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 bills:

An act for the relief of Janet McMillan Sim Sinclair Kerr.

An act for the relief of Jacqueline Joly Mazurette.

An act for the relief of Shirley Evelyn Ellis Bertram.

An act for the relief of Sally Emden Rohr.

An act for the relief of Barbara Steinberg Shapiro.

An act for the relief of Olga May Hospadaruk Edwards.

An act for the relief of Georgette Rosenberg Korman.

An act for the relief of Donald Snowdon.

An act for the relief of Mary Nisbet Clements.

An act respecting the Canadian Public Health Association.

An act respecting The Algoma Central and Hudson Bay Railway Company.

An act to amend the National Housing Act, 1954.

An act to amend the Indian Act.

An act to amend the Canada Elections Act.

An act to amend the National Energy Board Act.

An act for granting to Her Majesty certain sums of money for the public service of the financial year ending the 31st March, 1961.

An act for granting to Her Majesty certain sums of money for the public service of the financial year ending the 31st March, 1960.

BUSINESS OF THE HOUSE

Mr. Martin (Essex East): Is there any change in the course of business today?

Mr. Churchill: There are four items available for discussion tomorrow—the resolution concerning the Federal-Provincial Tax-Sharing Arrangements Act and the resolution concerning the Trans-Canada Highway Act among them. If these should be completed, there are the two resolutions in the name of the Minister of Northern Affairs and National Resources dealing respectively with the Yukon Act and the Northwest Territories Act.

Mr. Martin (Essex East): No change in the rest of the business for today?

Mr. Churchill: No. Tonight we continue with the budget debate.

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. Donald M. Fleming (Minister of Finance) moved:

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

He said:

(Translation):

Mr. Speaker, for a third time it is my honour and privilege to present to the house the annual budget.

In presenting my first budget on June 17, 1958, I drew attention to the fact that never since confederation had any portion of the budget speech been delivered in this house in the French tongue. I expressed surprise that in a parliament with two official languages enjoying complete equality every portion of the budget speech had always been delivered in English. Within my acknowledged limitations I departed from that practice in 1958 and again in introducing my second budget a year ago.

Tonight I am going to take a step further and open my remarks in the French language which has so gracefully adorned the proceedings of this house and holds a secure constitutional position in the Canadian parliament.

As on the two previous occasions, I shall begin with a review of economic conditions over the past year and an indication of what I regard as the likely trends to be expected during the new fiscal year. I shall report to the house on the government accounts, on dominion-provincial relations and on our debt management measures, then proceed to review our financial plans for the new fiscal year and the tax policy on which they are based. Finally I shall outline the tax proposals which are embodied in the resolutions which I am introducing this evening.

(Text):

ECONOMIC REVUE

Twelve months ago when I introduced the last budget we were emerging from a recession. Our fiscal and other related policies at that time were based upon an expectation of continued and accelerating recovery. In these circumstances we believed we should move in the direction of a balanced budget at a pace which would resist inflation and at the same time encourage a healthy rate of balanced growth. Looking back over the fiscal year which ends tonight, I think we can take satisfaction in the results. In spite of a period of credit strains and in spite of some unfortunately prolonged industrial stoppages both at home and abroad Canada has had a good year. A gratifying degree of price stability has been achieved, and employment, production, incomes and trade have all shown healthy increases. We can look forward optimistically to another year of solid expansion and balanced growth.

I shall not attempt a detailed review of economic developments of the past year; the budget white paper tabled yesterday covers these fully. Rather, I shall touch on some of the highlights and examine the prospects for 1960.

Last year we emerged from a recession which had been caused by a number of factors; capital expenditures by business, especially in industries producing raw materials for export, had declined; business investment in inventory holdings had fallen sharply from levels which had been high in relation to business sales; and export incomes, previously increasing, had levelled off for two years because of a reduction in demand in other parts of the world. The government had fought this recession by measures to sustain consumer demand, by stimulating housing, by increasing government investment, by augmenting transfer payments to other levels of government and by many other means.

The decline was reversed late in 1958 and gave way to expansion last year. Capital expenditure by business, especially on machinery and equipment, increased throughout 1959 and in the last half of the year was running at a rate well above that of the low point of the recession. The survey of business intentions released by my colleague the Minister of Trade and Commerce a few weeks ago indicates that this upward trend will continue throughout 1960.

As business conditions improved, first in the United States and later on in western Europe, our exports began to increase and toward the end of the year accelerated sharply. In 1959 we exported more than $5 billion worth of goods for the first time in our history. Exports to the United States showed the greatest absolute gains, but in the latter half of the year the most rapid rates of increase took place in exports to overseas countries. In the fourth quarter the rate of our total exports of goods, seasonally adjusted, was 12 per cent above the rate in the first quarter of 1959.

With rising exports and greater business investment, Canadian incomes increased. Consumer expenditures continued to grow and outlays on housing were very close to the record rate of the previous year. Expenditures by provincial and municipal governments on goods and services increased. The federal government slightly reduced its own outlays on goods and services, but increased its transfer payments to the other levels of government.

With the general improvement in business, there was no longer any liquidation of inventories, such as had taken place in 1958; instead businessmen added to their stocks to keep pace with rising sales. In 1958 the liquidation of business inventories had amounted to $323 million, while last year there was a net accumulation of $355 million, a reversal which increased demand by a total of $678 million.

Reflecting all these and other influences, the gross national product in 1959, according to our present preliminary estimates, rose to $34.6 billion compared with the estimate of $34½ billion upon which I based last year's budget. Accompanying this rise in production was an increase in employment of 2.7 per cent over 1958. Hon. members have seen the recently published February employment figures. The number of persons with jobs was 116,000, or 2 per cent, higher than at the same date a year ago, but as the result of an unusual increase in the number of persons estimated to be in the labour force, the estimate of the numbers without jobs and seeking work was 18,000 higher than a year ago. I am confident, however, that employment will rise as the coming of spring opens up new job opportunities and as the economy continues its upward trend.

The past year was notable for a welcome absence of speculative excesses in production, demand and inventories. I stress this because often in the past such excesses have provided a major cause of recession. Our economic growth has been orderly and balanced. New investment in plant and equipment has been broadly based. Increases in consumer expenditure have moved in line with personal disposable incomes and personal saving was maintained at the 1958 level.

Average per capita wages and salaries of workers in trade and industry reached a new record of $3,773, an increase of 4 per cent over 1958 and of 10 per cent over 1956. Since the consumer price index was only 1 per cent higher than in 1958, there was a very satisfactory gain of 3 per cent in real income.

The balanced nature of our economic growth has contributed to price stability, and price stability in turn, to balanced growth. Like the consumer price index the wholesale price index for 1959 was about 1 per cent higher than in 1958.

