to that which Mr. Carter recommended. While the many pages of this bill contain complicated taxation proposals which one may or may not agree move in a proper direction, on this particular aspect of the bill there can be no question but that the government of Canada has shown callous indifference to the position of the ordinary wage earner, has firmly turned its back on moving in the direction of removing the inequities in the present Income Tax Act, and has set its course to make taxation sweeter for the wealthy, the powerful and the great multi-million dollar corporations which seems to dominate our economy so much today.

The minister talked about payments to the provinces in the field of social measures. On the other hand, every so often there are statements by the Prime Minister and various other sources within the government suggesting that they intend to withdraw from participation with the provinces in carrying on such programs as medicare. Before this debate is concluded would the Minister of Finance like to tell us whether, if they withdraw from medicare, they will remove this tax? Would the Minister of Finance like to tell us whether, if they withdraw from that program, they are prepared to eliminate the tax inequities borne by those who derive their incomes from wages and salaries? Certainly he gives very little indication that he is even concerned about or recognizes that inequity exists when he tries, as he did, to get me to agree that somehow or other the purpose of this proposal is to meet a rising level of payments to the provinces.

We in this part of the house do not intend to be fooled by that kind of talk. We intend to do our part in the discussion of this measure to try to defeat it but at least to make the government of Canada aware that we oppose it and make the people of Canada aware of the fact that the Prime Minister, who talks about a just society, is moving in the opposite direction in these tax proposals which he has allowed the Minister of Finance to bring in. Mr. Speaker, may I call it six o'clock?

The Acting Speaker (Mr. Béchard): Is the house ready for the question?

Mr. Knowles (Winnipeg North Centre): Six o'clock.

The Acting Speaker (Mr. Béchard): It being six o'clock I do now leave the chair until eight o'clock.

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 this house approves in general the budgetary policy of the government.

He said:

Mr. Speaker:

When I presented my first budget to this House last October, I suggested that we had to ensure a sound economic and financial base from which the country might move forward through a new period of growth and social progress. From the review which I shall give tonight, I think it will be evident that we are well launched upon this course. The hard decisions taken seven months ago, regarding both expenditure control and difficult tax measures, are now paying off. As a result, after a lengthy period of difficulty, we are now getting a firmer grip upon the national finances and bringing them under more effective control.

It will be recalled that last October I had to submit a revised fiscal statement for 1968-69, taking particular account of substantial increases in expenditure which could not be avoided. While budget balance was a desirable goal, I felt at that time that drastic attempts to raise the necessary revenues over a short period would disrupt the whole Canadian economy, and it was therefore preferable to plan for budget balance in 1969-70. Tonight I am able to confirm that we now expect not only to meet but to surpass our target.

Nevertheless, it is also apparent that developments in the economy will not let us be complacent. Rather, the vigor of the current economic expansion and the persistence of strong inflationary tides necessitate a reassessment of our position. They lead in turn to further important decisions on the course of fiscal policy for the period ahead.

Out-turn for Fiscal 1968-69

I turn first to a brief review of the background in fiscal 1968-69. Both the economic setting and the financial results of the past year have been described in detail in the

Budget Papers tabled last Tuesday. The main highlights were the emergence of a strong upswing in the economy, a faster increase in revenues than had been anticipated, and some results from rigorous control over expenditure. Consequently, the actual budgetary deficit was not only substantially reduced from the previous fiscal year, but it was also brought down by $109 million below the level foreseen in the October budget.

The preliminary figures also show that while total expenditures rose by some 9 per cent, half of this increase was accounted for by larger payments to the provinces. These payments, both in the form of unconditional fiscal transfers and in grants for shared-cost programs in health, welfare and education, rose by over $450 million, an increase of some 27 per cent. Additional public debt charges accounted for a further $178 million. The increase for all other federal programs and services provided through the budget was held down to less than 4 per cent, less than the rate of increase in pay and prices in the country as a whole. Despite all that has been said to the contrary, I believe that this result provides clear evidence of the success of our efforts to limit expenditures and cut back wherever there has been scope to do so.

