Mr. Speaker: Order, please. I am sure the hon. member for Moose Jaw wishes to adjourn the debate. It is moved by the hon. member for Moose Jaw, seconded by the hon. member for Yorkton-Melville, that the debate be now adjourned. Is it the pleasure of the house that the debate be now adjourned?

Some hon. Members: Agreed.

Mr. Macdonald (Rosedale): Mr. Speaker, because of the fact that we are having royal assent and then proceeding with other business of eight o'clock, I believe there is a general dispensation—disposition—in the house not to proceed with private members' hour this evening. If Your Honour finds there is general agreement, perhaps this could be done on the understanding that all motions would preserve their place on the order paper and also that this hour would be saved for the house as a further private members' hour.

Mr. Knowles (Winnipeg North Centre): Mr. Speaker, I am sure I would rather agree to a general disposition than to a general dispensation.

Mr. Speaker: Is this the desire of the house?

Some hon. Members: Agreed.

Mr. Speaker: It is so ordered.

PROCEEDINGS ON ADJOURNMENT MOTION

SUBJECT MATTER OF QUESTIONS TO BE DEBATED

Mr. Speaker: Order, please. It is my duty, pursuant to provisional standing order 39A, to inform the house that the questions to be discussed at the time of adjournment this evening are as follows: The hon. member for Lotbinière (Mr. Fortin)—National Health and Welfare—inquiry as to possible participation of federal government in a campaign against alcoholism; the hon. member for St. John's West (Mr. Carter)—Fisheries—inquiry as to deficiency payments; the hon. member for Gander-Twillingate (Mr. Lundrigan)—Management of Canada's Fishing Resources—continental shelf.

THE ROYAL ASSENT

A message was delivered by Major C. R. Lamoureux, Gentleman Usher of the Black Rod, as follows:

> Mr. Speaker, the Right Honourable the Deputy Governor General desires the immediate attendance of this honourable house in the chamber of the honourable the Senate.

Accordingly, Mr. Speaker with the house went up to the Senate chamber.

• (5:50 p.m.)

And being returned:

Mr. Speaker informed the house that the Deputy Governor General had been pleased to give, in Her Majesty's name, the royal assent to the following bill:

> An act respecting the construction of a line of railway in the province of Alberta by Canadian National Railway Company from the vicinity of Windfall on the Windfall extension to the Sangudo subdivision of the Canadian National Railway in a westerly direction for a distance of approximately 51 miles to the Bigstone property of Pan American Petroleum Corporation and of a connecting spur extending in a northerly direction for a distance of approximately 9 miles to the South Kaybob property of Hudson's Bay Oil & Gas Company Limited and its associates.

At six o'clock the house took recess.

AFTER RECESS

The house resumed at 8 p.m.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. E. J. Benson (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 is a great honour and a serious responsibility to present the first budget to this new twenty-eighth parliament of Canada. The government and its strong parliamentary majority have come into office with many new ideas and a desire to look at our problems with a fresh perspective. We have, however, many major commitments. These restrict our freedom of innovation and make it necessary for us to work out our new ideas over time.

I have much to report and to propose in this budget and therefore will not attempt a comprehensive review of our financial affairs and policies tonight. The budget white paper, tabled last Wednesday, provides material on our public accounts for 1967-68, and on the economic and financial conditions prevailing in Canada and elsewhere as of the time when it was prepared. I shall refer occasionally to this paper but I shall try not to weary the house with repetition of detail. In particular I do not propose to comment upon the accounts for 1967-68.

Current Economic Setting

The current economic setting for this budget has been set forth in part I of the White Paper. The Canadian economy continues the expansion that began in 1961, that ran to excess in 1965 and 1966, that slowed down in adjusting for these excesses in 1967, and that has accelerated moderately again this year. We are in a period of widespread prosperity, but it is prosperity with problems. The increase this year in production, in national income, in exports, in housing investment, and in industrial productivity has been encouraging. On the other hand, we are troubled both by the extent of unemployment and by the rate at which prices are increasing. Our balance of trade has been better than expected, but our capital markets continue to be subject to serious strains. These are reflected not only in high interest rates but in problems for many borrowers and for those who sell securities.

In the international economic field, we have in recent years made great advances in freeing trade. We are still engaged in implementing agreements by legislative action. Tonight I shall lay before you some 200 pages of tariff items which implement our part of these international arrangements, together with a resolution asking approval for a new bill on anti-dumping duty which will follow consideration of our white paper on this subject by a committee of this house. These are important and constructive measures. Together with related action by others, they should widen the markets and improve the productivity of Canadian industry. They should also provide to Canadian consumers the benefits of increased competition in domestic markets.

In monetary matters, the period under review has been one of many difficulties but has ended upon a most constructive note. For years the Canadian government, with other western governments, has been working out a plan to supplement gold and foreign exchange balances with new forms of international liquid reserves that could be expanded in accord with the needs of world trade and other transactions. After considerable debate this has now been achieved. Parliament will be asked to approve amendments to the Bretton Woods Agreements Act to carry out our part in these new and encouraging arrangements.

• (8:10 p.m.)

Before these new arrangements could be completed several major crises occurred during the past year in the international financial markets. Sterling was devalued. There was a prolonged crisis in gold markets which was only resolved by the working out of a new two price system for gold as well as by more stringent measures by the U.S. to safeguard and improve its balance of payments position.

During this period of stress in the international financial markets last winter there was a short but very sharp run on the Canadian dollar, despite an unusually strong position in Canada's current account balance of payments at that time. We were in danger of being forced into an inappropriate devaluation of our currency, which would have brought higher prices and costs to the Canadian economy and the Canadian consumer. Our position was strengthened by monetary and fiscal measures taken at that time. We were fortunate in being able to get from international institutions and from friendly monetary authorities and governments the temporary assistance that we needed to sustain us during this crisis. We also were able to work out with the United States Treasury arrangements which enabled us to safeguard our vital unrestricted access to the U.S. capital market while not endangering or worsening the U.S. balance of payments position. Subsequently we have been able to borrow substantial sums in Italy, in Germany, and in the United States to assist us in restoring our exchange reserves.

Medium Term Outlook

In looking ahead through the prospective life of this Parliament, we can be optimistic regarding both the resources that will be available to sustain vigorous growth in the Canadian economy and the markets that will be available for what we produce. We have a labour force that is growing more rapidly than that of any other industrial country. It is also increasingly well educated and trained for work in modern jobs. Our natural resources are the envy of others and the basis of much of our industry and wealth. We have a large industrial capacity, much of it now relatively modern and little of it in serious excess. We have access to a large supply of savings within Canada, since we save a high proportion of our income by comparison with others. Fortunately we also enjoy a preferred position in securing international capital, both direct investment associated with modern management, and loan capital in large amounts. At the same time we can look forward to demands for large scale investment by business in new plant and equipment, growing needs in housing and urban development, and the continued expansion of useful social capital, including hospitals, schools and universities. There should be no dearth of demand during the next four years.

We do face serious problems, however, in organizing our economic advance and expansion, in managing it and in financing it. Both in our public and private activities these tasks are going to require the best brains and work that Canadians can devote to them. Great economic advance is open to us but only if we manage our affairs well.