In the financial sector 1959 was marked by some disturbances which had subsided by the end of the year. During the first eight months of the year there was an extraordinary increase in the demand for bank loans. In order to meet their customers' demands the banks were heavy sellers of government bonds. At the same time all levels of government continued to be net borrowers although demands for funds, especially by the federal government, were substantially lower. As a result of all these forces, combined with the effect on Canada of rising interest rates abroad, especially in the United States, bond prices declined and interest rates rose from January to August. Since then short term rates have declined substantially and longer term rates remained steady until recently when they showed a downward trend.

The general public, attracted by higher interest rates and increasingly confident in the determination and ability of the government to combat inflation, provided the savings necessary to meet a large part of these and other demands for capital. Private savings, both personal and corporate, totalled some $6.6 billion, $260 million higher than in 1958 and more than $500 million higher than in 1957.

The high level of Canadian savings has, however, been more than matched by the level of capital investment. During 1959 the equivalent of one quarter of our gross national production went into investment. This proportion is one of the highest among all western countries.

Our capital requirements in 1959, and over the past several years, have necessitated a substantial inflow of foreign capital to supplement our domestic savings. The initiative for this inflow has come in part from our own people who have borrowed abroad, and in part from foreign investors attracted by the nature and the diversity of our resources. This direct investment by foreign entrepreneurs, not only from the United States but also from the United Kingdom and from Europe, is a reflection of strong confidence in our economic prospects and brings into Canada not only capital funds, but also technical know-how, and often also brings with it an assurance of export markets. All told the net inflow amounted to $1,460 million in 1959, about $400 million higher than in 1958, and only slightly above the previous peak of 1957.

This increase in the inflow of capital was, of course, interrelated with the increase in our balance of payments deficit on current account. I wish to comment on this subject. Our current account can be divided into two parts; goods and services, and the movements of these two parts are quite different. In the goods sector our deficit amounted to about half the size of the record deficit of 1956. This improvement reflects the fact that imports were more affected by the intervening recession than were exports, while the recovery of 1959 saw sizeable increases in both. In contradistinction, our deficit on account of services has steadily increased, reflecting higher dividend payments on successful investments by non-residents in Canada, higher interest payments, business fees of one kind and another, and increased travel and expenditure by Canadians abroad. In 1959 this deficit exceeded one billion dollars.

Putting goods and services together, they add up to the total of $1,460 million. This deficit is reflected by, and is a reflection of substantial continuing imports of capital. I do not mean to say that we use all of the money we borrow abroad to import machinery and other forms of capital equipment. We produce domestically many of the goods and materials used in our investment program, and the composition of our imports reveals only a partial picture of that program. What is significant is the use we make of all our resources, including the product of our own labour and equipment, and what we obtain as a result of our foreign transactions. What is important is that a substantial portion of these resources should be put into new capital investment, rather than into consumption, and that this new investment should be of a character that will promote the efficiency and productivity of our country. Broadly speaking, I believe that these objectives are being attained.

However, as my colleague the Minister of Trade and Commerce has said, we must not be complacent. Basically our attention must be directed to our spending and investing habits. Our standard of living has increased to a level undreamed of a generation ago. Our people have demanded social security, services and facilities from all levels of government on an expanding scale. Along with our investment program, this scale of expenditures has required a heavy outlay of resources, both physical and financial. In spite of a rate of saving which is higher than that of almost any other country in the western world, we have not been able to supply all these resources ourselves. The inflow of capital and the accompanying balance of payments deficit reflect this underlying situation.

Any inflow of capital raises questions as to ownership and control of Canadian industry and resources, and also the question of the servicing of debt. As to ownership and control, this government's position is clear. We welcome capital into Canada if, when here, it is willing to act as if it were Canadian and not as if it were foreign. During the past two years there has been increasing evidence, in many quarters, that foreign capital in this country is becoming increasingly conscious of its Canadian responsibilities. This is a subject that has been vigorously brought to the attention of foreign investors by the Prime Minister and others. It would be better if the desired result were achieved by such persuasion than by legislation.

As to the servicing of external debt, I have already explained that a very large proportion of our national output consists of additions to our national stock of capital equipment which increases our total productivity. The inflow of capital has contributed to the growth of our gross national product. Over the years of our history economic growth has taken place at a faster rate than the additional net financial indebtedness to the outside world which has been incurred in the course of achieving it, and our ability to service this foreign debt has correspondingly improved.

From the mid-1920's to the outbreak of war in 1939 our net foreign indebtedness was equal to or exceed our gross national product. During the war years and in the immediate post-war years we made very large loans, amounting in total to more than $2.5 billion, to our friends and allies overseas and to new international financial institutions. In the same years we had to defer much of the maintenance and most of the expansion of our social capital, while at the same time all levels of government in Canada were progressively paying off or buying back large amounts of foreign-held debt. As a result by 1950 our net foreign indebtedness was equal to less than one quarter of our gross national product.

Since 1950 we have been expanding very rapidly in resource development, in secondary industries, and in augmenting and modernizing our social capital, at rates considerably in excess of our domestic rate of saving. In this period the rate of increase in our net foreign indebtedness has exceeded the growth in national output, and the ratio of net foreign debt to gross national product is currently about 45 per cent. Thus in relation to our national product our net foreign indebtedness is today less than half what it was before the war and our ability to service it is correspondingly greater. The net cost of servicing our external debt in 1926-1930 represented more than 4 per cent of our gross national product; in 1950 it was just over 2 per cent, and in 1959 it was just under 1½ per cent. I do not anticipate that, if we manage our affairs prudently and properly, Canada will indefinitely continue to rely on capital from abroad as heavily as in the last few years. I expect that our need for capital from abroad, while fluctuating from year to year, will continue to decline in relation to our economic development and growth.

Admittedly, if a situation were to arise in which the economic environment or the financial climate deteriorated rapidly and radically, there would indeed be problems associated with past capital inflows, but happily that is not the situation in Canada, today.

We have been following constructive and realistic policies in matters of trade and finance, policies appropriate to present and foreseeable circumstances. What are the alternatives to such policies? A program of government controls? The imposition and enforcement of import restrictions and quotas? Individual restraints upon Canadians desiring to travel abroad and on the amount of money they could take with them? The creation of a centralized capital issues committee which would dictate to provinces, municipalities and to private business as to where, when, on what terms and how much they could borrow? I have only to list a few of these questions to indicate the obvious reply. They may be justifiable in the midst of a national crisis. In peace and prosperity, in a free society, they are not warranted. Indeed, some of them would be unconstitutional. Moreover, I believe that some of these so-called remedies would actually cause the disease that they are supposed to prevent or cure. Government controls, by interfering with freedom, cause confidence to falter, initiative to freeze, and capital to take flight.

Canadians can increase their own domestic capital and make this country financially more self-reliant if they are prepared to practise increased efficiency, productivity and thrift. This responsibility falls on all levels of government, private business and individuals.

