



CANADA

BUDGET SPEECH

DELIVERED BY

HONOURABLE WALTER HARRIS

MINISTER OF FINANCE

MEMBER FOR GREY-BRUCE

IN THE

HOUSE OF COMMONS

MARCH 20, 1956

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THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE

Hon. W. E. Harris (Minister of Finance)
moved:

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

He said: Mr. Speaker, on the first day of spring one cannot help feeling buoyant and optimistic, and I think that what I have to say tonight will bear out that we have had a buoyant and optimistic year.

INTERNATIONAL POSITION

The world economic situation has during the past year shown nothing but solid progress in almost every civilized country. While the increase in economic activity has been most apparent in North America, substantial increases have also occurred in the United Kingdom, continental Europe and other parts of the world, and the flow of world trade has been very considerably enlarged. For many countries, this improvement came on top of an impressive growth of economic activity in previous years.

Continued rapid expansion in both investment and consumption expenditures has brought on a renewal of inflationary pressures in many countries; but it is highly encouraging that the general tendency has been to counter these pressures by fundamental monetary and fiscal policies which, in our judgment, go to the root of the trouble, rather than by a relapse into physical restrictions and controls.

DOMESTIC ECONOMIC CONDITIONS

As for our own economy, hon. members will recall that the situation at the time of the last budget was somewhat clouded. It was clear that we were beginning to recover from the recession of 1954, but the rate of recovery

was still uncertain. To me it seemed that the prospects for economic expansion were reasonably good, and I based my revenue forecasts on the expectation that there would be an improvement of at least 5 per cent in production, and that the gross national product would reach an annual rate of about \$26 billion by the end of the year. There were many who felt that such a view was altogether too sanguine. As a matter of fact, at a later time during the year, someone wrote that he could only conclude that some of the optimism of the Minister of Trade and Commerce had rubbed off on the new Minister of Finance. I would like to say that I would be happy if other qualities of the Minister of Trade and Commerce were also to rub off on me.

In the event, the Canadian economy advanced rapidly and continuously throughout 1955 and total production for the year as a whole was about \$26½ billion. This was some 10 per cent greater than 1954 and nearly 9 per cent higher than the level of 1953. Since the average cost of living remained fairly stable, there was a significant increase in the wealth and welfare of most Canadians. More people were at work than ever before, unemployment was greatly reduced, wages and incomes were higher and the consumption of goods increased substantially. By virtually every standard, 1955 was a year of exceptional economic advance.

Nevertheless, some sectors of industry and agriculture have not fully shared in this rate of progress. For example, wheat farmers had a much better than average crop, but during the first part of the crop year were unable to deliver as much as all of us would like to have seen. However, this has changed materially since the session began, and sales have greatly improved.

Geography and climate impose upon us a substantial amount of winter unemployment

but conditions are distinctly better this year than they were last winter. Part of this improvement is due to the response of industry and commerce to the program of promoting more winter employment initiated by my colleague the Minister of Labour.

However, admitting some unevenness in the rate of expansion, it is clear that Canada as a whole enjoyed an extraordinarily active and encouraging year in 1955 and that the momentum of expansion is still carrying us forward.

Perhaps I may be permitted to emphasize certain features of this expansion. The progress we have made over the last year or more can be related to at least three important factors: a high level of exports, a large program of capital investment, including residential housing, and a continuing increase in consumer expenditures. These were the things that caused production, employment and incomes to grow so rapidly. But behind all these things lay something less tangible, but fundamentally important and essential,—the confidence of Canadians in the economic future of our country.

The particular forces which encourage economic expansion are so inter-related that it is difficult to single out the one which was of most importance in 1955. However, I think that I would put the renewed growth of exports first on my list.

Canada's ability to produce and export is a measure of the enterprise of those Canadian individuals and companies—and of non-residents too—who have explored and developed our natural resources, or planned these new or enlarged mills, factories and mines, and of the workers and technical staffs who build or operate them.

On the demand side, the briskness of the United States economy in 1955 was the biggest single factor in the expansion of our exports. Our exports to the United States increased by \$250 million out of a total increase in exports of about \$400 million. However, the increase in our exports to our other traditional markets overseas in 1955 was also impressive. There was a 20 per cent increase in our sales to the commonwealth, and exports to western Europe increased 11 per cent.

With a very large program of capital investment taking place in Canada, and with consumption expenditures running at higher levels, imports also rose sharply in 1955. But it should be noted that fully two-thirds of our increased imports are accounted for by increased raw materials, machinery and equipment for Canadian factories and industries. Over \$400 million of the \$600 million increase in imports consisted of such items as industrial machinery and equipment, primary iron

and steel, aircraft and automobile parts, farm machinery, crude petroleum and rubber, raw cotton and raw wool. Our heavy expansion of capital investment, part of which was made possible by foreign investment, not only made necessary these large imports of capital goods and raw materials, but also created many thousands of new jobs all over the country in secondary trade and industries which benefited from all this increased purchasing power.

The result of a greater increase in imports was a deficit on commodity trade of \$185 million. This was mainly responsible for the increase in the total current-account deficit, which amounted to \$665 million last year. The net inflow of long-term capital into Canada was less in 1955 than in 1954, the net inflow of short-term capital was greater, and there was no marked change in Canada's official reserves of gold and dollars. The value of the United States dollar in Canada rose from approximately 96½ cents Canadian at the end of 1954 to approximately 99½ cents Canadian at the end of 1955.

Changes in the relative levels of interest rates in Canada and the United States made the United States market less attractive for the issue of new Canadian securities than was the case in earlier years. This factor also stimulated a greater volume of repurchase by Canadians of Canadian securities held abroad.

The second dynamic element in the economy last year was the sharp growth in the amount of new capital expenditure. Here, too, the optimistic expectations of the early part of last year were more than confirmed by events. New capital expenditure rose by over 11 per cent to a total exceeding \$6 billion and absorbed 23 per cent of our total national output.

Investment in housing comprised one-quarter of all new investment. Parliament has attached a great deal of importance to the encouragement of residential construction and home ownership. The housing legislation of 1954 made provision for further government encouragement and assistance by measures that are familiar to all of us. The success which attended these efforts has been most encouraging. In the last ten years almost a million new homes have been built and our cities and towns are being visibly transformed by the growth of new suburbs. 1955 was the first full year of participation by the chartered banks in the financing of insured residential mortgages and their entry into this field has considerably broadened the market for new home financing. 127,000 new dwelling units were completed during the year, an increase of 25 per cent over the previous year.

Another important stimulus to the expansion of the economy in 1955 was, of course, the increase in consumer expenditures on goods and services. This was particularly striking in the case of durable goods. Total sales of consumer goods and services increased by nearly 7 per cent or almost twice the increase of the previous year. Allowing for the growth of population, this means that the consumption of the average individual showed a 4 per cent increase, the largest annual increase since the war. A significant portion of this increase was the result of a wider use of instalment credit, but the principal explanation is the growth of employment and the increases in wages and salaries.

A year ago I referred to the part played by federal welfare and income maintenance policies in the stabilization of economic activity. During 1954 when business and employment in many sectors were failing to rise, or even declining, such measures as unemployment insurance, family allowances and the like automatically served to maintain incomes and employment. I have heard it said that the tax reductions of my last budget helped as well.

During 1954 the policy of the Bank of Canada was directed towards easy monetary conditions and the positive encouragement of enterprise so far as the availability of credit was concerned, and this policy was still in force at the beginning of 1955. As the slack in the economy was taken up, monetary policy shifted to one of neutrality and then to one of restraint. With the rapid growth of production in almost every direction, the possibility of shortages of such items as steel, cement, building materials, and of certain kinds of labour began to appear, and in these circumstances the Bank of Canada's operations were directed increasingly towards moderating the rate of expansion in the use of credit.

Looking now to the year ahead I feel that the evidence points to a continuation of the progress that the economy enjoyed in 1955. Both in the United States and overseas, the economic situation remains favourable so that we can anticipate a further growth in exports. Within Canada itself there are many other indications that 1956 should be a year of further expansion. The present investment intentions of industry, business and governments are much higher than they were last year, according to the survey tabled by my colleague the Minister of Trade and Commerce (Mr. Howe) recently.

We cannot expect, however, to see a physical rate of growth this year equal to that of 1955 when we had a certain amount of slack to begin with so I think that for purposes of revenue forecasting I should not count on an

increase in the total national product of more than 5 per cent over last year, this being about the average annual rate of increase in recent years. Assuming stable prices, average crops and no untoward events, this would give a gross national product of close to \$28 billion.

The blessings of an economy operating at a high level are pleasant indeed to a minister of finance but they bring with them new responsibilities for all of us. The objective should be to maintain a steady growth in economic activity without the process of expansion giving rise to inflation and instability. Consequently, in times like the present when private expenditures are expected to rise still further, the federal government itself has a special responsibility to see that its fiscal policies continue to be directed towards economic stability. The use of the flexible instruments of monetary policy is also being directed towards this objective. But careful judgment and wise spending policies are not solely matters of concern to public authorities. They are the normal responsibility of each one of us, regardless of his role in the economy.

GOVERNMENT ACCOUNTS 1955-56

I turn now to report on the government's accounts for the fiscal year which will be closing a few days hence. At this time I can indicate only approximate figures because it will be several months before our books of account can be finally closed and audited.

Hon. members will recall that a year ago I budgeted revenues this year at \$4,202 million, expenditures at \$4,362 million, and consequently a deficit of \$160 million. The result I am glad to say has been considerably better. In fact, our revenues will be about \$4,385 million, or 4 per cent greater than forecast, our expenditures \$4,437 million, or 2 per cent above forecast, and our deficit will be \$52 million, or only about one-third of my earlier expectations.

The increase in revenues is a reflection of a rate of recovery and expansion somewhat greater than I had felt justified in assuming a year ago. Of the increase in expenditures over forecast, which amounted to \$75 million, \$20 million represents the wheat storage costs absorbed this year in accordance with legislation passed a few weeks ago; \$5 million is on account of the support of agricultural prices and \$15 million represents higher charges for interest on the public debt.

In addition to our outlays for government services which are included in the budgetary accounts, we have as usual made loans and advances and disbursed large sums for a variety of other essential purposes. During

the fiscal year these outlays, all of which of course have been authorized by parliament, will amount to \$285 million. To meet them we will have substantial sums available from non-budgetary sources, details of which are given in the white paper.

Although the budgetary deficit is \$52 million, our cash balances at the year end will be about \$295 million higher than a year ago. This is the result of receipts of \$385 million from annuity, insurance and pension accounts, the repayment of loans and investments and other non-budgetary sources plus an increase of \$245 million in our debt outstanding in the hands of the public, less the \$285 million paid out for loans, advances and other non-budgetary purposes.

Our public debt operations during 1955-56 have included the redemption or refinancing of a large volume of matured or called bond issues. A notable feature of the year's operations has been the net increase of about \$710 million in the amount of treasury bills outstanding reflecting the government's desire to meet the growing market demand for short-term securities. Net sales of Canada savings bonds series 10 are estimated at \$645 million. In addition to the refunding or conversion of treasury bills, new securities were issued amounting to \$3,230 million and old securities were redeemed or acquired for our sinking fund or securities investment accounts in the amount of \$2,985 million. As a result, our unmatured debt held outside these government accounts was increased during the year by \$245 million.

Interest rates rose sharply during the year at home and abroad, particularly on short-term securities. The average rate of interest on the government's unmatured debt will be about 2.86 per cent at the year end compared with 2.74 per cent at the beginning of the year.

I should like at this point to report briefly on the operations of the old age security fund during the fiscal year now ending. As hon. members know, pensions of \$40 a month are paid from the fund, the revenues of which are derived from a 2 per cent tax on sales, a 2 per cent tax on corporation profits and a 2 per cent tax on personal incomes (with a maximum individual payment of \$60). Pension payments from the fund during the year are about \$366 million, revenues about \$316 million and the deficit for the year of about \$50 million has been financed by a temporary loan from the Minister of Finance. Following the practice introduced last year I propose to ask parliament in the June supplementary estimates for authority to charge the past year's deficit to 1956-57 expenditures.

FEDERAL-PROVINCIAL RELATIONS

The subject of federal-provincial relations has taken up a good deal of our time during the past twelve months. There have been four meetings of premiers, as well as other conferences of ministers. Last April we met to agree on an agenda and to conduct a general consideration as to those questions which seemed to be most urgent. In June we laid the ground work for a federal contribution to provincial costs of providing unemployment assistance not covered by unemployment insurance and other federal policies. In October we discussed the whole field of federal-provincial fiscal relations. In January we examined the question of health insurance.

It was also in January that the Prime Minister communicated to the provincial governments definite proposals respecting federal-provincial fiscal arrangements, and these were the subject of the last meeting of premiers eleven days ago. In commenting upon our federal-provincial fiscal proposals this evening, I do not need to go into detail, because parliament has been kept fully informed. In broad outline we have proposed:

First, that the federal government make unconditional equalization payments to provincial governments to bring their yield of certain standard tax rates applied to personal incomes, corporation incomes and successions, on a per capita basis up to the average per capita yield in the two provinces with the highest per capita yields.

Second, that whenever necessary the federal governments make unconditional stabilization payments to provincial governments to bring their available revenue in these tax fields up to a specified guaranteed minimum.

Third, that the federal government offer five-year tax rental agreements to the provincial governments, the annual payment being the estimated yield of the standard rate in that province.

Fourth, in provinces and fields where no tax rental agreement has been made, the federal rate of tax applicable in that province and field be reduced by the standard rate, leaving that provincial government free to impose whatever rate it deems appropriate.

Fifth, where a provincial government prefers to impose its own tax, the federal government at the request of the provincial government would be prepared to enter into a tax collection agreement under certain conditions on a free basis, provided the provincial basis and rate of tax did not differ from the standard rate.

Our first suggestions made in October would have provided an increase in provincial revenues from these sources in 1957-58 of

about \$65 million, or 12 per cent over the estimated payments that would be payable in 1957-58 were the present agreements renewed without change. In successive negotiations we have improved our proposals in several ways, including increasing the standard rate on corporation incomes from $8\frac{1}{2}$ percentage points to 9 percentage points; putting all calculations on a current year basis instead of a preceding year basis; and offering to withdraw from the insurance premium tax field in favour of the provincial governments. We have also improved considerably our first suggestions respecting the guaranteed minimum to the provincial treasuries.

The sum total of these improvements in our offer has been to enlarge the increase in provincial revenues available from these sources from the \$65 million of last October to \$109 million in February.

I should explain that all the figures I am using relating to 1957-58 are not forecasts but calculations based on an assumption that total revenues from these three tax fields will increase by 5 per cent per annum over the 1955 figures.

On this assumption our proposals would make available to the provincial governments in 1957-58 revenues of \$640 million. In the same year the present tax rental agreements if renewed without change would provide \$531 million. Having regard to our national responsibilities and commitments we cannot see how we can go further. Under all the circumstances we believe our offer is eminently fair and that it is reasonable and realistic in the light of federal and provincial responsibilities.

As a result of further consideration since March 9, we are, however, prepared to make an improvement in the stabilization feature of the proposals. Our offer hitherto has been that the revenue available to a provincial government under these arrangements will be not less than the highest of, (a) the dollar amount received or available in the final year of the present agreements, or (b) the per capita rate paid or available in that year, or (c) 90 per cent of the average of the two preceding years under the new arrangements. We are now prepared to give the further guarantee that the amount available will be not less than the amount that would have been available if the present tax rental formula had been continued throughout the next five years, nor will it be less than 95 per cent of the average of the two preceding years under the new arrangements. Every province is therefore guaranteed that under the new arrangements it can never get less than it would have received had the present agreements been renewed without change,

and that above this floor it will have access to the revenues from the insurance premium tax.

Since both the federal government and the provincial governments must have time to make decisions and to set up any consequential administrative machinery, we propose to introduce legislation later in this session to prescribe the nature of and to provide authority for unconditional equalization payments and unconditional stabilization payments to provincial governments, and to authorize the government to enter into tax rental agreements or tax collection agreements.

The Prime Minister has written to the premiers on these matters, and the letters will be tabled tomorrow.

Before I turn to the question of how we should raise our essential revenues in the coming year, there are two other matters in the field of finance to which I should like to make reference.

CREDIT UNIONS

First, a few words about credit unions and cooperative savings and lending societies. These have been growing very rapidly in numbers, membership and resources during the past fifteen years. In 1940 there were over 1,000 societies with assets of \$25 million. The most recent figures available indicate that there are now more than 4,000 societies with over 1,600,000 members and close to \$600 million of assets. Members' savings and deposits in these credit unions exceed \$500 million and loans to members \$350 million. Clearly the credit union or cooperative savings society is filling a most useful and rapidly expanding role in our financial system. We are getting a number of requests to treat credit unions, for a variety of purposes, as if they were banks, and particularly to allow them to participate in various kinds of government guaranteed loans.

May I make it clear that the federal government has no intention or desire to intervene in the general field of cooperative credit societies, but we are prepared to sit down with interested groups to discuss under what circumstances and conditions we could properly extend to them privileges and opportunities which are not now open to them. I hope to arrange such discussions shortly, and I should add, Mr. Speaker, we have already had some informal discussions on the subject.

May I repeat that it is not our desire to extend our supervision in this field unless, and only to the extent that credit unions may desire to participate in these government activities.

GOLD POLICY

The second matter is our regulations affecting trade in gold.

Late in 1931, when the United Kingdom and Canada went off the gold standard, the export of gold was made subject to a system of licensing administered by the Minister of Finance. At the same time arrangements were made with Canadian gold producers whereby all newly mined Canadian gold was turned over to the Royal Canadian Mint, and the Mint became in effect the agent of the gold mines.

In 1946 and 1947, the International Monetary Fund, of which we are an active member, became increasingly concerned with the serious extent to which gold throughout the world was being diverted into private speculative holdings. In March 1948, in line with the International Monetary Fund's policy, which we fully supported, of discouraging hoarding, the government gave notice that gold imported into Canada after that date would not be granted an export licence.

In 1951 the Fund decided that it was impracticable to expect uniformity in the measures taken by its members in respect of their control over gold transactions, and as world-wide monetary conditions improved our regulations have been liberalized from time to time. For example, in 1951 we allowed Canadian gold producers, under certain conditions, to sell gold in the world markets. In 1953 we liberalized the conditions under which we would release gold for industrial uses, and last May we undertook to grant export licences for gold imported into, or purchased in, Canada for safekeeping for account of foreign central banks and official international financial institutions.

We now propose to remove all remaining restrictions in this field. Effective tomorrow, both residents and non-residents of Canada will be free to buy gold for export or for safekeeping, and the Regulations under the Gold Export Act requiring an export licence have been suspended. Mines agreeing to forgo aid under the Emergency Gold Mining Assistance Act will be able to sell their gold wherever they desire subject merely to reporting their production and sales to the Department of Finance.

TAX POLICY

I come now to the question of an appropriate tax policy for the coming year. Last year I said that with our proposed level of taxes and a gross national product of \$26 billion we could expect revenues to flow in at the rate of about \$4,350 million. In the event our gross national product went a bit

over \$26 billion, and our revenues were \$4,385 million,—which is quite a close fit to my forecast.

I said earlier I am now assuming a gross national product of about \$28 billion for 1956, and on that basis I would expect our present tax structure to produce revenues of \$4,775 million. This is a very large increase for a single year. The explanation lies largely in the way in which our corporation income tax returns flow in. Under the Income Tax Act corporations must pay their tax in monthly instalments, but their first nine instalments may be based either on their estimate of their current rate of profits or on their last year's actual taxable income. We know that profits in 1955 were considerably higher than in 1954, but our tax receipts are almost exactly the same. During the coming months our inflow of corporation income tax receipts will be abnormally high as corporations catch up on their 1955 tax liability and at the same time are paying currently on a much higher base.

If I may have unanimous consent I shall place in *Hansard* at this point a table showing the details which go to make up the \$4,775 million of revenue which we would expect to receive in the coming year if tax rates remained unchanged.

Mr. Speaker: Is there unanimous consent?

Some hon. Members: Agreed.

Mr. Harris: The table is as follows:

Revenues before tax changes (in millions of dollars)		
	Preliminary 1955-56	Forecasts 1956-57
Personal Income		
Taxes	\$1,180	\$1,265
Corporation Income		
Tax	1,035	1,315
Non-resident tax	67	70
Succession Duties ...	75	65
Customs Duties	475	485
Excise Duties	245	258
Sales Tax	640	675
Other Excise Taxes ..	260	265
Other Taxes	16	17
Total Tax		
Revenue	3,993	4,415
Non-tax Revenue ...	392	360
Total Revenue ..	\$4,385	\$4,775

I should like to say again that this forecast of \$4,775 million, which is an increase of \$390 million over the year just closing, includes a large element of non-recurring increased revenue in the corporation tax field.

While I expect this large increase in revenue, we also have to face very considerable increases in expenditure. The main estimates tabled in January show an increase in expenditure of \$54 million. As I explained at that time, this does not include the 1955-56 deficit in the Old Age Security Fund which we will in due course be asking parliament to charge off against next year's expenditure. This will amount to about \$50 million (a reduction from the \$63 million a year ago). There will be additional obligations under the Temporary Wheat Reserves Act, and also under our agreements with the provincial governments respecting unemployment assistance. We must expect some further expenditures in connection with agricultural price supports, and we shall have to find some further funds for the Canadian Broadcasting Corporation.

I have previously informed the house that some increases in salaries and rates of pay in the public service are about due. I cannot yet say what this will cost, but when I point out that each one per cent increase across the board in civil salaries and wages would add about \$9 million to our expenditures next year, (including the required matching lump sum payment into the superannuation account), the house will realize that this may be a very considerable sum.

All in all, and after making due allowance both for further supplementaries and lapsings, I cannot promise expenditures of less than \$4,650 million in the coming year.

Before proceeding, I should like to put this figure in context. The house will be aware that the gross national product in current dollars has been increasing on the average over the past few years at a rate of just over 5 per cent per year. Many of the increases in the expenditures of the government flow from these rates of growth. This is most apparent in some of the heaviest items of expenditure in the statutory category, but it also has a bearing on the scale of service required and other costs that must be met. In many fields the services provided by the federal government have to expand along with the increase in population and national production. I need only mention such things as the provision of inspection services of all kinds, customs administration, trade promotion, surveys, research and the provision of transportation facilities, for example. If these services do not keep in step with public need the expansion of the economy will itself be hampered. Also the government cannot escape the increases in costs resulting from the rise in salaries and wages which has taken place in the private sectors of the economy.

Against this background, the increase of just over \$200 million in anticipated expenditures in 1956-57 over the previous year is at a rate somewhat lower than that of the average rate of growth of the G.N.P. in recent years. The greater part of the increase in anticipated expenditures pertains to statutory items, such as the servicing of the public debt, subsidies and special compensation to provinces, family allowances, and other welfare payments.

On the basis of the figures I have been using, what might be called the controllable expenditures show an increase of a little over 3 per cent, which is considerably less than the rates of growth in the economy generally that I mentioned a moment ago. This result can be achieved only through the continued exercise of effective control, economy and efficiency in the operations of the government. Despite the small size of the projected increase, a number of new programs have been accommodated. These include larger outlays for the Colombo Plan, and for United Nations technical assistance and relief programs to the extent of \$9 million, provision for the new five-year census amounting to nearly \$4 million and increases of smaller amounts for the atomic energy program and for trade promotion.

The program of public works and other capital items for the coming year has been held down to immediate essentials. The main estimates which have been tabled indicate that the appropriations proposed to cover expenditures on public works and other capital items are down by nearly \$10 million from the previous year. The increased amounts required by the Department of Northern Affairs and National Resources and for the Trans-Canada Highway are more than offset by other reductions. In proposing small expenditures for capital purposes, the government is seeking to reduce the strain on the economy resulting from the very large increase in capital expenditures which private industry is planning to make during 1956.

As I have projected revenues at \$4,775 million and expenditures of \$4,650 million, we would have a surplus of \$125 million under our present tax structure.

This sum of \$125 million is about 2½ per cent of our revenues or our expenditures; it represents, therefore, not much more than a prudent reserve against unforeseen circumstances that may arise in the course of the year. Moreover, we had a deficit of \$152 million last year and a further deficit of \$52 million this year. But of course, an accumulation of debt of over \$200 million in two years, having regard to our record in the past 10 years, is

in itself no cause for concern. But clearly it is only sound and responsible finance to run a modest surplus in times as good as these we are now in.

TAX CHANGES

Although for reasons just stated it is not possible for me to recommend to parliament any reduction in the general level of income tax this year there will be some changes in certain provisions in the Income Tax Act. Of these amendments some will be mainly technical in their nature while others will contain substance of interest, but on balance there will be no appreciable effect on total revenues.

There will be some changes in the tax treatment of proceeds from plans under which employers share their profits with employees. In future under deferred profit-sharing plans, gains and losses resulting from investment portfolio transactions will be excluded in calculating the taxable portion. The dividend element in the income allocated to a member will be recognized for tax credit purposes. Also, there will be postponement of tax liability for the first three years on amounts allocated to a member of a plan if the unconditional right to receive such amounts has not been assured to the member within this period. With these changes our tax provisions for profit-sharing plans will be established on a pretty satisfactory basis.

Over the past year my colleague the Minister of National Revenue (Mr. McCann) and I have given considerable thought to the general requirements to which pension plans must conform in order to establish the right of tax deductibility for contributions. We have concluded that it is desirable to revise the blue book which contains the general instructions regarding pension plans. In particular we have examined with some care the provisions relating to limits on the discretion of the trustees in investing funds placed under their administration and we have studied the urgent representations made to us for the removal of some of these restrictions. Our decision is that we should remove the percentage limitations relating to equity investments so that trustees will be able to govern their own investment policies in the light of the particular pension requirements of the plans under their administration.

Members of the professions and others who have been affected by a recent Exchequer Court decision which ruled out a deduction for convention expenses will doubtless be inter-

ested in learning that the act will be amended to allow for 1955 and onward the deduction of expenses for two conventions annually in Canada.