• (8:10 p.m.)

In October I estimated that our net extra-budgetary cash requirements during the fiscal year 1968-69, apart from the financing of our exchange reserves, would be about $600 million. This took into account loans for housing, farm credit, power projects, etc. as well as the requirements of our crown corporations for their investment programs. In fact these loans and investments turned out to be somewhat less than I anticipated in October. As a result the net requirements for all extra-budgetary purposes other than exchange transactions, and one unforeseen extra-budgetary receipt which I shall mention, are now estimated to have totalled approximately $380 million. The special item to which I referred was the amount charged to last year's expenditures for delayed retroactive wage payments of $111 million. The cash was not paid out in the last fiscal year but was credited as noted in the White Paper to a liability account in a manner to offset the expenditure item and reflect the fact that no cash disbursement was made. In addition we did have requirements between October and March 31st to finance foreign exchange transactions. These and the salaries adjustment item offset roughly any reductions made in our loans and advances.

A summary of budgetary and non-budgetary transactions and the changes in our cash position in the fiscal year 1968-69 is set out in Table 1 of Part II of the White Paper on page 164. Overall cash requirements of approximately $1.9 billion were financed mainly by an increase of approximately $1.5 billion in unmatured debt outstanding, inclusive of foreign loans obtained last May to add to our exchange reserves. The remainder of our requirements were financed by drawing down our bank balances by about $400 million, leaving them on March 31st last at about $600 million.

Economic Trend and Prospect

As for the state of the economy, one of the most important highlights detailed in the Budget Papers was the gathering momentum of activity toward the end of 1968, and the carrying forward of a strong advance into the current year. All elements of demand—consumer expenditure, capital investment, exports and total public spending—have contributed to the acceleration. Real production has turned strongly upward and unemployment, which reached a high point of 5 per cent in the middle of last year, has since declined. There have also been a number of important developments in our trade, the balance of international payments, and our foreign exchange position, especially in regard to arrangements with the United States. These have been set out in the Budget Papers, and it will not be necessary for me to review them in speaking this evening.

Looking forward at this time to the balance of the present year, we can now expect a growth rate stronger than in 1968 and considerably stronger than we anticipated last October. With a gain in employment of about 4 per cent, an advance in real output of better than 5 per cent, and assuming an increase in prices about the same as last year, the gross national product is likely to rise by 9 per cent.

This strong expansion is of course welcome, but the main problem is obvious. Although the rate of increase in the price index of the gross national product as a whole has subsided from its peak in 1966, the persistent year-to-year rise in prices and costs is unacceptably high. Further, the very strength of the current expansion clearly aggravates the threat of intensified inflationary pressure, with all of its attendant evils. I emphasized this dangerous prospect last October. In opting for a policy of fiscal restraint, I spoke at some length about the serious and damaging effects caused by a rapid rise in prices and costs on the scale experienced in recent years. Most of these damaging effects—the injustices visited upon the poorest and weakest groups in our society, the undermining of the productive market system, the erosion of our ability to compete abroad, the disruption of the essential flow of savings and investment through the capital markets—have been painfully evident to us all. There can be no question that the number one priority in economic policy today must be to deploy all available forces—public and private—more aggressively than ever in the battle against inflation in Canada.

In recent months the influence of international price trends upon our domestic price performance has become increasingly important. Hon. members need not be reminded of the key role played by prices in our external trade and of the importance of remaining competitive with other countries. With exports of some $17 billion, equal to one-quarter of our gross national product, Canada, of course, is one of the world's great trading nations. We all know that we must not let our prices advance more rapidly than those of other countries. At the same time, we also have to recognize that our vast economic and financial relationships with the rest of the world lead to the spreading of price movements from country to country. We cannot hope to insulate ourselves completely from these influences.

Over the past year, however, the problem of price inflation has been of concern not only to Canadians, but to most of the countries with whom we trade. In the United States, price increases have recently been running higher than those in Canada and strong measures have been adopted there to contain the problem, with difficult consequences for our capital markets. Among other major trading nations, Britain, France and Japan are encountering an advance in prices higher than the rise being experienced in this country. In Germany and Italy, the only two major economies where price increases are lower than those in Canada, it is expected that the rate of price inflation will be more severe in the present year than last year.