We must place emphasis on greater productivity and efficiency rather than on sheer size, on cost control rather than on price increases, on greater saving rather than on excessive consumption. I have every hope that in the mood of renewed confidence in the soundness of our currency, and in the absence of shortages of goods, both business and the public at large will be disposed to review more carefully their spending programs.

In saying this I am fully aware of the role of leadership that falls to the federal government. It is the responsibility of the government to try to establish the conditions of financial balance within which the endeavours of others can be carried out successfully. Let me assure hon. members that the government is discharging this responsibility.

In the post-war years, in this country as in others, there has been a serious threat of inflation. Some people were actually led to suppose that chronic price increases were inevitable; others even suggested that they were desirable, or at least less undesirable than some imaginary alternatives. Let us give no quarter to such defeatist doctrines. Inflation acts like a drug on the economic system. Even small doses breed a craving for more.

One of the most serious effects of inflation is that, like other drugs, it erodes stamina and will power. The will to save, to build carefully and prudently for the future, lies at the heart of sound financial policy, whether it be the financial policy of the individual, the corporation or the government. Saving—voluntary, purposeful, constructive saving—is essential in an economic system dedicated to freedom and progress. Yet it is this sort of saving that inflation most insidiously undermines. As prices rise and stability disappears, the prizes of inflation go not to the worker but to the speculator, not to the saver but to the spendthrift.

To contain inflationary pressures the government has reduced its borrowing and has held a firm check on the expansion of government expenditure. The treasury board has painstakingly reviewed and revised spending programs. As a result of careful scrutiny we are reducing substantially the demands of the federal government on the financial markets and, through them, on the savings of the Canadian public.

If all of us, working and saving together, will increase the total amount of capital available for sound investment in Canada, we can reduce our reliance on foreign resources. In short, we have at our disposal the means to achieve in a positive way, the objectives which negative courses of action cannot hope to accomplish.

There is a related question upon which I should like to dwell for a moment. This is the question of our exchange rate. The external price of our Canadian dollar has been high for eight years now and is currently running about five per cent above the United States dollar. This situation has been brought about mainly as a result of an inflow of foreign capital and reflects the confidence of outsiders in the soundness of the management of our financial affairs. Admittedly it lowers the prices received in Canadian dollars by those exporters who have to sell in world markets at world prices. It also means a lower price in Canadian dollars for many classes of Canadian imports. On the other hand, it lowers the cost of imported raw materials and semi-finished goods used by our manufacturers, and it has helped to keep down our cost of living and cost of producing.

I have said on many occasions and I repeat now that I would welcome the development of circumstances that would reduce the external price of our dollar provided this was brought about by means other than an arbitrary and artificial attempt by the government to work against basic economic forces.

I have seen some references to a demand that the government should deliberately "devalue the dollar". This kind of talk might have been appropriate when Canada was on the gold standard, or even when it maintained a fixed exchange rate. We have not been on the gold standard for half a century and we have not had a fixed exchange rate for a decade.

An attempt by the government artificially to lower the external price of the Canadian dollar would involve borrowing or raising by taxes very large sums of money with which to buy up foreign exchange. It might well be that the government could not reduce the inflow of funds sufficiently without imposing direct controls on capital movements and then on the movement of goods. Apart from the economic objections to such policies it would be a very difficult matter to work out effective technical means of control. Even then the controls would not be effective unless the objective were one which commanded the broad public support which is necessary for general compliance. In other words we would be embarking upon a gigantic financial speculation with no assurance of success.

The exchange value of the Canadian dollar is determined by the free play of the forces of supply and demand. These forces have pushed the rate up, and at some time in the future market forces could drive the rate down. Many people would be happy about such a development, at least if it came about in an orderly manner. However, those who undertake commitments in terms of United States dollars or other external currencies expose themselves to the risk of having to repay at a time when the exchange rate for the Canadian dollar may be quite different from what it is today. This is a risk which the borrower, whether personal, corporate, provincial or municipal must bear himself and is a danger which I clearly wish to stress.

I have referred to the improvement in our exports; we must look further ahead, however, and make every effort to preserve and improve our access to world markets so that Canada's exports, which will remain one of the foundations of our prosperity, can continue to expand.

In recent years the western European economy has been enjoying particularly rapid and substantial growth. More than one quarter of our exports go to western Europe including the United Kingdom. A prosperous, politically stable and expanding European economy will provide increasing opportunities for profitable Canadian trade. We have been concerned, however, with the possible political implications of economic disagreements within western Europe. We need also to take all practicable steps to ensure that our trading position is not adversely affected.

We have therefore been giving very close attention to the problems that are arising from the emergence of the two regional trading groups in Europe: the European economic community of six countries and the European free trade association of seven countries. We have been anxious that these arrangements should not lead to inward looking and discriminatory practices and should not weaken the world wide trading system which has been built up so patiently and so successfully in recent years. We are therefore seizing every opportunity to put forward the Canadian point of view at meetings with representatives of these groups and with our other trading partners. Moreover, we are participants with the European countries and the United States in discussions relating to, and have declared ourselves ready to become members of, a reconstituted organization for economic co-operation and consultation, O.E.C.C.; and further we will press that such organization shall subscribe not only to the principles of the international institutions governing trade and payments but also that members shall honour their obligations in these institutions. In particular, we are continuing to urge European countries to resist the growth of European tariff discrimination by extending their tariff reductions to other countries on a most favoured nation basis. We have found that our views are shared by many countries in other parts of the world, and particularly by those in the commonwealth. The general tariff conference of the contracting parties to the GATT which is to be convened next September will provide an opportunity for a further reduction in world trade barriers and new opportunities for Canadian exporters.

I have dealt at some length on our external position because of the bearing which it has on our domestic situation. So long as our access to foreign markets is unimpaired and we are able to keep the costs and the quality of our products and services thoroughly competitive, we need have no fears for the future. The economic expansion which Canada is now experiencing is soundly based; incomes are rising and we have demonstrated a willingness to save; relative price stability seems reasonably assured; business confidence is high, and capital investment is expanding; our export prospects are bright. I expect that the forces of expansion will continue during 1960, and that the rates of increase we have experienced in 1959 should be maintained throughout the year. Within this framework I am basing my forecast of 1960-61 revenues on an increase in the gross national product in 1960 of about 6 per cent, or to a record level between $36½ and $37 billion dollars.

GOVERNMENT ACCOUNTS 1959-60

The government's accounts for the fiscal year that ends today are set out in detail in the white paper tabled yesterday afternoon and I propose to refer to them only very briefly now. I should, however, remind hon. members that the figures I use tonight as well as those in the white paper are preliminary and subject to change. The final figures will not be available until next July or August after the accounts for the year have been closed and audited.