The recent decision of the Supreme Court of Canada in the Home Oil case has created a situation which calls for some amending legislation. In brief the court decided that under the Income Tax Act and regulations thereunder as they were in 1949 and 1950 an oil producer was entitled to have the so-called depletion allowance calculated on an individual well basis rather than on the basis covering total operations. This decision has affected the basis in law for the policy which has been followed for the oil industry during the course of its development.

In 1951 the regulations which had been in force during the years covered by the Home Oil appeal were amended by the governor in council with a view to establishing greater legal certainty for the basis on which taxpayers in the industry were being, and had in the past been assessed. The reasons for judgment given by the court in the Home Oil case have created some uncertainty as to whether the present law and regulations as amended in 1951 are in sufficiently clear terms to support assessments made since 1951. It is proposed, therefore, to amend the law and regulations now to ensure that the intent of the 1951 amendment shall govern for the intervening period and for the future. This amendment will not deprive any taxpayer of his rights under the Supreme Court decision for the years prior to 1951.

In recent months there have been frequent references to foreign ownership and control of Canadian companies. It has been suggested that a certain feature of our tax law may be discouraging the foreign owner from allowing Canadian participation in his enterprise. Under our law the standard rate of tax payable by non-residents on dividends from Canada is 15 per cent. However, the tax is only 5 per cent on a foreign corporation if it owns all the shares which, under all circumstances, have full voting rights. It might be noted in passing that the tax position of the foreign company is not adversely affected by issuing for public participation in Canada other kinds of shares in the Canadian company.

This general provision in our tax law to which I have just referred has in many cases been modified by tax treaties with various countries in recent years. For example, in our treaties with Sweden, Ireland and Den-

mark a company may secure the preferred rate of 5 per cent on dividends if it has more than 50 per cent ownership of the Canadian company. Negotiations for tax conventions are currently active in South America, Australia, Holland and Germany.

By amendment to our treaty with the United States six years ago the percentage ownership required for the 5 per cent rate was reduced from 100 per cent to 95 per cent. For some time we have had this item on our agenda for discussion with the United States administration, and toward the end of last year the question of a further reciprocal lowering of the percentage ownership requirement was proposed. I have reason to hope that this proposal will be acceptable to the United States and that an amendment to our tax convention will in due course be effected.

Other changes in the Income Tax Act which are contemplated will be explained upon introduction of the amending bill.

CUSTOMS TARIFF

The resolutions which I am placing before the house tonight contain, as usual, some tariff changes. These are rather fewer than in recent years. One of the reasons is that tariff negotiations are in progress in Geneva under the general agreements on tariffs and trade, the results of which will be announced when they are complete.

Many of the tariff changes I am announcing tonight are matters of form, to facilitate administration, rather than substance. In a certain number of cases, however, the rates of duty are being altered. While all these individual changes are in a downward direction, the total effect on the revenue will not be significant.

Only one change is of sufficient general interest to warrant mention at this time. This relates to parts for agricultural machinery and equipment. Government policy has, of course, been that the parts, like the machinery and equipment itself, should enter Canada duty-free. However, certain judicial decisions by the tariff board, relating to the wording of particular tariff items, have resulted in important changes in tariff classification practices, and the scope of duty-free entry has been substantially narrowed. This undesirable result has been brought to my attention by many interested persons and organizations. The

action taken tonight is intended fully to restore duty-free entry in this important field.

As I explained in my last budget, it is my intention to keep our tariff abreast of technical and industrial changes and, for this purpose, to refer tariff items or groups of tariff items to the tariff board from time to time. Since my last budget I have made three references and have received one report.

The board's report on potatoes reached the government in November; last month its contents were studied and discussed at a joint meeting between our officials, representatives of the growers, and representatives of various provincial departments of agriculture. I hope to be able to make a statement to the house on this subject fairly soon.

The next reference to the tariff board was primary iron and steel and the board is now well into its investigations. These will be followed by investigations into the closely related area of pipes and tubes of iron and steel. The reference on chemicals will be going forward soon.

I have two or three new tariff board references in mind for the coming year. One covers zinc and manufactures of zinc; another covers fire brick. Then if the board's program allowed, I would also think of referring to it a group of tariff items relating to the manufacture and assembly of radio and television sets.

It is clear that the tariff board will continue to bear a heavy burden. This point has been brought to my attention both by the chairman of the board itself and also by others concerned with the board's work. Accordingly it is our intention to enlarge the membership of the board from three to five; later in this session I shall introduce a bill for this purpose.

SALES AND EXCISE TAXES

I now turn from tariffs to sales and excise taxes.

For reasons already stated I am unable to propose any reduction in the general rate of sales tax, or in the standard level of 10 per cent for the special excise taxes.

A year ago I told the house of our intention to appoint a committee to study various aspects of the Excise Tax Act. This has been done and I am tabling at this time a copy of the committee's report. I should like to take this opportunity of thanking the com-

mittee publicly for the high quality of their work in this specialized field. It is a tribute to the business community of this country that objective and painstaking studies can be obtained so willingly from those who would otherwise be so busy with their own affairs. I think the country owes them a debt of gratitude for their willingness to take on these arduous duties in the public interest.

The committee's report is being given careful study by the departments concerned. I am unable to say at the moment how far the recommendations made by the committee will find a place in this year's amending act. Some of the recommendations involve some rather fundamental changes in the structure of the law. These we shall have to consider carefully. I think the most I can say at this time is that we are adopting some of the committee's recommendations for greater simplicity and certainty through making certain additions to the exemption list. These, along with some other additions, will be found in the resolution which I shall be tabling at the conclusion of this statement. The most important additional exemptions arise out of a broadening of the definitions of building materials and of production goods. It is estimated that the total reduction in taxes through these additions to the exemption schedule will amount to about \$12 million in the forthcoming fiscal year. As usual it will be provided that the above commodity tax changes will be effective from midnight tonight. In accordance with standard practice my colleague the Minister of National Revenue has asked me to give notice that no claims for refunds arising out of tax reductions in respect of goods on which tax has been paid will be entertained.

Mr. Speaker, as usual, but with the utmost sincerity, may I express my appreciation to the Minister of National Revenue (Mr. McCann) and his staff for collecting such a tremendous sum of money.

For several years past the publishers of Canadian magazines have made representations to the government regarding the increasing inroads of magazines from abroad both into their circulation in Canada and also into their sales of advertising. We have been able to help them to a small extent by some redistribution of routine government advertising. Nevertheless, their relative position has declined. A number of Canadian magazines have been abandoned and others

have had to reduce the number of issues per year. Magazines from abroad have meanwhile extended their activities to such an extent that the long run continuation of Canadian magazines appears to be in jeopardy. Already, something like four-fifths of the magazines read in Canada are not Canadian, and the proportion has been creeping ominously upward.

Competition from abroad takes two forms. First, we have what may be described as normal imports; scores of magazines normally on sale in London, Paris, New York or elsewhere, are brought in and sold in Canada. Second, in a few cases, the publisher of a magazine abroad has arranged to put on sale in Canada an edition of his magazine that is quite similar to the magazine he sells in his home market but not identical with it. This special edition will usually differ from the home edition both because it prints a few pages of reading material about Canada and also because it sells some pages, often a great many pages, to Canadian advertisers.

We have been considering this problem for some time, and we have decided that, in this field, very exceptional measures can be justified—measures that certainly could not be justified in connection with any ordinary line of business or commerce. The publication and circulation of magazines by Canadians, for Canadians, telling about Canadians and what they are doing and what they have to sell, seems to us a basic and essential thread in the fabric of our national life. And I am talking now, not merely of the magazines that deal to a greater or lesser extent with broad political and economic affairs, but also about the magazines that circulate among housewives and businessmen and members of trade associations.

I wonder whether we could contemplate a time when we would not have a Canadian magazine, when there would not be an opportunity for persons with the talent and with the time to sit down and contribute an article of a critical nature on government or scientific matters or on some other topic, or if we could contemplate a time when our children could not read a magazine in which there would be Canadian stories based on Canadian history or Canadian fiction. I doubt very much, sir, if we could look to an occasion like that.

The government would be very reluctant, however, to interfere with the normal and traditional imports of ordinary magazines into

our country but the special editions constitute a very special problem. They are relatively new arrivals on the scene. Each is essentially a by-product of some magazine published abroad and, being a by-product, its costs of production are well below the costs of a comparable purely Canadian magazine. It uses its advantage not only to enlarge its circulation but also, and far more serious to Canadian publishers, to sell its advertising services, thus diverting revenues from Canadian publishing houses. In recent years this diversion has become very substantial.

Accordingly, we have decided to put a special excise tax on these special editions. It will be at the rate of 20 per cent and will be levied on all revenues they receive from advertising. It will not come into effect until January 1, 1957 so that those concerned may have time to adapt their affairs to it. The tax will apply to all special editions, whether printed in Canada or abroad, in English or in French.

CONCLUSION

This concludes my review of our proposed tax changes, and I can now summarize my budgetary position. The total reductions in taxes I am recommending to the house amount to \$12 million, and my expected revenues for the coming year will be \$4,763 million, and my prospective surplus \$113 million. I should again remind the house that in figures of these magnitudes there will always be some uncertainty in estimation, and that a variation of as little as one per cent in our estimates in either direction is a matter of close to \$50 million.

I should like now to say a further word about federal-provincial relations.

I have seen it suggested that we have been seeking political rather than economic solutions in this field.

If by political solutions is meant taking account of national interests greater than mere dollars and cents, I believe that the objective historical verdict on the past year will be that we have in our frequent federal-provincial meetings given first place to the highest political considerations: the unity and welfare of the whole Canadian people.

At these meetings we have laid the foundation for a working arrangement with the provinces for assistance to the unemployed who cannot qualify for unemployment insurance under existing federal law; we have laid

the foundation for a joint federal-provincial plan for hospital care whenever a majority of the provincial governments representing a majority of our people signify their agreement.

We have proposed a new—and for the provinces a more advantageous—tax-sharing plan to replace the tax rental agreements which expire early in 1957.

This is a record of achievement in this field which will be unmatched for some time.

Since I became Minister of Finance in July, 1954, fiscal relations with the provinces have been receiving the continuous attention of my department and of the government.

It appeared to me that, with the tax rental agreements running out soon, a very careful review of what had been accomplished by that system was in order.

Hon. members will recall that there were three main purposes given for the tax rental agreements—and I am referring here only to the post-war agreements.

These purposes were:

(a) To eliminate duplication and inefficiency in taxation as much as possible;

(b) To place the provincial governments in a more stable financial position, having in mind the necessity for providing a certain minimum standard of provincial services;

(c) To give the federal government in co-operation with the provinces sufficient control over the fiscal policies of Canada to permit the effective combating of economic difficulties.

The house, of course, knows that when I entered the Department of Finance I had no experience in these particular matters except as a supporter of this party and this government.

In considering our fiscal relations with the provinces, we have had the advantage of the unequalled experience and knowledge of the Prime Minister, who has lived with these problems since some eighteen years ago he became Counsel to the Rowell-Sirois Commission.

We have also had the advice and careful consideration of the Minister of Justice, who in 1937, as Provincial Treasurer of Manitoba took the initiative which was the real beginning of all the activities which have resulted in our present federal-provincial fiscal proposals.

It appeared to all of us that the objective of the tax rental agreements with respect to provincial revenues was much the most important.

Today it is inconceivable to think of going back to the pre-war situation where the provinces with smaller tax potentials had to fend for themselves.

If all the provinces are to carry out their constitutional responsibilities, there has to be some system of tax sharing, of equalization, which will make it possible for them to provide provincial services.

The other objective: to eliminate duplication and inefficiency in taxation is also a valid objective. The British North America Act gives parliament no power to limit the exercise of the rights of the provincial legislatures to tax their peoples for provincial purposes. What we can do is to shape our policies so as to remove the need for duplication as much as possible.

And we are doing that just as effectively with our new proposals as with the tax rental agreements.

As for the third objective, it is still desirable; though we can hope it will not be necessary for a long time to combat grave economic dislocations.

But, under our constitution we cannot control the fiscal policies of the provinces; all we can do is to make co-operation as easy and natural as possible, and our new policies, just because they do not require hard and fast agreements, will, I believe, make co-operation easier.

The situation as we saw it some months ago was this. One provincial government had steadfastly refused to make a tax rental agreement; the government of another province had entered into an agreement which the premier of that province called a stop-gap and a second best; and the representatives of another province were reported to be quite unhappy about being bound by a tax rental agreement.

Our task was to find a substitute for a system which was not acceptable to the government of a province containing almost one-third of our people, and which had won only the reluctant acquiescence of the governments of two other provinces containing more than one-half the rest of the people of Canada.

The tax rental system—good as it was—and it was a great advance over the pre-war fiscal chaos—had to be improved if at all possible.

There has hardly been a week in the past twenty months that we have not given consideration to alternative plans.

The new proposals were evolved gradually and the original suggestions have been greatly modified and refined to remove objections and difficulties.

This new tax sharing plan is a reaffirmation of our belief that the government of the nation has a duty to provide some means of sharing tax returns with those provinces which cannot, without extraordinary measures, find the funds to provide a Canadian standard of public services; it recognizes that double taxation can be costly and inefficient; and it is a reaffirmation of our belief that the federal system has virtues which, if maintained, will benefit us all.

I am confident that every Canadian today believes we should all assist the provinces to provide a reasonable Canadian level of public services in all parts of Canada; nationhood would be meaningless if it were not so.

I am also confident that our tax-sharing plan is not open to serious constitutional or practical objections; though, of course, I do not suggest that it is perfect or will receive universal approval.

But may I make it quite clear that not one provincial premier is on record as saying that this new tax-sharing plan is not as good as the present tax rental agreements; and I am prepared to go further and say that almost all of them have stated that the principle of the new plan is better than the present system.

As the house will understand, these matters have taken a great deal of time in the past eighteen months—not only our time, but the time of the provincial governments as well.

In all our conferences there has been complete frankness and a full measure of goodwill.

This, I attribute to the good sense of everyone present and to the fact that, while every one represented those for whom he spoke vigorously and firmly, all who sat at the table unhesitatingly conceded the fair-mindedness, the integrity and the sympathetic approach to the problems of the chairman of the conferences: the Prime Minister.

And I believe that what we have achieved will be a lasting tribute to his patience and his wisdom.

EXCISE TAX ACT

Resolved that it is expedient to introduce a measure to amend the Excise Tax Act and to provide, among other things:

1. That the sales tax on the following goods be repealed:

(a) boxes for farm wagons, and articles and materials to be used exclusively in the manufacture thereof;

(b) poisons used in agriculture or horticulture;

(c) vermiculite;

(d) material for use exclusively in the production of vaccine for prevention of poliomyelitis;

(e) certain building materials which are in addition to those already exempted, viz:—additives for concrete; ceiling and acoustical material for buildings; hard surface composition yardage flooring for permanent bonding to floors; material for waterproofing and moisture proofing buildings; additional structural steel for buildings; soil pipe for buildings; tar and asphalt for roofing; skylights; ventilators and louvers, not motor operated;

(f) certain machinery and apparatus for manufacturing or producing goods which are in addition to that already exempted, viz:—structures which are adjuncts to or provide access to the machinery and apparatus for manufacturing or producing goods; repair and maintenance equipment used by manufacturers or producers for servicing their machinery and apparatus for manufacturing or producing goods; safety devices and equipment for the prevention of accidents in the manufacturing or production of goods; systems installed by manufacturers or producers for exhausting dust and noxious fumes from their manufacturing operations; equipment used to carry refuse or waste from production machinery; equipment for hospitals and first aid stations in manufacturing establishments;

(g) identification tags or labels for designating the grades or quality of meat, poultry, fish, eggs, fruit and vegetables, and materials to be used exclusively in the manufacture thereof;

(h) goods enumerated in Customs Tariff items 409t, 409u and 409v, and articles and

materials to be used exclusively in the manufacture thereof;

(i) antiques, as enumerated in Customs Tariff Item 693 (ii) and (iii);

(j) national manufacturing, industrial or mercantile trade directories but excluding statistical, financial or biographical surveys, reports, year books or directories, and transportation, telephone, municipal or street directories, guides or rate books.

2. That the excise tax on the following goods be repealed:

(a) antiques, as enumerated in Customs Tariff item 693;

(b) settlers' effects.

3. (a) That the exemption from excise tax on the goods enumerated in sub-paragraphs (a) and (b) of item 12 of Schedule I be repealed when the sale price is one dollar or less;

(b) That the exemption from excise tax on the goods enumerated in sub-paragraph (c) of item 12 of Schedule I be repealed when the sale price is fifty cents or less.

4. (a) That there be imposed, levied and collected in respect of each copy of a special edition of a non-Canadian periodical issued to the public in Canada a tax of twenty per cent of the value of the advertising material contained therein;

(b) That for the purposes of sub-paragraph (a) a "special edition of a non-Canadian periodical" means a periodical printed in or outside Canada for publication in Canada

(i) containing editorial material at least twenty-five per cent of which is the same or substantially the same as editorial material contained in a non-Canadian periodical, whether in the same or in some other language, and

(ii) containing any advertising material that is not contained in such non-Canadian periodical;

(c) That any enactment founded upon this paragraph shall come into force on the first day of January, nineteen hundred and fifty-seven.

5. That any enactment founded upon paragraphs 1, 2 and 3 of this Resolution be deemed to have come into force on the twenty-first day of March, nineteen hundred and fifty-six.

CUSTOMS TARIFF

1. Resolved, that Schedule A to the Customs Tariff be amended by striking out tariff items 13a, 172, 206c, 219d, 279, 288b, 326e, 372, 376a, 390, 390a, 390b, 409e(1), 409f, 410t, 410u, 410w, 425a, 428g, 437b, 442, 443, 445m,

476b, 476c, 478(2), 549a, 657b and 700, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting therein the following items, enumerations of goods and rates of duty:

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
13a	Lard compound and similar substances, n.o.p. per pound	1½ cts.	1½ cts.	2 cts.	1½ cts.	1½ cts.	2 cts.
137a	Molasses powder without admixture or mixed only with any necessary anti-caking agent. per one hundred pounds	35 cts.	45 cts.	50 cts.	15 p.c.	20 p.c.	25 p.c.
172	Books, pamphlets and charts, printed or published by any government abroad; official financial and business reports and statements issued by companies or associations abroad; books and pamphlets, and replacement pages therefor, for the promotion of religion, medicine and surgery, the fine arts, law, science, technical training, and the study of languages, not including dictionaries. Scripture and prayer cards, and religious pictures and mottoes, not including frames; books, bound or unbound, which have been actually printed and manufactured more than twelve years; manuscripts; insurance maps; freight rates, passenger rates and timetables issued by transportation companies abroad and relating to transportation outside of Canada; in book or in pamphlet form.	Free	Free	Free	Free Free	Free 10 p.c.	Free 10 p.c.
206c	Bottles; tubes, bail bands, labels, corks, stoppers or other closures, for use with bottles, whether or not assembled into units partially filled with anti-coagulating solutions or not; filters, drop counters, clamps; all of the foregoing, when imported to be used exclusively for the collection, preparation, storage, transportation or administration of human blood (whether whole or in the form of liquid or dry serum or plasma) and extenders or substitutes therefor; component materials to be used exclusively in making the foregoing articles, anti-coagulating solutions and extenders or substitutes.	Free	Free	Free	Free	Free	Free
219d	(1) Chloroform and ethyl chloride for anaesthetic purposes.	Free	Free	Free	Free	Free	Free

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
219d Con.	(2) Sulphuric ether; chloroform, n.o.p.; preparations of vinyl ether for anaesthetic purposes.....	Free	25 p.c.	25 p.c.	Free	25 p.c.	25 p.c.
276g	Corn oil, crude or refined.....	15 p.c.	20 p.c.	25 p.c.	15 p.c.	20 p.c.	25 p.c.
279	Degras and grease for stuffing or dressing leather....	Free	Free	Free	Free	Free	Free
288b	Hand forms of porcelain for use in the manufacture of rubber gloves.....	Free	10 p.c.	35 p.c.	Free	20 p.c.	35 p.c.
326e	Articles of glassware, when imported by manufacturers of silverware to be used in receptacles made of or electro-plated with precious metals or to be equipped with tops made of or electro-plated with precious metals, in their own factories.....	Free	Free	22½ p.c.	Free	Free	22½ p.c.
326m	Articles of glass, not including plate or sheet or machine-made tumblers, to be cut or mounted, when imported by manufacturers of cut or mounted glassware, for use in the manufacture of such glassware in their own factories, under such regulations as the Minister may prescribe.....	Free	Free	32½ p.c.	Free	Free	32½ p.c.
326n	Machine-made glass tumblers, when imported by manufacturers of cut or mounted glassware, for use in the manufacture of such glassware in their own factories, under such regulations as the Minister may prescribe..	10 p.c.	10 p.c.	32½ p.c.	10 p.c.	10 p.c.	32½ p.c.
372	Electric or blast furnace slag.....	Free	Free	25 p.c.	Free	Free	25 p.c.
376a	Chromium metal and tungsten metal, in lumps, powder, ingots, blocks or bars, and scrap of alloy metal containing chromium and tungsten, for use for alloying purposes.....	Free	Free	Free	Free	Free	Free
390	Castings, of iron, malleable, in the rough as from the moulds, n.o.p.....	15 p.c.	25 p.c.	27½ p.c.	15 p.c.	25 p.c.	27½ p.c.
390a	Castings, of iron, non-malleable, in the rough as from the moulds, n.o.p.....	15 p.c.	25 p.c.	27½ p.c.	15 p.c.	25 p.c.	27½ p.c.

390b	Castings, of steel, <i>in the rough as from the moulds</i> , n.o.p.	15 p.c.	25 p.c.	27½ p.c.	15 p.c.	25 p.c.	27½ p.c.
402g	<i>Welded netting, of iron or steel, coated or not, made from wire of seventeen gauge or heavier, with meshes not smaller than one-half inch by one-half inch and not larger than two inches by two inches, when for use exclusively on fur farms, under such regulations as the Minister may prescribe.</i>	12½ p.c.	20 p.c.	35 p.c.	17½ p.c.	25 p.c.	35 p.c.
409e	(1) Spraying and dusting machines and attachments therefor, including hand sprayers, <i>for agricultural or horticultural purposes</i> ; apparatus for the destruction of predatory animals by the discharge of poisonous cartridges and poisonous cartridges for such apparatus; automatic explosive bird-scaring devices; apparatus specially designed for sterilizing bulbs; pressure testing apparatus for determining maturity of fruit; pruning hooks; pruning shears; dehorning instruments; parts of the foregoing.	Free	Free	Free	Free	Free	Free
409f	Automatic stock watering <i>devices</i> ; Barn hay forks, carriage, pulleys and track; Barn litter carriers and track; Grain crushers; Grain or hay dryers; Grain or hay grinders; Grain loaders; Elevators (<i>other than storage elevators</i>); Hitches and couplings; Hydraulic hoists for unloading vehicles; Land levellers; Machines and tools for use on tractors, including blades, loaders, rippers, rakes and related operating and controlling gear; Milk coolers; Sodium metabisulphite; Sprinkler irrigation systems; Steel stanchions for confining livestock either in pens or individually, and complete equipment for milking parlors; All the foregoing for use on the farm for farm purposes only; Brooders for rearing young farm animals; Ensilage cutters; Fodder or feed cutters; Hay loaders; Hay tedders; Post hole diggers; Potato diggers; Potato planters; Snaths;						

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
409f Con.	Stumping machines; All other agricultural implements or agricultural machinery, n.o.p.;						
	Parts of all the foregoing.....	Free	Free	Free	Free	Free	Free
409t	Axles, belts and belting, bolts, chains, nuts, pulleys, washers; all the foregoing when for use with the goods entitled to entry under tariff items 409, 409a, 409b, 409c, 409d, 409e, 409f, 409g, 409h, 409i, 409j, 409k, 409l, 409m, 409n, 409o, and 409q.....	Free	Free	Free	Various	Various	Various
409u	Electric freezing machines and parts thereof, for use in the processing and storing of frozen semen at temperatures below minus seventy degrees Fahrenheit.....	Free	Free	40 p.c.	17½ p.c.	20 p.c.	40 p.c.
409v	Steel wall sections, with or without doors incorporated therein, for the construction of steel silos for storing ensilage.....	10 p.c.	17½ p.c.	35 p.c.	10 p.c.	22½ p.c.	35 p.c.
410t	Blowers, of iron or steel, for use in the smelting of ores, or in reduction, separation or refining of metals, ores or minerals; furnaces, rotary kilns and revolving roasters, of metal, for use in the roasting of ore, mineral, rock or clay; furnace slag trucks and slag pots:						
	(1) Of a class or kind made in Canada; parts thereof	12½ p.c.	17½ p.c.	20 p.c.	12½ p.c.	17½ p.c.	20 p.c.
	(2) Of a class or kind not made in Canada; parts thereof.....	Free	Free	Free	Free	Free	Free
410w	Machinery, n.o.p., for use in the concentration or separation of ores, metals or minerals, namely: flotation machines, flotation cells, oil feeders and reagent feeders for flotation machines and flotation cells, pumps, vibrating and impact screens, jigs, filters, magnetic separators and magnetic pulleys; parts of all the foregoing.....	5 p.c.	7½ p.c.	20 p.c.	5 p.c.	7½ p.c.	20 p.c.