Looked at from this perspective, it is not surprising that we have found it so difficult in Canada to make progress in checking price increases as effectively as we would have hoped. Nevertheless we cannot afford to relax our efforts. Major steps are under way on a worldwide basis to reduce inflationary pressures. In the United States especially it is widely anticipated that the restrictive fiscal policy and, in particular, the tough monetary policy now being followed will begin to take hold and slow the rate of price advance significantly before the end of the year. The success of other countries' policies will help us in our own efforts. At the same time it makes the successful achievement of a better price performance here in Canada even more urgent and compelling, I believe.

• (8:20 p.m.)

In this regard, I am confident that the establishment of the Price and Incomes Commission recently announced by my colleague, the Minister of Consumer and Corporate Affairs, represents an important step forward. In too many cases not enough is known as to why the prices we have to pay have risen. Still less is known as to what can be done about the problem, fairly and effectively, in a free market economy which we have in this country. Adding to our understanding and knowledge is the task of the Commission, and in carrying out that task it is bound to point in the direction of relevant and acceptable solutions. It will, I am sure, help all of us to recognize and adjust to the inescapable fact that we cannot expect unrealistic gains in our incomes year after year.

There have been suggestions that because the Commission is not empowered to intervene in particular price and income decisions, for example, in a price or wage increase in a single company, it cannot exert much influence. This is a mistaken view. It fails to recognize the procedures for referral of reports to the Parliamentary Committee, the armoury of formal and informal weapons available to governments, and the powerful thrust of public opinion once it has been focused upon a clearly defined issue. To argue that the work and stimulus of the Commission will be ineffective is to argue that Parliament, government, and the Canadian people themselves are ineffective. I do not agree. I believe, as Dr. Young, the Chairman of the Commission, has put it, that "those who are betting on a high rate of price increase will prove to be wrong".

Fiscal Outlook, 1969-70

I come now to the question of the fiscal outlook for 1969-70, as revised on the basis of the most recent information. In looking ahead last October over a period of eighteen months, I felt it wise to be particularly cautious in budget forecasting. Revenues were put at $11,675 million, and expenditures at $11,670 million, for a nominal surplus of $5 million. However, the buoyancy of the economy and the tax measures introduced in October are now forecast to produce a year-to-year growth of revenues, before any budget changes to be announced tonight, of about $1,870 million bringing them to a fiscal year total of $12,040 million. The yield of income taxes, both individual and corporate, should be particularly strong, offsetting the slower growth of other revenues attributable to such factors as the reduction of tariffs and the cancellation of sales taxes on drugs and production machinery introduced two years ago by my predecessor.

As for expenditures, I am still confident that these will remain within the limit of $11,670 million previously forecast. We will not spend the total amount originally budgeted for medicare since a number of the provinces will be joining in the program later than assumed. In other shared-cost programs, we have had excellent co-operation from the provinces in the forecasting of their expenditures and in their own efforts to contain rising costs, so that the major problems encountered last year are not likely to be repeated. A number of small, but urgently necessary supplementals have to be anticipated, for example, emergency assistance to Newfoundland fishermen, and additional sums for the education and welfare of Indian Canadians. Some over-runs on statutory items are also expected, including advance payments on farm-stored grain and interest costs on loans for students. The largest of these, however—about $39 million—is an increase in equalization payments to Quebec, the Atlantic Provinces and Manitoba, caused mainly by the stronger-than-expected advance in the yields of provincial taxes. The next largest increase over items as originally forecast is in the cost of servicing the public debt, because of higher interest rates. Taking these and other uncertainties into account, it now appears that total expenditures can be held to $11,650 million, which is $20 million less than I provided for in October.

[Mr. Benson.]