The house will recall that in my budget speech last April I budgeted for revenues of $5,267 million, expenditures of $5,660 million and a deficit of $393 million. On the basis of figures in the white paper it is now estimated that our revenues for the fiscal year were $5,301 million, our expenditures $5,707 million and the deficit was $406 million.

Revenues, expenditures and the total deficit all were very close to forecast. Revenues were $34 million or two thirds of one per cent higher than last April's budget estimate; expenditures were up $47 million or three fourths of one per cent more than forecast; and the deficit which was forecast at 7.5 per cent of revenues has turned out to be 7.7 per cent of revenues. Defence expenditures were $175 million less than forecast but this was more than offset by increases of $87 million for higher charges for interest on the public debt, $50 million for larger subsidy and tax-sharing payments to provinces, and approximately $55 million for various payments in connection with our agricultural and farm assistance program.

Over and above these expenditures that are charged to the budgetary accounts we have under authority of parliament disbursed considerable sums for loans, advances and a number of other essential purposes. These included loans of $325 million to Central Mortgage and Housing Corporation, $233 million to the C.N.R.—which, however, repaid $489 million on account of these and earlier loans from the proceeds of public issues of government guaranteed C.N.R. bonds—$30 million to the farm credit corporation, $23 million to the St. Lawrence seaway authority and $21 million to the Northern Canada power commission. During the fiscal year these disbursements amounted in all to $945 million. To meet these outlays $942 million was available from the repayment of loans, net annuity insurance and pension receipts and other sources. Thus a net amount of $3 million was required for all these non-budgetary transactions. This compares with a net cash requirement of $664 million to finance our non-budgetary transactions in the previous fiscal year.

The budgetary deficit of $406 million and the net amount of $3 million required for non-budgetary transactions have been financed by an increase of $333 million in the government's outstanding unmatured debt and by a decrease of $76 million in our cash balances. Combining the net new issues of C.N.R. guaranteed bonds, the net new issues of direct government of Canada bonds and the reduction in our year-end cash balances, our total net cash requirements for the year have turned out to be $900 million.

OLD AGE SECURITY

At this point I should like to report briefly on the old age security fund. As hon. members know, the Old Age Security Act provides a pension of $55 a month to every eligible person 70 years of age or over. Prior to last year these payments were financed by contributions of 2 per cent on corporate and personal incomes, with a maximum contribution of $60 on personal incomes, and a 2 per cent sales tax. Under last year's budget, these contributions were raised from 2 to 3 per cent to take effect January 1, 1959, for corporate incomes; July 1, 1959, for personal incomes, with a maximum contribution of $90, and April 10, 1959, for the tax on sales.

During 1959-60, pension payments from the fund totalled $574 million and revenues credited to the fund amounted to $550 million. The deficit of $24 million for the fiscal year was covered by a temporary loan.

May I insert in *Hansard* at this point, Mr. Speaker, table 1—showing the contributions and pension payments under the Old Age Security Act for the last four years.

Mr. Speaker: Has the minister leave to have this table inserted at this time?

Some hon. Members: Agreed.

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

TABLE 1

OLD AGE SECURITY FUND
(in millions of dollars)

—	1956-57	1957-58	1958-59	1959-60
Contributions—				
Personal income tax	125.0	135.0	146.4	185.6
Corporate income tax	67.3	60.7	55.3	91.3
Sales tax	179.3	175.8	173.6	273.0
	371.6	371.5	375.3	549.9
Pension payments	379.1	473.9	559.3	574.0
Deficit	7.5(1)	102.4(1)	184.0(1)	24.1(2)

(1) Charged to budgetary expenditure under appropriation by Parliament.
(2) Temporary loan from the Minister of Finance.

DOMINION—PROVINCIAL RELATIONS

(Translation):

Mr. Fleming (Eglinton): During the past year there have been important developments in our financial relations with the provinces. On July 6 and 7, 1959, the newly created dominion-provincial committee of ministers of finance and provincial treasurers met in Ottawa to discuss a wide range of subjects connected with these financial arrangements and to make provision for their systematic study. This committee met again in Ottawa on October 15 and 16 for further discussions. At the October meeting I informed the provincial treasurers and ministers of finance that it was the intention of the government to ask parliament at this session to approve legislation continuing for a further two years the increase from 10 per cent to 13 per cent in the provincial share of the yield from the personal income tax.

As hon. members are aware, this legislation is at present before the house. This measure also contains important provisions relating to university education and federal-provincial co-operation. A solution has been offered which takes into account the long-standing objection of the province of Quebec to payment of federal grants to the universities of that province. The alternative provided in the measure will enable any province to replace the present federal grants to universities by additional provincial grants without placing greater burdens on its taxpayers and without increasing the cost to the federal treasury.

At the October meeting of the committee of ministers of finance and provincial treasurers, I also stated that it would be the intention of this government to arrange for a dominion-provincial conference of prime ministers and premiers in mid-1960 to discuss federal-provincial financial relations for the period after the expiry of the present agreements March 31, 1962. As hon. members are aware, the Prime Minister on March 24, wrote to all the provincial premiers inviting them to a plenary conference in Ottawa, July 25-27 of this year. We hope that this meeting will make a further major contribution to the achievement of harmonious fiscal relations between the dominion and the provinces.

(Text):

From a budgetary standpoint our fiscal relations with the provinces are extremely important since the amounts paid to or for the provinces absorb nearly one quarter of our total federal revenues. I should like to place on record table 2 showing the cost to the federal treasury in recent years of our fiscal arrangements with the provinces. This table includes unconditional payments and tax abatements as well as conditional grants and certain closely related payments, the grants to universities and the grants to municipalities in lieu of taxes. It will be seen that the total amounts paid or abated to the provinces have approximately doubled over the past four years.

Mr. Speaker: Has the minister leave to have this table inserted in *Hansard?*

Some hon. Members: Agreed.

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

TABLE 2

FEDERAL CONTRIBUTIONS TO THE PROVINCES
(in millions of dollars)

—	1956–57	1957–58	1958–59	1959–60 (preliminary)	1960–61 (estimated)
A. Unconditional Payments—					
1. Statutory subsidies	22.8	22.0	21.6	21.4	21.0
2. Tax abatements (estimated)	157.4	275.6	275.1	299.6	335.8
3. Tax rentals	365.9 (items 3 and 4)	213.8	249.0	278.6	290.1
4. Equalization (including stabilization)		139.5	149.1	180.7	181.5
5. 50 per cent share of income tax on power utilities	6.6	7.4	8.7	9.0	9.0
6. Atlantic Provinces adjustment grant	—	—	25.0	25.0	25.0
7. Term 29 award (Newfoundland)	—	—	13.6	7.3	7.7
Sub Total	552.7	658.3	742.1	821.6	870.1
B. Conditional Payments—					
8. Agriculture	.8	1.0	1.9	8.2	1.8
9. Health	36.4	34.6	46.1	46.0	40.2
10. Hospital insurance	—	—	54.7	149.8	167.0
11. Welfare	38.4	48.1	73.7	86.9	90.3
12. Vocational training	4.0	4.2	7.6	8.5	8.4
13. Highways and transportation	26.9	50.9	53.7	58.1	53.0
14. Resource development	2.9	4.4	8.7	16.0	12.4
15. Other	1.6	1.6	1.7	9.8	15.9
Sub Total	111.0	144.8	248.1	383.3	389.0
C. Payments for the benefit of provincial institutions—					
16. University grants	16.0	16.6	25.5	26.1	19.0
17. Grants to municipalities in lieu of taxes on federal government property	9.7	17.5	21.9	21.5	22.8
Sub Total	25.7	34.1	47.4	47.6	41.8
TOTAL	689.4	837.2	1,037.6	1,252.5	1,300.9