425a	Power lawn mowers, whether or not containing the power unit.....	10 p.c.	15 p.c.	32½ p.c.	10 p.c.	15 p.c.	32½ p.c.
425b	Air-cooled internal combustion engines of greater than one and one-half horsepower rating, and parts thereof; parts of power lawn mowers; all the foregoing for use in the manufacture or repair of power lawn mowers...	10 p.c.	15 p.c.	32½ p.c.	10 p.c.	15 p.c.	30 p.c.
428g	Starter cartridges, fuel injection pumps and nozzles, and parts thereof, for diesel and semi-diesel engines.	Free	Free	Free	Free	Free	Free
437b	Motor rail cars or units and chassis for same, of a class or kind not made in Canada, for use on railways for the carriage of passenger, baggage, mail or express traffic; engines and transmissions for such motor rail cars or units; parts of the foregoing..... On and after July 1, 1957	Free Free	Free 20 p.c.	35 p.c. 35 p.c.	Free Free	On Free and after July 1, 1956 20 p.c.	25 p.c. 35 p.c.
442	Articles and materials which enter into the cost of manufacture of the goods enumerated in tariff items 409, 409a, 409b, 409c, 409d, 409e, 409f, 409g, 409h, 409i, 409j, 409k, 409l, 409m, 409n, 409o, 409q, 409t, 427b(1), 439c and 618b(1), when imported for use in the manufacture of the goods enumerated in the aforesaid tariff items, or in the manufacture of parts therefor, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free Various	Free Various	Free Various
443	Apparatus, and parts thereof, for cooking or for heating buildings.....	15 p.c.	25 p.c.	30½ p.c.	15 p.c.	25 p.c.	30 p.c.
445m	(1) Flameproof electric switchgear, for use in mines in which inflammable gases exist, and complete parts thereof..... (2) Flameproof electric transformers, rectifiers, cable-connecting devices, trailing cable extensions with couplers moulded on, junction boxes, and complete parts of the foregoing, when of a class or kind not made in Canada and for use in mines in which inflammable gases exist.....	Free	20 p.c.	30½ p.c.	Free	20 p.c.	30 p.c.
446j	Steel box toes, for use in the manufacture of safety footwear.....	Free	7½ p.c.	37½ p.c.	Free	10 p.c.	37½ p.c.
462c	Lenses, shutters, and parts thereof; for use in the manufacture of cameras.....	Free	Free	30 p.c.	Free Free Free	Free Free 5 p.c.	30 p.c. Free 7½ p.c.
462d	Parts, unfinished, for use in the manufacture of cameras..	Free	5 p.c.	7½ p.c.	Free		

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
				British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
476b Surgical suction apparatus including motive power; ethylene; operating room lights designed to minimize shadow, not including bulbs; all the foregoing of a class or kind not made in Canada, and complete parts thereof, for the use of any public hospital, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free	Free	Free
476c Prepared surgical sutures, of a class or kind not made in Canada.....	Free	Free	Free	Free Various	Free Various	Free Various
478 (2) Aural, nasal and mastectomy prostheses; ileostomy, colostomy and urinary appliances designed to be worn by an individual; materials and articles required therewith for proper application and maintenance.....	Free	Free	Free	Free 15 p.c.	Free 20 p.c.	Free 25 p.c.
549a Wool, not further prepared than scoured.....	Free	Free	Free	Free	Free	Free
597d Harpsichords.....	5 p.c.	7½ p.c.	30 p.c.	15 p.c.	17½ p.c.	30 p.c.
696f Apparatus, and parts thereof, for the heating of hot packs for use in the treatment of poliomyelitis.....	Free	Free	Free	Free Free 15 p.c.	Free 7½ p.c. 22½ p.c.	Free 35 p.c. 30 p.c.
700 Goods imported for a period not exceeding three months for the purpose of display at a convention or a public exhibition, held by an association not engaged in business of a private or commercial character, at which the goods of various manufacturers or producers are displayed... The Minister may make regulations respecting the warehousing and bonding of such goods.	Free	Free	Free	Free	Free	Free

2. Resolved, that Schedule A to the French version of the Customs Tariff be amended by striking out tariff items 328a, 386(h) and 389, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting therein the following items, enumerations of goods and rates of duty:

328a	Pièces, non finies, pour la fabrication de montures de lunettes et de lorgnons.....	En franchise	5 p.c.	5 p.c.	En fr.	5 p.c.	5 p.c.
386	h) Feuilles, tôles, feuillets, bandes ou rubans, cémentés, trempés ou meulés, non autrement ouvrés que taillés en forme, sans bords dentelés, lorsqu'ils sont importés par des fabricants de scies pour servir exclusivement à la fabrication de scies dans leurs propres fabriques.....	En franchise	10 p.c.	12½ p.c.	En fr.	10 p.c.	12½ p.c.
389	Sur tout article énuméré dans les numéros 377, 377a, 378a), 378b), 378c), 388a, 388b et 388c de la présente liste, dont la valeur ne dépasse pas 6½ cents la livre, il sera imposé, perçu et payé, sous le régime de règlements prescrits par le Ministre, en plus des taux tarifaires énumérés dans ces numéros du Tarif, une surtaxe <i>ad valorem</i> de 5 p. 100 quand cet article contient l'un ou plus d'un des éléments suivants: a) Vanadium, 0·15 p. 100 ou plus au poids. b) Molybdène, 0·15 p. 100 ou plus au poids. c) Nickel, 0·4 p. 100 ou plus au poids. d) Chrome, 0·4 p. 100 ou plus au poids. e) Tungstène, 0·4 p. 100 ou plus au poids. f) Cobalt, 0·4 p. 100 ou plus au poids. g) Manganèse, 1·0 p. 100 ou plus au poids. h) Silicium, 1·0 p. 100 ou plus au poids. i) Tout autre élément, qui ne consiste pas en fer ou en carbone, dépassant 5 p. 100 au poids.						

3. Resolved, that Schedule C to the French version of the Customs Tariff be amended by striking out item 1215 and by inserting therein the following item:

1215	Automobiles et véhicules à moteur de toute sorte, usagés ou d'occasion, fabriqués antérieurement à l'année civile pendant laquelle on cherche à les importer au Canada. Ce numéro ne doit aucunement viser les automobiles et véhicules à moteur: a) Importés sous le régime des numéros 702, 705a, 706, 707 ou 708 du Tarif, ou en vertu de permis pour véhicules de touristes ou de voyageurs; b) Importés par un colon authentique, à sa première arrivée, mais ne bénéficiant pas de la franchise en vertu du numéro 705a du Tarif; c) Achetés de bonne foi le ou avant le premier juin mil neuf cent trente et un, par des consommateurs pour leur propre usage et non pour la revente; d) Confisqués par suite d'une infraction aux lois douanières, ou aux lois de toute province du Canada; e) Provenant de legs; f) Exemptés des dispositions du présent numéro par un règlement du gouverneur en conseil dans un cas particulier ou une catégorie de cas particulière.
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4. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the 21st day of March, 1956, and to have applied to all goods mentioned in the said resolutions imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

5. (1) Resolved, that Schedule C to the Customs Tariff be amended by striking out item 1209 and by inserting therein the following item:

1209	Any goods (a) <i>in association with which there is used any description that is false in a material respect as to the geographical origin of the goods, or</i> (b) <i>the importation of which is prohibited by an order under section 51 of the Trade Marks Act.</i>
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(2) Resolved, that any enactment founded upon this resolution shall come into force six months after the day on which that enactment is assented to.

(See also Budget Papers, pages 1 to 93)

BUDGET PAPERS

presented by

the Honourable W. E. Harris, M.P.,

for the information of Parliament

in connection with the Budget of 1956-57

FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1955, bringing together in one place and in convenient form some of the more comprehensive indicators of economic conditions prepared by the Dominion Bureau of Statistics, the Bank of Canada and other Government Agencies, together with brief comments;
2. to present a preliminary review of the Government accounts for the fiscal year ended March 31, 1956.

PART I

ECONOMIC REVIEW OF 1955

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The tables in this Budget Paper are based upon estimates provided by the Dominion Bureau of Statistics, the Bank of Canada and other Government Agencies. Some of the figures appear for the first time; others have been published elsewhere. All 1955 estimates are preliminary and subject to revision.

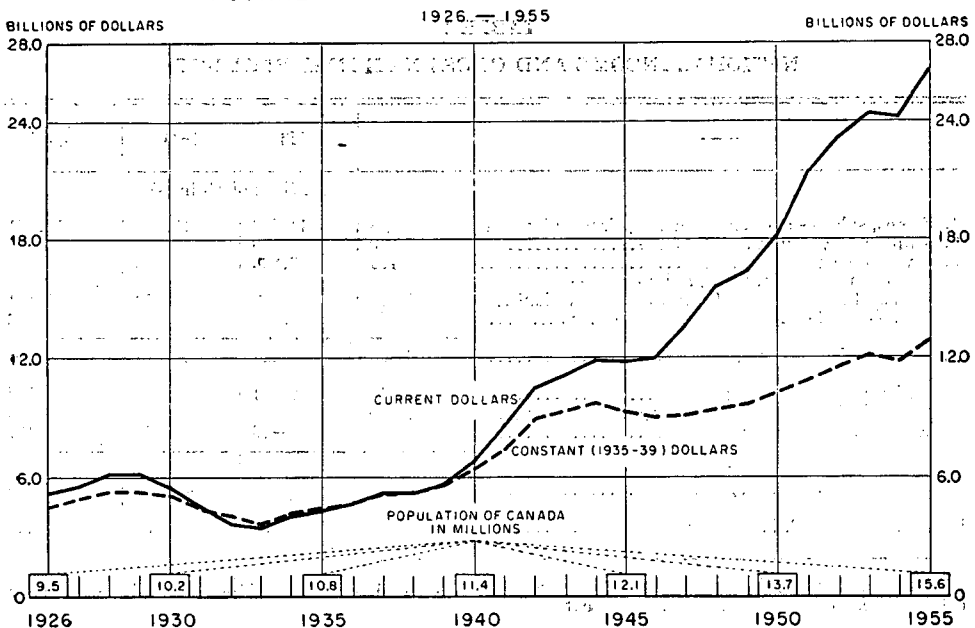
THE NATIONAL ACCOUNTS

NATIONAL INCOME AND PRODUCT

In 1955 there was a sharp economic recovery which regained the ground lost in 1954 and carried production and incomes to new peaks. The major factors in the recovery appear to have been the large increases in investment and in exports, the availability of credit and the resurgence of confidence engendered in part by the evidence of prosperous conditions abroad. Consequently, the slack which existed at the beginning of the year was rapidly reduced as the year progressed, and by the third quarter had virtually disappeared. Thus, the seasonally adjusted estimates of quarterly gross national product excluding agriculture indicate a rise of 2 per cent for the first quarter, 5 per cent for the second quarter, 3 per cent for the third quarter, and 1 per cent for the fourth quarter. For the year 1955 as a whole, gross national product is estimated at \$26.6 billion, a very large increase of 10 per cent over the reduced output of 1954 and 9 per cent above 1953. The year-to-year increase in population was $2\frac{1}{2}$ per cent and there was a like increase in the civilian labour force. However, after the first quarter of the year employment rose more rapidly than the labour force and there was a progressive reduction in unemployment which continued until the seasonal increase late in the year.

Since prices were on the average little higher than in 1954, most of the increase in the dollar value of gross national product represented a gain in real output. The volume of production increased by about 9 per cent of which the gain in agricultural production accounted for about one-sixth. The largest part of this increase in agricultural production was because of the change from a very poor western grain crop in 1954 to a considerably better than average crop in 1955. The volume of non-agricultural output rose by somewhat more than 7 per cent. The largest increases were in the goods-producing industries.

GROSS NATIONAL EXPENDITURE IN CURRENT AND CONSTANT 1935-39 DOLLARS



Mining output rose by about 16 per cent and output of the construction industry rose by 12 per cent reflecting the large increase in home building and in non-residential construction. Manufacturing output as a whole increased by 7 per cent. Industries such as textiles and electrical apparatus which had experienced some difficulties in 1954 showed greater strength in 1955. For the services group the gain in output was somewhat less than for the whole non-agricultural sector but the output of services had expanded in 1954 when the goods-producing industries showed some reduction in output.

The improvement in economic activity in 1955 was reflected in the earnings of Canadians. Wages and salaries increased by 7 per cent. The major factor in the increase was the substantial rise in employment but there was also some increase in rates of pay and in the average number of hours worked per week. The rise in total labour income has continued without interruption throughout the post-war period including the year 1954 when national income declined.

In 1955 investment income increased by \$756 million or by about one-fifth, and reached a total of \$4,471 million. Although larger interest payments and rental income contributed to the increase, the principal factor was the expansion in corporate profits. Corporate profits are particularly sensitive to economic conditions. In 1950 and 1951 under conditions of active demand and with prices and production increasing substantially, corporate profits rose rapidly. In each of the three succeeding years despite large additions to plant and equipment, corporate profits declined as costs of production increased and as competition, particularly from imports, became more severe. With conditions of strong demand prevailing in 1955, with production consequently at or near capacity and with a further substantial increase in the country's stock of plant and equipment, corporate income recovered rapidly and reached a level estimated at \$3 billion, 24 per cent above 1954 and 7 per cent above the previous high in 1951.

Net farm income rose by over one-third from the previous year's low level of \$1,058 million, and reached a total of \$1,421 million in 1955. The partial recovery of 1955 resulted from increases in production which were sufficiently

TABLE 1
NATIONAL INCOME AND GROSS NATIONAL PRODUCT

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
1. Wages, salaries and supplementary labour income.	10,868	11,706	11,989	12,861
2. Military pay and allowances.	270	309	367	394
3. Investment income.	3,763	3,800	3,715	4,471
4. Net income of unincorporated business—				
(a) farm operators from farm production ¹	1,851	1,653	1,058	1,421
(b) non-farm unincorporated business.....	1,574	1,688	1,645	1,753
5. National Income (1+2+3+4).....	18,326	19,156	18,774	20,900
6. Indirect taxes less subsidies.....	2,714	2,901	2,914	3,177
7. Depreciation allowances and similar business costs	2,120	2,411	2,511	2,679
8. Residual error of estimate.....	95	-19	-51	-132
9. Gross National Product at Market Prices (5+6+7+8).....	23,255	24,449	24,148	26,624
10. Index of G.N.P. in Constant Dollars.....	100	104	101	110

¹ Includes undistributed Wheat Board trading profits, and inventory valuation adjustment on a calendar year basis for grain held by Wheat Board.

large to more than offset some further decline in agricultural prices. Most of the increase was because of a better than average western grain crop compared to the very poor harvest of 1954. It is estimated that this factor alone accounted for an increase of some \$300 million. Despite the recovery, however, net farm income was 14 per cent below the level of 1953. In this same two-year period, the agricultural labour force declined by 4 per cent. Whereas net farm income rose by \$363 million in 1955, farm cash income fell by \$55 million. The principal reason for this is found in the movement of inventories. Accrued net farm income is based on the value of annual production at current market prices, whereas farm cash income only takes into account final sales and excludes that part of production which is added to inventories. Thus in 1955, largely due to the increased grain crop, part of output was added to inventories and was not reflected in farm cash income.

Net income of non-farm unincorporated business increased by 7 per cent in 1955 compared to a decline of 3 per cent in the preceding year. There was a recovery in retail trade from the decline in the previous year. However, by far the greatest part of the increase in income in 1955 occurred in construction.

NATIONAL EXPENDITURE

The buoyancy of demand at home reinforced by the recovery in the United States and the continued strength of overseas markets, affected most sectors of the Canadian economy during 1955. Although shortages were not common and an overall balance between supply and demand was achieved at a high level of economic activity, some strain on the supply of certain commodities such as

TABLE 2
GROSS NATIONAL EXPENDITURE

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
1. Personal expenditure on consumer goods and services.....	14,366	15,125	15,776	16,811
2. Government expenditure on goods and services...	4,245	4,359	4,361	4,614
3. Gross domestic investment—				
(a) housing, plant and equipment—total ¹	4,256	4,840	4,666	5,268
new residential construction.....	786	1,061	1,166	1,476
new non-residential construction.....	1,554	1,706	1,659	1,775
new machinery and equipment.....	1,916	2,073	1,841	2,017
(b) change in inventories—total.....	310	549	-280	450
grain in commercial channels ²	91	146	-15	-20
farm grain and livestock ³	237	50	-145	213
all other inventories ³	-18	353	-120	257
4. Exports of goods and services ⁴	5,573	5,400	5,136	5,696
5. Imports of goods and services ⁴	-5,400	-5,843	-5,562	-6,347
6. Residual error of estimate.....	-95	19	51	132
7. Gross National Expenditure at Market Prices (1+2+3+4+5+6).....	23,255	24,449	24,148	26,624
8. Index of G.N.E. in Constant Dollars.....	100	104	101	110

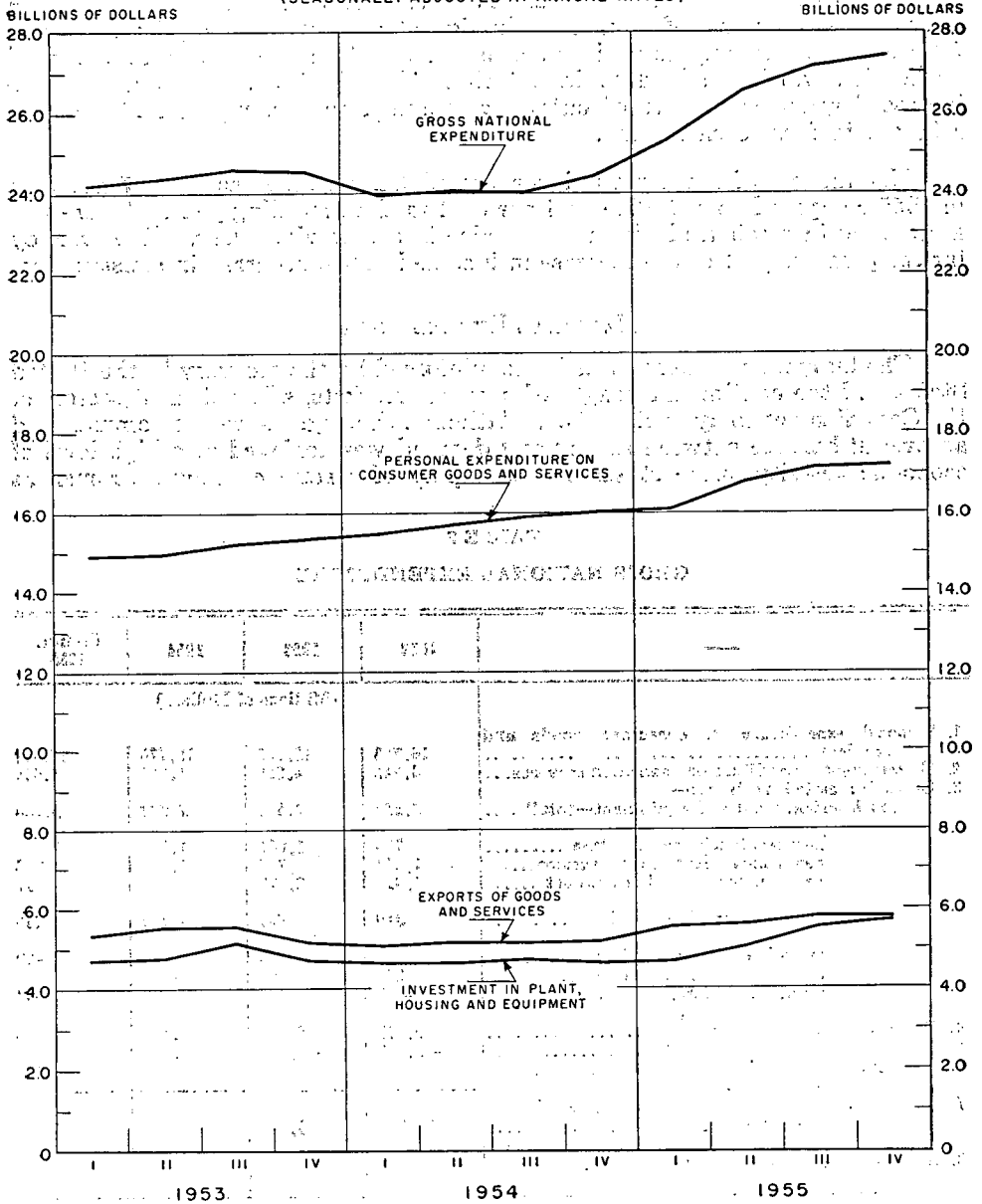
¹ Includes private businesses and institutions, and publicly owned public utilities.

² Value of physical change.

³ Change in value. Includes privately financed industrial and trade inventories.

⁴ Minor adjustments have been made to the figures of current receipts and payments shown in Table 10 and in "The Canadian Balance of International Payments, 1952 to 1955", Dominion Bureau of Statistics, to achieve consistency with the other component series.

QUARTERLY MOVEMENTS GROSS NATIONAL EXPENDITURE AND SELECTED COMPONENTS (SEASONALLY ADJUSTED-AT-ANNUAL RATES)



steel, non-ferrous metals and building materials became apparent in the course of the year. Prices of these commodities rose, particularly in the latter half of the year and together with the higher level of wages resulted in cost increases. This affected prices throughout the investment field; but despite these cost increases competition was sufficiently effective to bring about lower prices at other points, notably in consumer durable goods. Final sales increased at a rapid rate and this had a dampening effect on the growth of business inventories. Although there was some increase in business inventories during 1955, it was in part a reaction from the decline during the short recession of 1954. Business inventories as a proportion of sales remained below the level of 1953.

Expenditures by consumers on goods and services represent the largest single claim on production. In 1955, consumer expenditures rose by more than 6 per cent compared with an increase of 4 per cent in the previous year. The rise in consumption during 1954 took place in the face of declining economic activity and indicated a considerable degree of strength in consumer outlays closely related to the growth in labour income. In 1955, consumption rose somewhat less rapidly than gross national expenditure as a whole but at a rate more consistent with the underlying longer-term growth factors. The experience of the last two years serves to emphasize the stable pattern and the sustained stimulus to production which has characterized the rising trend in consumer expenditure throughout the post-war years.

The increase of \$1,035 million in consumer expenditure in 1955 accounted for 42 per cent of the total expansion in gross national expenditure. On a seasonally adjusted basis, consumption rose throughout the year. After a relatively slow start in the first quarter, consumer outlays increased rapidly during the spring and summer months and continued to expand at a lesser though substantial rate in the fall. The fourth quarter increase was relatively small. With consumer prices practically stable there was a comparable increase in the volume of consumption. Per capita real consumption was 4 per cent above 1954, one of the largest increases of the post-war period.

Government expenditures on goods and services, which had remained stable in 1954 because increases in non-defence expenditure were offset by declines in outlays for defence, increased by about 6 per cent in 1955 and reached a total of \$4,614 million. About two-thirds of this increase was accounted for by increased expenditures of provincial and municipal governments. Federal government defence expenditure, which had declined by \$180 million in 1954, rose by \$33 million or 2 per cent but remained about 8 per cent below the peak reached in 1953. With an increase in non-defence expenditures of \$52 million, total federal expenditure on goods and services reached a level of \$2,498 million; 3 to 4 per cent above 1954.

Investment expenditures, which had declined by 4 per cent in 1954 and contributed to the weakness of that year, played a dynamic role in the economy in 1955 and were a major factor in the recovery. Gross domestic investment exclusive of inventory change rose by 13 per cent or \$602 million in 1955 and accounted for 24 per cent of the increase in gross national expenditure. Slightly more than one-half of the total increase in 1955 was accounted for by the striking increase in residential construction; 138,000 housing units were started and the value of construction rose 27 per cent above the previous year. This increase followed a growth of 10 per cent in 1954, a year when other investment declined, and a 35 per cent increase in 1953. Since 1952, investment in housing has almost doubled and has risen from 18 per cent to 28 per cent of total capital investment. As in 1954, residential construction was stimulated by fairly easy financing under the National Housing Act, which provides as well for the insurance of loans on residential real estate, and by the availability of credit. It was supported as

well by the substantial growth in population and incomes. Non-residential construction, which had declined by 3 per cent in the previous year, rose by \$116 million in 1955, and reached a level 4 per cent above the previous peak in 1953. Investment outlays for new machinery and equipment, which had declined by 11 per cent in 1954, recovered substantially and rose by \$176 million or almost 10 per cent in 1955.

Inventories of farm grain and livestock and grain in commercial channels increased by \$193 million in 1955 compared to the decline of \$160 million in 1954. Most of this variation between the two years was because of wheat. A very poor western crop in 1954 led to the running down of inventories while the very good crop of 1955 resulted in a substantial build-up. The value of business inventories increased by \$257 million in contrast to the previous year when there had been a decline of \$120 million. However, little more than half of this net change of \$377 million between the two years represents increased investment in 1955 since price changes were almost as important as volume changes. In volume terms business inventories increased by somewhat less than 2 per cent in 1955 compared with the decline of about 1 per cent in 1954.

Notwithstanding the great increase in domestic demand during the post-war period, the level of exports remains a strategic factor in Canadian economic prosperity. Exports exerted a great stimulus on the economy in 1955, rising by \$560 million or 11 per cent to a level 2 per cent above the previous peak in 1952. Imports rose even more sharply and the trade deficit for 1955 was therefore greater than in the previous year.

PERSONAL INCOME AND ITS DISPOSITION

Personal income differs from national income in a number of ways although the components of these two totals are for the most part similar or identical. While national income is the total of the annual earnings of Canadian residents from the production of goods and services, personal income is the sum of the current receipts of income regardless of whether these receipts are earnings from production. For example, personal income includes only that part of

TABLE 3
SOURCES OF PERSONAL INCOME

	1952	1953	1954	Prelim. 1955 ¹
	(Millions of Dollars)			
1. Wages, salaries and supplementary labour income.	10,868	11,706	11,989	12,861
Deduct: Employer and employee contributions to social insurance and government pension funds	-358	-390	-395	-416
2. Military pay and allowances	270	309	367	394
3. Net income received by farm operators from farm production ¹	1,882	1,658	1,085	1,396
4. Net income of non-farm unincorporated business	1,574	1,688	1,645	1,753
5. Interest, dividends and net rental income of persons ²	1,566	1,669	1,825	2,010
6. Transfer payments to persons (excluding interest)—				
(a) from government	1,360	1,460	1,601	1,706
(b) charitable contributions made by corpora- tions	27	28	28	34
(c) net bad debt losses of corporations	25	28	28	28
7. Personal Income (1+2+3+4+5+6)	17,214	18,156	18,173	19,766

¹ Excludes undistributed profits of the Wheat Board and an inventory valuation adjustment on a calendar year basis for grain held by the Wheat Board.

² Includes all government debt interest paid to persons.

corporation profits which is actually received by Canadian persons as dividends. On the other hand, transfer payments such as family allowances, old age pensions, veterans' benefits and charitable contributions of corporations, are part of personal income although they are not payments for services and, therefore, do not form part of national income.