As a result, the outlook before any budgetary changes to be announced tonight, is for a substantial surplus of some $390 million. I might note that while the federal budget was essentially balanced in both 1964-65 and 1965-66, under Prime Minister Pearson, the substantial surplus now foreseen will be the first actual surplus realized since the administration of Prime Minister St. Laurent in 1956-57.

Impact of Fiscal Policy

I have given considerable thought to the impact of this prospective surplus, not only upon our finances but also upon the national economy. Obviously, as I shall detail later, it will be of great assistance in enabling us to meet our large extra-budgetary lending programs for housing construction, farm credit, atomic energy and Atlantic power development, export credits and so forth. This is most important at a time when borrowing is very difficult for everyone.

The size of the surplus also accentuates the very sharp swing in the impact of fiscal policy upon the economy. Taken together with the deficit of $566 million experienced in the last fiscal year, the swing amounts to a total of nearly one billion dollars, considerably more than one per cent of the G.N.P. It can be regarded as a very substantial budgetary restraint upon the growth of total demand in the economy, and provides a powerful general check upon the inflationary forces pushing up prices and costs in the economy. A fiscal policy of restraint, as expressed in a surplus of this size, combined with a restrictive monetary policy which the circumstances of North America have made necessary, should be an effective combination to overcome persistent inflationary pressures in our Country. An undue portion of the necessary overall restraint cannot be left to be accomplished only by monetary policy in an economy where a large, continuing flow of savings through the capital market for both private and public investment is of major importance. From every point of view I am convinced that maintaining a strong fiscal position is now essential to check the rise in prices and smooth the way toward more balanced and sustained economic growth.

For these reasons I have given no consideration to a reduction of taxes, attractive as such a prospect might be. On the contrary, so important is it not to relax the fiscal brakes exerted by the present structure of income taxes upon inflationary forces in the economy, that I have concluded they should be maintained in full force for the period ahead. I am not proposing any increase in either personal or corporate tax rates beyond their current levels nor an increase in sales tax, but I am proposing tonight that the personal income tax surtax of 3 per cent on "basic tax" in excess of $200 and the corporation income surtax applicable for the years 1968 and 1969 should be extended until December 31, 1970. When the White Paper on tax reform has been discussed with the public and the provinces, and examined by Parliament, and the government decides upon the final tax proposals which it will submit to Parliament, it will be necessary to re-assess the need for these surtaxes in the light of the economic circumstances of that time. This proposed extension of the surcharges would increase budgetary revenues by some $25 million in this fiscal year, and if continued throughout the whole of 1970 would provide about $155 million next fiscal year.

• (8:30 p.m.)

In making this proposal tonight, I am mindful of the implication given last October that these surtaxes would be allowed to terminate as scheduled and that this was a factor in determining the series of tax measures then introduced. It will be clear to everyone, however, that the extension of the surtaxes at this time is required for the purposes of economic stabilization, and not for budgetary revenues.

Tax Reform

I now expect that the White Paper on the reform of the Income Tax, containing proposals I have been discussing with other Ministers during recent months, will be ready some time during the Parliamentary recess. I propose to issue it when it is ready and will send it immediately to all members. I shall also invite all parties in the House to have representatives meet with me and my officials at the time the White Paper is issued to ask questions about it and receive explanations. I shall also invite representatives of the provincial governments, who are of course very much interested in the proposals, to do the same. I think this procedure will assist members to prepare for the consideration of the White Paper in committee in the session commencing in the fall, as well as to deal with questions they may receive during the recess.

Selective Anti-Inflation Measures

I have also given careful attention to the fact that the current economic expansion is not evenly distributed across the country. This is reflected in rates of unemployment and economic growth, where long-standing differences among the regions continue to persist. This disparity is the basic problem now being attacked under the array of programs of the new Department of Regional Economic Expansion. The expansion and improvement of these programs is of course a major commitment of the government, and the more rapidly the House is able to pass the legislation establishing the Department and its new industrial incentives program, the more rapidly the Department will be able to get on with its very important job. In the short-term however, the Budget Papers point out that the rate of advance among the regions this year is mixed, even though inflationary increases in prices and costs are unfortunately widespread.