Short Term Outlook

The outlook for the remainder of 1968 and for next year is discussed in general terms in the first few pages of the White Paper. Conditions in the United States have as usual had a most important influence upon our affairs. This has been true both in the financial markets, where their high interest rates and shortage of capital have affected us directly, and in their markets for our products. Our exports, assisted by the automotive agreements, increased very rapidly early this year. Now that the United States has put into effect its new fiscal policy, approved by Congress in June, we must expect a moderation in their pace of expansion and, we hope, in the rate of price increases which are associated with it.

In our internal affairs we expect to see continued strength in the sustaining forces of our economy. Business investment in Canada has begun to increase again after the pause of 1967 and I look for a significant advance next year. Expenditures on housing in Canada have risen substantially during this year and should continue to expand significantly in 1969, when demand will be strong and when we would expect more mortgage funds to be available. The market for consumption goods and services in Canada has also been strong this year. Looking ahead, we can expect to see further gains in consumer expenditure in real terms, though perhaps at a more moderate rate in money terms if we can succeed in moderating the rise in prices, costs and money incomes in accordance with our anti-inflationary policy. The generally bouyant outlook, however, is marred by regional problems, particularly those now faced by the prairie farmers and the relative lack of employment opportunities in Quebec and the Atlantic provinces.

I now expect to see a level of gross national product and gross national expenditures this calendar year of approximately $67 billion, or about 8 per cent over the $62 billion achieved in 1967. Of this increase, a larger proportion than was the case last year, say about 4½ per cent, should be in real terms, while the average increase in prices reflected in the G.N.P. may average out around 3½ per cent as compared to about 4 per cent last year. This is a modest improvement in price performance though it clearly cannot be regarded as satisfactory.

I will not endeavor to put a precise figure to my expectations for 1969 at this very early stage, but in considering the budgetary position for next year I have had to form some views. I should say that over-all we might expect a somewhat better price performance and about the same increase in volume as this year. This implies a growth in G.N.P. from 1968 to 1969 of something between 7 and 8 per cent. I think we shall continue to face a situation where both the level of unemployment in some areas and the rate of increase in prices will continue to give us concern.

Current Fiscal Position

I turn now to review our current fiscal position. The last budget was that of November 30th, 1967, in which my colleague, the present Secretary of State for External Affairs, was confronted, as I have been since, with difficult problems in the financial markets. He proposed some tax increases and stated the government's intentions to limit its expenditures this year to $10,300 million, apart from medicare, and to limit its demands on the capital market this fiscal year (apart from requirements to finance foreign exchange purchases) to less than $750 million. Those proposals would have just about balanced the budget this year. Subsequently the proposed revenue measures were not approved by Parliament and had to be changed, which has reduced our prospective revenues. While we succeeded in imposing a vigorous restraint upon those expenditure programs which are within direct control of the government, we substantially underestimated the growth in our expenditures under certain statutory obligations and particularly in several large federal-provincial programs.

• (8:20 p.m.)

After reviewing the reports from the Treasury Board that I have received and taking into account as best we can the supplementary estimates we must still place before Parliament, I estimate our total expenditures this year will be $10,780 million, about 4½ per cent higher than our original intention. I now estimate our revenue this year—before taking in the tax changes I am proposing—will turn out to be approximately $10,050 million. This would leave a substantial deficit of $730 million. These figures do not include any write-off of our share of the Expo deficit, which involves no cash expenditure and which will be the subject of legislation later in this session. This deficit of Expo has been financed in earlier years and we are now recovering a part of the cost from Quebec.

Our extra-budgetary accounts this fiscal year have been complicated by the rundown in our exchange reserves late in the last fiscal year and their restoration in recent months. Early in 1968 the rundown of our exchange reserves produced a temporary swelling of our cash balances—a situation which made it possible and desirable to postpone borrowing during the latter part of last fiscal year. Apart from foreign exchange operations, our loans and investments this year have been a bit less than expected, though in the housing field the slower than expected demand by provincial and local authorities for loans for public and other institutional housing has made it possible to provide a winter program of direct loans for owner-occupied housing. This program will not only help to meet a real need but will also provide a direct stimulus to employment.

Apart from the financing of exchange, our net extra-budgetary requirements for cash during this fiscal year I now forecast at $600 million. This must be added to the budgetary deficit in assessing our total cash requirements, including those being met by reducing our cash balances.

In regard to exchange we have had to utilize $490 million Canadian since April 1st up to the end of last month in order to finance our net purchases of foreign exchange in the market which is evidence of the recovery in strength of the Canadian dollar. This has been added to our reserves. The government has also borrowed the equivalent of $US 234 million outside Canada to be added to our reserves during this period. Part of these new foreign exchange resources has of course been used to pay off in full the short-term international obligations incurred during the exchange crisis.

[Mr. Benson.]

To meet the large Canadian cash requirements this year we have been able to draw down the abnormally large balances we had at April 1st—$997 million—mainly arising from the sale of U.S. dollars during the exchange crisis. In addition we have had to borrow very substantial sums, by issues of marketable bonds at June 15th, August 1st and October 1st, by the sale of the special replacement issue of Canada Savings Bonds in May, mainly to refund in advance the large issue maturing this year but also in part providing cash, and by increasing the volume of sales of Treasury Bills. The proceeds of these issues, together with our cash balances, have been used: first, to refund maturing issues; secondly, to meet the very large net redemptions of Canada Savings Bonds (amounting to $556 million up to October 16 this fiscal year); thirdly, to purchase exchange in the market; and, finally, to meet our current budgetary and extra-budgetary requirements. To October 16 this fiscal year we have borrowed $428 million on balance in the Canadian market after taking into account refundings and redemptions both of marketable obligations and of Canada Savings Bonds.

Our objective in the current Canada Savings Bond campaign is a record sale which will raise a large amount of cash during November. The terms are very attractive in comparison with earlier Series and with other investment possibilities. This savings bond is an excellent investment through which Canadians in all walks of life can conveniently and profitably put their money to work in furthering their own interests and the national interest through the financing of important constructive programs such as housing; nuclear power is another example, and of course farm credit. To achieve a broad placement of the new Series of Canada Savings Bonds, a vigorous effort is underway from coast to coast by a large and experienced payroll savings organization, by the banks and other financial institutions and by investment dealers and stockbrokers. This effort is backed by a first class advertising campaign using all major media. The attractive terms will prompt many holders to convert earlier Series into the new Series. To cover these rollovers and to produce a large amount of cash will require a gross sale during the campaign period in excess of the previous record established in 1966. I believe our savings bond organization is mounting the best operation of its kind in the western world and I look forward to its success as a major element in our financing program this year.

Mr. Harkness: What is your estimate of the amount of money involved?

Mr. Benson: We will need to borrow in the market again before this fiscal year is over in order to refund maturing debt and possibly to raise some additional cash as well but the total of such marketable financing will depend importantly on the outcome of the Savings Bond campaign.

1969-70 Fiscal Outlook

It is difficult to forecast our position in the next fiscal year at such an early date as this, yet I feel I must make some effort to do so in order to develop the tax proposals that I think it is necessary to place before you tonight.