In 1954 the modest rise in salaries and wages, in certain elements of investment income, and in transfer payments was offset by the large decline in farm income; and for the first time in the post-war period there was no gain in total personal income. In 1955, however, improved business conditions brought about a large increase in labour income and there was at the same time a substantial recovery in net farm income because of a better western grain crop. These were the major factors in the increase of \$1,593 million or 9 per cent in total personal income. Labour income, which is by far the largest element in personal income, rose by \$872 million or 7 per cent, and accounted for 55 per cent of the total increase. About 20 per cent of the increase in total personal income accrued to farmers while the other major components, income from unincorporated business and from investment and transfer payments, together contributed 25 per cent to the expansion in personal incomes. A little more than one-quarter of the \$111 million increase in transfer payments was due to payments under the Prairie Farm Assistance Act. As in previous years, social security benefits such as old age pensions and family allowances, rose during the year. These increases were partly offset, however, by a decline in unemployment insurance benefits as the labour market improved.

Despite substantially higher personal incomes, personal direct taxes increased by only 4 per cent for the year. Personal income tax collections remained practically unchanged, largely because reductions effective July 1, 1955 in the federal tax rates tended to offset the effect of increases in total taxable income. The yield from succession duties and other miscellaneous taxes for all three

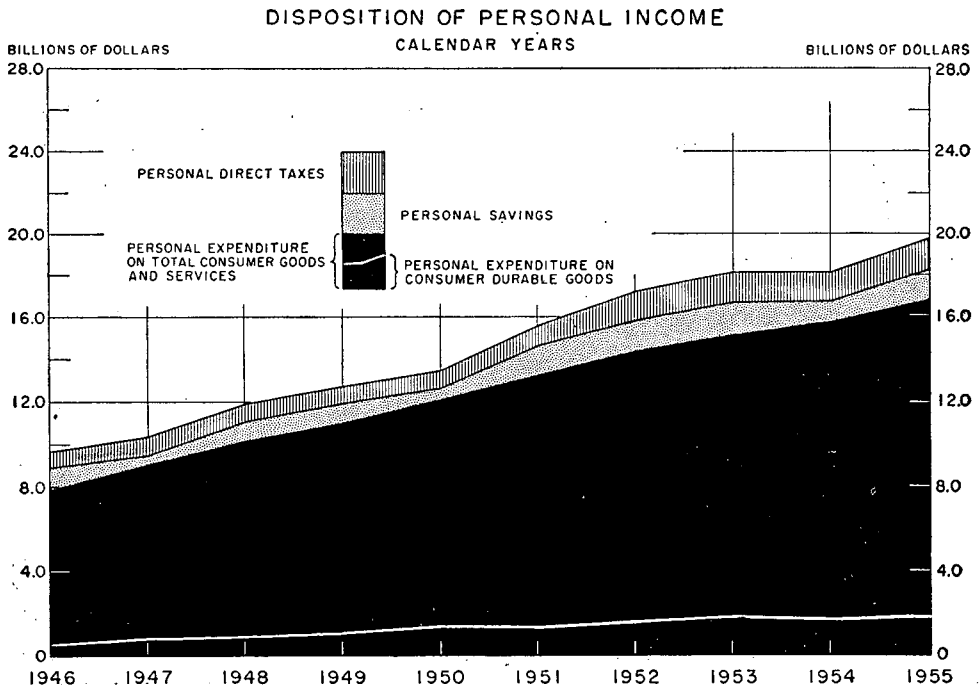
TABLE 4
DISPOSITION OF PERSONAL INCOME

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
1. Personal direct taxes—				
(a) income taxes.....	1,177	1,287	1,290	1,296
(b) succession duties.....	73	73	77	117
(c) miscellaneous taxes.....	73	71	59	68
Total direct taxes.....	1,323	1,431	1,426	1,481
2. Personal expenditure on consumer goods and services—				
Goods—				
(a) non-durable.....	8,374	8,578	8,980	9,493
(b) durable.....	1,588	1,793	1,682	1,873
Services.....	4,404	4,754	5,114	5,445
Total consumer expenditure.....	14,366	15,125	15,776	16,811
3. Personal saving—				
(a) personal saving excluding farm inventories.....	1,288	1,550	1,116	1,261
(b) change in farm inventories.....	237	50	-145	213
Total personal saving.....	1,525	1,600	971	1,474
4. Personal Income (1+2+3).....	17,214	18,156	18,173	19,766

levels of government combined rose by \$49 million during 1955. Since the growth in personal incomes was not offset to any substantial extent by an increase in personal direct taxes, Canadians had considerably more money available for spending and saving.

Personal disposable income, or personal income after deduction of direct taxes, rose by \$1,538 million or 9 per cent in 1955. There was a large increase in personal saving from current income but this was for the most part because of the change in saving in the form of farm inventories which was largely involuntary. In 1954, farm inventories declined by \$145 million while there was an increase of \$213 million in 1955. Exclusive of the change in farm inventories, personal saving from current income rose by only \$145 million to \$1,261 million in 1955. There was, therefore, practically no change in personal saving exclusive of farm inventories between 1954 and 1955 when calculated as a proportion of disposable income. In 1955, personal saving exclusive of farm inventories constituted 6.9 per cent of disposable income compared with 6.7 per cent for the year 1954.

Percentage-wise the largest increase in consumer spending was in expenditures on durable goods which rose by 11 per cent in 1955 compared with a decline of 6 per cent in 1954. Since there was a noticeable decline in the prices of certain durable goods during 1955, the volume increase was larger and is estimated at 17 per cent. There was a striking increase in purchases of passenger cars as well as substantial increases in expenditures on home appliances and furniture. Outlays on non-durable goods expanded more slowly and rose by 6 per cent in 1955 compared with an increase of 5 per cent in the previous year. On the average, prices of non-durable goods did not change appreciably although there was a very slight downward movement for the year. Higher outlays on food and beverages accounted for about one-half of the overall increase in expenditures on non-durable goods.



On a seasonally adjusted basis, the rise in purchases of consumer goods was particularly sharp in the second quarter of 1955. In terms of value, the increase over the first quarter was 5 per cent for non-durable goods and 12 per cent for durable goods. During the third quarter of 1955, further gains were made but the rate of increase was more moderate. In the fourth quarter, spending on durable goods actually declined although it remained 4 per cent above the second quarter of 1955, and 20 per cent above the fourth quarter of 1954. Outlays on non-durable goods continued to rise moderately in the fourth quarter and were 6 per cent above the comparable period in the previous year. Spending on consumer services expanded steadily throughout the year but the largest increase occurred in the fourth quarter. Expenditures on shelter, education and transportation accounted for some of the major increases. For the year as a whole, consumer spending on services rose by 6 per cent, of which more than one-third was due to higher prices.

SOURCE AND DISPOSITION OF SAVING

Saving is the source from which investment expenditure is financed. In addition to personal saving, which is discussed in the preceding section, there is business saving and government saving.

In 1955, total saving increased by \$1,188 million or 30 per cent. This is in contrast to 1954 when saving declined by about one-fifth. All three major sectors, business, persons and government, contributed to the increase in saving.

Government saving is represented by the surplus of revenues over expenditures for all three levels of government combined. In the calendar year 1955, revenues as shown for National Accounts purposes exceeded expenditures both current and capital by \$269 million. This compares with a surplus of \$18 million in 1954, the smallest surplus of any post-war year. The increase in government saving between 1954 and 1955 as shown in Table 5 has no fiscal significance and was produced in the federal accounts by the adjustment of corporate tax revenue to an accrual basis. Excluding the effect of this adjust-

TABLE 5
SOURCES OF SAVING

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
Personal saving.....	1,525	1,600	971	1,474
Gross business saving—total.....	2,736	3,131	3,073	3,588
(a) Undistributed corporation profits.....	667	748	617	913
(b) Depreciation allowances.....	2,120	2,411	2,511	2,679
(c) Net bad debt losses of corporations.....	-25	-28	-28	-28
(d) Undistributed Wheat Board trading profits and inventory valuation adjust- ment on grain held by Wheat Board....	-31	-5	-27	25
(e) Inventory valuation adjustment ¹	5	5	...	-1
Adjusted government surplus (+) or deficit (-) ²	288	253	18	269
Residual error of estimate ³	95	-19	-51	-132
Total.....	4,644	4,965	4,011	5,199

¹ The adjustment has been made only to grain held in commercial channels.

² See Table 9.

³ See Tables 1 and 2.

ment, government saving was actually negative in 1955, the small surplus of provincial and municipal governments combined being slightly more than offset by a modest deficit in the federal accounts.

Business saving is composed of two principal items, depreciation allowances and undistributed profits. Both of these items increased in 1955 but at a considerably different rate. With the continued growth of physical assets, depreciation allowances increased in 1955 by \$168 million or 7 per cent. Undistributed profits are affected by the change in total profits, by the amount paid in direct taxes, and by amounts paid out as dividends. Corporation profits are estimated to have risen by \$580 million in 1955. Although there was an increase in tax liabilities of \$196 million and an increase in dividends paid out of \$88 million, there was also a very sharp rise in undistributed profits, amounting to \$296 million. This rise in undistributed profits contributed about three-fifths of the total increase of \$515 million or 17 per cent in business saving. Business saving is much the largest element in total saving and constituted 69 per cent of total saving in 1955 compared with 77 per cent in 1954.

It is estimated that Canada's total payments abroad on current account exceeded total receipts by \$651 million in 1955 and the increase of like amount in net foreign liabilities was considerably greater than in 1954. The deficit on current account in 1955 was financed, as in previous years, by capital inflows

TABLE 6
DISPOSITION OF SAVING

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
Gross domestic investment—				
Housing, plant and equipment.....	4,256	4,840	4,666	5,268
Change in inventories.....	310	549	—280	450
Net increase in foreign assets (including foreign exchange) adjusted ¹	173	—443	—426	—651
Residual error of estimate ²	—95	19	51	132
Total.....	4,644	4,965	4,011	5,199

¹ Minor adjustments have been made to the figures appearing in Table 10.

² See Tables 1 and 2.

TABLE 7
CORPORATION PROFITS, TAXES AND DIVIDENDS

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
Corporation profits before taxes ¹	2,670	2,580	2,420	3,000
Deduct corporation taxes ²	—1,378	—1,226	—1,164	—1,360
Corporation profits after taxes.....	1,292	1,354	1,256	1,640
Deduct dividends paid out ³	—625	—606	—639	—727
Undistributed corporation profits ⁴	667	748	617	913

¹ Includes depletion charges and is adjusted for losses, and for conversion to a calendar year basis.

² Taxes paid or payable in respect of the calendar year's income (See Table 9).

³ Includes charitable contributions made by corporations (See Table 3 Item 6 (b)).

⁴ See Table 5.

from abroad and there was no significant change in Canada's reserve of foreign exchange. Although the amount of capital from abroad was considerably larger in 1955 than in 1954, it was only moderately more important in the nation's financing because of the higher level of domestic investment in 1955. Direct investment continued to be the largest single source of funds from abroad and Canadian borrowing abroad was much smaller than in previous years. These transactions are treated more fully in the section on the Balance of International Payments.

INVESTMENT AND CAPITAL EXPENDITURE

Table 8 gives the industrial distribution of business capital expenditures and brings them together with public capital outlays included in government expenditures on goods and services in Table 2. At the same time a reconciliation is provided between gross domestic investment in housing, plant and equipment as it appears in Table 2 and total capital outlays shown in Table 8.

The total of public and private capital expenditures is estimated to have increased by \$610 million or 11 per cent in 1955. This is considerably in excess of the 6 per cent increase forecast at the beginning of the year on the basis of

TABLE 8
PUBLIC AND PRIVATE CAPITAL EXPENDITURE

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
Agriculture and fishing.....	555	546	388	424
Forestry.....	39	34	46	62
Mining, quarrying and oil wells.....	211	257	278	301
Manufacturing.....	973	969	822	939
Electric power, gas and water works.....	583	548	483	471
Transportation, storage and communications.....	576	661	641	570
Construction industry.....	73	91	97	107
Trade, finance and commercial services.....	344	526	582	578
Institutions.....	278	301	337	409
Housing.....	826	1,084	1,178	1,496
Government departments.....	827	824	768	873
Total Capital Expenditure¹.....	5,285	5,841	5,620	6,230
Total Capital Expenditure as a percentage of Gross National Expenditure.....	22.7	23.9	23.3	23.4
Index of total Capital Expenditure in Constant Dollars.....	100	107	103	111

¹ For reconciliation with Gross Domestic Investment in housing, plant and equipment in Table 2, see below.

	1952	1953	1954	Prelim. 1955
PUBLIC AND PRIVATE CAPITAL EXPENDITURE—Table 8.....	5,285	5,841	5,620	6,230
DEDUCT:				
Provincial hospitals and schools, and municipal schools.....	-159	-151	-169	-214
Government housing excl. C.M.H.C. rental housing.....	-40	-23	-12	-20
Direct government department outlays.....	-827	-824	-768	-873
Other.....	-3	-3	-5	-5
ADD:				
Unallocated Adjustment ².....	.....	.....	.....	150
GROSS DOMESTIC INVESTMENT IN HOUSING, PLANT AND EQUIPMENT—Table 2.....	4,256	4,840	4,666	5,268

² This figure represents an upward revision to data given in "Public and Private Investment, Outlook 1956", Department of Trade and Commerce, to take account of later available information.

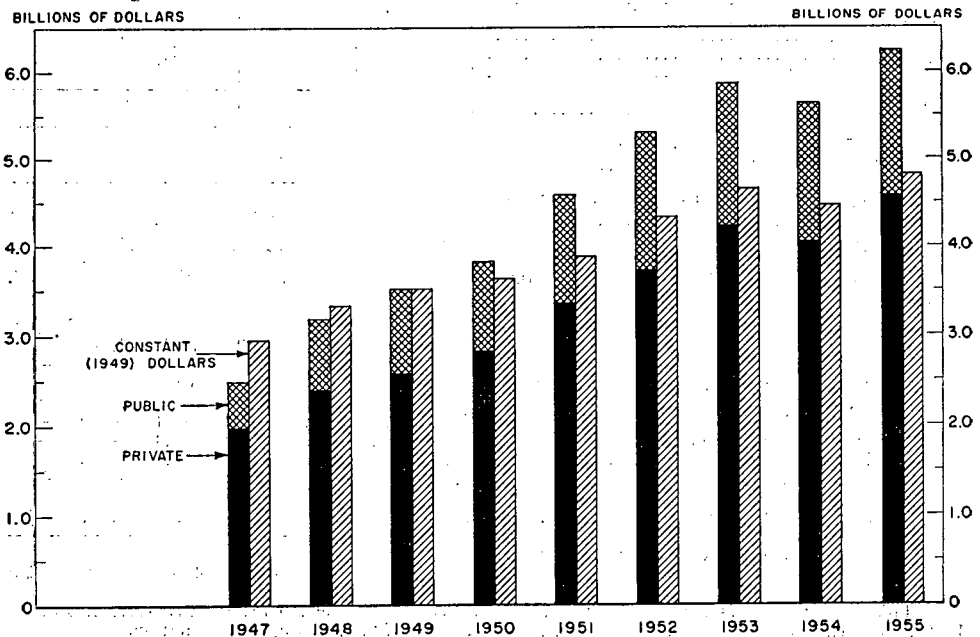
business intentions and illustrates the rapid recovery in capital outlays during 1955. Total capital outlays for 1955, including both government and business, reached a new high of \$6,230 million, or about 7 per cent above the previous peak in 1953.

Almost all major industrial groups spent more money for capital purposes in 1955. The goods-producing industries increased their expenditures by 12 per cent. More than one-half of this expansion occurred in manufacturing with investment up by \$117 million or 14 per cent. The greater part of this new investment was concentrated in the export industries. More moderate increases occurred in the construction industry and in primary industries other than forestry, where capital outlays rose by over one-third.

The major increases during 1955 in investment in manufacturing were concentrated in raw material processing and in the chemical industry. Thus, expenditure on plant and equipment for making paper products rose by \$50 million or 58 per cent to a total of \$138 million. This was the largest amount invested in manufacturing in 1955 and was followed by petroleum and coal products with total capital outlays of \$108 million. Investment rose by \$30 million in the non-ferrous metal group, and \$21 million in the chemical industry, each being an increase of more than 50 per cent. Apart from these few key industries which determined the upward movement of manufacturing investment as a whole, the remaining industries followed a mixed pattern of moderate increases and decreases.

New investment in public utilities declined during 1955 by \$83 million or 7 per cent to a total of \$1,041 million. Most of this decline was due to the reduction of \$77 million in capital outlays for steam railways and telegraphs. Decreases also occurred in expenditures on municipal water works and central electric stations. At the same time, large-scale projects scheduled in gas dis-

PUBLIC AND PRIVATE CAPITAL EXPENDITURE



tribution and work associated with the St. Lawrence Seaway remained still in their initial stages so that the impact was relatively minor as far as investment in 1955 is concerned. There was a further extension of telephone facilities and a sizeable expansion in outlays by motor carriers.

The increase in urbanization and a steadily improving standard of living during the post-war period resulted in a marked growth of investment in the trade, finance and commercial services group. This expansion provided an important offset to declines in expenditures by defence-supported industries in the years following the Korean war. Capital outlays in the trade, finance and commercial services sector grew by almost 70 per cent between 1952 and 1954. In 1955 this upward trend was arrested although outlays continued at the relatively high level of \$578 million. Within this total, a decline in expenditures by the trade and finance group was almost balanced by an increase in outlays for commercial enterprises.

Associated with the growth in population, the need for additional facilities continued in the institutional field during 1955. Out of a total increase of \$71 million in investment by institutions, about one-half was accounted for by the building of new schools. Hospitals absorbed \$25 million more than in 1954, raising capital expenditures of these institutions by 21 per cent to a total of \$147 million. Governments increased their capital outlays by \$106 million or 14 per cent.

REVENUE AND EXPENDITURE OF ALL GOVERNMENTS

In Table 9 "Government Transactions Related to the National Accounts" an attempt is made to bring together in one statement and under uniform headings, the activities of all governments in Canada on a calendar year basis.

The table is designed to include only those transactions which have relevance for the National Accounts, and consequently the surpluses or deficits shown here differ from those shown in the various public accounts. It has been necessary to adjust the governments' accounting statements of fiscal year revenue and expenditure to exclude certain transactions such as those relating to reserves, write-offs, amortization, and other similar items, as well as the purchase and sale of existing capital assets; and to include the transactions of extra-budgetary funds such as unemployment insurance, old age security, workmen's compensation and government pension funds. In addition, corporate taxes have been adjusted to an accrual basis in the federal accounts. Total expenditure includes both current and capital expenditure but government loans and investments and debt retirement are excluded. Municipalities are for the most part on a calendar year basis but the provincial and federal fiscal year figures are adjusted to the calendar year basis. Some of the more substantial adjustments to the federal accounts are shown in the reconciliation statement appended to Table 9.

The surplus or deficit as calculated for national accounts purposes is affected by the adjustment of federal revenue to place corporation taxes on an accrual basis. In 1954 the adjustment was of moderate size and increased revenue by \$43 million. In 1955 the adjustment was very large and increased revenue by \$291 million. Excluding the effect of this adjustment, which has no relevance from a fiscal standpoint, the revenues and expenditures for all levels of government combined were approximately in balance in both years, and the overall fiscal effect of government operations was approximately neutral.

Income and expenditure of provincial and municipal governments both increased by about 9 per cent, and the modest surplus of \$23 million in 1954 was virtually unchanged in 1955. In the federal accounts, excluding adjustment for

TABLE 9
GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1952	1953	1954	Prelim. 1955
	(Millions of Dollars)			
GOVERNMENT REVENUE—				
Direct Taxes—Persons.....	1,323	1,431	1,426	1,481
Income—				
Federal.....	1,177	1,287	1,277	1,269
Provincial and Municipal.....			13	27
Succession Duties—				
Federal.....	39	40	41	55
Provincial.....	34	33	36	62
Miscellaneous—				
Federal.....	7	2	1	1
Provincial and Municipal.....	66	69	58	67
Direct Taxes—Corporations.....	1,378	1,226	1,164	1,360
Income—				
Federal.....	1,269	1,150	1,100	1,295
Provincial.....	109	76	64	65
Other Direct Taxes—				
Withholding taxes—Federal.....	55	54	58	67
Indirect Taxes.....	2,814	3,011	3,001	3,254
Federal.....	1,595	1,697	1,612	1,744
Provincial and Municipal.....	1,219	1,314	1,389	1,510
Investment Income.....	532	562	563	618
Federal.....	217	225	223	261
Provincial and Municipal.....	315	337	340	357
Employer and Employee Contributions to Social Insurance and Government Pension Funds.....	358	390	395	416
Federal.....	230	250	255	272
Provincial and Municipal.....	128	140	140	144
Transfers from Other Governments—				
Provincial and Municipal.....	368	412	430	450
Total Revenue.....	6,828	7,086	7,037	7,646
Federal.....	4,589	4,705	4,567	4,964
Provincial and Municipal.....	2,239	2,381	2,470	2,682
Deficit (or surplus)—	-288	-253	- 18	-269
Federal.....	-256	-175	+ 5	-245
Provincial and Municipal.....	-32	-78	-23	-24
Total Revenue plus Deficit (or minus Surplus)...	6,540	6,833	7,019	7,377
Federal.....	4,333	4,530	4,572	4,719
Provincial and Municipal.....	2,207	2,303	2,447	2,658

¹ For reconciliation with Public Accounts Surplus, see next page.

TABLE 9—Concluded

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1952	1953	1954	Prelim. 1955
(Millions of Dollars)				
GOVERNMENT EXPENDITURE—				
Goods and Services.....	4,245	4,359	4,361	4,614
Federal—				
Defence.....	1,800	1,907	1,727	1,760
Non-defence.....	669	618	686	738
Provincial and Municipal.....	1,776	1,834	1,948	2,116
Transfer Payments.....	1,827	1,952	2,141	2,236
Federal.....	1,400	1,487	1,645	1,696
Provincial and Municipal.....	427	465	496	540
Subsidies.....	100	110	87	77
Federal.....	96	106	84	75
Provincial and Municipal.....	4	4	3	2
Transfers to Other Governments—				
Federal.....	368	412	430	450
Total Expenditure.....	6,540	6,833	7,019	7,377
Federal.....	4,333	4,530	4,572	4,719
Provincial and Municipal.....	2,207	2,303	2,447	2,658

	1952	1953	1954	Prelim. 1955
(Millions of Dollars)				
Reconciliation with Public Accounts Surplus:				
Federal Government calendar year surplus for national accounts purposes.....	+256	+175	-5	+245
Adjustments:				
Difference between calendar and fiscal year.....	+367	+24	+195	-11
Difference between corporation tax accruals and government receipts.....	-45	+87	-43	-291
Revenue items omitted.....	+49	+92	+79	+45
Reserves, write-offs and similar items omitted from expenditure.....	-195	-139	-142	-107
Change in inventories of government commodity agencies.....	+72	-24	-4	+5
Shipment of military equipment to NATO countries, less replacement.....	-95	-55	-5	+2
Extra-budgetary funds for pensions and social insurance (net).....	+27	-27	+51	+46
Adjustment to place debt interest on a "due date" basis.....	-90	-14	+23	+7
Other adjustments.....	-98	-95	-103	-93
Federal surplus for fiscal year as per public accounts	+248	+24	+46	-152
	(1951-52)	(1952-53)	(1953-54)	(1954-55)

the accrual of corporation taxes mentioned above, receipts and expenditures both increased by about 3 per cent and expenditures exceeded receipts by \$48 million in the calendar year 1954 and \$46 million in the calendar year 1955.

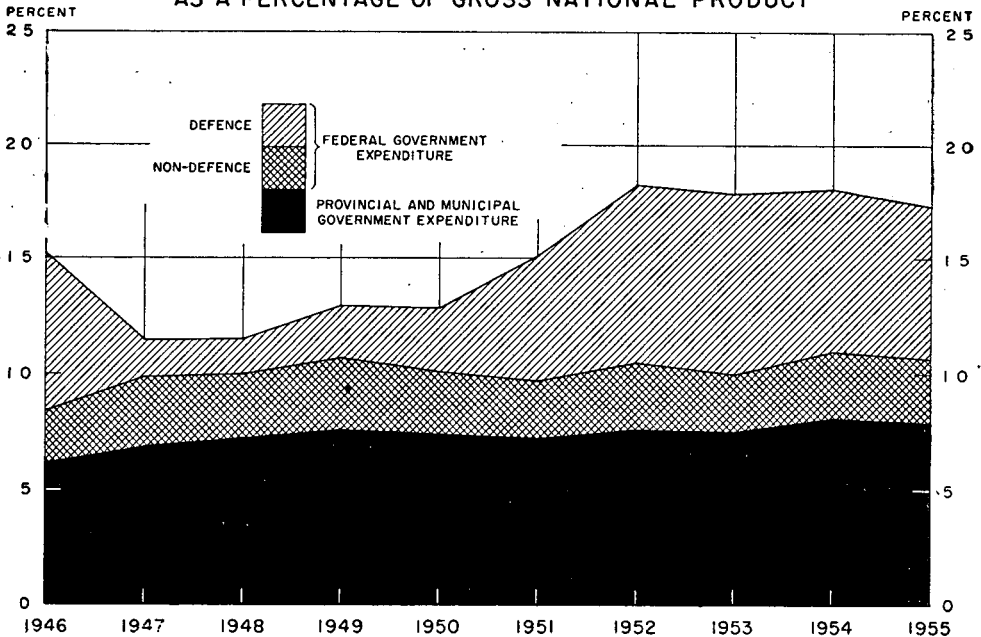
The economic effects of fiscal operations are not solely determined by revenues and expenditures. The expansionary or restrictive effects of governmental operations depend also on changes in loans, advances and investments. In this sphere the overall effect of federal government operations was mildly restraining.