Under these conditions we have turned our attention to measures which might be directed in a more selective way to deal with particular problems. One of these is the need to increase the element of price competition and efficiency in the domestic economy. In too many cases the attitude is that cost increases, including large wage settlements, can be accepted because they can be easily passed on in higher prices to the consumer. This is a psychology which needs to be broken.

In considering this situation, we have concluded that a particularly useful and effective way of intensifying competition would be to put into effect immediately the remaining tariff reductions of the Kennedy Round.

To be specific: I propose that the final rates which were to come into effect on January 1, 1972, should come into effect as of tomorrow morning. This means that the remaining Kennedy Round tariff reductions which had not yet been given effect are to apply immediately. The reductions should amount on average to about three percentage points, on imports worth about $2 billion a year.

It may be useful if I remind the House of certain features of our Kennedy Round tariff reductions. In that negotiation the Canadian Government undertook to reduce tariffs on a wide range of raw materials, on semi-processed products, on components, and on final manufactured and consumer goods. It was the Government's view then, as stated by my predecessor, that the carefully selected package of tariff reductions agreed to by Canada would, when fully implemented, contribute to the overall efficiency of the Canadian economy. We gain from such tariff cuts because of the greater efficiency required to meet keener competition; moreover, the tariff reductions on the products of one producer are, of course, reductions in the costs of others. Thus, aside from the improved access to foreign markets for Canadian producers negotiated in the Kennedy Round, the modernization and rationalization of the Canadian tariff achieved in the Kennedy Round context offered the prospect of reduced costs and improved efficiency.

Certain sectors of the Canadian tariff proposals were implemented without phasing—that is, they were implemented in one step. These included the tariff reductions on certain tropical products, the tariff reductions on certain wood products, the tariff reductions on chemicals and plastics and, perhaps most important of all, from the point of view of cutting costs, the modernization of the machinery tariff. Under the direction of the new Machinery and Equipment Advisory Board, Canadian industry has been able to secure at duty-free world prices a wide variety of machinery determined by the board not to be available from Canadian sources. This is now having an important impact in reducing Canadian production costs.

The remaining group of tariff reductions were to be staged over four years. Two-fifths of these reductions have already been made. In the present situation, in which there are continuing increases in both U.S. and Canadian costs and prices and a need to introduce more competition into the Canadian economy, the Government has concluded that the full benefits of the Kennedy Round tariff reductions should no longer be delayed.

I recognize that some producers will feel they are being denied the time for adjustment to increase competition, which the phasing of the Kennedy Round reductions would have provided. However, I believe that in today's climate, when failure to counter inflation holds its own risks for our competitive position, more time is not necessary for our producers to adapt themselves to these tariffs. I am confident that the whole economy will gain by the step we are taking.

• (8:40 p.m.)

A most important consideration before the Government in making this proposal is that the burden of adjustment and the pressure of increased competition will fall mainly on producers in the industrial centre of Canada. It is here that inflationary pressures are greatest. This is one of the principal reasons why the Government has decided to propose this measure rather than resort to any generalized tariff or tax measure, the burden of which might well have fallen with rather greater weight on those areas of the country where economic activity is still lagging behind central industrial Canada.

These reductions should, of course, be of importance to consumers, although the main effect will be, I think, to reduce producers' costs. There will be tariff reductions on canned meat, confectionery, biscuits, cereals, fruit juices, and some other foodstuffs. These immediate tariff reductions should help to keep down prices. There will be reductions too, on a number of consumer appliances, such as washing machines and dryers, power lawn mowers and television sets. In the textile sector there will be reductions on knitted fabrics and garments, and on synthetic fabrics. I believe the principal effect of these reductions will be to help our garment industry maintain its competitive position.

In the industrial sector one reduction will be the elimination of the present thirty cents per ton duty on coal. There will also be a number of important reductions in the tariff on semi-manufactured forms of non-ferrous metals.

I am making only one exception to the acceleration of these cuts. This will be on shoeboard, a paper product for which the tariff is scheduled to be reduced from 20 per cent to 5 per cent. The full period of four years is required for readjustment of the production facilities of this small industry to meet this more than usual tariff reduction.