Mr. Fleming (Eglinton): The preliminary figure for the cost to the federal treasury of unconditional payments and tax abatements to the provinces in 1959-60 is $822 million, an increase of $80 million over the previous year and $163 million higher than in 1957-58. It is estimated that there will be a further increase in cost for 1960-61 of $48 million. Of the estimated increase of over $200 million in unconditional payments and abatements between 1957-58 and the fiscal year 1960-61, more than one half is the result of new payments or changes in the basis of payment or abatement. The increase in the provincial share of the yield from the personal income tax from 10 per cent to 13 per cent, which has benefited the provinces by $120 million in the past two years and it is estimated will mean a further $68 million to them in 1960-61, by itself accounts for approximately one third of the total increase.

Conditional payments to the provinces were also substantially higher in 1959-60, increasing by $135 million to a total of $383 million. Seventy per cent of this large increase was the result of increased contributions under the Hospital Insurance and Diagnostic Services Act as more provinces participated in the scheme. There were, however, also large increases in grants for welfare and resource development. It is estimated that there will be a further increase of $6 million in conditional payments in 1960-61.

DEBT MANAGEMENT

In reporting to the house a year ago on the management of our public debt I pointed out that the large conversion operations undertaken during the summer of 1958 had removed a source of heavy pressure on the bond market and that by substantially lengthening out the average term of our debt a sound debt management policy could be developed and carried forward.

Public debt transactions during 1959-60 included the issue, refinancing and redemption of a large volume of government securities. However, as a result of the successful conversion loan operations undertaken during 1958 the volume of debt transactions in 1959-60 was considerably less than in the previous year.

During the year now ending we have sold $1,048 million of new marketable bonds and we increased the outstanding issues of treasury bills by $530 million. In the same period we paid off $1,550 million of market issues so that the total volume of direct government of Canada marketable issues outstanding at the end of the year is only $28 million higher than at the beginning. In addition we sold $1,445 million of new Canada savings bonds and paid off or redeemed $1,170 million of earlier Canada savings bonds.

After taking into account the net decrease of $20 million in bonds held in our securities investment and sinking fund accounts, the unmatured direct debt held outside these government accounts was $333 million higher at the end of the fiscal year than it was at the beginning. This compares with an increase of $1,439 million during the previous year and is an indication of the progress we have made.

With the consent of the house, Mr. Speaker, may I insert here three tables showing the size, distribution, average term and total interest cost of our public debt over the past 10 years?

Mr. Speaker: Perhaps the house would give consent at this time to the insertion of such tables as the hon. minister proposes to use

Some hon. Members: Agreed.

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

The Budget—Hon. D. M. Fleming

TABLE 3

GOVERNMENT OF CANADA

Gross and net direct debt

—	Funded Debt	Total Debt	Net Debt	Net Debt Per Capita	Net Debt As per cent of G.N.P.
	($ billion)	($ billion)	($ billion)	$	
March 31					
1950	15.2	16.8	11.6	849	71.3
1951	15.0	16.9	11.4	816	63.5
1952	14.7	17.3	11.2	774	52.8
1953	14.8	17.9	11.2	752	46.5
1954	14.6	17.9	11.1	727	44.4
1955	14.5	18.0	11.3	717	45.3
1956	15.4	19.1	11.3	701	41.6
1957	14.4	18.3	11.0	664	36.0
1958	14.2	18.4	11.0	648	34.8
1959	15.6	20.2	11.7	669	35.8
1960	15.9	21.0	12.1	681	34.9

TABLE 4

GOVERNMENT OF CANADA

Interest Cost of Gross and Net Direct Debt

Year ending March 31	Interest paid on total debt	Interest and other earnings from Investments	Net Interest Cost	Net Interest as p.c. of net debt
	(millions)	(millions)	(millions)	
1950	$440	$ 92	$348	3.00
1951	425	90	335	2.94
1952	432	118	314	2.80
1953	451	117	334	2.98
1954	476	152	324	2.92
1955	478	134	344	3.04
1956	493	149	344	3.04
1957	520	207	313	2.85
1958	539	169	370	3.36
1959	606	221	385	3.30
1960	738	239	499	4.13

TABLE 5

GOVERNMENT OF CANADA

Maturity and Distribution of Direct and Guaranteed Debt

December 31	Average term of Debt* Years	Amount of Debt held by Banks	Amount of Debt held by Government Accounts	Amount of Debt held by General Public	P.C. held by Gen. Public
			($ millions)		
1950	8.1	5,093	847	9,952	62.6
1951	7.5	5,052	1,009	9,273	60.5
1952	6.8	5,176	1,102	8,909	58.7
1953	6.2	5,184	1,314	9,139	58.4
1954	7.2	5,633	1,204	8,629	55.8
1955	6.3	5,540	1,491	8,969	56.1
1956	6.6	4,950	1,518	8,766	57.5
1957	6.0	5,104	1,367	8,693	57.3
1958	10.3	6,190	1,258	8,968	54.6
1959	9.5	5,488	929	10,720	62.6
1960 (Mar. 23)	9.4	5,487	840	10,990	63.5

* Excluding Canada Savings Bonds and Perpetuals.

Mr. Fleming (Eglinton): These tables show that at the end of the current fiscal year our net debt is $12.1 billion, which is about $400 million higher than it was at the beginning of the year. In per capita terms it was $849 ten years ago, $717 five years ago, and has now dropped to $681. As a percentage of gross national product our net debt at 34.9 per cent now stands at a lower figure than for any previous year except 1958.

Last year I mentioned the decline in the holdings of Canada bonds by the general public that had been going on more or less steadily since the end of the war, but noted that since September 1958 there had been a sharp reversal of this trend. I am very pleased to report tonight that during the past year the general public's holdings of Canada bonds have continued to increase and that they are now $1.5 billion more than at March 31, 1959, and $3 billion more than on September 30, 1958. The latest figures show that the holdings of the general public are now 63.5 per cent of the total outstanding funded debt compared with 62.6 per cent at December 31, 1959, and 57.8 per cent at June 30, 1957.