Expenditure on goods and services by all levels of government combined increased in 1955 by 6 per cent and reached a total of \$4,614 million. As indicated in the section on gross national expenditure, federal defence expenditures increased by about 2 per cent from the reduced level of 1954 and non-defence outlays rose by 8 per cent. Defence expenditures have remained relatively stable since the great expansion of \$643 million in calendar year 1952 and federal non-defence outlays on goods and services have risen only moderately. Since gross national expenditure has increased by 14 per cent in the same period, the federal government's share in the overall use of goods and services has declined from about 11 per cent in 1952 to about 9 per cent in 1955.

Provincial and municipal expenditure on goods and services rose by 9 per cent or \$168 million and this increase was about twice as great as the increase in expenditure on goods and services by the federal government. Most of the increase is attributable to higher wages and salaries and the expansion in outlays on capital facilities.

Transfer payments rose by \$95 million or 4 per cent in 1955 compared with an increase of \$189 million in 1954 when payments under unemployment insurance rose rapidly. A large element in the \$51 million increase in federal government transfers in calendar year 1955 was the increase of \$31 million in the payment of claims under the Prairie Farm Assistance Act as a result of the poor western

GOVERNMENT EXPENDITURES ON GOODS AND SERVICES
AS A PERCENTAGE OF GROSS NATIONAL PRODUCT



grain crop of 1954. Only slightly smaller was the increase in federal transfer payments which resulted from the growth in the numbers receiving old age pensions and family allowances. Some offset to these increases was provided by the decline of \$12 million in unemployment insurance benefits as the labour market improved. Transfer payments of provincial and municipal governments increased by \$44 million mainly because of larger grants to private non-commercial institutions.

Of the \$609 million increase in revenues shown in Table 9, \$248 million is due to an increase in the adjustment of federal corporation tax receipts to an accrual basis and can be excluded from consideration. While corporate incomes rose sharply in 1955, this was not reflected in increased federal government receipts since most corporations were paying throughout 1955 on the basis of 1954 incomes. In fact, federal government receipts from this source were somewhat lower in 1955 than in 1954 because of the 2 per cent reduction in the rate of corporation tax announced in the budget speech of April 5, 1955. Direct personal taxes were \$55 million higher. Revenue from the federal personal income tax remained practically constant, although there was a substantial rise in personal incomes. The stability in yield was to a large extent due to tax reductions, which went into effect on July 1, 1955. The greater part of the increase in personal direct tax revenue was the result of a rise in provincial collections from succession duties. There was also an increase in yield from the Quebec income tax which for the first time operated for a full calendar year.

In absolute terms, the largest increase in revenues came from indirect taxes which rose by \$253 million or 8 per cent. Slightly more than one-half of this increase was in federal tax receipts. Receipts from customs duties rose by \$65 million or 17 per cent for the calendar year 1955 reflecting the sharp increase in imports of dutiable goods such as automobile parts and capital investment goods. The yield from the federal sales and excise taxes rose by \$54 million or 5 per cent in the calendar year 1955 despite the lower excise tax on automobiles and the repeal of the excise tax on tires and tubes, and this reflects the growth in consumer spending. There were also higher receipts from excise duties. Provincial revenues from indirect taxes rose by 13 per cent. There were increases in receipts from the gasoline tax of \$26 million and from the retail sales tax of \$19 million. Receipts from natural resources were also substantially higher. In the municipal sphere, revenues from the real property tax rose by \$29 million.

BALANCE OF INTERNATIONAL PAYMENTS

The most striking feature of Canada's international transactions in 1955 was a remarkable increase in merchandise trade in response to the prosperous economic conditions which prevailed at home and abroad. Exports increased by 10 per cent over 1954 with the result that their value in 1955 was only \$4 million below the peak level of 1952. The increase in total value between 1954 and 1955 resulted from the combination of a 2 per cent rise in export prices and an 8 per cent increase in volume. Imports showed a gain of 15 per cent when compared with 1954 and were some 7 per cent above 1953 when the value of imports reached their previous record. Since import prices remained about the same as in 1954, the increase in 1955 was almost wholly the result of volume increases. While the terms of trade, or the ratio of export prices to import prices, moved slightly in Canada's favour, the much larger increase in the volume of imports resulted in a deficit of \$185 million on commodity trade in 1955 compared with a surplus of \$13 million in 1954. This deficit on commodity trade was the largest factor in the \$234 million increase in the total current account deficit which rose from \$431 million in 1954 to \$665 million in 1955.

TABLE 10
BALANCE OF INTERNATIONAL PAYMENTS

ESTIMATED CURRENT ACCOUNT BETWEEN CANADA AND ALL COUNTRIES
(Millions of Canadian Dollars)

	1952	1953	1954	Prelim. 1955
CURRENT CREDITS—				
Merchandise exports (adjusted) ¹	4,339	4,152	3,929	4,335
Gold available for export.....	150	144	155	155
Travel expenditures.....	275	302	302	329
Interest and dividends.....	145	165	143	160
Freight and shipping.....	383	318	309	359
Inheritances and immigrants' funds.....	85	91	89	86
Other current receipts.....	281	319	298	358
Total Credits.....	5,658	5,491	5,225	5,782
CURRENT DEBITS—				
Merchandise imports (adjusted).....	3,850	4,210	3,916	4,520
Travel expenditures.....	341	365	382	441
Interest and dividends.....	413	404	431	467
Freight and shipping.....	375	374	355	395
Inheritances and emigrants' funds.....	94	91	94	100
Other current payments.....	421	490	478	524
Total Debits.....	5,494	5,934	5,656	6,447
NET BALANCE ON CURRENT ACCOUNT.....	+164	-443	-431	-665

¹ Aid to NATO countries under Defence Appropriation Act has been excluded.

ESTIMATED GEOGRAPHICAL DISTRIBUTION OF THE NET BALANCE ON CURRENT ACCOUNT
(Millions of Canadian Dollars)

	1952	1953	1954	Prelim. 1955
Between Canada and—				
United States.....	-849	-904	-810	-1,030
United Kingdom.....	+388	+133	+232	+348
Rest of the Sterling Area.....	+114	+83	+44	+54
Other OEEC Countries.....	+332	+173	+98	+53
Other Countries.....	+179	+72	+5	-90
All Countries.....	+164	-443	-431	-665

The total value of merchandise exports increased from \$3,929 million in 1954 to \$4,335 million in 1955, up \$406 million. The increase was mainly concentrated in exports of base metals, forest products, and iron and its products. Of special significance was a \$60 million increase in the export of iron ore and a \$30 million increase in the export of crude petroleum. These gains are a reflection of increased productive capacity in Canada as well as buoyant markets for these products in the United States and overseas countries. The only notable decline occurred in the export of grains, particularly wheat.

Merchandise imports amounted to \$4,520 million in 1955 compared with \$3,916 million in 1954, an increase of \$604 million. This spectacular rise in imports was in response to the sharp upward swing in business activity in Canada during 1955 with a high level of consumer spending and capital investment. The increase in imports was widespread throughout the various categories.

The largest single increase occurred in the import of automobile parts as a result of the large output of automobiles in Canada during 1955. Other sizeable increases occurred in textiles, steel products and machinery.

The customary deficit on non-merchandise account showed a slight widening from \$444 million in 1954 to an estimated \$480 million in 1955, an increase of \$36 million. The deficit, that is the excess of payments over receipts, on the travel and the interest and dividends accounts widened, while there was a slightly lower deficit on freight and shipping account. Total non-merchandise receipts rose from \$1,296 million in 1954 to \$1,447 million in 1955, an increase of \$151 million. Payments rose by \$187 million to \$1,927 million compared with \$1,740 million in 1954.

A notable feature of Canadian trade in 1955 was the marked increase in exports to the United Kingdom, other Commonwealth countries and to the countries of continental western Europe. While over half of the increase in the value of exports resulted from greater sales to the United States, this represented a gain of about 10 per cent over 1954. On the other hand, exports to the United Kingdom and to other Commonwealth countries increased by nearly 20 per cent while those to western Europe showed a rise of 11 per cent. The increase in sales to overseas markets is the result of two factors. A rising level of production in overseas countries in general has created a strong demand for Canadian products. In addition, the improvement in the economic and financial position of these countries which has taken place in recent years has permitted an extensive relaxation of restrictions against dollar imports. In contrast to exports, more than three-quarters of the increase in imports came from the United States. The remainder of the increase was largely drawn from western Europe, Latin America and Japan. Imports from the United Kingdom and other Commonwealth countries showed only a moderate increase. As a consequence of these developments and taking into account non-merchandise transactions, Canada

BALANCE OF INTERNATIONAL PAYMENTS

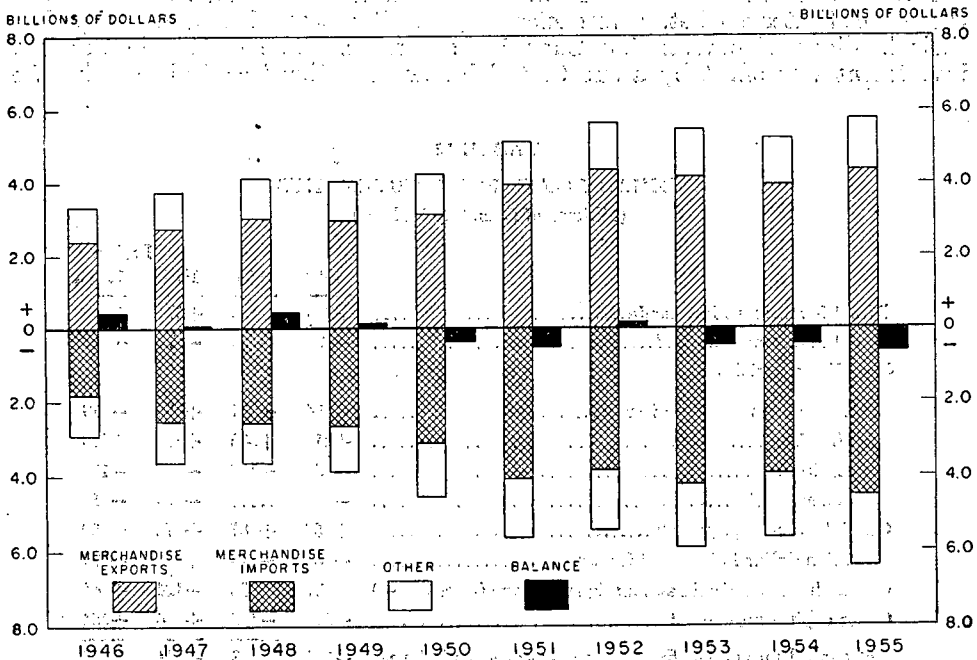


TABLE 11

CANADA'S OFFICIAL HOLDINGS OF GOLD AND U.S. DOLLARS
AS AT DECEMBER 31

(Millions of U.S. Dollars)

	1952	1953	1954	1955
Exchange Fund Account and Bank of Canada—				
Gold.....	885.0	986.1	1,072.7	1,133.9
U.S. Dollars.....	961.8	802.0	833.4	692.0
Other Government of Canada Accounts.....	13.4	30.4	36.5	74.9
Total Gold and U.S. Dollars.....	1,860.2	1,818.5	1,942.6	1,900.8

incurred a larger deficit with the United States, a larger surplus with the United Kingdom and other Commonwealth countries, and a deficit with the rest of the world.

The net inflow of capital into Canada in 1955 was considerably larger than in 1954. There were, moreover, large changes in the movements of some components of the capital account between the two years. Direct investment remained at a relatively high level though it was somewhat smaller than in 1954. Net transactions in Canadian securities resulted in 1955 in a small outflow of capital from Canada, the first time this has occurred since 1949. This followed from a combination of net disinvestment in outstanding Canadian securities, a much smaller volume of new security issues abroad and large repatriations through redemptions. These movements were a response to the narrowing of the differential between interest rates in the United States and Canada which occurred prior to mid-summer 1955. This made it less attractive to borrow in the United States market. It also encouraged United States investors to liquidate their holdings of outstanding Canadian securities. The decline in portfolio investment was offset by a substantial inflow of "other" capital, mostly of a

TABLE 12

SUMMARY OF CAPITAL MOVEMENTS

(Millions of Canadian Dollars)

	1952	1953	1954	Prelim. 1955
Direct investment in Canada.....	+346	+426	+376	+350
Direct investment abroad.....	- 77	- 63	- 74	- 70
Canadian securities—				
Trade in outstanding issues.....	- 94	- 31	+ 55	- 19
New issues.....	+316	+335	+326	+148
Retirements.....	- 89	-146	-202	-190
Foreign securities.....	- 8	.....	- 24	- 12
Official Loan Repayments.....	+ 56	+ 87	+ 72	+ 69
Canadian dollar holdings of foreigners.....	- 66	- 18	+ 22	+ 91
Official holdings of gold and foreign exchange (increase, -)	- 37	+ 38	-124	+ 44
Other capital movements.....	-511	-185	+ 4	+254
Net capital movement financing current account balances	-164	+443	+431	+665

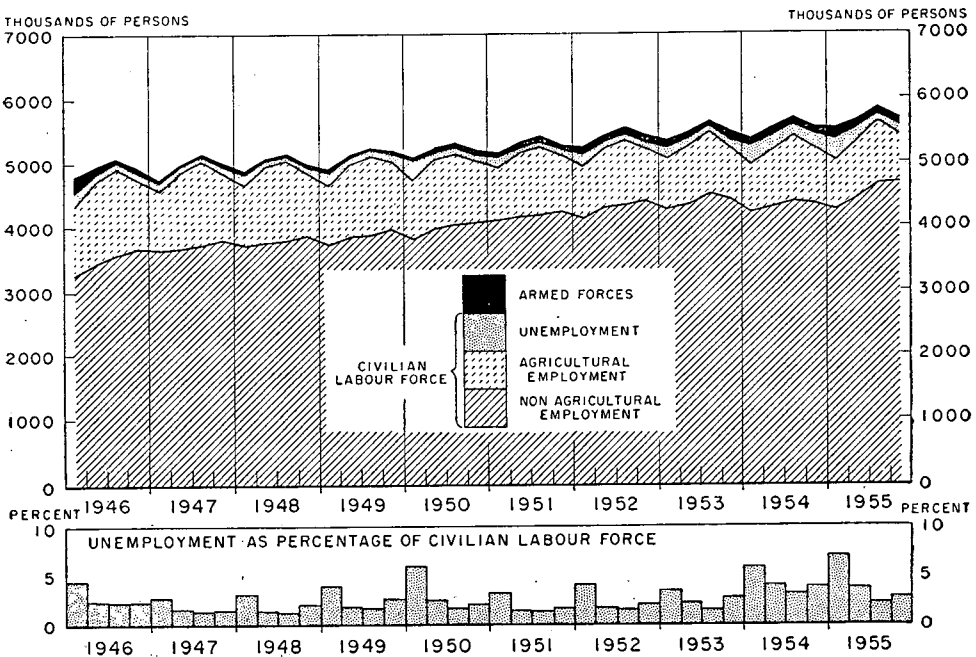
short-term nature. Official reserves of gold and United States dollars, expressed in U.S. funds, were reduced by \$42 million to \$1,900 million at December 31, 1955, compared with \$1,942 million at December 31, 1953.

During 1955 the exchange rate differential between the Canadian and United States dollar narrowed considerably. At December 31, 1954, the United States dollar was \$.96 19/32 in terms of the Canadian dollar, and at December 31, 1955, the exchange rate was \$.99 29/32. In October of 1955, the Canadian dollar was quoted at par with the United States dollar for the first time since March, 1952, and from mid-November until early December the Canadian dollar was at times at a slight discount. Subsequently the Canadian dollar has remained stable at a premium of less than 1/4 of a cent.

EMPLOYMENT AND EARNINGS

The increase in production during 1955 led to a substantial improvement in employment. In 1954, the average number of persons employed declined by 52,000. In 1955, during each month except January, employment was higher than in 1954. Beginning in May, 1955, the level of employment was also higher each month when compared to the corresponding period in 1953 and the average number of persons employed for the year 1955 as a whole rose by 82,000 above the average for 1953. From the seasonal low in the beginning of 1955 to the peak in employment in the late summer, employment rose by 13 per cent and there were 642,000 more persons at work. This compares with an increase of 416,000 persons with jobs, or a gain of 8 per cent in employment during the same period in 1953. The drop in employment from the summer peak to December was, of course, less severe in 1955 compared to 1953 since the recession began to make itself felt towards the end of that year.

THE LABOUR FORCE



The increase in employment in 1955 took place in non-agricultural occupations. Agricultural employment actually declined and this marks the return to the trend of recent years when, except for 1954, there has been a shift from rural to urban occupations. Thus, while total employment rose on the average by $2\frac{1}{2}$ per cent in 1955, the increase in non-agricultural employment was more pronounced with the number of employed persons up by about $4\frac{1}{2}$ per cent. The seasonally adjusted index of non-agricultural employment indicates that the number of persons with jobs reached a peak in September 1955 at a level about 5 per cent above January. For the remainder of the year, only minor changes occurred, and in overall terms stability prevailed. All major industrial groups showed gains in employment during 1955. In durable goods manufacturing, employment, on a seasonally adjusted basis, increased steadily during the year in contrast to the decline throughout 1954. In non-durable goods production, employment had remained fairly stable during 1954 and this continued during the first few months of 1955. In the second half of 1955, however, employment rose considerably.

The increase in employment in 1955 was accompanied by an almost equal growth in the labour force and consequently unemployment was largely unchanged when comparing the annual average for 1954 and 1955. The average number of persons without jobs and seeking work in 1955 was 230,000; this compares with 232,000 unemployed persons in the preceding year. However, a comparison of annual averages obscures the improvement which occurred in the course of 1955. Beginning in May, 1955, unemployment was lower each month than during the corresponding period in the preceding year. This improvement became more pronounced as the year went on and in December, 1955, the number of persons without jobs and seeking work was 48,000 below the level of the same month in 1954.

TABLE 13
THE CIVILIAN LABOUR FORCE

ANNUAL AVERAGES¹
(Thousands of Persons)

	1952	1953	1954	1955
Civilian Labour Force.....	5,315	5,383	5,426	5,558
Male.....	4,136	4,197	4,207	4,299
Female.....	1,179	1,186	1,219	1,259
Non-Agricultural.....	4,420	4,521	4,547	4,734
Agricultural.....	895	862	879	824
Persons without jobs seeking work.....	129	137	232	230
Persons with jobs.....	5,186	5,246	5,194	5,328
In Non-Agricultural Industries.....	4,295	4,388	4,321	4,510
Paid Workers.....	3,773	3,853	3,802	3,996
Employers, own account workers and unpaid family workers.....	522	535	519	514
In Agriculture.....	891	858	873	818
Paid Workers.....	111	113	120	106
Employers, own account workers and unpaid family workers.....	780	745	753	712

¹ Average of the quarterly labour force surveys in 1952 and of the monthly surveys in 1953, 1954 and 1955.

The number of persons without jobs and seeking work averaged 4.1 per cent of the labour force in 1955 compared with 4.3 per cent in 1954. The highest unemployment was reached in March, 1955, when there were 401,000 persons without jobs and seeking work or 80,000 more than the number for the same month in 1954. The point of lowest unemployment was reached in August, 1955, with 131,000 jobless persons looking for work. In 1954, unemployment was lowest in September when 168,000 persons were looking for work. In other words a comparison of the seasonal low for unemployment in the two years indicates that in 1955 there were 37,000 fewer persons looking for work than in the previous year. In January, 1956, the number of persons without jobs and seeking work was 286,000 or 77,000 below the level of the comparable month in 1955.

The rise in employment in 1955 was reflected in labour income. The greater number of employed persons worked on the average more hours per week and received more pay during 1955. For example, in manufacturing, average hours worked per week increased by 1 per cent and average hourly earnings rose by almost 3 per cent over the 1954 level. For the economy as a whole, a combination of these factors brought about an increase in labour income of \$872 million in 1955. The average annual earnings per paid worker rose from \$3,057 in 1954 to \$3,136 in 1955, an increase of $2\frac{1}{2}$ per cent. Most of this increase represents a gain in real income, for prices, as indicated by the consumer price index, showed no significant change.

Labour income rose steadily throughout 1955. The seasonally adjusted figures indicate that following a moderate rise in the first quarter, the growth in labour income was most pronounced in the second quarter. For the remainder of the year further substantial increases took place but in each succeeding quarter the expansion continued at a reduced pace.

All major industrial groups in 1955 paid out more in wages and salaries than in the preceding year. The largest increase took place in construction and amounted to 14 per cent. This was followed by finance and other services with a wage and salary bill up by 10 per cent. The increases in all other groups were less than for labour income as a whole. In manufacturing, labour income rose by about 6 per cent; a similar increase in income accrued to persons employed in the utilities, transportation, storage and trade. A more moderate expansion in labour compensation occurred in the primary industries with the total 3 per cent above 1954.

The civilian labour force, which includes both the employed and the unemployed, averaged 5,558,000 for 1955 and accounted for about 53 per cent of the (non-institutional) civilian population over 14 years of age. A similar relationship prevailed in 1954. The agricultural labour force declined by 55,000 persons to 824,000 in 1955.

MONETARY AND CREDIT DEVELOPMENTS

During 1955 there was a marked expansion of bank loans and money supply as the demand for credit grew with the recovery of business activity. The very rapid expansion in the demand for credit and in bank lending brought increasing tightness to the money market as the year progressed and resulted in an upward movement in interest rates in contrast to the downward movement which had continued since the last quarter of 1953.

At the beginning of 1955 the demand for business loans was relatively slow, and the banks continued to purchase substantial quantities of government securities as they had done in 1954. Although the expansion in bank holdings of

government securities had slowed down noticeably by the end of the first quarter, the chartered banks were able to add moderately to their holdings in the second quarter, despite the fact that bank loans were also increasing. Although the chartered banks were in a position to add to their holdings of government securities and later to expand bank loans as well, these changes were accompanied by a noticeable decline in the reserve ratio of chartered banks from about 8·9 per cent at the beginning of the year to 8·3 per cent by June. Shortly after the middle of the year, the banks ceased to be net buyers of government securities and from the latter part of August to the end of the year were substantial sellers. Thus one effect of the expansion of bank credit during the year was to reduce reserve ratios and as the year progressed the expansion rested increasingly on the conversion of the chartered banks' liquid assets and bonds to cash. From the end of July until the end of December, chartered bank holdings of government securities fell by \$639 million.

TABLE 14
YIELDS ON GOVERNMENT SECURITIES
CANADA AND THE UNITED STATES

	Long-Term Bonds ⁽¹⁾			3-5 year Bonds ⁽²⁾			3 Month Treasury Bills ⁽³⁾			Bank Rate	
	Canada	U.S.	Spread	Canada	U.S.	Spread	Canada	U.S.	Spread	Canada	U.S.
1953—											
June.....	3·72	3·07	·65	3·46	2·88	·58	1·69	2·23	—·54	2·00	2·00
September.....	3·75	2·99	·76	3·58	2·73	·85	1·91	1·96	—·05	2·00	2·00
December.....	3·61	2·78	·83	3·53	2·21	1·32	1·88	1·68	·20	2·00	2·00
1954—											
March.....	3·27	2·48	·79	2·95	1·77	1·18	1·62	1·06	·56	2·00	1·75
June.....	3·11	2·52	·59	2·62	1·78	·84	1·57	·63	·94	2·00	1·50
September.....	3·01	2·51	·50	2·32	1·79	·53	1·21	1·02	·19	2·00	1·50
December.....	3·05	2·57	·48	2·36	1·94	·42	1·08	1·25	—·17	2·00	1·50
1955—											
March.....	2·96	2·67	·29	2·21	2·26	—·05	1·13	1·29	—·16	1·50	1·50
June.....	2·94	2·75	·19	2·24	2·38	—·14	1·36	1·51	—·15	1·50	1·75
September.....	3·14	2·88	·26	2·71	2·76	—·05	1·77	2·10	—·33	2·25	2·25
December.....	3·41	2·88	·53	3·43	2·83	·60	2·59	2·59	·00	2·75	2·50
1956—											
February.....	3·28	2·80	·48	3·13	2·63	·50	2·51	2·39	·12	2·75	2·50

(¹) Canada—15 year theoretical 15th of each month. U.S. 2½'s of 67-72, Wednesday nearest 15th.

(²) Canada—Average of 3-5 year theoreticals, 15th of each month. U.S.—Federal Reserve average of 3-5 year bonds, nearest mid-month.

(³) Average tender nearest 15th of month.

In the early weeks of the year the chartered banks were buying substantial quantities of government securities and interest rates declined. However, short-term rates turned up in mid-February. Yields on middle and long-term government securities reached their low points before the end of the first quarter and the general decline of interest rates was terminated. Interest rates rose throughout the remainder of the year except for the last two or three weeks of December when there was a slight decline. The rise in interest rates was particularly marked in the latter part of the year when the banks were selling government securities on a large scale to finance loan expansion.

The bank rate was lowered from 2 per cent to 1½ per cent on February 1st to bring it more in line with the short-term market rate. This was in keeping with the adoption of a more flexible bank rate policy which could be effective

through the newly developed short-term money market. As bank credit continued to expand rapidly in the third quarter, interest rates rose further and the bank rate was raised on August 5th from $1\frac{1}{2}$ to 2 per cent. It became increasingly evident that the rate of loan expansion might outrun the growth in productive capacity and the objective of monetary policy was one of offering increasing resistance. The bank rate was subsequently raised from 2 to $2\frac{1}{4}$ per cent on October 12th, and from $2\frac{1}{4}$ to $2\frac{3}{4}$ per cent on November 18th. With the rapid and continued expansion of bank loans the chartered banks were pressed for cash in the third and fourth quarters and sold substantial amounts of government securities. Because of these developments, recourse to the Bank of Canada, by the chartered banks and the dealers in the short-term money market, was quite frequent in the third and fourth quarters.