We intend to continue severe restraint upon those direct expenditure programs under the government's control, eliminating what is obsolete and permitting only the degree of growth that is essential. We shall have to resist requests by members on both sides of the house, and from groups and individuals outside, to spend money for worthy purposes which we cannot afford to do along with the other things we are doing. It will also be necessary to maintain a virtual freeze on the size of the public service of Canada. We shall also seek the vigorous cooperation of the provincial governments in the same kind of restraint upon the growth of the jointly financed expenditure programs under their control. Even those programs which we and they agree deserve priority must be carried out with maximum economy, and with a keen eye to what is really essential.

On this basis I am now forecasting budgetary expenditures in the next fiscal year at approximately $11,670 million, including medicare expenditures on the assumption that all provinces will take advantage of the Medical Care Act. This would be an increase of $890 million, of which about $335 million would be for medicare—leaving an increase of less than 5½ percent for all other expenditures. Revenues for next year—before the tax changes I am now proposing or those that may arise from our tax reform program next year—can be estimated at about $10,830 million, a growth of approximately 7¾ percent over the current year. This takes into account a variety of special factors as well as general economic growth.

• (8:30 p.m.)

We must of course keep in mind the loans and investments to be made next year, as well as our expenditures, in assessing the nature and scale of our fiscal problems. Our detailed budgets in this field are not yet decided. By far the largest element in this total is housing. The capital budget for the Central Mortgage and Housing Corporation next year should reflect the conclusions of the government after it receives the views of the special task force headed by my colleague, the Minister of Transport (Mr. Hellyer). It will also include farm credit as a major element, where we must endeavor to take into account the extent to which demands can be met from the banks and other institutional lenders. The revision of the Farm Improvement Loans Act will help in this regard. In addition of course we have a wide variety of loans and investments for nuclear and other special power projects, for the Seaway and Air Canada, the Canadian National Railways and other crown agencies, and for foreign aid and export credits. I would expect the total to be something of the same general level as this year, and partly offset by receipts of cash from outside the budget (from employee pension funds and other accounts for example). The net extra-budgetary requirement for cash would appear likely to be of the order of $600 or $700 million, excluding what may be required for foreign exchange purposes.

These extra-budgetary requirements are demands that we would normally aim to meet by borrowing. At the level indicated, however, they alone will pre-empt most or all of what we should expect to borrow next year in competition with other borrowers in the capital and credit markets.

Control of Public Expenditure

Our experience this past year, and the prospects next year, force us all to recognize the central problem of the control of public expenditures in Canada today. This is a problem that confronts not only the parliament of Canada but also the legislatures of the provinces and the Councils of the municipalities. The past decade has witnessed a very rapid increase in the scale of public expenditures at all levels, and particularly by provinces and municipalities. I will not endeavor to give detailed figures to the house at this point, but we may note briefly that expenditures by all governments as recorded in our national economic accounts have risen from $8.7 billion in

1957 to $21.2 billion in 1967. Of this increase of $12.5 billion some $8.4 billion has been in provincial and municipal final expenditures. Federal transfer payments to provinces, of course, have increased very rapidly to help meet this growth. When these transfers are eliminated, the increase in federal expenditures for its own direct programs over this period has been $4 billion. In 1957 they were 15.1 percent of the G.N.P. By 1967 they had fallen to 14.3 percent of the G.N.P.

It is well known that several large programs that we finance jointly with provincial governments are those that have been found most difficult to control. These include notably the program commenced in 1967 whereby we have provided tax abatements, equalization payments, and direct cash adjustment payments under the Fiscal Arrangements Act to assist the provinces in meeting the costs of university and other post-secondary education. Included in these shareable costs are large sums spent for senior matriculation courses in secondary schools, such as grade 13 in Ontario. Our assistance for such education amounts to one half of the total operating expenditures in the provinces, including those financed by student fees or other sources. These costs are now increasing at an annual rate of about 20 percent, and our adjustment payments must be expected to rise very rapidly to reflect this phenomenal expansion.

The other most rapidly expanding program is hospital insurance, where the current rate of cost increases exceeds 15 percent despite the fact that the program is now well established and reasonably mature. Payments for general welfare purposes under the Canada Assistance Plan are large, but they are not subject to such rapid built-in cost increases and do not cause as much concern. Medicare of course will quickly become a large joint program and will involve growing expenditures for us as well as for the provinces for some time. However, in view of the substantial increases in medical fee schedules in recent years, the new medicare program should not run into cost increases as large as those of hospital insurance, for example. We should note that new government expenditures for medical care will be mainly replacing payments by individuals for the same purpose or payments made through existing private or public plans. Only a fraction of the cost will constitute an increasing demand upon the economy, but the result should be a fairer and more efficient system of assuring health care for all Canadians regardless of income.

[Mr. Benson.]

Mr. Knowles (Winnipeg North Centre): At last the government is beginning to realize this.

Mr. Benson:

Discussions with the Provinces

The effective management of all these major services is a matter for the provinces. It is in the mutual interest of all the governments and of the people of Canada to ensure that expenditures under these very important programs are made economically and in accordance with sound judgments as to priorities and rates of growth, taking into account the burdens they place on the taxpayers as well as the objectives of the programs themselves. I plan to meet with the treasurers and finance ministers of the provinces early in November to discuss these questions. I expect that in reviewing this health field we will be joined by our colleagues, the ministers of health who will also be meeting here at the same time. We will consider whether some intensive work should be put in hand on a broad basis to apply modern systems analysis and operational research to improving the efficiency with which health services and facilities are provided to the people of Canada.

In the field of higher education there is the same need for economy and efficiency but one must also take into account major issues of policy. These, of course, are matters of provincial responsibility. The universities and other educational institutions face increasing problems of their own, and we are all more conscious of them now than ever before. Provincial governments are responsible for the evolution of the laws and institutions for higher education. We have no desire to interfere at all in this difficult and delicate responsibility, where each of our provinces will wish to see its institutions develop in a way that suits its own conditions. Our main con-
of growth involved. In 1965-66 our contribu-
cern in 1966 and 1967 was to ensure that the provinces had additional financial means at their disposal to help meet the abnormally rapid increase in requirements during the current period for the expansion of universities and other post-secondary educational institutions. We recognized this priority, although we have been surprised at the extreme rate
tion to the support of higher education, including the special tax abatement to Quebec, amounted to about $40 million. This year the equivalent fiscal transfer and cash payments to the provinces are estimated at about

$500 million—over twelve times what they were three years ago.

As the Prime Minister has already indicated, we anticipate that provinces will wish to discuss with us questions related to medicare. We shall be quite prepared to discuss them. We hope that all the provinces will take advantage of that act at the first opportunity. We continue to believe that the provision of medical care services as a publicly financed operation is a matter of high priority in the development of proper health and social services for Canadians.

• (8:40 p.m.)

