, I have selected two which I think are appropriate to our present Canadian circumstances. They can be brought quickly into effect, they will provide prompt pressures upon and inducements for business to defer capital expenditures, they will not add to the costs of production, and they will help business to maintain capital expenditures in future years. Each can be terminated on short notice without serious effects, should our economic circumstances change substantially.

The first measure has been put into effect by the government in an amendment to the Income Tax Regulations that comes into effect tonight. It reduces the capital cost allowances that may be claimed for various classes of capital assets acquired during the period between now and October 1, 1967—about 18 months. This appears to me the period over which special inducements to postpone business capital expenditures are likely to be necessary, though of course this is a difficult matter to forecast. As I have said, these are the kinds of measures that can be changed quickly, and without any long delays.

This measure will restrict capital cost allowances for certain classes of assets during the three-year period following acquisition, by applying the normal rates to part only of the capital cost of the assets. It will apply to the classes that include most kinds of buildings, machinery and equipment, but not to heavy construction equipment, pipelines or the generating and distributing equipment of public utilities.

For those who need to know more precisely what is affected I should make it clear that the classes involved are numbers 3, 6, 8, 9, 10, 11 and 16. The effect of this measure is approximately the same as if we had reduced the rates for classes 3, 6 and 8 by one half, and for the other classes by ten percentage points. The exact details can be found in the Regulations which I will ask leave to table at the end of my speech.

It will not apply to property acquired under written contracts which can be shown to have existed tonight, to assets which have been used before tonight, nor to assets which are acquired for installation and use in designated areas, or those covered by the special temporary classes established as incentives.

We have for many years used increased rates of capital cost allowances as inducements for accelerating business investment. Indeed we have been using them recently. It is logical that we should now use reductions in these allowances to induce business to defer a part of its investment.

The other temporary measure is designed to divert and immobilize temporarily a modest portion of the flow of funds that is the chief source of finance for the increasing capital expenditure of businesses. I am proposing a wholly new device—a refundable tax on cash profits. It would be payable by all corporations not exempt from tax under Section 62 of the Income Tax Act, and by certain types of trusts on specified types of income. The base for the tax would be the taxable income of the company for the current year, less the income tax payable thereon, plus capital cost allowances deducted in determining income, plus depletion allowances and certain other items that are specified in the Resolution. In determining the tax base we would deduct from this adjusted net taxable income principal payments due and made on the debt of the company which had an original term of three years or longer under written loan contracts existing tonight. This is more precisely described in the Resolution. There will be a general deduction of $30,000 which should be adequate to mitigate the impact of the tax on smaller businesses which do not have ready recourse to the capital market. The appropriate rate of tax has involved a difficult judgment but I have decided on 5 per cent bearing in mind the many items added and deducted in establishing the base. Further details are given in the Resolution, and the measure itself will be incorporated as a separate temporary part added to the Income Tax Act.

This refundable tax would be payable monthly commencing in May this year for a period of 18 months. The monthly payments would be made on an estimated tax base computed by reference to the present or immediately preceding tax year subject to adjustment at the end of the period.

The amounts received under this new measure would be repaid, with interest at 5 per cent, after an interval of 18 to 36 months after receipt. The specific period within this range would be determined by the Government in the light of the economic prospects as assessed late in 1967.

There will of course be problems to be solved in working out the details of a novel measure of this kind, and I shall welcome constructive suggestions from those affected by it or those expert in tax matters or economics as to how we can best accomplish the essential purpose of this measure with the least amount of unnecessary disruption. Some changes in investment plans should result, of course, since this is the purpose of the measure. I would appreciate receiving such suggestions first in writing, or in the House during the debate on the Budget itself, so I can take them into account as early as possible, in the framing of the legislation.

• (9:10 p.m.)

It is difficult to assess with any accuracy the quantitative effects of these new measures relating to capital expenditures. The temporary reduction in capital cost allowances below normal levels will act in the right direction in bringing about some postponement of capital expenditures. It will also increase our corporate tax revenues. The prospect of the reduction and later elimination of the sales tax on machinery and equipment will be a more powerful incentive to postpone capital expenditures. The refundable tax on cash profits should yield I would think something of the order of a quarter of a billion dollars in a full year. All in all, I would think it reasonable to expect that these three measures taken as a whole might result directly and indirectly in a reduction by a third of a billion dollars this year of the intended increase in business investment expenditure.

That increase—not the total; just the increase itself—was estimated at about one and one quarter billion dollars in the Public and Private Investment Outlook for 1966. This reduction in the rate of increase would be only a moderate one, but should serve to bring the total increase much closer into line with the increase in our capacity to produce what is demanded taking into account that there is some spare capacity available in designated areas. Similarly it should restrain the increase that would otherwise occur in the current account deficit of our balance of payments. The aftermath of these deferments should help to maintain a high level of business investment in future years and thus contribute to sustained growth, because the house will have noticed that all these measures have a very stimulating effect, eventually, on the level of construction, and thus help to stretch out our business prosperity.