TABLE 15
MAJOR CANADIAN ASSETS AND DEPOSIT LIABILITIES OF CHARTERED
BANKS

	As at end of 1954	Increase in 1955					As at end of 1955
		1 Q	2 Q	3 Q	4 Q	Total	
(millions of dollars)							
ASSETS							
Bank of Canada deposits and notes.....	791	- 21	5	20	45	49	840
Day-to-day loans.....	68	1	26	- 50	36	13	81
Treasury bills.....	360	75	- 59	- 7	58	67	427
Sub-total.....	1,219	55	- 28	- 37	139	129	1,348
Government Bonds.....	2,953	211	- 80	- 68	- 544	- 321	2,632
Insured mortgages.....	74	36	35	64	85	220	294
Provincial and municipal securities.....	441	37	35	37	- 10	99	540
Corporate securities.....	353	32	44	20	33	129	482
Special categories of loans ⁽¹⁾	859	-114	- 57	- 12	234	51	910
General loans.....	3,238	21	248	245	229	743	3,981
Sub-total.....	4,965	12	305	354	571	1,242	6,207
Total of above Canadian assets.....	9,137	278	357	249	166	1,050	10,187
LIABILITIES							
Personal savings deposits.....	5,218	208	147	184	-124	415	5,633
Government of Canada deposits.....	176	- 30	- 39	27	383	341	517
All other (less total float).....	3,462	115	234	42	-156	235	3,697
Total Canadian deposits (less float).....	8,856	293	342	253	103	991	9,847

(¹) See Table 16.

In the early part of the year, the yields on Canadian Government long-term bonds were falling relative to rates in the United States. The United States market was, therefore, less attractive to Canadian borrowers, and Canadian Government securities were less attractive to American investors. After mid-year, the spread between interest rates in Canada and the United States again widened and towards the end of the year Canadian borrowers were again resorting to the New York market in larger volume.

For the year as a whole, the increase in bank loans amounted to \$794 million or 19 per cent, and in absolute terms was the largest on record. In addition to the increase in bank loans, there was a marked expansion in lending on insured mortgages on residential real estate and in bank holdings of provincial, municipal and corporate securities.

TABLE 16
CHARTERED BANK LOANS IN CANADA⁽¹⁾

	As at Dec. 31, 1955	Increase during			Per cent Increase in 1955
		1955	1954	1953	
GENERAL					
		(millions of dollars)			
Personal					
(i) Fully secured by marketable bonds and stocks.....	339	86	-17	11	34%
(ii) Other.....	465	113	43	66	32
Instalment finance companies.....	297	116	-45	21	64
Other financial institutions ⁽²⁾	144	19	13	8	16
Merchandisers.....	635	73	-22	101	13
Farmers.....	366	28	5	25	8
Construction contractors.....	278	91	25	22	49
Public utilities, transportation and communication companies.....	141	73	8	- 5	108
Industrial concerns.....	976	77	-47	151	9
Other.....	340	67	34	48	25
Total general loans.....	3,981	743	- 3	448	23%
SPECIAL CATEGORIES					
Provincial and municipal governments.....	207	43	7	-13	26
Investment dealers and brokers ⁽¹⁾	179	36	-10	- 1	25
Grain dealers.....	361	-43	13	134	-11
For purchase of Canada Savings Bonds.....	163	15	-18	19	11
Total special categories.....	910	51	- 8	139	6%
Total loans in Canada.....	4,891	794	-11	587	19%

⁽¹⁾ Excluding day-to-day loans.

⁽²⁾ Includes trust, loan, mortgage, investment and insurance companies.

It is estimated that consumer credit outstanding rose by about \$350 million in 1955 compared with an increase of \$114 million in 1954 and \$326 million in 1953. A considerable part of the increase in bank lending was associated with this increase in consumer credit. For example, loans to instalment finance companies rose by \$116 million or 64 per cent, and personal loans other than those fully secured by marketable bonds and stocks increased by \$113 million or 32 per cent. Loans to merchandisers were \$73 million or 13 per cent higher than in 1954. The high level of construction activity brought with it a large increase of \$91 million or 49 per cent in loans to contractors.

The public's holdings of currency, bank deposits and Government of Canada securities increased in 1955 by \$1,115 million. The total increase is accounted for by chartered bank activity since the Federal Government had a moderate excess of receipts over outlays which amounted to \$112 million—the increase in debt outstanding being more than offset by increases in government cash balances and in bonds held in government accounts. This excess of receipts over outlays takes into account both budgetary and extra-budgetary activities, changes in government loans and advances, and the operation of government accounts such as the Unemployment Insurance Fund. In 1954 the government excess of outlays over receipts amounted to \$227 million and accounted for almost all of the \$232 million expansion in the public's holdings of currency, bank deposits and Government of Canada securities.

In 1954 substantial amounts of the public's holdings of government bonds were converted to cash. In 1955 there was an increase of \$370 million in the public's holdings of government securities but this increase was confined for

the most part to Canada Savings Bonds which are non-market issues. There was some liquidation of market securities in the first half of the year but this was a little more than offset by buying in the last few months. It will be noted that the amount of Government of Canada securities held by the general public at the end of 1955 was about the same as the amount held at the end of 1952, with the increase of \$1.2 billion in holdings of Canada Savings Bonds being offset by a decline of about the same amount in holdings of market securities.

TABLE 17
GENERAL PUBLIC¹ HOLDINGS OF CURRENCY, BANK DEPOSITS, AND
GOVERNMENT OF CANADA SECURITIES AS AT DECEMBER 31
(Millions of Dollars)

	1952	1953	1954	1955
Currency—notes and coin.....	1,377	1,429	1,458	1,550
Bank deposits—				
Active deposits.....	3,796	3,705	3,998	4,241
Inactive notice deposits.....	4,129	4,211	4,712	5,122
Total bank deposits.....	7,925	7,916	8,710	9,363
Government Securities—				
Market securities.....	7,812	7,651	6,623	6,650
Non-market securities.....	1,250	1,632	2,090	2,433
Total government securities.....	9,062	9,283	8,713	9,083
Total liquid assets.....	18,364	18,628	18,881	19,996

¹ Includes all holdings other than those of the banking system and the federal government and government accounts.

An important new working arrangement in the operations of the banking system was introduced in the latter part of 1955 when the Bank of Canada suggested that the chartered banks adopt a standard practice regarding the maintenance of a minimum ratio of liquid assets (cash, day-to-day loans and treasury bills) to deposits. The chartered banks agreed to work to achieve by May 31st, 1956, a minimum liquid asset ratio of 15 per cent which they will endeavour to maintain on a daily average basis from June on. With the adoption of this convention it is expected that the lending policies of banks, interest rates and securities markets generally will respond more quickly and smoothly to measures of monetary restraint when these are required in the future.

PRICE TRENDS

Although there was no discernible trend in the consumer price index during 1955, the general index of wholesale prices showed a definite upward movement, rising from 215.7 in January to 221.4 in December. The increase in wholesale prices amounted to just over 2 per cent in 1955 in contrast to a decline of somewhat the same magnitude in 1954. In addition, this apparently moderate upward trend concealed very large increases in some of the components. On the other hand, the consumer price index exhibited comparative stability and was 116.9 in December of 1955 compared with 116.6 a year earlier.

Starting in January at 116.4, the consumer price index reached a low of 115.9 in June, and in the last three months of the year remained unchanged at 116.9. Thus, the increase over 1954 as well as variations from the average were no more than one-half per cent. While there were no marked movements in the

CANADIAN WHOLESALE AND CONSUMER PRICE INDEXES

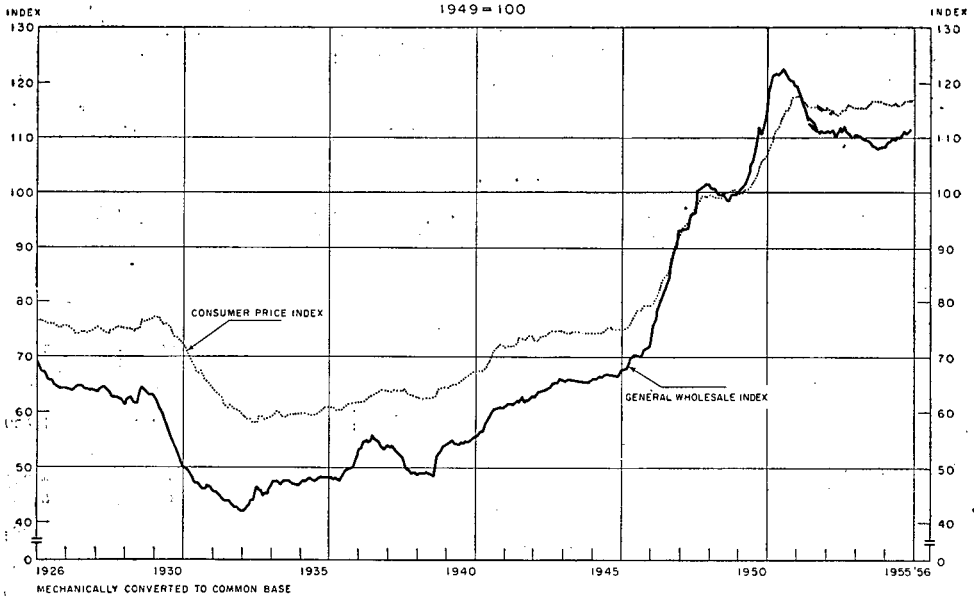


TABLE 18
CONSUMER PRICE INDEXES

	CANADA		UNITED STATES	
	Total	Food	Total	Food
	1949=100		1947-49=100	
1939.....	63.2	50.2	59.4	47.1
1940.....	65.7	52.6	59.9	47.8
1941.....	69.6	57.9	62.9	52.2
1942.....	72.9	63.4	69.7	61.3
1943.....	74.2	65.2	74.0	68.3
1944.....	74.6	65.5	75.2	67.4
1945.....	75.0	66.3	76.9	68.9
1946.....	77.5	70.0	83.4	79.0
1947.....	84.8	79.5	95.5	95.9
1948.....	97.0	97.5	102.8	104.1
1949.....	100.0	100.0	101.8	100.0
1950.....	102.9	102.6	102.8	101.2
1951.....	113.7	117.0	111.0	112.6
1952.....	116.5	116.8	113.5	114.6
1953.....	115.5	112.6	114.4	112.8
1954.....	116.2	112.2	114.8	112.6
1955.....	116.4	112.1	114.5	110.9
1955—January.....	116.4	112.1	114.3	110.6
February.....	116.3	111.5	114.3	110.8
March.....	116.0	110.7	114.3	110.8
April.....	116.1	111.0	114.2	111.2
May.....	116.4	112.3	114.2	111.1
June.....	115.9	111.0	114.4	111.3
July.....	116.0	111.5	114.7	112.1
August.....	116.4	112.4	114.5	111.2
September.....	116.8	113.7	114.9	111.6
October.....	116.9	113.5	114.9	110.8
November.....	116.9	113.0	115.0	109.8
December.....	116.9	112.4	114.7	109.5
1956—January.....	116.8	111.5	114.6	109.2

components, there appeared to be a tendency for costs of shelter and some other services to rise slowly. The largest increase occurred in the shelter index which was some 2 per cent higher in 1955 than in 1954.

The United States consumer price index experienced somewhat the same degree of stability as the Canadian index. In contrast to the Canadian index, however, that of the United States averaged a little less for 1955 than for 1954. Nevertheless, the trend in the United States over the year paralleled the Canadian pattern and the total index was slightly higher in December than in January. The index of food prices in the United States showed a small decline in 1955, whereas there was no significant movement in Canadian food prices.

The Canadian index of wholesale prices moved slowly but steadily upward throughout 1955. This upward movement was a reversal of the downward trend which had continued from the post-Korean peak in 1951 to late 1954. With the important exception of a further decline of 5. per cent in the price of farm products over the year, most other wholesale prices followed the upward movement of the general index. The index of industrial materials showed an increase of 8 per cent during 1955 while building materials rose between 3 and 4 per cent. The greatest increase occurred in non-ferrous metals which advanced almost 18 per cent over the year. Other significant increases took place in the prices of wood and iron products which showed a rise of 5 and 7 per cent, respectively.

TABLE 19
WHOLESALE PRICE INDEXES
(1935-39=100)

	General Wholesale Prices	Fully and Chiefly Manu- factured Goods	Canadian Farm Products
1939.....	99.2	101.9	92.6
1940.....	108.0	109.9	96.1
1941.....	116.4	118.8	106.6
1942.....	123.0	123.7	127.1
1943.....	127.9	126.9	145.4
1944.....	130.6	129.1	155.3
1945.....	132.1	129.8	166.4
1946.....	138.9	138.0	179.5
1947.....	163.3	162.4	192.2
1948.....	193.4	192.4	232.1
1949.....	198.3	199.2	228.7
1950.....	211.2	211.0	236.7
1951.....	240.2	242.4	268.6
1952.....	226.0	230.7	250.2
1953.....	220.7	228.8	221.6
1954.....	217.0	224.2	211.8
1955.....	218.9	224.5	207.2
1955—January.....	215.7	222.1	210.3
February.....	217.4	223.2	210.0
March.....	217.4	224.1	207.0
April.....	218.5	223.5	216.1
May.....	217.8	223.1	216.7
June.....	218.7	224.1	215.5
July.....	218.4	223.7	213.1
August.....	219.6	225.3	204.8
September.....	220.9	226.4	202.7
October.....	220.0	225.7	196.8
November.....	220.7	226.5	196.9
December.....	221.4	226.6	197.1
1956—January.....	222.0	227.3	196.7

Note: 1955 Indexes are preliminary. The Canadian Farm Products index is fully revised only up to July 1954 and does not reflect final payments on all grains for subsequent months.

PART II
REVIEW OF GOVERNMENT ACCOUNTS 1955-56

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PART II

REVIEW OF GOVERNMENT ACCOUNTS

1955-56

1. INTRODUCTION

The figures which are presented in this Part for the fiscal year ending March 31, 1956 are preliminary and subject to revision. The Government's fiscal year ends on March 31 and after that date the books must remain open for several weeks to record various adjusting entries and to take into account all payments up to and including April 30 made on account of expenditures originating in and properly chargeable to the fiscal year 1955-56. Final results for each year's operations are not available before some time in August. The figures used in this White Paper are based on ten months actual and two months estimated. The final figures when they become available next August may vary to some extent from those given in the following pages.

2. HIGHLIGHTS OF GOVERNMENTAL FINANCIAL OPERATIONS
DURING 1955-56*Budgetary transactions*

Budgetary revenues of the government for the fiscal year ending March 31, 1956 are now estimated at \$4,385 million. This is \$183 million or about 4 per cent more than last year's budget forecast of \$4,202 million and approximately \$262 million more than the total collected in 1954-55.

Budgetary expenditures are estimated at \$4,437 million. This is \$75 million or 2 per cent more than the budget forecast and about \$162 million more than the total spent in 1954-55.

On the basis of these figures the indicated deficit for the fiscal year is about \$52 million compared with a budget forecast of a deficit of \$160 million and a deficit of \$152 million for 1954-55.

On the revenue side of the government's budgetary operations the most noteworthy feature has been the buoyancy of the revenues reflecting the general level of activity and production which has been considerably above that which was the basis for the budgetary forecast of \$4,202 million last April. Collections from all sources except personal income tax are higher than those of the previous year and when the books for the year are closed it is expected that all categories of revenue except corporation income tax will have equalled or exceeded the budget forecast.

On the expenditure side the most significant feature has been the continued importance of defence in the government's expenditure programme. Defence expenditures are expected to amount to \$1,760 million in 1955-56, an increase of \$72 million or 4 per cent over the preceding year representing 40 per cent of the government's total budgetary outlay. In 1954-55 defence expenditures amounted to \$1,688 million and constituted 40 per cent of the total.

Non-budgetary transactions

Although the budgetary deficit is \$52 million the cash balances at the year end will be about \$297 million greater than a year ago. This is the result of receipts of \$385 million from annuity, insurance and pension accounts and other non-budgetary sources plus an increase of \$247 million in the outstanding debt less \$283 million paid out in loans, advances, investments and other non-budgetary disbursements.

The following table summarizes the budgetary and non-budgetary transactions for the fiscal year 1955-56 and indicates how they affect the Government's debt and cash position. For purposes of comparison the corresponding figures for 1954-55 are also shown. An explanation of these transactions in greater detail is given in the section on "The Cash Position".

TABLE I
(In millions of dollars)

SUMMARY OF BUDGETARY AND NON-BUDGETARY TRANSACTIONS AND CHANGES IN CASH POSITION	Fiscal Year Ended March 31	
	1956 (Estimated)	1955
Budgetary revenues.....	4,385	4,123
Budgetary expenditures.....	-4,437	-4,275
Budgetary deficit.....	-52	-152
Non-budgetary receipts and credits (excluding unmatured debt transactions)—		
Repayments of loans, investments and working capital advances...	118	232
Net government annuities account receipts.....	67	66
Net insurance and pension account receipts.....	141	139
Other non-budgetary receipts.....	59	43
	385	480
Non-budgetary disbursements and charges (excluding unmatured debt transactions)—		
Loans, investments and working capital advances.....	-253	-122
Other non-budgetary disbursements.....	-30	-139
	-283	-261
Net amount available from non-budgetary transactions.....	102	219
Overall cash available from budgetary and non-budgetary transactions..	50	67
Net increase or decrease (—) in unmatured debt outstanding in the hands of the public.....	247	-196
Net increase or decrease (—) in cash balances on deposit to the credit of the Receiver General	297	-129

Old age security fund

Pension payments from the old age security fund are estimated at \$366 million in 1955-56 and tax receipts credited to the fund at \$316 million resulting in a deficit of \$50 million for the year covered by a temporary loan by the Minister of Finance to the fund. During 1954-55 pension payments amounted to \$353 million and tax receipts credited to the fund to \$290 million, resulting in an excess of pension payments over tax receipts of \$63 million. Under the authority of a vote of parliament, \$63 million representing the deficit of the fund sustained during 1954-55 was charged as a budgetary expenditure in 1955-56. The 1955-56 deficit of \$50 million is carried in the accounts as a temporary loan to the fund.

Debt transactions

During 1955-56 it is estimated that the government will have issued securities amounting to \$3,229 million (excluding treasury bills issued to refund maturing bills) and redeemed maturing issues to a total of \$2,331 million, resulting in an increase of \$898 million in unmatured debt. However, as other liabilities are expected to increase by \$205 million the government's gross public debt will have increased by \$1,103 million to \$19,055 million at March 31, 1956. During the same period the net assets are expected to increase by \$1,052 million to \$7,740 million. As a result the government's net debt is expected to be \$11,315 million at March 31, 1956, the increase of \$52 million being equivalent to the budgetary deficit for the fiscal year.

Cash position

Cash balances on deposit to the credit of the Receiver General are expected to increase by \$297 million during the fiscal year reflecting the increase of \$247 million in unmatured debt outstanding in the hands of the public (after taking into account sinking fund purchases and transactions in the securities investment account) and the net amount of \$50 million available from budgetary and non-budgetary transactions (\$102 million available from non-budgetary transactions offset by the amount of \$52 million required to cover the estimated budgetary deficit for the fiscal-year).

3. BUDGETARY ACCOUNTS

Total revenues, estimated at \$4,385 million for 1955-56, are \$262 million more than the total for the previous fiscal year. Total expenditures are estimated at \$4,437 million, an increase of \$162 million over 1954-55. The deficit for the fiscal year is estimated at \$52 million or \$100 million less than the deficit of \$152 million for the year ended March 31, 1955.

A summarized statement of the estimated revenues and expenditures and deficit for the fiscal year ending March 31, 1956, with the actual figures for the fiscal years ended March 31, 1949 to 1955, inclusive, is given in the following table.

TABLE II
BUDGETARY REVENUES, EXPENDITURES AND SURPLUS OR DEFICIT
(In millions of dollars)

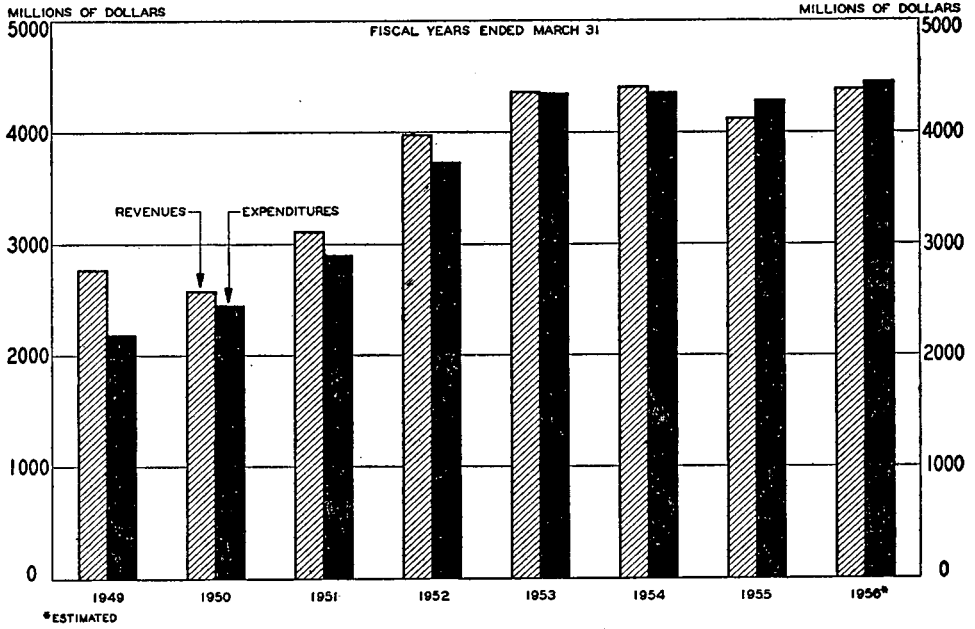
Fiscal Year Ended March 31	Budgetary Revenues	Budgetary Expenditures	Surplus or Deficit (-)
1949.....	2,771.4	2,175.9	595.5
1950.....	2,580.1	2,448.6	131.5
1951.....	3,112.5	2,901.2	211.3
1952.....	3,980.9	3,732.9	248.0
1953.....	4,360.8	4,337.3	23.5
1954.....	4,398.3	4,350.5	45.8
1955.....	4,123.5	4,275.3	-151.8
1956 (Estimated).....	4,385.4	4,437.1	-51.7

A. REVENUES

Budgetary revenues are expected to amount to \$4,385 million in the fiscal year 1955-56. This is \$262 million, or 6 per cent, higher than in the previous year. It is estimated that of the total revenues for the year, \$3,993 million, or 91 per cent, will have been derived from taxes and \$392 million, or 9 per cent, from non-tax revenues.

A statement of estimated revenues for 1955-56 classified by major categories, and the corresponding figures for the actual receipts in 1954-55 is given in Table III.

BUDGETARY REVENUES AND EXPENDITURES



BUDGETARY SURPLUS OR DEFICIT

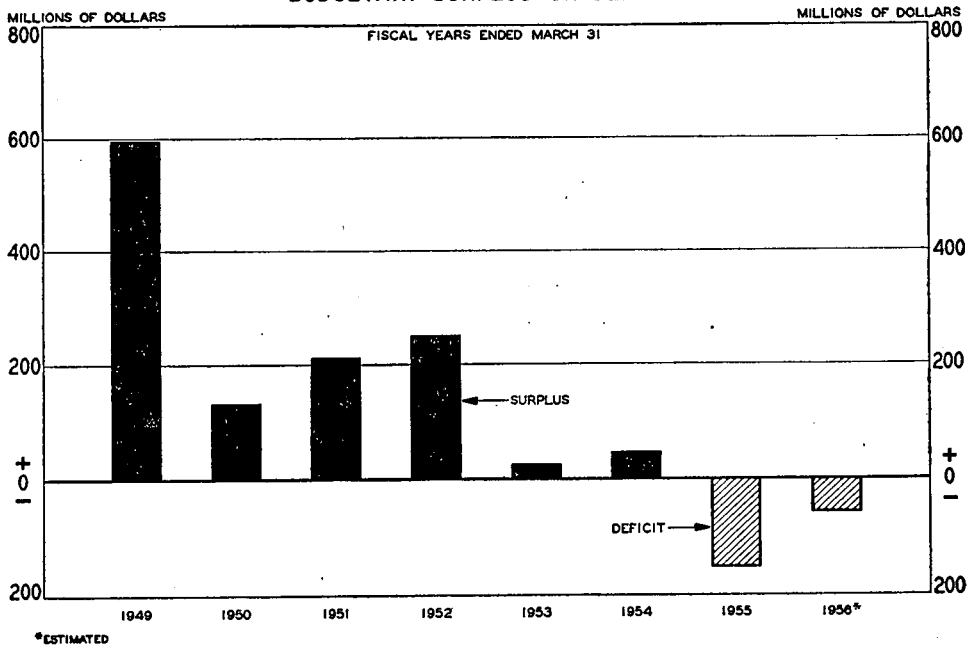


TABLE III
BUDGETARY REVENUES BY MAJOR CLASSIFICATIONS
(In millions of dollars)

SOURCE	Fiscal Year Ended March 31				Increase or Decrease (—)	
	1956 (Estimated)		1955		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
Tax revenues—						
Income tax—						
Personal*.....	1,180.0	26.9	1,183.4	28.7	—3.4	—0.3
Corporation*.....	1,035.0	23.5	1,020.6	24.7	14.4	1.4
On dividends, interest, etc., going abroad.....	67.0	1.5	61.3	1.5	5.7	9.3
Excise taxes—						
Sales*.....	640.0	14.6	572.2	13.9	67.8	11.8
Other.....	260.0	5.9	252.0	6.1	8.0	3.2
Customs import duties.....	475.0	10.8	397.2	9.6	77.8	19.6
Excise duties.....	245.0	5.6	226.5	5.5	18.5	8.1
Succession duties.....	75.0	1.7	44.8	1.1	30.2	67.4
Other taxes.....	16.0	0.4	15.5	0.4	0.5	3.2
	3,993.0	91.0	3,773.5	91.5	219.5	5.8
Non-tax revenues—						
Return on investments.....	147.0	3.4	134.0	3.2	13.0	9.7
Post office.....	136.8	3.1	131.3	3.2	5.5	4.2
Other non-tax revenue.....	108.6	2.5	84.7	2.1	23.9	28.2
	392.4	9.0	350.0	8.5	42.4	12.1
Total revenues.....	4,385.4	100.0	4,123.5	100.0	261.9	6.4

	1955-56	1954-55
*Excluding tax credited to the old age security fund—		
2% personal income tax	102.5	100.9
2% corporation income tax	53.2	46.0
2% sales tax	160.0	143.1
	315.7	290.0

(1) TAX REVENUES

Tax on personal incomes

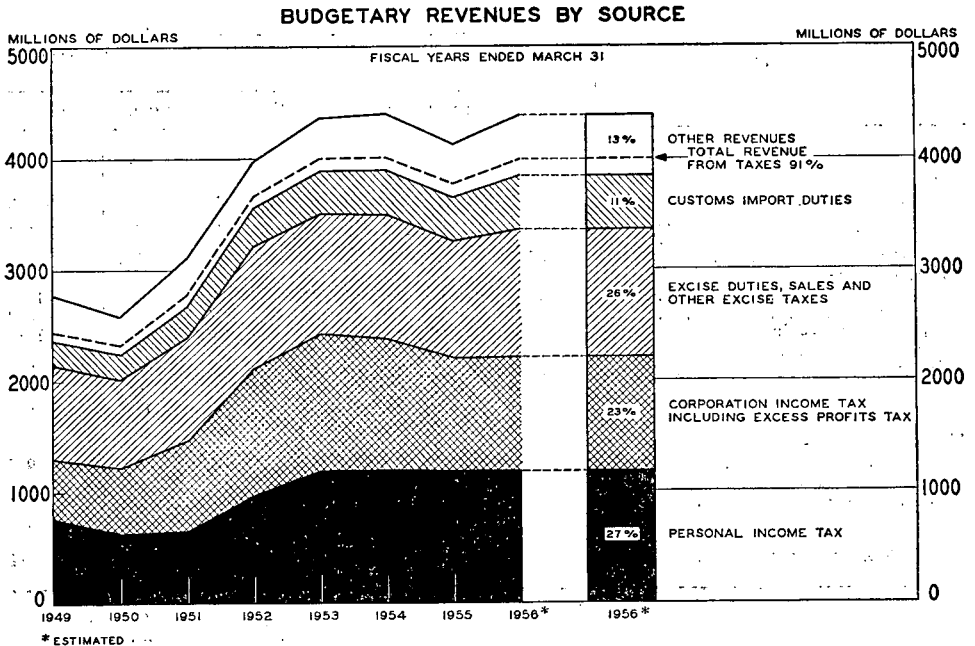
The personal income tax in 1955-56 will again be the largest source of government revenue. The yield for the year (excluding the old age security tax) is estimated at \$1,180 million. This is almost the same as the revenue from this source in the previous year although the rates of tax were reduced with effect from July 1, 1955, by amounts which average about 10 per cent. The continuing high level of revenue from lower rates of tax is due to the increase in the total of personal incomes that took place in 1955.