Tourist Exemptions

I am also proposing changes to the two existing tariff items which provide free entry for goods brought in by Canadian residents returning from trips abroad. One of the tariff items now provides for a $25 exemption once every four months after an absence from Canada of not less than 48 hours. Under the second, Canadian residents returning from a point beyond the continental limits of North America after an absence of not less than 14 days may claim an additional exemption up to $75. If use is made of the second tariff item no further claim can be made under either tariff item for the next 12 months. These exemptions have been at the $25 and $75 level since 1962.

The present provisions are misunderstood by many Canadians, including myself, returning from trips abroad and I have received a number of representations that they be modified. This evening I am proposing changes which will expand the current exemptions and which should also simplify administration. The $25 exemption after an absence of 48 hours, which now can be used once every four months should, I suggest, be available on a quarterly basis, and be completely independent of the annual exemption. There should be a $100 exemption each calendar year for Canadian residents returning from any country, including points in North America, after an absence of 12 days. These two exemptions would not be combined for the same trip abroad. Since it is intended to go to a calendar year basis, it is proposed that these changes come into effect on January 1, 1970.

In addition, I am proposing that there be a combined rate of 25 per cent for duties and taxes on goods valued up to $100, other than duty free goods, alcohol and tobacco, brought in by Canadians who have been out of the country for 48 hours and who on their return are either not entitled to an exemption or have purchased goods abroad in excess of their exemption. It is also suggested there be an exemption for those returning to Canada after an absence of 48 hours with goods, other than alcohol or tobacco, valued at no more than $5, which can be used by those not claiming the annual or quarterly exemption.

These latter provisions, which are to come into effect on a provisional basis tomorrow, will assist in speeding up customs procedures for returning Canadians. They will eliminate the need for customs officers to look up and check the rates of duty on innumerable small items, and the returning tourist—and he is a tourist only because of prosperity under a Liberal government—

Some hon. Members: Oh, oh.

Mr. Hees: You are not a good gag man; stick to the straight stuff.

Mr. Benson: The returning Tory tourist, tired and broke—

Some hon. Members: Oh oh.

Mr. Benson: —will know where he stands.

Taken all together, the changes in the tariff involve a loss of revenue estimated at about $50 million for the balance of the year, including a sales tax. This is no small loss of fiscal pressure. But it is more than offset by the leverage effects of the tariff cuts in reducing Canadian prices. The real impact of the cuts will be many, many times this amount. They will increase supplies, sharpen competition, reduce producers' costs, and strike directly at a wide range of prices.

Deferred Depreciation

A further measure is intended to deal in a selective way with a particular source of inflationary pressure in the economy. It is well known that under conditions of strong demand and expansion, the building industry typically tends to lead the upward movement of costs and prices. This year the survey of capital investment intentions indicates that the rise in new capital investment will be 9 per cent, with a high degree of concentration in Ontario where the forecast is for a gain of 13.7 per cent. In the longer-term, this investment is essential to provide expanded employment and productive capacity, but under present circumstances rapid changes add to current inflationary pressure, especially when they are highly localized. I have considered this problem at length and have concluded that a modest degree of restraint on some kinds of building would be appropriate.

I therefore propose that depreciation, or capital cost allowances, for tax purposes should be deferred for a period of two years on commercial buildings put in place up to the end of 1970. This would not apply to any form of housing, industrial building, utilities, or public institutions. Commercial building includes buildings for wholesale and retail trade and services, office structures, banks, financial institutions, and other commercial facilities such as hotels, theatres and service stations. Having in mind the disparity of regional conditions, however, this measure will not apply in those provinces where unemployment remains relatively high or where employment growth has been slower than the national average. Building in rural areas and in smaller towns and cities, which bear the effects of inflationary pressures but scarcely contribute to them, will also be totally exempt. The cut-off point will be a population size of 50,000 as recorded in the last census, and the boundaries of the areas affected will also be those defined in the 1966