This government and this House recognize the financial problems being faced by all the provinces—even the wealthiest of them, which is the most outspoken on the subject. Between 1962 and 1967 we reduced the federal personal income tax to make way for the provinces to enlarge their use of this revenue field from 16 percentage points to 28 percentage points. We are now helping all provinces with substantial participation in meeting the cost of broad services in the fields of health, welfare and higher education, and particularly in rapidly growing programs in fields of highest priority. We are giving major assistance to the provinces with less than average taxable capacity by our equalization grants. We are providing hundreds of millions a year in housing finance to provincial and local agencies under the National Housing Act. All the many hundreds of millions of dollars we collect in contributions under the Canada Pension Plan, in excess of current pension payments, are loaned immediately to the provinces. Parliament has proven with action its concern for the financial needs of the provinces. We can legitimately expect recognition by them of our problems, and of the needs for expenditures on national programs for which we as a parliament are responsible.

Emphasis in Economic Policy

Before turning to our immediate fiscal policy and the details of proposed tax measures, it is essential to consider the over-all framework of general economic policy for 1969 and to determine its main emphasis. Needless to say, we shall continue to work toward all the broad goals which are widely accepted in western industrial countries—full employment, economic growth, price stability, balance in external payments, and an equitable sharing of rising incomes.

These general goals comprehend many specific objectives—the training and mobility of labour, the improvement of productivity, increasing economic efficiency through more vigorous competition, the freeing of international trade, the reduction of regional disparities, the elimination of poverty—indeed, almost all the economic and social virtues we can think of. But the real problem in public policy comes in being specific, in reconciling conflicting objectives, in making choices among competing demands, in deciding how much of each to pursue, and of course in knowing how to do it all effectively and efficiently. There are far more good things to be done in Canada, particularly by governments, than there are resources available to do them.

We are doing a great deal, and will do more next year, in pursuit of all the goals and objectives I have mentioned. Not the least of our efforts, I would emphasize, are the many services and programs to deal effectively, constructively and humanely with poverty. But we cannot do everything at once. Rather, we must try to advance on as broad and balanced a front as possible, and we must be ready at all times to face up to the most urgent priorities among all of our objectives.

Resisting Inflation

In the broad field of economic policy the most urgent need now is to check further the continuing increase in prices and living costs. There appears to have been some easing of inflationary pressure in recent months. But there is little evidence that the damaging upward spiral of prices and costs has been effectively broken. Further, unless our policies are firmly set to resist inflation, there is great danger that continued prosperity in 1969 will cause pressures that will set in train a new round of price and cost increases.

I want to emphasize that a rapid rise in the price level, on the scale experienced in recent years, has many serious and damaging effects. Firstly, it is most unfair to those in our society, mainly the older people and the poor among us, who do not possess the bargaining power necessary to protect themselves against the increase in the cost of living. There is no doubt that recent and current inflation is hurting many more than the number who suffer from unemployment. Secondly, rapid price increases undermine the whole basis of our economic structure and competitive market system. A flexible price system cannot operate properly to allocate resources for maximum production and income unless the price level as a whole is reasonably stable. Thirdly, serious inflation erodes gradually but surely the competitive position of Canadian producers, both in other countries with whom we must trade and in our own markets at home. And fourthly, it makes people, and the institutions through whom they invest their money, increasingly reluctant to lend money except at high interest rates and in decreasing amounts. Yet the growth and development of our economy requires the large scale investment of savings in the form of mortgages and bonds fixed in terms of money. These securities are the only means open to homeowners, school boards, municipalities and governments to borrow funds needed for housing and for all the public purposes essential in our modern society. Unlike large corporations, none of these borrowers can sell equity shares, but their increasing role in the capital markets means that even a moderate degree of inflation poses a larger problem than ever before.

We should not delude ourselves into thinking the choice is between either policies of fiscal ease to counter unemployment or policies of fiscal restraint to fight inflation. In our present circumstances, unchecked inflation would precipitate the kind of economic disruption in which unemployment would surely increase and we would end up with more of both of these evils.

Achieving greater stability in our price level requires action on many fronts. Our fiscal policy must avoid excess demand on production and markets, and keep producers constantly aware of the need to compete vigorously and to prevent cost increases. We need to exercise a wider responsibility to promote competition and minimize restraints on trade. Management must do all it can to improve efficiency and productivity. Workers and governments must cooperate to ensure better training and mobility of the labour force. Business and governments must anticipate bottlenecks and shortages and plan production and demands to minimize them in every way possible. Over the long term the provinces must plan and provide better education. Finally, we must, I feel, do all we can to persuade those who enjoy strong market power to exercise it with due restraint, taking the public interest fully into account. This will require the use of public education, special inquiries into inflationary situations, and the mobilizing of public opinion against practices and actions which endanger the maintenance of price stability in our country.

[Mr. Benson.]

I expect that my colleague, the Minister of Consumer and Corporate Affairs, will have something more to say on plans and measures to combat inflationary cost increases when he participates in the Budget debate. The list I have already given, Mr. Speaker, makes quite a catalogue. Nevertheless they are all measures which Canadians, working together can achieve. Most of them are desirable in themselves, but they should now be given particular attention and focused upon preventing further increases in the cost of living.

Current Fiscal Strategy

In deciding on over-all fiscal strategy for 1968 and '69 we must take into account both the financial prospects I have described and the broad economic situation I have outlined. After doing so we have reached the conclusion that we must raise substantially more revenues in order to bring the budget into balance in 1969-70.

By such action we will be contributing to the restoration of price stability, while at the same time giving support to the economy through investment programs in housing, farm credit and other economic fields. We will be limiting our demands on the capital market to non-inflationary amounts to be used for capital purposes. The provinces and municipalities on their part will be investing one way or another the large funds we turn over to them from the Canada Pension Plan, and borrowing in the market to finance public works and their other lending and investment programs. In accordance with the practice of recent years I shall be meeting at the end of the year with the provincial finance ministers to review the current economic situation and prospects, to assess the impact on the economy of our over-all public financial position, and to consider what are appropriate fiscal policies in this light. I believe however that the general strategy I have proposed is the best one for the federal government in the present circumstances.

Tax Recommendations

In selecting the tax changes to be made to implement this policy I am mindful of the tax reform program which the government proposes to initiate next winter. I have been over with my officials the conclusions which they have reached from a long and comprehensive review of our income tax laws, the report of the Royal Commission on Taxation and the scores of briefs and hundreds of letters which we have received on the subject. After further thought I have reached certain decisions which I have asked my officers to set forth in the form of a draft bill, which I will place before my colleagues for their approval or modification. It is this draft, suitably revised and explained, which will be placed before the house, provincial ministers, and the public for detailed study and discussion early in the new year. It would then be reconsidered and revised by the government for final consideration by the house in the latter part of 1969. By that means I hope we can have a reformed income tax in effect in 1970.

The tax recommendations which I am making tonight are not an integral part of next year's reform package. By that I mean that they stand on their own and should be implemented, whether or not there is to be any further reform. They do not commit us to particular changes in other areas.

• (8:50 p.m.)

Estate Tax and Gift Tax

The first group of recommendations concerns the Estate Tax and the Gift Tax. I have come to the conclusion that transfers of property at death and by gift should not, at least for the present, be included in income like other items that have normally been regarded as income of a recurring nature. While respecting the intellectual coherence and elegance of the case made by the Royal Commission on Taxation on this matter —crudely summed up in the phrase that "a buck is a buck is a buck"—I believe that the overwhelming weight of Canadian opinion is against it now, and many Canadian practices and institutions would be seriously disrupted if we embraced this proposal. Instead, I propose that the estate and gift taxes continue to be levied on the transferor and that they be reformed along different lines.