Resulting Budgetary and Cash Position

Drawing together the effects upon our revenues and budget position of the results of these various measures requires consideration of the effect of them on total expenditures and incomes and thus on our revenues from existing taxes. The department estimates that the budget measures as a whole should restrain the increase in Gross National Product to something over 8½ per cent instead of over 9 per cent as I mentioned before the tax changes. One must recognize that many imponderables must be assessed in any such calculation. We hope and expect that most of this reduction would consist of a smaller increase in costs and prices.

Taking this reduction in Gross National Product into account I estimate that our budgetary revenues, after the tax changes will be $8,300 million. This excludes the yield of the refundable tax which cannot properly be included in revenues for accounting purposes, though it has similar economic effects and I am assuming the statisticians will include it in revenues for the purpose of the national economic accounts.

With the consent of the House I would like to place on *Hansard* here a table summarizing our expected revenues from various sources making up this total of $8,300 million, and the tax revenues which go into the Old Age Security Fund. I am including for comparison our preliminary figures for revenues in the current fiscal year.

Mr. Speaker: Is this agreed?

Some hon. Members: Agreed.

Mr. Sharp: The table is as follows:

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

Table 4

Budgetary and Old Age Security Fund Revenues

	1965-66 Prelim- nary $ million	1966-67 Forecast after Tax Changes $ million
Personal Income Tax	2,150	2,378
Corporation Income Tax	1,610	1,731
Non-resident with-holding tax	170	177
Estate tax	107	101
Customs duties	676	749
Sales tax	1,385	1,475
Other duties and taxes	734	773
Total taxes	6,832	7,384
Non-tax revenues	841	916
Budgetary revenues	7,673	8,300
Old age security fund revenues	1,163	1,277
Total revenues	8,836	9,577

Setting these revenues against our budgetary expenditures of $8,450 millions leaves us with a budgetary deficit of $150 million for the new fiscal year—again disregarding the yield of the refundable tax. In terms of the national economic accounts, where I am including as revenue the yield of this refundable tax, I am forecasting a surplus of about $615 million, compared with $494 million in the year now closing. These figures do not include the accumulation of funds in the Canada Pension Plan, which will be shown separately in the statistics. Such accumulation will be an additional source of national savings, as will be the corresponding item for the Quebec plan. I shall include with the budget papers as an appendix to *Hansard* if the House will agree, tables giving these national economic accounts figures and their reconciliation with the budgetary accounts.

We have of course many substantial transactions outside our budgetary accounts which must be taken note of in assessing our overall position. Our loans and investments will be higher this coming year than in the year now closing, chiefly because of Expo 1967 whose cash requirements will be at a peak this year. Another large factor will be our disbursements of Municipal Development Loans which will be high as projects are completed and interim financing is refunded by drawing upon the loans we have approved. On the other hand our non-budgetary receipts, apart from public debt transactions, will be down modestly, apart from the refundable tax—which I would leave out of account for the present, as well as any change in the level of our exchange reserves. The net balance of non-budgetary items on this basis I would expect to be a requirement of about $350 million compared with $163 million last year. Adding this to the budget deficit would give a total requirement for cash of about $500 million this year compared to $187 million shown in the White Paper for the year now closing.

I do not propose that we should disburse the funds we receive from the refundable tax as we do normal revenue. Instead I would plan to hold it as an addition to whatever cash balances we would otherwise hold, unless economic circumstances change and make it economically desirable for us to borrow less and ease the pressure on the capital market.

I should also recall that in our balance of payments arrangements with the United States the government has agreed that it would aim to reduce its exchange reserves to a range that would centre around $2,600 million. This would involve a reduction of an order of magnitude of about $200 million from the figure at the beginning of this month. However, the Government of Canada may either have to purchase Canadian securities held in the United States or itself borrow in the United States, depending on the requirements of our balance of payments and the borrowing which others do outside Canada. Consequently I believe we should not try at this time to forecast the effect of these prospective changes in our reserves and related transactions upon our requirements for cash in Canada.

Our cash balances now, very near to the beginning of the year for which we are budgeting, are reasonably high. The extent to which we should draw them down rather than borrow to meet our cash requirements will be a matter to be decided upon from time to time during the year depending upon the state of the capital market, monetary policy and other economic circumstances. In this new fiscal year it is evident that our debt management decisions and operations will have an important role to play in our general economic policy.

I should point out that the accumulation and investment of funds under the Canada Pension Plan, though large, will have little bearing upon our accounts or financing since we lend all these funds, except working balances, to the provincial governments or their agencies in accordance with the Canada Pension Plan act.