Net interest payments over the whole year amounted to 4.13 per cent of our net debt at the end of the year, as compared with 3.30 per cent in the preceding year. This rather sharp increase is largely due to the fact that the net debt mounted rapidly during the latter part of 1958-59, and interest on the increased debt was paid for only part of that year. In 1959-60 interest on this increased debt was paid for a full year. The average interest rate on our total unmatured debt stands today at 3.96 per cent compared with 3.54 per cent a year ago.

GOVERNMENT ACCOUNTS 1960-61

I turn now to the budget prospects for 1960-61. The main estimates for the fiscal year totalling $5,740 million were tabled early in February. In addition there are bound as usual to be some supplementary estimates. Provision will have to be made for the C.N.R. deficit for 1960, although I expect this will be somewhat less than the 1959 deficit, and I must assume that there will be some payments under the agriculture stabilization act and also some additional statutory expenditures.

Offsetting these there will be some lapsings in appropriations although these are likely to be less than in previous years because of the very careful and exacting scrutiny of departmental estimates made by the treasury board this year. As I said on tabling the main estimates, although we have provided for sustaining and in some cases increasing the expenditures relating directly to national development in such fields as atomic energy, exploration, scientific research, transportation and communication, controllable costs have been carefully scrutinized and sharply restrained.

There is, however, one substantial additional item of expenditure in prospect which I should report to the house and which relates to the review of salaries in the public service.

When I announced on October 13, 1959 that the government was unable to assume, during the 1959-60 fiscal year, the cost of carrying into effect the recommendations of the civil service commission for increases in the salaries of many classes of civil servants, I stated that:

> The decision taken by the government, in the light of its financial position, will not preclude consideration being given to the special position of certain categories of civil servants as the government's financial circumstances permit.

In conformity with this undertaking, revisions of the salaries of the nursing classes where special conditions obtained were approved by the treasury board on October 15, 1959 and January 28, 1960.

It is now nearly three years since there has been a general increase in civil service salaries. The last general increase was authorized by the present government in July, 1957 and made retroactive to May 1, 1957. In July, 1958 the civil service commission reported that a general increase in salaries at that time was not warranted. A year later, in June 1959, the commission made recommendations to the government covering the great majority of classes in the civil service. This report recommended widely varying increases for several hundred classes of employees. For reasons which I made public last October the government decided that it could not implement those recommendations.

Our public service contains the widest range of jobs and positions, from unskilled labourers to research scientists. The relative pattern of wages and salaries for such diversified groups in a dynamic society changes with the passage of time and with shifts in the economic and social structure. It has seemed to me that instead of embarking upon periodic general wage and salary increases across the board, it would be a more sensible approach to develop a continuous cycle of reviews and recommendations. In this way the salaries of different groups or clusters of related classes of employees can be reviewed in successive months or quarters in the light of rates of pay prevailing in private employment and in the light of our demonstrated capacity to recruit and retain the right number and quality of public servants.

I have discussed this approach with the chairman of the civil service commission and I am given to understand that the commission agrees that there is merit in this suggestion.

We have an excellent public service in Canada. In terms of ability and integrity it compares very favourably with those of any other country. Now that up to date information on the current levels of salaries paid by private employers is becoming available in the form of preliminary reports by the pay research bureau, and as the budgetary situation now makes action possible, the government will accelerate its program of implementing recommendations from the civil service commission affecting a number of classes in the public service where the comparison with outside rates and the recruitment situation justify action.

I am happy to report that the treasury board, taking into consideration the degrees of disparity between civil service salary rates and those of private employers and the problems of recruitment and retention of qualified employees, has now approved recommendations from the civil service commission involving some 50,000 employees of the public service, principally in the clerical and stenographic classes, but also including some of the professional classes, such as meteorologists and veterinarians, where recruitment and retention of the essential number of qualified officers have become increasingly difficult. These revisions in salary ranges will be effective from tomorrow, April 1, 1960 and will involve an increase in expenditure during the fiscal year of about $15 million. Details of these revisions will be made public as rapidly as possible over the period of the next ten days or two weeks.

With the same principles as criteria, a review of all other classes in the public service will be carried out by the civil service commission forthwith and is expected to be completed before the end of the summer. As recommendations are received from the civil service commission, they will be promptly cosidered by the treasury board on a class by class basis.

After considering all the available data and taking into account our unremitting efforts to effect further economies and efficiency in all government activities, I have concluded that our budgetary expenditures for the fiscal year ending March 31, 1961 will be approximately $5,880 million.

This is $173 million higher than our budgetary expenditures for the year now ending. Approximately one third of this increase is in defence expenditures. The other two thirds part is in our non-defence expenditures and is due to higher public debt charges, higher civil service salaries, higher social security and welfare payments reflecting the increase in our population, and increased outlays under the government's programs designed to promote national development.

Revenue forecasting, as I have observed on previous occasions, always presents formidable difficulties. However, on the basis of a projected gross national product of between $36½ and $37 billion for 1960 and in the light of our present information, I have concluded that our present tax structure, with no change in rates will yield $5,892 million in 1960-61. This is $591 million more than our revenues in the past year.

For the convenience of hon. members, may I insert in *Hansard* at this point a table showing my estimate of the past year's revenues and what we may expect to receive in the ensuing year from the present tax structure.

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

TABLE 6

REVENUE FORECAST BEFORE TAX CHANGES
(In millions of dollars)

—	Preliminary 1959–60	Forecast 1960–61
	$	$
Personal income tax	1,555	1,750
Corporation income tax	1,140	1,340
Non-resident tax	75	80
Estates tax	88	85
Customs duties	529	580
Sales tax	737	795
Other duties and taxes	626	670
Total taxes	4,750	5,300
Non-tax revenue	551	592
Total revenue	5,301	5,892

[Mr. Fleming (Eglinton).]

With revenues estimated at $5,892 million and expenditures at $5,880 million and assuming no change in our existing tax laws, I should expect a surplus of $12 million for the coming year.

During the coming year I expect the old age security fund to show a small surplus of revenue over expenditure for the first time since the fund was inaugurated on January 1, 1951. Between January 1, 1951 and March 31, 1960, the old age security fund has experienced deficits totalling $630 million. Of this amount over $500 million has been paid off out of general tax revenues and about $100 million was charged in 1954 to our balance sheet reserve against active assets. There remains outstanding now a deficit incurred during the past 12 months of $24 million. Revenues to the fund from the current 3-3-3 formula in 1960-61 will be about $630 million; pension payments after making provision for certain amendments forecast in the speech from the throne will exceed $590 million. If these expectations are realized the prospective surplus will be sufficient to extinguish the presently remaining deficit in the fund.