I am proposing that in respect of deaths after midnight tonight we exempt all amounts left outright to a widow by her husband, and to a widower by his wife. Perhaps I should make it absolutely clear that this estate tax exemption includes pension and annuity benefits. Further, if a husband leaves the entire life interest in a trust to his wife, the assets in that trust will be excluded from his estate, but included in hers, and vice versa. With this reform, we will recognize the contribution made by wives to the accumulation and conservation of the wealth of the family. It will eliminate a deeply felt grievance.

There would also be a $10,000 exemption in respect of the amount left to each child, and additional exemptions for younger children depending on age and income, and for children wholly dependent because of disability. Finally there would be a general exemption of $20,000 to eliminate or reduce the tax on small estates to whomever they may be willed.

I propose that the loss of revenue arising from this long awaited reform of the exemption structure be made up by raising the rates on the rest of the estate. The schedule of rates is set forth in the table included in the resolution: they range from 15 percent at the bottom to 50 percent at the top. The value of taxable gifts made after tonight will, on the donor's death, affect the rates in the tax schedule that are applied to the taxable value of his estate. In effect, taxable gifts made after tonight will use up part of the low rate brackets in the Estate Tax rate schedule.

It is difficult to predict accurately the revenue effects of changes in estate taxes but I have aimed at maintaining the same total over-all revenue while permitting the transmission of property between husband and wife without tax.

It will be recalled that since 1964 the provinces have enjoyed three-quarters of the revenue from the estate tax—either by payment from the federal treasury or by abatement in their favour. I do not propose that this be changed. We recognize the special interest of the provinces in this field of taxation but believe that parliament should keep a share in it for its indirect benefits in the enforcing of the Income Tax Act as well as its direct benefits in revenue. There are some transmissions of property that cannot be taxed by laws within provincial jurisdiction.

I propose that we amend certain of the special statutory rules about *situs* of property in order to bring the federal rules more in line with those used for purposes of provincial succession duties. I intend to discuss with provincial ministers other means of achieving greater uniformity and simplicity in the laws concerning death duties and their application.

As for the gift tax, effective tonight the exemptions and the rates will be changed, and the new rate schedule will apply progressively to the cumulative total of all future taxable gifts made by the donor.

Straightforward gifts between husband and wife will be completely exempt. Gifts to other individuals will be exempt up to $2,000 per annum for each recipient. There will be no exemption for gifts to trusts or corporations. The present exemption for gifts to registered charities will be continued, as will the once-in-a-lifetime exemption of $10,000 in respect of a gift of a farm by the farmer to his child. The other present exemptions, including that based on income after tax, will be dropped.

The rates of gift tax would range from 12 percent on the cumulative total of taxable gifts until $15,000 is reached, up to a maximum rate of 75 percent on gifts when the cumulative total exceeds $200,000. This 75 percent means in effect a tax rate of three-sevenths or about 43 percent, on the total of the gift and the tax on it, the basis on which we normally think of income and estate taxes.

It will be evident to the honourable members that, if the gift tax rate changes were not effective immediately, taxpayers could take advantage of any interim period to make abnormally large gifts before the new cumulative system begins. I believe that members will also agree that the estate tax changes should be made effective immediately so as to exempt property passing to widows on deaths after midnight tonight.

Life Insurance Companies

My second group of proposals concerns the life insurance companies and their policyholders. At present, the business incomes of life insurance companies are largely exempt from tax: the companies are taxed only on the amounts appropriated for shareholders during the year. This is usually only a small fraction of the total business income of the shareholder-owned companies, and of course it produces no taxable income at all for the mutual companies, which now I should point out, dominate the industry, or for the fraternal benefit societies.

I am proposing that we introduce special rules to recognize the problems that arise in measuring income in the life insurance industry, but that, with the exception of these special rules, the general provisions of the Income Tax Act apply to this industry just as they do to all others.

One of the special rules will deal with the deductions from income permitted in order to provide the policy reserves needed to meet future liabilities under policies of insurance. The details of the computation of these reserves will be set out in regulations, and the industry will be consulted in the course of preparing these regulations. However, I have in mind that we would use, in computing the reserves against the various classes of policies, the same interest assumption that is implicit in the tables of cash surrender values.

[Mr. Benson.]

Policy dividends will be deductible, provided they are paid out of the profits of the participating fund.

• (9:00 p.m.)

All of this will apply only to the Canadian operations of the corporations. The usual rules for determining the profits of a branch of a company will apply except that we will provide by regulation for the computation of the portion of their investment income which is attributable to their Canadian operations.

For Canadian companies, the income producing assets that will be treated as Canadian will be proportionate to the part of their over-all actuarial reserves that relate to Canadian business. This will bring a reasonable portion of their investment income into Canadian taxable income, and at the same time, it will not penalize those companies which choose to keep most of their assets in Canada.

For non-resident companies, the income-producing assets that will be treated as Canadian as of January 1, 1969 will be those required to be kept in Canada in accordance with the rules of the Superintendent of Insurance. The income from other Canadian assets of these companies will continue to be subject only to withholding taxes. I want to emphasize that there is nothing in these recommendations to cause these companies to withdraw funds from Canada, nor is there anything to deter them from investing more in Canada.

For the future, the income-producing assets of these companies will be increased by the amounts derived from the Canadian operations, and reduced by the value of the assets which they choose to transfer to withholding-tax status. We will apply our 15 percent branch tax only to these transfers.

It is essential as well, I believe, in terms of equity between those who save in the form of insurance policies and those who save in other forms, to levy some tax on the investment income which policyholders receive through the insurance companies, either in the form of policy dividends or otherwise. The Royal Commission proposed valuing these elements of investment income each year—whether or not received directly by the policyholder—and taxing them directly to him. We have worked out a much simpler and more practical method which should achieve substantially similar equity.

In order to tax those elements of investment income actually received by the policyholder before he dies, either through cashing in his policy or selling it, we propose to include in his taxable income the proceeds of the policy less the net amount he has paid for it. In most cases his cost would be premiums less dividends. For policies already in existence the taxpayer could use as his cost to date the cash surrender value on the next anniversary date of the policy. This will ensure that this tax applies only to investment income earned after today.

The regulations which define the taxable element of annuity payments will be amended so that they are consistent with this treatment of insurance policies. Again, the change will not affect the treatment of interest earned before today.

This will bring to tax the amounts withdrawn by policyholders. There is no comparable simple and practical method of taxing in the policyholders' hands the investment income which benefits them by way of reduced premiums or increased policy dividends. Consequently I am proposing that we levy a 15 percent tax on part of the investment income of insurance companies. This will take the place of a tax on the individual policyholders. I will not attempt to give all of the details of the computation of taxable investment income: they are set out in the resolution. However, I would like to mention that there are several deductions from total investment income to arrive at taxable investment income, including deductions to recognize that some policies are in respect of registered pension plans, and a deduction to recognize the special situation with respect to outstanding non-participating policies.

Since this tax will reduce the investment income available to the companies, it will be a deduction in arriving at taxable income.