Concluding Remarks

Before concluding I should like to make two points briefly. The Economic Council for Canada in its first Annual Review, in describing the conditions and policies which it considered necessary to reach our economic goals —as indicated in the Act establishing the Council—called for "Responsible restraint in both wage demands and business pricing policies, with clearer recognition that failure to maintain reasonable price and cost stability will frustrate the attainment of other basic economic objectives, such as balance of payments viability and high employment, while also comprising our capacity to achieve steadily advancing living standards for the Canadian people, reasonable profitability of business, and the maintenance of purchasing power of pensions and savings." This is a time when all Canadians should observe such restraint, in our own long term interest, and resist the temptation to exploit the bargaining positions which the present boom presents to many in the country.

Second, we need more saving on the part of Canadians, and more investment in the capital assets of Canada's economy—private and public. We need it now more than ever before in normal peacetime. A modest increase in saving at the cost of reducing personal expenditure in boom times is a means by which Canadians, as individuals, can contribute to the success of national economic policy. The poor that remain among us cannot be expected to save more this way—but those of average incomes and better can.

[*Translation*]

I need hardly say that as a new Minister of Finance I would have preferred the main features of my first Budget to be proposals to reduce taxation. But we can all take satisfaction from the fact that our problems are no longer the problems of overcoming slackness or stagnation but those of managing growth and prosperity. Our task is to sustain the longest economic expansion in Canadian history.

[*English*]

I want to take this opportunity to express my warm appreciation of the contribution to this expansion that was made by the policies of my predecessor the hon. member for Davenport (Mr. Gordon).

• (9:20 p.m.)

I believe the measures I have proposed tonight will serve to moderate but by no means eliminate the increase in demand on our economy this year. Our situation calls for some restraint in expansion; it does not call for deflation. As a nation we should ease up our foot on the gas pedal, not slam on the brakes. We want growth, but sustained growth, not erratic fluctuations. The keynote of this budget is moderation. This is what is needed today if we are to guide our economy toward successive years of expansion and continued prosperity.

RESOLUTIONS

CUSTOMS TARIFF

1. Resolved, that Schedule A to the *Customs Tariff* be amended by striking out tariff items 945-1, 7905-1, 20925-1, 21045-1, 23505-1, 23705-1, 24100-1, 26325-1, 41105-1, 42205-1, 44043-1, 44047-1, 44125-1, 70500-1, 70505-1 and 84805-1, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting therein the following items, enumerations of goods and rates of duty:

					Rates in Effect Prior to Rates Proposed in this Budget		
Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
945-1	Feeds for use exclusively in the feeding of trout......	Free	Free	25 p.c.	Free	Free	25 p.c.
	on and after July 1, 1968	15 p.c.	20 p.c.	25 p.c.	15 p.c.	20 p.c.	25 p.c.
						(on and after July 1, 1966)	
7905-1	Carnation cuttings in their first year of introduction.	Free	Free	Free	Free 12½ p.c.	Free 12½ p.c.	Free 30 p.c.
20925-1	Potassium chloride................................... (Applicable to December 31, 1967)	Free	Free	25 p.c.	Free	Free (Applicable to December 31, 1966)	25 p.c.
21045-1	Sodium hypochlorite in solution..................... (Applicable to December 31, 1967)	15 p.c.	20 p.c.	30 p.c.	15 p.c.	20 p.c. (Applicable to December 31, 1966)	30 p.c.
23505-1	Liquorice blocks, granules, paste or powder, not sweetened..	Free	12½ p.c.	17½ p.c.	Free Free	12½ p.c. 15 p.c.	17½ p.c. 25 p.c.
23705-1	Deuterium oxide or heavy water; uranium in the form of pigs, ingots, billets or bars.....................	Free	Free	25 p.c.	Free	Free	25 p.c.
	on and after July 1, 1968	Free	15 p.c.	25 p.c.	Free	15 p.c. (on and after July 1, 1966)	25 p.c.
24100-1	Litharge and mixtures or combinations of litharge with other materials, such mixtures or combinations to contain not less than 50 per cent by weight of litharge, for use exclusively in the manufacture of storage battery plates...........................	Free	Free	Free	Free 15 p.c.	Free 20 p.c.	Free 25 p.c.
26325-1	Compounds of tetramethyl lead, in which tetramethyl lead is the preponderant constituent by weight... (Applicable to December 31, 1967)	12½ p.c.	12½ p.c.	25 p.c.	12½ p.c.	12½ p.c. (Applicable to December 31, 1966)	25 p.c.