Before proceeding to discuss the tax policy appropriate to our present and prospective circumstances, I should like to refer briefly to our non-budgetary transactions and our cash requirements for 1960-61. In addition to the expenditures for administrative and other governmental services that are included in our budgetary accounts, we pay out each year substantial amounts of cash as loans to or investments in a wide variety of essential public undertakings. These outlays are not considered as budgetary expenditures as the principal is usually repaid, and, in almost every case, they earn interest or produce revenue for the government.

Against this, we receive each year large amounts of cash that are not recorded as budgetary revenue. For the most part, these consist of repayments of loans made in previous years and moneys received by the government as net premiums, contributions and earnings in connection with annuities, insurance or pension funds.

During 1960-61 we shall probably require about $290 million for housing loans, including new and existing commitments, about $150 million for C.N.R. and T.C.A. capital investment and refunding, and perhaps as much as $100 million for other non-budgetary purposes such as the St. Lawrence seaway authority, the national harbours board, the farm credit corporation and other crown companies. Against this we shall probably have somewhat more than $300 million available from the repayment of loans and from the transactions in our various annuity, insurance and superannuation accounts. Thus the net cash required for all these non-budgetary transactions, excluding the exchange fund requirements, which cannot be forecast, will be of the order of $225 million. With a prospective budget surplus of $12 million, our net cash requirements, including those of the C.N.R. will be about $210 million as compared with $900 million during the year just ended and $1,273 million in 1958-59.

TAX POLICY

As I said a year ago, and as I have repeated in this house and elsewhere on a number of subsequent occasions, sound budget policies must be flexible and adapted to changing economic conditions. The onset of the 1957 recession called for lower taxes, higher expenditures and heavier capital commitments in order to offset the downward trends in the private sector of the economy and the decline in the external demand for some of our basic products; and I put such proposals before the house in December, 1957 and again in June, 1958.

The fiscal policies we followed during our first year in office had a major influence in reducing both the depth and the duration of the recession, and by the third quarter of 1958 the low point of the recession had been passed and the forces of expansion began to gather momentum. By the spring of 1959 recovery was well on the way, and in my budget speech a year ago I recommended to this house policies which were designed to bring us back to a position of budgetary balance as soon as the economy had recovered the losses of the recession and was moving firmly forward and upward to new record achievements in production, employment and investment.

The position we have now reached, with its sound prospect of a fully balanced budget, represents the fruits of carefully designed policies carried forward over the past 18 months. This is not something that has just happened. It is the result of considered aims and efforts. It began with the great conversion loan of the summer of 1958 which made possible a policy of sound debt management which in turn restored public confidence in government credit and in our determination to control the powerful forces of inflation. It was continued in the expenditure controls and the tax changes of 1959, and is reinforced in this year's program of reduced controllable expenditures balanced by the continued promotion of constructive national development.

I am happy to say that we have reached this goal of a balanced budget without the necessity of recommending any further increases in taxation, indeed at a level of taxation which in relation to gross national product will be lower than in any year between 1950 and 1953.

Another fruit of our policies over the past year and a half is that during the coming year we shall be making very modest claims upon the capital market. Our net new borrowings, as I have already indicated, will be about $210 million. This will greatly ease the problems of provincial and municipal governments and also of private industry in meeting their essential financial requirements in the domestic market. If other levels of government follow similar policies of prudent financial management they too should experience less difficulty than in any recent years in meeting their basic financial needs.

As I said in my opening review of economic conditions, we are anticipating a year of solid expansion and balanced growth. The main forces of inflation are quiescent. We still have, however, some slack in certain sectors of our productive capacity, though I expect to see these diminish as the year progresses. While I look forward to the day when we can undertake a measure of orderly reduction in our public debt, present circumstances do not, in my judgment, warrant an increase in tax rates in order to expedite the retirement of debt.

In the light of all these facts and prospects I am proposing no major tax changes in any fields this year. I shall, however, be recommending to the house a number of technical amendments to our taxing statutes, all of them designed either to remedy certain anomalies that have developed or to close certain loopholes for tax avoidance that have been discovered, or to meet certain other special circumstances.

INCOME TAX

In the income tax field there will be quite a number of technical amendments but I shall refer now only to those of general interest.

I am proposing an increase in the maximum amount of medical expenses that can be deducted in calculating taxable income. The existing limits have remained unchanged for some years, at the levels of $1,500 for a taxpayer of single status, $2,000 for a taxpayer of married status, and $500 for each dependant but not exceeding $2,000 in respect of these dependants. Over a period of years increases have taken place in the costs of medical care and in the accepted standards of medical care. The maximum limits that were once considered appropriate are increasingly found to impose hardships upon people of moderate means. The new limits I am recommending are $2,500 for a taxpayer who is single, $3,000 for a taxpayer of married status, and $750 for each dependant but not exceeding $3,000 in respect of dependants.

I shall also bring forward an amendment to provide a deduction from certain items of income, such as superannuation, pension or death benefits, on account of the estate tax that has been paid on the asset corresponding to that income. This measure is being introduced to alleviate a problem that sometimes affects the financial resources of the widow and the children of a deceased taxpayer. The purpose is to provide relief in certain cases from the so-called double impact of estate tax and income tax, which may deplete unduly the resources of the surviving family.

I am proposing to provide for the appointment of an additional member of the tax appeal board. Concern exists about delays encountered in connection with appeals. The enlargement of the board will implement a proposal set forth in the report of May 8, 1959 by the standing committee on estimates.

I am also bringing forward an amendment to deal with the problems of associated corporations to which I drew attention last year. At that time I said that perhaps it was becoming too easy to divide a corporation into a number of smaller components, each of which may qualify for the low rate of tax on its first $25,000 of income. I indicated that consideration was being given to the possible necessity of introducing some appropriate measure to deal with this method of tax avoidance. In the meantime further study has indicated an amendment of this kind to be necessary.

There are two other highly complex issues relating to the income tax law to which much study has been devoted but in respect of which I am not yet ready to make specific recommendations. I am, however, proposing two separate courses of action.

The first is the question of the application of the income tax law to employees' profit sharing plans. In various parts of the country increasing use is being made of plans by which employers share a portion of the annual profits with employees, thus providing a source of funds to assist the individual to plan for his eventual retirement. Special tax rules for profit sharing plans have been in existence for some time. These rules, however, do not permit employees to defer taxes on amounts contributed to these plans on their behalf. Largely for this reason they have been criticized as being insufficient to allow the fulfilment of the potential social usefulness of profit sharing plans.

My intention in this matter is to follow the precedent established some years ago in connection with the Income Tax Act and more recently with the Estate Tax Act. I propose to introduce toward the end of this session a separate bill which will incorporate a new approach to the taxation of the several components of employees' profit sharing plans. I shall invite the house to give this bill first reading but to proceed no further at this session. This will provide full opportunity for all interested citizens and organizations to study the bill and make their views known to the government. Consideration will then be given to the incorporation of this new approach into the Income Tax Act next year.