I have tried to assess the effects of these taxes on the Canadian life insurance industry. Clearly they will reduce its annual accumulation of income in general contingency reserves—which is as it ought to be, for these are business profits not now being taxed. The tax on investment income may cause a moderate increase in the premium rates in the future, or at least in the net cost after policy dividends, of new policies and it may cause a moderate reduction in the policy dividends to be paid in future on many outstanding participating policies.

On balance however the gain in revenue to us and to the provinces and the gain in equity in treating different channels of savings more fairly would outweigh the disadvantages. The life insurance industry in Canada, both foreign and domestic and those who invest in it will be taxed fairly by comparison with other industries and financial institutions. It will be taxed more logically I believe than that industry is taxed in other countries, including the United States. The industry is already having to adjust to changing conditions and market preferences, and I believe this new tax regime—which should remove the uncertainty about taxes which has been hanging over the industry for years—will speed that process. It could lead to new combinations of basic insurance protection and savings in various forms, perhaps making more effective use of the provisions for registered retirement savings plans.

Estimating the revenue yield from these taxes on life insurance companies and withdrawals is somewhat hazardous but I believe that for the next fiscal year the total revenue yield would be about $95 million, of which about $40 million would come from the indirect tax on investment income. About $10 million would be provincial revenue.

I also propose that non-resident companies carrying on a general insurance business in Canada (that is other than life insurance) will include in Canadian taxable income the investment income attributable to their Canadian operations. This will be the income flowing from the assets related to the Canadian branch computed in the same manner as for non-resident life companies; other Canadian investment income of such companies would continue to be subject only to withholding tax. This will correct a discrimination against Canadian companies carrying on such business here, but will not impede the investment in Canada of reserves against insurance risks elsewhere.

Reserves of Financial Institutions

I have reviewed the reserves allowed to financial institutions for tax purposes in the light of the Report of the Royal Commission on Taxation. As a result, I propose now to reduce the limits both for mortgage lenders and for banks and those cases where the reserves are not determined by a detailed appraisal of individual accounts but on the basis of a general percentage applied to large categories, which is the normal practice.

In view of the loss experience of mortage lenders over the past twenty years, I am proposing to reduce the limit in section 85G of the Income Tax Act from 3 percent of the outstanding total of non-NHA mortgages to $1\frac{1}{2}$ percent. I am prepared to entertain alternative practical proposals to differentiate between mortgages of different type or quality as the Carter Commission proposed, but I have not myself yet found a formula that seemed better than a single percentage when account is taken of the problems of reporting and assessment.

For banks, I am also proposing a limit of $1\frac{1}{2}$ percent applied to the total of the assets that are now eligible to be included in computing reserves. This will represent a cutback of approximately one half from the present level of reserves. I am not persuaded that more elaborate formulas, of the types suggested by the Royal Commission on Taxation, are necessary; but I am prepared to consider alternatives as long as they lead to comparable aggregate results.

The existing reserves of some of these financial institutions, built up over many years, are substantially larger than this new formula would provide. This mainly applies to the banks. The Royal Commission recommended that transitional arrangements extending up to ten years would be appropriate for the gradual adjustment of the reserves to the new limits. I propose that such a transition be authorized. As long as the reserves exceed the limit set by the $1\frac{1}{2}$ percent formula they would not be increased. The limit on the reserves for each institution would be reduced year by year on a cumulative basis in such a way as to reduce the authorized excess over the $1\frac{1}{2}$ percent ratio by an amount each year equal to one tenth of the excess for that institution at the end of its current taxation year. In most cases a large part of this reduction and in some cases all of it would be brought about by the growth in the assets to which the $1\frac{1}{2}$ percent ratio applies, but insofar as this was not sufficient a portion of the excess would have to be brought back into taxable income to accomplish the gradual transition to the new authorized ratio.

I estimate that this change in permitted reserves will bring in \$45 million of budgetary revenue during 1969-70, as well as some revenue to the old age security account, and some increase in provincial revenues.

[Mr. Benson.]

Other Measures

In quite another field I am proposing a change in the law to clearly exclude from the exemption provided for provincial crown corporations those cases where persons or corporations other than Her Majesty or a municipality have options to buy shares held by Her Majesty or a municipality. It is still possible that corporations in respect of which this is true may be held taxable under the present law, since the arrangements in question appear to be facades. However, I think we should put the matter beyond doubt.

• (9:10 p.m.)

At this time I wish to announce a change that will be made in the regulations relating to depletion allowances for the operators of oil and gas wells and mines. The existing scheme contemplates that depletion will be calculated as a percentage of production profits after deducting exploration and development expenses. Unfortunately, as the regulations now read, groups of companies can obtain much greater benefits than were intended by arranging to have their exploration and development activities carried on in one company and their producton activities carried on in another. The regulations are being changed to provide that all exploration and development expenses of the group must be deducted from production profits before depletion is computed.

I should also like to announce that my colleague the Minister of National Revenue intends to enforce more thoroughly and in finer detail the collection of tax on receipts of interest. It has been fairly widely believed in recent years—and noted by the Royal Commission on Taxation—that there appears to have been a large volume of interest payments to individuals that have not been reported or assessed for income tax. It is now feasible to match up much more information by means of computers with individual tax returns than was previously the case, and we intend to secure more such information, particularly in regard to interest and dividends. I believe that such action will produce a notable increase in our revenues and that it will increase the over-all equity of our tax system.

With the introduction of medical care plans in a number of provinces, taxpayers will no longer have to pay certain medical costs which formerly were classified as medical expenses for tax purposes. I propose that we follow the pattern set in 1959 when hospital insurance was introduced and amend the

Income Tax Act to provide that medical expenses, as defined in the Act, shall not include amounts which are paid on a taxpayers' behalf, or for which he is reimbursed, under a provincial medical care insurance plan which meets the criteria set forth in the Medical Care Act.

The Income Tax Act will be amended to provide that the present non-resident withholding tax on royalties paid by a resident of Canada to a non-resident shall apply to a somewhat wider range of payments. The proposed amendment will be based on the definition of royalties suggested by the O.E.C.D. fiscal committee and used as a model by Canada in several of its international tax agreements.

A further measure is intended to help farmers who have need of more grain storage capacity on their farms. I am thinking in particular of the farmers in Western Canada who will have to store increased amounts of grain this winter and of the corn growers in Ontario. It is proposed that amounts spent to acquire grain storage facilities may be deducted for tax purposes over a short period. This will be done by an amendment to the income tax regulations and will provide that the capital cost of new buildings, structures and bins designed for the purpose of storing grain on a farm, acquired in the period August 1, 1968 to December 31, 1969, may be written-off for tax purposes over a four year period.

I should note at this point that these various changes in the Income Tax Act, other than those on life insurance companies and financial institutions which I have already reported, should increase budgetary revenues by about $10 million in 1969-70. Because of their nature they will not affect the current fiscal year substantially.

Customs Tariff Resolutions

I turn now to the Customs Tariff. I am reintroducing three sets of resolutions which were tabled by my predecessor in the last session of parliament. The first set formed part of the budget speech which was presented to the house on June 1, 1967. In the budget of November 30, 1967, the rates of excise duty on domestic spirits and beer were increased. The second set of resolutions provided for an increase of the same amount in the customs duties on imported spirits and beer. The resolutions of June 1 and November 30 were considered by the committee of ways and means last December.