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Budget: Most-Favoured-Nation Tariff	Rates in Effect Prior to Rates Proposed in this Budget: General Tariff
41105-1	Machines, logging cars, cranes, captive balloons having a volume of 150,000 cubic feet or more, blocks and tackle, wire rope, but not including wire rope to be used for guy ropes or in braking logs going down grade, and parts of all the foregoing, for use exclusively in the operation of logging, such operation to include the removal of the log from stump to skidway, log dump, or common or other carrier.	10 p.c.	12½ p.c.	20 p.c	10 p.c 25 p.c. 20 p.c	12½ p.c. 25 p.c. 27½ p.c.	20 p.c. 35 p.c. 50 p.c.
42205-1	Concrete road-paving machines, self-propelling, end loading type, with a capacity of 21 cubic feet of wet concrete or more; concrete and asphalt road finishing machines; form graders; sub-graders; combination excavating and transporting scraper units; concrete mixers, transit type; dump wagons or trailers, having a capacity of 10 cubic yards or over, not self-propelled; back-filling machines and equipment, mounted on self-propelling wheels or crawling traction, semi- or full-revolving boom and scraper type; steam or air driven pile hammers or extractors; truck turntables; all the foregoing of a class or kind not made in Canada, parts thereof............	Free	7½ p.c.	12½ p.c.	Free Various	7½ p.c. Various	12½ p.c. Various
	Aircraft, not including engines, under such regulations as the Minister may prescribe:						
44043-1	When of types or sizes not made in Canada.......... on and after July 1, 1967	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (on and after July 1, 1966)	27½ p.c. 27½ p.c.
	Aircraft engines, when imported for use in the equipment of aircraft:						
44047-1	When of types or sizes not made in Canada.......... on and after July 1, 1967	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (on and after July 1, 1966)	27½ p.c. 27½ p.c.
44125-1	Guns and rifles of a class or kind not made in Canada; parts thereof..................................	Free	7½ p.c.	30 p.c.	Free 10 p.c. 15 p.c.	7½ p.c. 22½ p.c. 20 p.c.	30 p.c. 35 p.c. 30 p.c.

[Mr. Sharp.]

44725-1	Well points, well screens, well strainers, pitless well heads; all the foregoing of a class or kind not made in Canada, parts thereof........................	Free	7½ p.c.	12½ p.c.	Free 10 p.c.	7½ p.c. 22½ p.c.	12½ p.c. 35 p.c.
57210-1	Oriental rugs or carpets with pile hooked or knotted by hand..	15 p.c.	15 p.c.	40 p.c.	25 p.c.	25 p.c.	40 p.c.
	and, per square foot		5 cts.	20 cts.		5 cts.	20 cts.
70505-1	Goods, as defined by regulations made by the Minister, imported by a settler for his household or personal use, if actually owned by the settler and in his possession and use before his removal to Canada, under such regulations as the Minister may prescribe..	Free	Free	Free	Free Various	Free Various	Free Various
	Any goods imported under this tariff item which are sold or otherwise disposed of within twelve months after importation are subject to the duties and taxes otherwise prescribed.						
84805-1	Machines and apparatus and parts thereof (including motive power) of a class or kind not made in Canada and drilling mud, for use in the exploration, discovery, development and operation of potash and rock salt mines or for use in the production of crushed and screened rock salt........................	Free	Free	Free	Free	Free	Free

2. Resolved, that Schedule B to the *Customs Tariff* be amended by striking out item 97052-1 and the enumeration of goods and the rate of drawback of duty set opposite that item, and by inserting therein the following item, enumeration of goods and rate of drawback of duty:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
97052-1	Machines; precision instruments and apparatus for heat treating, welding, sorting, testing, inspecting or correcting; control panels for use with the aforementioned machines and precision instruments and apparatus; all of the foregoing of a class or kind not made in Canada; accessories and attachments for use with the aforementioned machines and precision instruments and apparatus; parts of all the foregoing, not including consumable tools.	When used in the plants of manufacturers of automobiles and motor vehicles or of automobile or motor vehicle parts for the manufacture of automobiles and motor vehicles or of automobile or motor vehicle parts; or when used for the manufacture of dies, jigs, fixtures or moulds which are used in the production of automobile or motor vehicle parts..	99 p.c.

3. Resolved, that Schedule C to the *Customs Tariff* be amended by striking out item 99219-1 and the enumeration of goods set opposite that item, and by inserting therein the following item and enumeration of goods:

99219-1 Used or second-hand mattresses or materials therefrom:
This item does not affect in any manner:
(a) mattresses imported under traiff items 70405-1, 70410-1, *70505-1*, 70600-1, 70700-1, 70800-1, or under tourists' or travellers' vehicle permits;
(b) materials from used or second-hand mattresses, when imported after having been cleaned and fumigated, under such regulations as the Minister may prescribe, accompanied by such certificates as he may designate.

4. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the 30th day of March, 1966, and to have applied to all goods mentioned in the said resolutions imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

[Mr. Sharp.]