In addition the 2 per cent tax on personal incomes levied under the Old Age Security Act is expected to yield an estimated amount of \$103 million during 1955-56 compared with \$101 million in 1954-55. The maximum tax is \$60 per person. This revenue is credited to the old age security fund

Corporation income tax

Corporation income tax will be the second largest class of government revenue in 1955-56. The yield (excluding the old age security tax) is estimated at \$1,035 million, an increase of \$14 million over the previous year. This increase, which occurred despite the fact that the rate of tax on income in excess of \$20,000 was reduced from 47 per cent to 45 per cent commencing January 1, 1955, is due to the increase in corporation profits in 1955.

In addition the 2 per cent tax levied on income of corporations under the Old Age Security Act is expected to yield \$53 million during 1955-56 compared with \$46 million collected from this source in 1954-55. These collections are credited to the old age security fund.



Taxes on interest, dividends, rents and royalties going abroad

Revenue under this heading is derived from taxes withheld on payments of interest, dividends, rents, royalties, etc. made to non-residents. The estimated total of \$67 million in 1955-56 is \$6 million greater than that in the previous year reflecting increased dividend payments from higher corporate profits and larger investment in 1955.

Excise taxes

Included under this heading are the revenues from the general sales tax and the special excise taxes levied on a wide range of manufactured products. Total net collections for the year are estimated at \$900 million, an increase of \$76 million, or 9 per cent, over 1954-55.

It is estimated that the sales tax, which from the standpoint of revenue is the most important tax levied under the Excise Tax Act, will have yielded a net revenue of \$640 million in the year (excluding the 2 per cent old age security sales tax). This is \$68 million, or 12 per cent, more than the amount of \$572 million received from this source in 1954-55. Since there has been no substantial change in the general price level during the year this increase in revenue is due to increased production and imports of taxable goods during the year.

Excise taxes other than the general sales tax will yield approximately \$260 million, or \$8 million more than in 1954-55. This increase occurs despite the fact that with effect from April 6, 1955, the tax on passenger automobiles was reduced from 15 per cent to 10 per cent and the tax on tires and tubes for automotive vehicles was repealed.

Because of the very high level of passenger automobile sales in 1955-56 the revenue from the excise tax on this item will exceed that of the previous year by approximately \$8 million despite the fact that the rate of tax is lower by one-third. This continuing high level of revenue from the tax on automobiles plus an increase of \$8 million in the revenue from the taxes on tobacco products largely accounts for the revenue from excise taxes in 1955-56 exceeding that of the previous year.

Other items showing an increase in excise tax revenue in 1955-56 are television sets, radios and tubes, soft drinks, jewellery, toilet preparations and wines. On the other hand the taxes on candy and chewing gum and some sundry commodities will have produced less revenue in 1955-56 than in the previous year.

In addition the 2 per cent tax on sales levied under the Old Age Security Act is expected to yield \$160 million during 1955-56 compared with \$143 million in the previous year. This revenue is credited to the old age security fund.

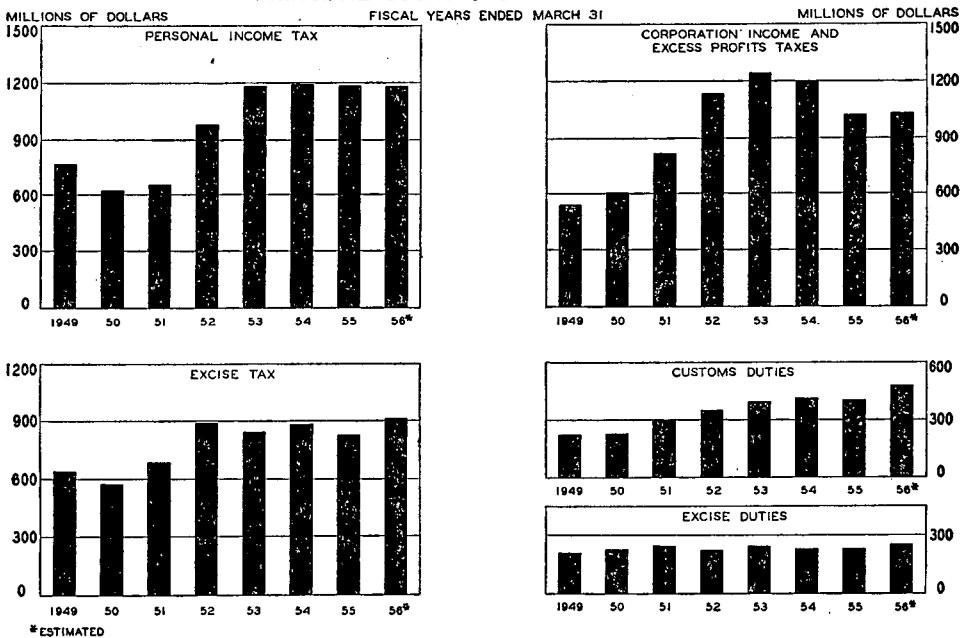
Customs import duties

Revenue from customs import duties is expected to amount to \$475 million, an increase of \$78 million, or 20 per cent, from 1954-55. This increase in revenue reflects the increase in the volume and value of imports during the year.

Excise duties

Excise duties are levied exclusively on alcoholic beverages and tobacco products. (Additional taxes on tobacco products are levied under the Excise Tax Act). The revenue from excise duties for the year is estimated at \$245 million, an increase of \$18 million over the previous year. Estimated receipts from the taxes on alcoholic beverages, before deducting refunds, amount to \$140 million, an increase of \$10 million from the previous year. The gross receipts from the taxes on tobacco products are estimated at \$109 million, an increase of \$8 million.

PRINCIPAL SOURCES OF TAX REVENUES



Succession duties

Revenue from succession duties is estimated at \$75 million in 1955-56 an increase of \$30 million, or 67 per cent over the previous year. Two-thirds of the increase came from payments in respect of one unusually large estate.

Other taxes

The principal source of revenue under this heading is the tax on the premium income of insurance companies which will produce approximately \$15 million in 1955-56 compared with \$14 million in the previous year. Small amounts of revenue are also received from special taxes on the export of electrical energy from Canada and the tax on the export of furs from the Northwest Territories.

(2) NON-TAX REVENUES

Non-tax revenues for 1955-56 are estimated at \$392 million, an increase of \$42 million over the total of \$350 million for the previous fiscal year. It is to be noted that the classification "special receipts and credits" has been eliminated and items which in previous years were shown under this heading have been reclassified and appear under the appropriate heading in the non-tax revenue category. The following table presents a comparative summary of non-tax revenues for the current and the previous year.

TABLE IV
(In millions of dollars)

NON-TAX REVENUES	Fiscal Year Ended March 31		Increase or Decrease (-)	
	1956 (Estimated)	1955	Amount	Per cent
Post Office.....	136.8	131.3	5.5	4.2
Return on investments.....	147.0	134.0	13.0	9.7
Premium, discount and exchange.....	1.6	.....	1.6	.....
Bullion and coinage.....	2.8	1.8	1.0	55.6
Privileges, licences and permits.....	16.1	14.1	2.0	14.2
Proceeds from sales.....	22.4	31.6	-9.2	-29.1
Services and service fees.....	17.3	18.0	-0.7	-3.9
Refunds of previous years' expenditure.....	45.4	14.6	30.8	211.0
Miscellaneous.....	3.0	4.6	-1.6	34.8
Total non-tax revenues.....	392.4	350.0	42.4	12.1

Post Office

Gross post office receipts for 1955-56 are estimated at \$157 million. After making authorized disbursements from revenue of \$20 million for salaries and rent allowances at semi-staff and revenue offices, commissions at sub-offices, transit charges on Canadian mail forwarded through or delivered in foreign countries, etc., net post office receipts credited to budgetary revenues are estimated at \$137 million. Gross receipts for 1955-56 are expected to exceed those of the previous year by \$6 million. As estimated payments from revenue are the same as the payments in 1954-55, the net increase in post office receipts credited to budgetary revenues is \$6 million.

As costs of operating the Post Office during 1955-56 (excluding the \$20 million charged to revenue) are expected to total \$127 million, net revenue will exceed net costs by \$10 million. However, in making this comparison it is to be noted that the total shown for post office revenue does not reflect any payment for the franking privilege covering parliamentary and departmental mail or for certain miscellaneous services provided for other government

departments and agencies, nor does the total shown for operating expenses reflect any charges for premises occupied by the Post Office Department or for certain accounting and miscellaneous services provided by other departments.

Return on investments

Return on investments is expected to yield \$147 million, an increase of \$13 million over the total of \$134 million received in the previous year.

Payments from Crown corporations are estimated at \$83 million. This is \$5 million more than the total received during the previous year and is due mainly to increases of \$8 million in receipts from the Canadian National Railways, \$2 million from Central Mortgage and Housing Corporation and \$2 million from Polymer Corporation Limited offset in part by decreases of \$3 million in profits received from the Bank of Canada and \$4 million in the surplus earnings of Canadian Arsenals Limited. The increase of \$8 million in the amount expected to be received from the Canadian National Railways reflects a dividend of \$11 million paid on the 4 per cent preferred stock of the company held by the government offset in part by a decrease of \$3 million in interest on loans.

Receipts from other loans and investments are estimated at \$64 million an increase of \$8 million over the previous year due mainly to increases of \$5 million in the earnings of the securities investment account and \$4 million on sinking funds and other investments held for the retirement of unmatured debt.

A comparative summary of the estimated receipts for 1955-56 and the amounts received in the previous year is given in the following table.

TABLE V
(In millions of dollars)

RETURN ON INVESTMENTS	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Loans to, and investments in, Crown corporations—			
Bank of Canada.....	38.3	41.5	-3.2
Canadian Arsenals Limited.....	2.2	6.2	-4.0
Canadian National Railways.....	11.9	4.1	7.8
Central Mortgage and Housing Corporation.....	18.5	16.2	2.3
National Harbours Board.....	4.0	4.3	-0.3
Polymer Corporation Limited.....	5.0	3.3	1.7
Miscellaneous.....	2.9	2.5	0.4
	82.8	78.1	4.7
Other loans and investments—			
United Kingdom.....	22.5	22.8	-0.3
Other national governments.....	11.0	12.0	-1.0
Provincial governments.....	1.0	1.0	.....
Soldiers and general land settlement loans and Veterans Land Act advances.....	4.9	4.9	.....
Exchange fund account.....	10.8	10.9	-0.1
Securities investment account.....	5.2	0.2	5.0
Sinking fund and other investments held for retirement of unmatured debt.....	6.3	2.7	3.6
Miscellaneous.....	2.5	1.4	1.1
	64.2	55.9	8.3
	147.0	134.0	13.0

Premium, discount and exchange

Premium, discount and exchange transactions in the current fiscal year are expected to result in a net credit of \$2 million to revenues compared with a net charge of \$4 million to expenditures in the previous fiscal year.

Bullion and coinage

Revenue under this heading arises out of the operations of the Royal Canadian Mint and includes assaying, refining and handling charges and the net gain on coinage and refining operations. The estimated amount credited to bullion and coinage revenue for 1955-56 is \$3 million, an increase of \$1 million over the previous year.

Privileges, licences and permits

It is estimated that revenues of \$16 million will be received during the fiscal year on account of privileges, licences and permits compared with \$14 million received during 1954-55. Approximately \$7 million of this total is collected by the Department of Transport, mainly on account of aircraft landing fees, rentals of hangar accommodation, office, shop and garage space and living quarters and land and water power rentals.

Proceeds from sales

An amount of \$22 million is expected to be received during the current fiscal year as proceeds from sales, a decrease of \$9 million from the total received in 1954-55. This amount includes \$7 million from Crown Assets Disposal Corporation representing amounts realized from the disposal of surplus Crown assets (after deducting certain agency fees and transfers), \$6 million under agreements of sale, and \$5 million from Central Mortgage and Housing Corporation representing the proceeds from the sale of wartime housing properties, including depreciation provisions set aside by the Corporation in previous years on properties that have now been sold.

Services and service fees

It is estimated that \$17 million will have been received during the fiscal year for services and service fees by the various departments of the government, a decrease of \$1 million from the previous year. Approximately 75 per cent of these fees are collected by three departments—\$6 million by Department of Trade and Commerce mainly for services for the inspection, weighing, storage and elevation of grain and for electricity, gas and weights and measures inspection service; \$5 million by the Royal Canadian Mounted Police mainly for police services to provinces and municipalities; and \$3 million by the Department of Transport chiefly for wharfage and other canal and marine service fees, steamship inspection service, air-ground radio service at airports, and government telegraph and telephone service.

Refunds of previous years' expenditure

Revenues in this category consist of amounts received during the current fiscal year representing refunds of expenditures in previous years. The estimated amount of \$45 million received during 1955-56 compares with a total of \$14 million received during the previous year. The increase of \$31 million is due almost entirely to a repayment of \$30 million received from the Government of the United States of advances by Canada on contracts for the supply of aircraft, engines and equipment. The arrangement is that when Canada places contracts with the Government of the United States, payments of the estimated costs are made to the United States treasury. If these estimated costs are revised or if there are reductions in the contracts the Government of the United States makes refunds of the overpayments.

Miscellaneous

Miscellaneous revenue is expected to amount to \$3 million for the year 1955-56 compared with \$5 million in the previous fiscal year. The decrease is due mainly to the fact that there is no comparable amount in the current year

to the \$1 million, representing abnormal royalties and licence fees due to war production disallowed to owners and licensors of patents, which was transferred from a suspense account to revenue in the previous year.

(3) COMPARISON OF ACTUAL REVENUE WITH BUDGET FORECAST

Total budgetary revenues for 1955-56, excluding revenues from the old age security taxes, as now estimated are expected to be \$183 million, or about 4 per cent more than the forecast made in the budget speech of April 5, 1955. It is expected that when the books for the year are closed revenue from all sources except the tax on corporation profits and miscellaneous taxes will have exceeded expectations. This excess of revenues over the amounts forecast reflects the fact that the general level of economic activity and production throughout the year has been considerably above the level which formed the basis for the budget forecast.

The following table shows the extent to which actual revenues for 1955-56, as now estimated, differ from the budget forecast.

TABLE VI
COMPARISON OF BUDGET FORECAST WITH ACTUAL REVENUES FOR
FISCAL YEAR ENDED MARCH 31, 1956

(In millions of dollars)

SOURCE OF REVENUES	Budget Forecast of Revenues	Actual Revenues (Estimated)	Increase or Decrease(—) compared with Budget Forecast
Personal income tax.....	1,150.0	1,180.0	30.0
Non-resident income taxes.....	65.0	67.0	2.0
Corporation income tax.....	1,057.0	1,035.0	-22.0
Succession duties.....	45.0	75.0	30.0
Customs import duties.....	410.0	475.0	65.0
Excise duties.....	238.0	245.0	7.0
Sales tax (net).....	599.0	640.0	41.0
Other excise taxes.....	231.0	260.0	29.0
Miscellaneous taxes.....	17.0	16.0	-1.0
Total tax revenues.....	3,812.0	3,993.0	181.0
Non-tax revenues.....	390.0	392.4	2.4
Total budgetary revenues.....	4,202.0	4,385.4	183.4

The estimated revenue from the personal income tax is \$30 million, or 3 per cent, above the budget forecast. This is because the total of personal incomes for the year reached a level above what was anticipated a year ago.

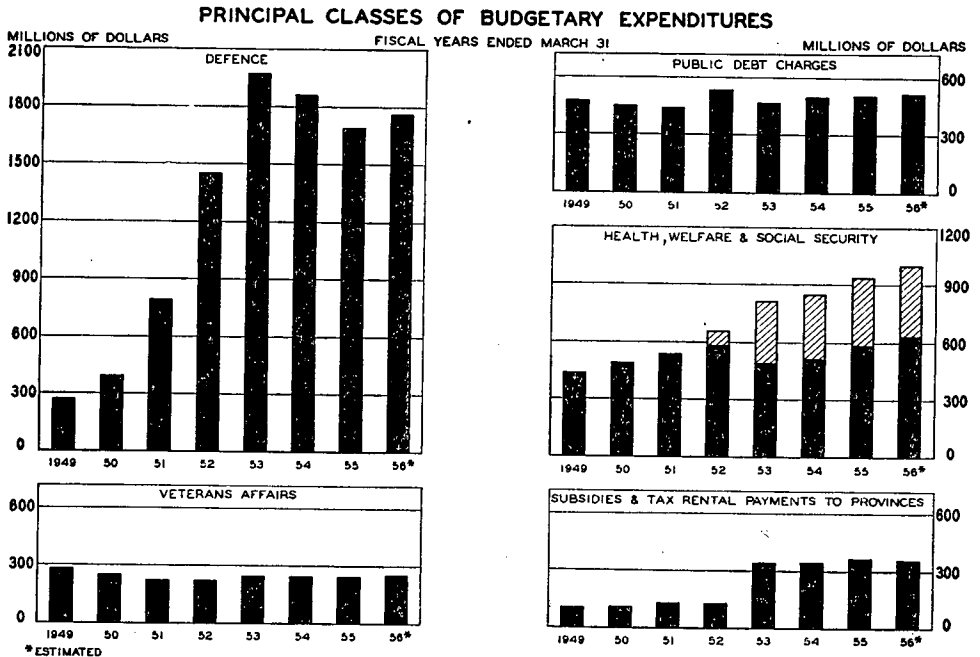
The revenue from corporation income tax as now estimated is \$22 million less than forecast despite the fact that corporate profits in 1955 exceeded expectations. This contradictory result is due to the fact that corporations are entitled under the Income Tax Act to base their monthly tax remittances for the first nine months of a payment period upon either their actual profits in the preceding year or the estimated profits of the current year and the option had a somewhat greater effect than anticipated.

The extent to which the estimated revenue from customs import duties has exceeded expectations is a reflection of the upsurge in imports which accompanied the rapid rise in production and economic activity.

The estimated revenue from both sales and other excise taxes is well ahead of expectations as the level of consumption rose to new highs. The extent to which new car sales has exceeded expectations is one of the main reasons why revenue from other excise taxes passed the budget forecast.

B. EXPENDITURES

Budgetary expenditures for 1955-56 are estimated at \$4,437 million, an increase of \$162 million over the 1954-55 total of \$4,275 million.



Note: The lightly shaded area in the chart for Health, Welfare and Social Security represents pension payments out of the old age security fund.

A comparative summary of estimated expenditures by departments and principal purposes for the fiscal year 1955-56 and actual expenditures for the preceding year is given in the following table:

TABLE VII

STATEMENT OF BUDGETARY EXPENDITURES BY DEPARTMENTS AND MAJOR CLASSIFICATIONS

(In millions of dollars)

	Fiscal Year Ended March 31				Increase or Decrease (—)	
	1956 (Estimated)		1955		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
National Defence.....	1,740.3	39.2	1,666.0	39.0	74.3	4.5
Defence Production.....	16.3	0.4	18.9	0.4	-2.6	-13.8
Civil defence.....	3.8	0.1	3.1	0.1	0.7	22.8
	1,760.4	39.7	1,688.0	39.5	72.4	4.3
Public debt charges—						
Interest on public debt.....	490.9	11.0	477.9	11.2	13.0	2.7
Other debt charges.....	22.0	0.5	24.4	0.6	-2.4	-9.8
	512.9	11.5	502.3	11.8	10.6	2.1
Provincial subsidies and tax rental payments (including transitional grant to Newfoundland).....	352.1	7.9	359.0	8.4	-6.9	-1.9
Family allowances.....	382.4	8.6	366.5	8.6	15.9	4.3
Unemployment Insurance Act—Administration and Government's contribution.....	61.0	1.4	59.9	1.4	1.1	1.8
Government contributions with respect to the superannuation account.....	31.5	0.7	37.4	0.9	-5.9	-15.8
Agriculture.....	88.1	2.0	81.8	1.9	6.3	7.7
Atomic Energy.....	19.5	0.4	15.0	0.3	4.5	30.0
Canadian Broadcasting Corporation	31.2	0.7	29.2	0.7	2.0	6.8
Citizenship and Immigration.....	32.7	0.7	28.0	0.7	4.7	16.8
External Affairs.....	45.4	1.0	43.8	1.0	1.6	3.7
Finance.....	36.4	0.8	35.3	0.8	1.1	3.1
Mines and Technical Surveys.....	39.5	0.9	43.7	1.0	-4.2	-9.6
National Health and Welfare.....	153.8	3.5	127.1	2.9	26.7	21.0
National Research Council.....	16.3	0.4	15.7	0.4	0.6	3.8
National Revenue.....	56.7	1.3	55.0	1.3	1.7	3.1
Northern Affairs and National Resources.....	25.8	0.6	20.2	0.5	5.6	27.7
Post Office.....	126.5	2.9	123.6	2.9	2.9	2.3
Public Works.....	140.0	3.2	130.8	3.1	9.2	7.0
Royal Canadian Mounted Police.....	37.0	0.8	35.5	0.8	1.5	4.2
Trade and Commerce.....	37.3	0.8	17.5	0.4	19.8	113.1
Transport.....	135.7	3.1	159.2	3.7	-23.5	-14.8
Veterans Affairs.....	249.1	5.6	240.1	5.6	9.0	3.7
Other departments.....	65.8	1.5	60.7	1.4	5.1	8.4
Grand total.....	4,437.1	100.0	4,275.3	100.0	161.8	3.8

Defence expenditures

Defence expenditures consisting of expenditures of the Departments of National Defence and Defence Production and outlay for the civil defence programme are again the largest category of government expenditure. The total of \$1,760 million for the fiscal year is approximately 40 per cent of the aggregate budgetary expenditures of the government. This is an increase of \$72 million or 4 per cent over the 1954-55 total of \$1,688 million when defence expenditures were 40 per cent of aggregate budgetary expenditures.

Expenditures of the Department of National Defence are estimated at \$1,740 million and those of the Department of Defence Production at \$16 million, while outlays in connection with the civil defence programme are expected to total \$4 million. In 1954-55 expenditures were \$1,666 million, \$19 million and \$3 million respectively.

A comparative summary of defence expenditures for 1955-56 and 1954-55 is shown in the following table:

TABLE VIII
(In millions of dollars)

DEFENCE EXPENDITURES	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Department of National Defence—			
Army services.....	413.6	378.7	34.9
Naval services.....	342.9	279.2	63.7
Air services.....	682.4	641.4	41.0
	1,438.9	1,299.3	139.6
Defence research and development.....	65.9	49.9	16.0
Mutual aid to NATO countries including contributions to military costs of NATO.....	175.0	260.0	— 85.0
Government's contribution to the permanent services pension account.....	40.1	36.7	3.4
Administration and general.....	20.4	20.1	0.3
	1,740.3	1,666.0	74.3
Department of Defence Production—			
Capital assistance.....	6.5	9.7	—3.2
Administration and general.....	9.8	9.2	0.6
	16.3	18.9	—2.6
Civil defence programme.....	3.8	3.1	0.7
	1,760.4	1,688.0	72.4

Estimated expenditures for army, naval and air services amount in the aggregate to \$1,439 million, \$140 million more than the total for 1954-55. Outlay for army services is \$35 million more than in the previous year, that for naval services \$64 million more and that for air services \$41 million more. Expenditures for defence research and development are expected to amount to \$66 million an increase of \$16 million over the 1954-55 programme.