The improved facilities to be made available for employees' profit sharing plans will constitute an important piece of social legislation within the framework of the Income Tax Act. In its distinctive way, this will supplement the growing body of social security measures that have been sponsored by the government. It may be that the medium of profit sharing will provide fresh opportunities for capital, labour and management to work out new forms of co-operation amongst themselves in various instances. Neither expense nor obligation will be imposed, however, upon groups and organizations that do not choose to assume them.

The second complex question that requires fresh study and consideration pertains to the designation of surplus under section 28(2) of the act. The central issue is the taxation, as personal income or otherwise, of earnings that are distributed or are available for distribution in various forms by corporations. We shall be undertaking a comprehensive study of these matters during the coming year. I shall welcome considered expressions of view from all interested persons and organizations.

ESTATE TAX

The new Estate Tax Act has been in force since January 1, 1959. It has received general public approval. At the same time experience has indicated a number of points at which it can be improved, and I shall place before the house a number of amendments for this purpose. Most of these will be of a technical nature and on balance they will benefit the taxpayer.

An amendment of general interest will provide for the reopening of the assessment of an estate within a fixed period of years and the refunding of estate tax when, for example, a life annuity is terminated prematurely. It sometimes happens that an important asset in an estate is an annuity to the surviving widow. This annuity may come to an end if she dies or if she marries again. It is nevertheless valued for purposes of estate tax on the basis of the prescribed mortality tables. The proposed amendment will provide that where certain classes of income rights are terminated or altered within four years of the death of the testator, the assessment may be reopened on request and appropriate adjustment made.

SALES AND EXCISE TAXES

I am placing before the house a small number of amendments which will affect the application of the Excise Tax Act.

I am proposing that electric heating equipment designed to be permanently installed as part of a building heating system should be exempt from sales tax. The effect will be to permit this method of household heating to compete for the market on the same terms as other methods of heating.

I am proposing that manufacturers of doors, windows and window frames should be required to pay sales tax on the hardware attached to or sold with doors, windows and window frames unless such hardware is specifically exempt under schedule III of the act. The standard items of hardware that are used with doors and windows are, in fact, listed in schedule III. The purpose of the amendment is to remove some uncertainty that has existed with respect to some special items of hardware. The result will be that the whole group of manufacturers concerned will be more fairly and equitably treated as amongst themselves.

In order to avoid the possibility of misunderstanding I shall mention a comparatively minor amendment intended to prevent private individuals who purchase yachts from avoiding the imposition of sales tax in respect of the materials that are included. This will not affect the commercial shipyards, which will continue as before to purchase materials for the construction of ships free of sales tax under licence.

CUSTOMS TARIFF

I turn now to matters relating to our Customs Tariff. I have six resolutions to place before the house and I shall also be mentioning some new references to the tariff board.

Four resolutions relate to textiles and contain the results of tariff negotiations with other countries designed to give effect to reports received from the tariff board. The reports in question are those relating specifically to cotton and cotton products, to silk, man-made fibres and their products, to textile wastes, slivers, rovings and yarns, and also to wool fabrics other than those covered by tariff items 554b on which action has already been taken.

I should perhaps add that, as the house knows, I received from the tariff board a few weeks ago one further report on textiles relating to hosiery and knitted goods, and within the textile field the tariff board has still to report on a miscellaneous group of products including woollen clothing, hats and caps, coated fabrics, laces and embroideries. Negotiations on these products will be undertaken in due course. Negotiations will also be undertaken in relation to the tariff on record changers on which I have also received a report from the board recently.

The negotiations related to the textile tariff changes proposed tonight were undertaken with seven of the other contracting parties to the general agreement on tariffs and trade, specifically the United States, the United Kingdom, France, Italy, Benelux, Japan and Peru. In addition, consultations with other countries were required under GATT procedures. I am happy to be able to announce that all the necessary negotiations and consultations with all of these countries have been successfully completed.

As the house is already aware, tariff board recommendations often, perhaps usually, include proposals for both increases and decreases in rates of duty. Sometimes it is found in the subsequent negotiations that the other countries concerned are ready to accept the proposed decreases as full compensation for the proposed increases in our tariffs against them. However, in the case of the particular group of textile tariff items negotiated on this occasion, it was found that the increases, of which the most important relates to coloured cotton fabrics, somewhat overbalanced the decreases. Hence, in order to conclude negotiations, we found it necessary to reduce about a score of Canadian tariff rates on items outside the textile field. The implication of this is that the Canadian textile industry is receiving some additional protection, as proposed by the tariff board, but that this is being matched by some reductions of tariffs in other fields. Some of these reductions were requested by Canadian industry while others involve quite small reductions from relatively high rates of duty which should not damage the industries affected.

I mentioned earlier that there were four resolutions relating to textiles and textile negotiations. Much the most important of these covers the substance of our textile negotiations including the additional items outside the textile field to which I have just referred. A second contains changes that are merely matters of form. A third provides for a much-needed definition of "man-made fibres"; this is a technical proposal put forward by the tariff board. A fourth resolution amends an existing drawback item relating to textiles. I should also add that, again in conformity with the board's recommendations, some temporary items established in past years by order in council are being revoked forthwith, while others will be permitted to expire on June 30 of this year.

Two further resolutions cover miscellaneous tariff changes, of which there are 15. This is an unusually small number and I should explain that this year, in considering requests for tariff alterations, we had very much in mind the fact that in the autumn an important round of tariff negotiations under GATT will be initiated. In a good many cases we decided that it would be imprudent to take action on the Canadian tariff in advance of these negotiations. Many of the proposals that have been put to us during the past year for changes in tariff rates may find some place in the forthcoming negotiations.

In these two resolutions covering miscellaneous changes, the only alterations to which I might call attention are those relating to instant potatoes and seismograph bits. Production in Canada of both these items has only recently commenced, and it is proposed to provide for modest rates of duty.

The six resolutions together propose changes in 123 tariff items. Of these changes 20 are purely formal; they simply involve the renumbering of existing items as a matter of convenience. A further 49 involve changes in nomenclature without alteration in the rates of duty. Sixteen involve increases in the rates of duty that will be payable, while 38 involve decreases. As on earlier occasions, I should warn that these bare statistics are not very revealing or conclusive, but they do serve to indicate the general balance and moderation with which this government is approaching tariff matters.

As I said earlier, I am planning some new references to the tariff board. In doing so it is of course necessary to take into account the work which is already before the board. This includes, in addition to a substantial number of appeals, the remaining parts of the textile reference, a reference respecting electronic items and, most important, the very substantial reference embracing virtually the whole field of chemicals. Obviously, with such an agenda already before it, we cannot ask the board to take on much more. However, there is one section of the tariff which, on the basis of representations that have been made to me, I am convinced requires the attention of the board at a fairly early date. This is a series made up of so-called end use items which provide special rates of duty for machinery and equipment