The third, and by far the largest of these sets of resolutions, were those tabled on November 6, 1967, implementing Canada's commitments, other than those on chemicals and plastics, under the Kennedy Round agreements. The rates set out in these resolutions came into effect on a provisional basis on January 1 of this year. The resolutions were referred to the standing committee on finance, trade and economic affairs. After a series of public hearings the committee recommended them to the house for favourable consideration.

However, parliament was dissolved before they could be enacted and an order in council was therefore passed on April 25 under the authority of section 22 of the Financial Administration Act, continuing in effect the proposed reductions in duty. I announced at the time that collections of the increases in customs duties proposed on a few imported products were being suspended, but that it was the government's intention to ask the next parliament to enact legislation implementing both the reductions and increases, effective from the dates originally proposed in the resolutions. The resolutions I am tabling tonight will, if enacted into law, have this effect.

Chemicals and Plastics

The new resolution which I am introducing this evening flows from the Tariff Board report on chemicals under reference 120. The first volume of the board's report was tabled in the house in June 1966. The revised schedule proposed by the board in this volume formed the broad basis for our Kennedy Round negotiations on chemicals and plastics. In these negotiations the rates of duty on chemicals were "bound" at not more than 15 percent. The plastics rates were, in general, bound at the highest recommended rate within any group of products.

In the Kennedy Round, Canada undertook to introduce the concessions offered on chemicals and plastics not later than July 1. It was not, in fact, possible to implement the proposed new chemical and plastics schedule by that date. Accordingly, it was agreed with our trading partners that Canada could delay putting these concessions into effect to not later than January 1 next. As a result of our negotiations with the United States, which is Canada's major supplier of chemicals and plastics, reductions in the rates of duty on a number of chemicals and plastics in terms of the present tariff nomenclature were made by order in council for the period July 1 to December 31.

As to the tariff structure proposed by the Board, the industry proposed and the Board recommended the adoption of the so-called Brussels Nomenclature for most of its new tariff schedule. This nomenclature is used by the major trading countries, with the exception of the United States; it is a system for classifying goods in headings which are grouped into chapters and sections. It also contains rules and notes defining the scope and priority of the various headings. The board recommended that these rules and notes be adapted for Canadian use and that the Customs Tariff provide that the governor in council may prescribe such rules and notes.

The schedule proposed by the board is very long. In part this is due to the use of this nomenclature and in part because the Board was directed not to make any general changes in the margins of preference, i.e. in the difference between the British preferential and most-favoured-nation rates of duty. Generally, the present rates are 15 percent B.P. and 20 percent M.F.N. on chemicals of a kind produced in Canada, and Free B.P. and 15 percent M.F.N. for those not produced in Canada. As these chemicals are ruled by the Department of National Revenue to be made or not made in Canada, they automatically move, by this administrative action, from one set of rates to the other.

Accordingly the board, in general, recommended a very long list of chemicals produced in Canada, identified by name, with rates of 10 percent under the B.P. tariff and 15 percent under the M.F.N. tariff, and rates of Free B.P. and 15 percent M.F.N. on the residual tariff items providing for chemicals not produced in Canada. The structure proposed by the board, particularly with regard to the preferential tariff, would be less flexible than the present tariff.

The board's proposals have given rise to many representations urging a less rigid system. I found considerable merit in these representations. It seems to me that both the present flexibility and the results intended by the Board could be brought about in another manner.

I am therefore proposing that a 10 percent B.P. duty be established for certain items in the chemical sector and that parliament grant authority to the governor in council to lower this duty from time to time. This authority would be similar to that set out in the Customs Act to reduce or remove duties on articles used in Canadian manufactures. Thus I am presenting for the consideration of the house a much shorter schedule than that proposed by the board. At the same time I should make clear that, by appropriate orders in council, we will ensure that British goods will face no increases in rates of duty other than those fully consistent with the principles underlying the board's proposals. Moreover, for many products imported from Britain there will be reductions in rates from 15 percent to 10 percent or even lower rates.

A somewhat similar situation exists with regard to plastics. For these products the board recommended a progression of rates, from resins to the more fabricated forms. It named those which it felt should be dutiable because they were made in Canada or were competitive with Canadian made plastics, and proposed residual items free of duty, in most cases, for those not named.

Representations were received to the effect that the Board's proposals provided no assurance of protection when new products are made in Canada. It appears to me that there is validity in this view. On the other hand, it is important to have a procedure for free entry when circumstances warrant, so as to avoid imposing unnecessary costs on Canadian users. Accordingly, I propose that rates of duty higher than those proposed by the board be established for the residual items, and that the governor in council be given authority to waive, reduce or restore these duties. This procedure will permit a shortening of the list of statutory tariff items in the plastics schedule.

• (9:20 p.m.)

I am also recommending a few other departures from the board's proposed schedule, based for some products on new information, on new production in Canada or to meet certain problems not foreseen by the board. All the changes I am proposing are consistent with our international commitments.

It goes without saying that I have received a large number of representations for changes from the board's proposals, many for higher duties which are not being met in the resolutions I am tabling. One I would like to mention in particular relates to the board's recommendation on polyethylene. This is an important issue but I am not willing to propose any changes in the duties on polyethylene as recommended by the board without a further study by the Tariff Board. Accordingly, I am asking the board for a thorough but prompt review of the current status of polyethylene.

In order to meet our new international obligations our new chemical and plastics tariff must be in effect by January 1 next.

Other Tariff Questions

I have received a number of representations for other changes in the Customs Tariff. However, I have decided that these should be held over for consideration until a later occasion.

I am also tabling a resolution regarding the implementation of our obligations under the "Anti-dumping Code". A proposal regarding a bill to achieve this objective is already before members in the form of a White Paper. I would not suggest that we proceed with this resolution until the standing committee has examined the draft bill. Members will be aware, of course, that we are committed, under the GATT, to revise our anti-dumping procedures by January 1 next.

The changes in the chemical tariffs which I have proposed above and in the anti-dumping duties will have I believe only a minor effect on customs revenues. It is very hard to set a figure on them because of the rather complicated changes in many small flows of import trade that are involved.

Central Fiscal Problem

I return now, Mr. Speaker, to our central fiscal problem and the revenues that we must raise to meet our forecast requirements this fiscal year and next.

In respect of the current fiscal year I have come to the conclusion that tax measures introduced now to secure enough revenue to balance the budget this year would have to be so severe that they would be damaging to the Canadian economy. Therefore I feel we should look ahead to next year and determine what we need, and put it into effect as soon as we can.

The measures I have already outlined should increase our total budgetary revenue for next fiscal year, 1969-70, by $130 million and add $10 million to our extra-budgetary receipts. However, they would leave our budgetary revenues about $710 million short of the initial forecast of aggregate expenditures I made of roughly $11,670 million. Clearly a deficit of this order of magnitude next year is quite contrary to the economic and fiscal policies I believe necessary, and we must raise substantially more revenue to meet it.

In selecting further changes to accomplish this purpose I have in mind that next year we shall be engaged in our major tax reform legislation and will then have in view our requirements for 1970 and beyond. We will be taking into account the fact that our income and corporation tax surcharges of 3 per cent enacted early this year will terminate at the end of 1969. Regard must also be had to the non-recurring revenue effects of the change in timing of the payment of tax by corporations.

Further Tax Measures

In view of this consideration I feel we can secure a part of what we require for 1969-70 by completing the moving forward of the dates of payment of the corporate income tax—bringing it then in line with the current payments on account which we are required to make from wages and salaries. I therefore propose that in taxation years following their next taxation year corporations be required to commence payment of their instalments of tax in the first month of their taxation year to which it relates and complete the instalments in the twelfth month. They will make their final adjusting payment, as now provided, by the end of the third month of the following taxation year. In order to make the transition to this system I propose that corporations be required to pay their instalments of tax in respect of their next taxation year in ten instalments commencing in the third month of the taxation year and terminating in the twelfth month. This acceleration will yield us about $275 million of revenue in the 1969-70 fiscal year. The effects of this acceleration on corporate liquidity will be offset to a significant degree by the completion of repayment of the refundable tax on corporate profits during 1969-70.

The remainder of the additional revenue required I propose to obtain by adding to the Old Age Security Tax on personal incomes an additional similar Social Development Tax at half the rates of the former. This Social Development Tax will be 2 per cent on taxable income up to a maximum tax of $120 per annum. It would go into effect January 1st. I estimate it would add some $55 million to our revenues in the current fiscal year and about $440 million in the next fiscal year.

I gave serious attention to alternative sources of additional revenue, including for example an increase in our general sales tax which would produce comparable amounts. But I concluded that what I am proposing would be the fairest and best, all things considered, including the desirability of not adding to the rate of increase of prices and costs of production.

I recognize that provincial governments will be concerned about parliament using any form of income tax at this time when clearly the provinces would like to get a larger share of it. I believe however that the total income tax including this addition and the higher rates of provincial tax applicable in Manitoba and Saskatchewan is within the capacity of Canadians to bear.

At this point Mr. Speaker, I would like to have the permission of the house to insert some small tables in *Hansard*. One would illustrate the effect of the new Social Development Tax on the total of taxes on income paid by a married man with two children. The second one gives the estimated yield of our various taxes in the current fiscal year, after taking account of the changes I have proposed. I also include last year's figures for comparison. The third table summarizes our budgetary position for the current fiscal year and for the next fiscal year, taking the revenues from the tax changes into account. I shall also include with the Budget papers at the conclusion of this speech, if the House will agree, tables giving the budget for 1968-69 on a national economic accounts basis and a reconciliation with the budgetary accounts.

Mr. Speaker: Is this agreed?

Some hon. Members: Agreed.

TABLE 1

TO ILLUSTRATE THE PROPOSED SOCIAL DEVELOPMENT TAX ON INDIVIDUALS
Married taxpayer—two children eligible for family allowances

Income	Present Tax[a]	Proposed New Social Development Tax
$	$	$
3,500	102	16
4,000	184	26
4,500	275	36
5,000	376	46
6,000	597	66
7,000	842	86
8,000	1,109	106
10,000	1,644	120
15,000	3,294	120
25,000	7,790	120

[a] This is the combined federal and provincial income tax including the old age security tax and the temporary surtax, in all provinces except Quebec, Manitoba and Saskatchewan. The taxpayer is assumed to take the optional standard deduction of $100 in lieu of deductions for medical expenses and charitable donations.

TABLE 2

BUDGETARY AND OLD AGE SECURITY REVENUES
($ million)

	1967–68 Actual	1968–69 (After tax changes)
BUDGETARY REVENUES		
Personal income tax	2,850	3,310
Corporation income tax	1,671	2,020
Non-resident tax	221	230
Estate tax	102	110
Customs duties	746	740
Sales tax	1,601	1,630
Other duties and taxes	826	930
Total taxes	8,017	8,970
Non-tax revenues	1,060	1,135
Total budgetary revenues	9,077	10,105
OLD AGE SECURITY REVENUES		
Personal income tax	800	880
Corporation income tax	150	190
Sales tax	545	555
Total O.A.S. taxes	1,495	1,625

TABLE 3

BUDGETARY REVENUES AND EXPENDITURES

	1968–69 ($million)	1969–70 ($ million)
Budgetary Revenues before Tax Changes	10,050	10,830
Revenues from Tax Changes	55	845
Budgetary Revenues after Tax Changes	10,105	11,675
Budgetary Expenditures	10,780	11,670
Budgetary Deficit (−) or Surplus (+)	−675	+5

Budgetary Position after Tax Changes

As these tables indicate, our position for the current fiscal year, 1968-69, would show total budgetary revenues of $10,105 million and total budgetary expenditures of $10,780 million, leaving a deficit of $675 million. Our net extra-budgetary requirements, apart from exchange transactions, I am now forecasting at $600 million for the year as a whole.

For next year, 1969-70, the tax measures I have proposed should bring the budget into balance. I forecast total budgetary revenues of $11,675 million and budgetary expenditures at $11,670 million. As far as can be estimated at this early stage, on a national economic accounts basis the budget would involve a surplus of roughly $250 million. Our extra-budgetary requirements, apart from foreign exchange transactions, will probably be in the neighborhood of $600-700 million.

In spite of its timing, I think it will be obvious to all, that this is no "baby" budget. It is a new budget, by a new government, but it is not an easy budget. It is one which, I believe, will ensure that we have a sound economic and financial base from which to move forward through a new period of balanced expansion and social progress.

As I have suggested, this is the prospect for the years immediately ahead. Our trained and growing labour force, our resources, our industrial plant and our ability to save, will make it possible to do more and more of the things we recognize as essential and worth while. But there are problems to grapple with, as well as opportunities to seize. The government, through this budget, is preparing to meet both challenges.

With your permission, Mr. Speaker, I should like now to table the resolutions which I propose to move in committee of ways and means. In accordance with the usual procedure, these contain some detailed points which have not been mentioned in the speech and I should like them to be attached as an appendix to today's *Hansard*.

[*Editor's Note: For Ways and Means Resolutions, see Appendix.*]

FEDERAL GOVERNMENT REVENUE AND EXPENDITURE
ON NATIONAL ACCOUNTS BASIS

	1966–67	1967–68	1968–69 Forecast after Tax Changes
	(millions of dollars)		
A. REVENUE			
1. Direct taxes, persons	3,153	3,750	4,290
2. Direct taxes, corporations	1,673	1,665	1,915
3. Withholding taxes	205	226	230
4. Indirect taxes	3,648	3,683	3,905
5. Investment income	689	836	915
6. Employer and employee contributions to social insurance and government pension funds	700	723	870
7. Total revenue	10,068	10,883	12,125
B. EXPENDITURE			
1. Goods and services: defence	1,698	1,816	1,820
2. Goods and services: others	2,317	2,572	2,960
3. Transfers to persons	2,573	3,021	3,350
4. Interest on public debt	1,156	1,267	1,440
5. Subsidies	381	395	415
6. Capital assistance	64	72	85
7. Transfers to other levels of government	1,712	2,142	2,490
8. Total expenditure	9,901	11,285	12,560
C. SURPLUS (+) or DEFICIT (−)	+167	−402	−435