Estimated expenditures of \$175 million under the mutual aid programme and contributions to the military costs of NATO are \$85 million less than the total of \$260 million in the previous fiscal year. Under the provisions of section 3 of the Defence Appropriation Act, defence equipment and supplies may be transferred from Canadian stocks to other parties to the North Atlantic Treaty. The estimated replacement value of such equipment and supplies acquired by the Canadian services prior to March 31, 1950 and transferred to NATO countries is charged to this appropriation and credited to a special national defence equipment account. These credits may be used subsequently to purchase equipment or supplies for the army, naval or air services of the Canadian forces. In accordance with Vote 236 of Appropriation Act, No. 5, 1955, the estimated replacement value of equipment and supplies, acquired by the Canadian forces since March 31, 1950 and transferred as mutual aid, is credited to the appropriate service allotment instead of being credited to the special defence equipment account and may be expended during the fiscal year for purposes of the Canadian forces.

The estimated expenditures of \$175 million for 1955-56 include \$54 million for transfer of equipment and supplies acquired prior to March 31, 1950, which is credited to the special national defence equipment account, and \$109 million in outlays for costs incurred in acquiring and supplying military equipment for and in the training in Canada of aircrews from countries which are parties to the North Atlantic Treaty. The contribution of \$12 million on account of Canada's share of the NATO military budgets and infrastructure costs which is also included in this total is unchanged from the total of the corresponding outlay in 1954-55. The percentage share of these costs borne by each nation is established in the North Atlantic Council and is subject to ratification by the respective member governments.

The government's contribution to the permanent services pension account during 1955-56 of an amount equal to $1\frac{1}{2}$ times the contributions by permanent services personnel is estimated to be \$40 million consisting of \$36 million relating to current contributions and \$4 million to contributions for arrears. This is \$3 million more than the 1954-55 contribution of \$37 million of which \$34 million related to current contributions and \$3 million to contributions for arrears.

The estimated expenditures of \$16 million for 1955-56 for the Department of Defence Production reflect a reduction of \$3 million in the programme under which capital assistance is given to private contractors, Crown plants operated on a management fee basis, and Crown corporations undertaking contracts essential to the defence programme. For 1955-56 this capital assistance is estimated at \$7 million compared with \$10 million in 1954-55.

Civil defence expenditures, estimated at \$4 million, reflect an increase of \$1 million over the 1954-55 expenditures.

In addition to these budgetary expenditures for defence, there are certain other cash outlays which must be considered in assessing the full effect of the defence programme on the economy of Canada.

The Department of Defence Production makes cash disbursements for the procurement of materials for use in the manufacture of defence equipment, which are not recorded as budgetary expenditures. For purposes of accounting and control, these amounts are charged to the defence production revolving fund and are treated as assets on the books of the government until they are billed to the Department of National Defence or sold to defence contractors for use in the manufacture of defence equipment. It is estimated that as a result of the transactions during 1955-56 the fund will be reduced by \$3 million leaving an estimated balance in the account of \$70 million at March 31, 1956.

The national defence equipment account, to which is credited the estimated replacement values of equipment and supplies acquired by the Department of National Defence prior to March 31, 1950 and subsequently transferred to NATO countries, and to which is charged the cost of replacement equipment, also involves cash outlays which are not reflected as budgetary expenditures. Transfers to the account during the fiscal year are estimated at \$54 million while disbursements are expected to total \$49 million. The balance available at March 31, 1956 for disbursement in subsequent years is estimated at \$279 million compared with \$274 million at March 31, 1955.

Under section 11 of the National Defence Act there is provision for the sale of materiel not immediately required for the use of the Canadian defence forces or the Defence Research Board, to such countries and upon such terms as the Governor in Council may determine. The proceeds of such sales are credited to a special account to be used for the procurement of materiel. Credits to the account during 1955-56 are estimated at \$5 million and disbursements are expected to amount to \$3 million.

The following table summarizes the cash disbursements for defence for the past two fiscal years.

TABLE IX
(In millions of dollars)

CASH OUTLAYS FOR DEFENCE	Fiscal Year Ended March 31		Increase or Decrease(—)
	1956 (Estimated)	1955	
Budgetary expenditures—			
Department of National Defence.....	1,740.3	1,666.0	74.3
Department of Defence Production.....	16.3	18.9	—2.6
Civil defence programme.....	3.8	3.1	0.7
	1,760.4	1,688.0	72.4
Less: value of military equipment and supplies transferred from existing Canadian stocks to NATO countries (included in budgetary expenditures).....	—54.7	—42.5	—12.2
	1,705.7	1,645.5	60.2
Disbursements from—			
National defence equipment account.....	49.2	74.3	—25.1
Replacement of materiel account—sec. 11, National Defence Act (net).....	—1.5	16.2	—17.7
Defence production revolving fund (net).....	—2.8	—7.4	4.6
	44.9	83.1	—38.2
Net cash outlay for defence.....	1,750.6	1,728.6	22.0

Public debt charges

Public debt charges in 1955-56 are estimated at \$513 million or 11 per cent of the aggregate budgetary expenditures, compared with a total of \$502 million or 12 per cent in 1954-55. They are again the second largest item of budgetary expenditure.

Interest on public debt is estimated at \$491 million or \$13 million more than the total expenditure of \$478 million in 1954-55. Interest on unmatured debt is expected to amount to \$410 million compared with \$406 million in 1954-55; the increase is attributable in part to interest accrued on Canada savings bonds series 10 which was issued in November 1955, and in part to an increase in the amount of treasury bills outstanding and to higher rates of interest. Interest on annuity, insurance and pension accounts is estimated at \$77 million. The increase of \$8 million over the total of \$69 million in 1954-55 is due to increases of \$3 million in respect of the superannuation account, \$2 million in respect of the permanent services pension account and \$3 million on government annuities account.

Other public debt charges, which include the cost of issuing new loans, the annual amortization of bond discounts and commissions, fees for the services of fiscal agents and registrars, commission for the payment of coupon and fully registered interest, and other costs of servicing public debt are estimated at \$22 million for 1955-56 compared with the 1954-55 total of \$24 million. The decrease of \$2 million is attributable mainly to a decrease in the annual amortization of bond discounts and commissions.

The table which follows gives a comparative summary of public debt charges for 1955-56 and the previous year:

TABLE X
(In millions of dollars)

INTEREST AND OTHER PUBLIC DEBT CHARGES	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Interest on public debt—			
Unmatured debt and treasury bills—			
Payable in Canada.....	399.1	394.3	4.8
Payable in London.....	1.5	1.5	—0.1
Payable in New York.....	9.8	9.9	4.7
	410.4	405.7	
Deposit and trust accounts.....	3.0	3.0	
Annuity, insurance, and pension accounts.....	77.5	69.2	8.3
	80.5	72.2	8.3
Total interest on public debt.....	490.9	477.9	13.0
Annual amortization of bond discounts and commissions....	20.2	22.4	—2.2
Servicing of public debt.....	0.6	0.8	—0.2
Cost of issuing new loans.....	1.2	1.2	
Total public debt charges.....	512.9	502.3	10.6

When considering the magnitude of these public debt charges and the burden they place upon the public treasury, it must be borne in mind that a substantial portion of the debt is attributable to, or is invested in, productive or earning assets. Therefore, in calculating the *net* burden of the government's annual interest charges, the income derived from loans, investments and other productive assets must be taken into account. For 1955-56 this income is estimated at \$147 million as shown in Table V. This sum deducted from the gross total of \$491 million for interest shown in the preceding table leaves a net amount of \$344 million, the same as for the previous year.

Subsidies and tax rental payments to provinces

Payments to the provinces during 1955-56 for statutory subsidies, rentals under the tax rental agreements, the transitional grant to Newfoundland and the transfer of a portion of income tax receipts from certain public utility companies are estimated at \$352 million compared with \$359 million in 1954-55.

A comparative summary of the payments for the two years is given in the following table:

TABLE XI
(In millions of dollars)

SUBSIDIES AND TAX RENTAL PAYMENTS TO PROVINCES	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Rentals under tax rental agreements, c. 49, Statutes of 1952..	319.7	327.4	—7.7
Statutory subsidies.....	20.4	20.4	
Transitional grant to Newfoundland.....	3.1	3.9	—0.8
Transfer of certain public utility tax receipts—			
Sec. 6, c. 49, Statutes of 1952.....	8.9	7.3	1.6
	352.1	359.0	—6.9

Payments under the tax rental agreements in 1955-56 are \$8 million less than in the previous year reflecting a decrease in gross national product per capita in 1954.

Statutory subsidies at \$20 million in 1955-56 are unchanged from the previous year.

The amount of public utility tax receipts transferred to the provinces in 1955-56 is expected to be \$2 million more than in the previous year. Section 6 of the Tax Rental Agreements Act, 1952 authorizes the payment to the provinces, whether participating in the agreements or not, of a portion of the income tax collected from corporations whose main business is the distribution to, or the generation for distribution to, the public of electrical energy, gas or steam.

A summary of estimated payments, by provinces, during 1955-56 is given in the following table:

TABLE XII
(In millions of dollars)

SUBSIDIES AND TAX RENTAL PAYMENTS TO PROVINCES	Fiscal Year Ending March 31, 1956 (Estimated)			
	Statutory subsidies	Payments under tax rental agreements	Transitional grant	Total
Newfoundland.....	1.6	12.5	3.1	17.2
Nova Scotia.....	2.1	19.9		22.0
Prince Edward Island.....	0.7	3.7		4.4
New Brunswick.....	1.7	16.6		18.3
Quebec.....	3.3			3.3
Ontario.....	3.6	138.3		141.9
Manitoba.....	1.8	25.7		27.5
Saskatchewan.....	2.1	26.0		28.1
Alberta.....	2.2	31.6		33.8
British Columbia.....	1.3	45.4		46.7
	20.4	319.7	3.1	343.2
Transfer of certain public utility tax receipts.....				8.9
				352.1

Family allowances

Family allowances are payable in respect of all children under sixteen resident in Canada, with minor exceptions such as in the case of children of immigrants who must reside in Canada a year before an allowance is payable. The monthly allowance is \$5 if the child is under 6 years; \$6 in the age group 6 to 9; \$7 in the age group 10 to 12; and \$8 in the age group 13 to 15.

Payments for family allowances are estimated at \$382 million for 1955-56 representing $8\frac{1}{2}$ per cent of total expenditures for the fiscal year. The increase of \$16 million over the corresponding 1954-55 outlay reflects the increase in the number of children in the eligible age groups.

The following table presents a comparative summary of payments by provinces:

TABLE XIII

(In millions of dollars)

FAMILY ALLOWANCE PAYMENTS	Fiscal Year Ended March 31		Increase
	1956 (Estimated)	1955	
Newfoundland.....	12.5	12.0	0.5
Nova Scotia.....	17.6	17.1	0.5
Prince Edward Island.....	2.6	2.6	.....
New Brunswick.....	15.4	15.1	0.3
Quebec.....	120.4	116.1	4.3
Ontario.....	116.6	110.5	6.1
Manitoba.....	19.5	18.7	0.8
Saskatchewan.....	21.4	20.9	0.5
Alberta.....	26.7	25.4	1.3
British Columbia.....	29.0	27.4	1.6
Northwest and Yukon Territories.....	0.7	0.7	.....
	382.4	366.5	15.9

Unemployment Insurance Act administration and government's contribution

Expenditures in 1955-56 relating to the Unemployment Insurance Act (excluding the government's payment as an employer) are estimated at \$61 million compared with \$60 million spent in 1954-55.

Unemployment insurance benefit payments are not charged directly to budgetary expenditures but are paid from the unemployment insurance fund. This fund is financed by contributions from employees and employers, by interest earned on investments, and by the government's contribution of an amount equal to one-fifth of combined employer-employee contributions.

The government's contribution to the fund for 1955-56 is estimated at \$34 million and administration costs are expected to total \$27 million; the corresponding figures for 1954-55 were \$32 million and \$28 million.

Government contribution with respect to superannuation account

The Government's contribution to the superannuation account is an amount equal to the estimated payments by individuals in the previous fiscal year for both current and prior service, and transfers from the retirement fund. For 1955-56 the contribution will be \$31 million compared with \$37 million in 1954-55.

Provision for reserve for losses on realization of assets

No charge to expenditures for an addition to the general reserve for losses on the realization of assets has been included in the Government's accounts for 1955-56. The balance of the reserve which was \$496 million at March 31, 1955 remains unchanged.

Agriculture

Expenditures of the Department of Agriculture are estimated at \$88 million for 1955-56 compared with \$82 million spent in 1954-55.

The net increase of \$6 million is due chiefly to the deficit of \$8 million in the prairie farm emergency fund (for which there was no corresponding charge in 1954-55) and to increases of \$3 million in the operating losses of the agricultural prices support board, \$1 million in the costs of experimental farm services and

\$1 million in payment of premiums on hog carcasses, offset by decreases of \$3 million in freight assistance on western feed grains and \$2 million in outlay for marketing services.

The estimated expenditure of \$8 million to cover the deficit in the prairie farm emergency fund is the first charged to budgetary expenditures for this purpose since the fiscal year 1950-51 when \$4 million was required. The decrease in expenditures for marketing services is due mainly to a reduction in the payments under the Agricultural Products Co-operative Marketing Act, c. 5, R.S. 1952, the purpose of which is to assist and encourage the co-operative marketing of agricultural products by primary producers.

A comparative summary of estimated expenditures for 1955-56 and actual expenditures for 1954-55 is presented in the following table:

TABLE XIV
(In millions of dollars)

AGRICULTURE	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Experimental farms service.....	10.9	9.6	1.3
Freight assistance on western feed grains.....	15.5	19.0	—3.5
Marketing service.....	6.9	9.3	—2.4
Operating losses of the agricultural prices support board.....	5.8	3.1	2.7
Premium on hog carcasses including administrative costs....	5.8	5.1	0.7
Prairie farm emergency fund—deficit.....	8.0	.....	8.0
Production service.....	10.4	10.0	0.4
Rehabilitation and reclamation projects.....	12.5	12.7	—0.2
Science service.....	9.3	9.3	.....
Administration and general.....	3.0	3.7	—0.7
	88.1	81.8	6.3

Atomic energy

Expenditures of the Atomic Energy Control Board and payments to Atomic Energy of Canada Limited are estimated at \$20 million for 1955-56 compared with \$15 million in 1954-55, an increase of \$5 million.

Administration expenses of the Atomic Energy Control Board and grants for research and investigations with respect to atomic energy are estimated at \$0.3 million, the same as the 1954-55 expenditure.

Payments to Atomic Energy of Canada Limited, for its research programme, are estimated at \$19 million compared with \$15 million in 1954-55. Of the total \$11 million is for current operations and maintenance and \$8 million for the construction and acquisition of buildings, land, works and equipment.

In addition advances to Atomic Energy of Canada Limited to be covered by obligations or shares of the company are estimated at \$12 million, of which \$2 million is for working capital and \$10 million for the construction or acquisition of buildings and equipment at Chalk River and Deep River and for the commercial products division at Ottawa. This brings the total of loans to the company to \$44 million.

Canadian Broadcasting Corporation

Payments by the Government of Canada to the Canadian Broadcasting Corporation are estimated at \$31 million for 1955-56 compared with \$29 million in 1954-55. Payments to the corporation of an amount equivalent to the collections of the 15 per cent special tax imposed on radio and television sets and tubes are expected to amount to \$23 million in 1955-56 compared with \$21 million

in 1954-55. For the current year it is estimated that \$18 million is in respect of television and \$5 million in respect of radio. In 1954-55 payments were \$17 million for television and \$4 million for radio.

A comparative summary of the estimated payments for 1955-56 and actual payments for 1954-55 is shown in the following table.

TABLE XV
(In millions of dollars)

PAYMENTS TO CANADIAN BROADCASTING CORPORATION	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Sound broadcasting service.....	6.3	6.3	.....
International shortwave broadcasting service.....	1.9	2.1	—0.2
Payments to the corporation of amounts equal to tax collected under the Excise Tax Act in respect of radio and tele- vision sets and tubes.....	23.0	20.8	2.2
	31.2	29.2	2.0

In addition to these expenditures, loans of \$9 million will have been made in 1955-56 to cover the cost of television installations and to support the development of the service. This will bring the total loans to the corporation to \$28 million at March 31, 1956. Interest at various rates is being paid semi-annually and is included in non-tax revenues under "Return on investments".

Citizenship and Immigration

Expenditures of the Department of Citizenship and Immigration are estimated at \$33 million for 1955-56 compared with \$28 million in 1954-55. The increase of \$5 million is due mainly to an increase in the expenditures of the Indian Affairs branch of the department reflecting for the most part increased outlay for education.

The following table presents a comparative summary of estimated expenditures for 1955-56 with actual expenditures for 1954-55.

TABLE XVI
(In millions of dollars)

CITIZENSHIP AND IMMIGRATION	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Indian Affairs.....	21.6	18.0	3.6
Citizenship and citizenship registration.....	1.1	0.9	0.2
Immigration.....	8.3	8.3	...
Administration and general.....	1.7	0.8	0.9
	32.7	28.0	4.7

External Affairs

Expenditures of the Department of External Affairs are estimated at \$45 million, an increase of \$2 million over the 1954-55 expenditures. This increase is mainly attributable to the costs of representation abroad which includes con-

struction, acquisition or improvement of buildings, works and land. Assistance to other countries is slightly less than the expenditure for 1954-55 although the grant to the Colombo Plan fund has been increased from \$25 million for 1954-55 to \$26 million for 1955-56.

The following table presents a comparative summary of expenditures for the current and previous fiscal years.

TABLE XVII
(In millions of dollars)

EXTERNAL AFFAIRS	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Assistance to other countries.....	28.5	28.9	-0.4
Canada's assessment for membership in international or commonwealth organizations.....	3.0	2.9	0.1
Representation abroad.....	8.3	7.1	1.2
Administration and general.....	5.6	4.9	0.7
	45.4	43.8	1.6

Finance

The major items of expenditure for the Department of Finance have been dealt with in previous paragraphs under the headings "Public debt charges", "Subsidies and tax rental payments to provinces" and "Government contribution with respect to the superannuation account".

Other expenditures of the department are estimated at \$36 million for 1955-56, an increase of \$1 million over the expenditures for 1954-55. An increase of \$4 million in grants to municipalities in lieu of taxes on federal property is offset by the decrease of \$4 million on account of premium, discount and exchange transactions which are expected to result in a net revenue item of \$2 million.

The following table shows a comparative summary of expenditures for 1955-56 and 1954-55.

TABLE XVIII
(In millions of dollars)

FINANCE	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Office of the Comptroller of the Treasury—administration expenses.....	15.1	14.9	0.2
Grants to universities.....	5.6	5.4	0.2
Grants to municipalities in lieu of taxes on federal property..	6.9	3.0	3.9
Government contribution as an employer to the unemploy- ment insurance fund.....	1.1	1.0	0.1
Implementation of guarantees—Ming Sung Industrial Co. Ltd.	1.5	1.5	...
Premium, discount and exchange.....	...	3.8	-3.8
Administration and general.....	6.2	5.7	0.5
	36.4	35.3	1.1

Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys are estimated at \$40 million for 1955-56, a decrease of \$4 million from the expenditures of \$44 million in 1954-55. Decreases of \$5 million in emergency gold mining assistance payments and \$1 million in expenses in connection with the movement of coal under the Dominion Coal Board are partially offset by an increase of \$1 million in the costs of surveys and mapping services.

The following table presents a comparative summary of expenditures for 1955-56 and 1954-55.

TABLE XIX
(In millions of dollars)

MINES AND TECHNICAL SURVEYS	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Emergency gold mining assistance.....	10.5	15.5	—5.0
Dominion Coal Board.....	11.2	11.8	—0.6
Surveys and mapping including aerial photography.....	10.8	9.7	1.1
Mines branch.....	3.1	3.0	0.1
Geological survey of Canada.....	2.4	2.2	0.2
Administration and general.....	1.5	1.5	...
	39.5	43.7	—4.2

National Health and Welfare

Family allowance payments, estimated at \$382 million for 1955-56 constitute the main item of expenditure for the Department of National Health and Welfare and have been dealt with under a separate heading in preceding paragraphs. Civil defence expenditures, estimated at \$4 million, are dealt with under the heading "Defence expenditures".

Other expenditures of the department in 1955-56 are estimated at \$154 million, an increase of \$27 million compared with expenditures of \$127 million in 1954-55. The following table presents a comparative summary of these expenditures for 1955-56 and 1954-55:

TABLE XX
(In millions of dollars)

NATIONAL HEALTH AND WELFARE	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Blind persons allowances.....	3.0	2.9	0.1
Disabled persons allowances.....	5.5	0.4	5.1
General health grants.....	33.5	31.6	1.9
Indians and Eskimos health service.....	16.3	15.5	0.8
Old age assistance.....	21.3	20.9	0.4
Other health services.....	6.8	5.8	1.0
Reduction in the amount owing by the old age security fund.....	63.3	45.8	17.5
Administration and general.....	4.1	4.2	—0.1
	153.8	127.1	26.7

In Vote 689 of Appropriation Act No. 5, 1955, Parliament granted authority to charge the 1954-55 deficit of \$63 million in the old age security fund to budgetary expenditures in 1955-56. Under the same authority, the 1953-54 deficit in the fund amounting to \$46 million was charged to budgetary expenditures in 1954-55.

Expenditures for Indians and Eskimos health services are estimated at \$16 million for 1955-56 compared with \$15 million for 1954-55. Expenditures for other health services are expected to be \$7 million in 1955-56 compared with \$6 million in 1954-55.

General health grants to the provinces for assistance in hospital construction, general health services and the control of diseases are estimated at \$34 million for 1955-56 compared with expenditures of \$32 million in 1954-55.

Under the Old Age Assistance Act, the federal government reimburses the provinces by paying 50 per cent of the lesser of \$40 monthly or the amount of assistance given by the provinces in the form of monthly pensions to eligible persons in need who are in the age group 65 to 69. (Under the Old Age Security Act, all persons 70 years and over who satisfy the residence requirements of the Act may receive a pension of \$40 per month from the federal government out of the old age security fund). Similarly, the federal government reimburses the provinces under the Blind Persons Act for allowances to blind persons in need over the age of 21 by paying 75 per cent of the total payments, and under the Disabled Persons Act by paying 50 per cent of not more than \$40 per month for allowances to disabled persons in need over the age of 18 years. The estimated increase of \$5 million in payments under the Disabled Persons Act is due mainly to the fact that in 1954-55 the expenditure did not represent a full year's payments as the Act was not effective until January 1, 1955. The following table presents an estimated distribution of these payments by provinces for 1955-56.

TABLE XXI
(In millions of dollars)

GENERAL HEALTH GRANTS AND FEDERAL SHARE OF OLD AGE ASSISTANCE, DISABLED PERSONS ALLOWANCES AND BLIND PERSONS ALLOWANCES	Fiscal Year Ending March 31, 1956 (Estimated)			
	General health grants	Old age assistance	Disabled persons allowances	Blind persons allowances
Newfoundland.....	0.8	0.8	(1)	0.1
Nova Scotia.....	1.5	1.1	0.2	0.3
Prince Edward Island.....	0.3	0.1	(1)	(1)
New Brunswick.....	1.3	1.3	0.2	0.3
Quebec.....	10.4	7.5	2.7	1.1
Ontario.....	9.1	5.0	1.7	0.7
Manitoba.....	2.1	1.1	0.1	0.1
Saskatchewan.....	2.7	1.2	0.1	0.1
Alberta.....	2.5	1.3	0.3	0.1
British Columbia.....	2.8	1.9	0.2	0.2
Northwest and Yukon Territories.....	(1)	(1)	(1)	(1)
	33.5	21.3	5.5	3.0

(1) Less than \$50,000.

National Research Council

Expenditures of the National Research Council are estimated at \$16 million for 1955-56, slightly higher than the expenditures for 1954-55. Salaries and other expenses amounting to \$14 million and the costs of construction or acquisition of buildings, works, land and new equipment totalling \$2 million are approximately the same as the corresponding outlay in 1954-55.

National Revenue

Expenditures for the Department of National Revenue are estimated at \$57 million for 1955-56 compared with \$55 million in 1954-55. The following table presents a comparative summary of expenditures for the two years.

TABLE XXII
(In millions of dollars)

NATIONAL REVENUE	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Customs and excise division.....	30.1	29.3	0.8
Taxation division.....	26.5	25.6	0.9
Income tax appeal board.....	0.1	0.1	...
	56.7	55.0	1.7

Northern Affairs and National Resources

Expenditures of the Department of Northern Affairs in 1955-56 are estimated at \$26 million, compared with expenditures of \$20 million in 1954-55, an increase of \$6 million.

Of this increase, \$2 million is attributable to expenditures by the national parks branch for construction or acquisition of buildings, works, land and new equipment and \$3 million is due to an increase in expenditures for the northern administration and lands branch of which approximately \$2 million is for the construction or acquisition of buildings, works, land and new equipment, and \$1 million for operation and maintenance.

The following table presents a comparative summary of expenditures for 1955-56 and 1954-55:

TABLE XXIII
(In millions of dollars)

NORTHERN AFFAIRS AND NATIONAL RESOURCES	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
National parks branch.....	10.7	8.4	2.3
Engineering and water resources branch.....	2.1	1.6	0.5
Northern administration and lands branch.....	7.1	4.1	3.0
Forestry branch.....	3.7	4.1	-0.4
Canadian government travel bureau.....	1.5	1.5	...
Administration and general.....	0.7	0.5	0.2
	25.8	20.2	5.6

Post Office

Gross expenditures of the Post Office Department for 1955-56 are estimated at \$147 million, an increase of \$3 million over the 1954-55 expenditures of \$144 million.

Remuneration of postmasters and staffs at revenue and semi-staff offices, commissions at sub-offices and certain other authorized disbursements are paid from revenue. These payments, included in the total of \$147 million, are estimated at \$20 million for 1955-56, unchanged from the previous year.

Disbursements charged to budgetary expenditures are estimated at \$127 million, an increase of \$3 million over expenditures in 1954-55.

The following table presents a comparative summary of expenditures for 1955-56 and 1954-55:

TABLE XXIV
(In millions of dollars)

Post Office	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Charged to budgetary expenditure—			
Operations—salaries and other expenses to staff post offices, district offices and railway mail services and supplies and equipment and other items for revenue post offices.....	77.5	74.0	3.5
Transportation—movement of mail by land, air and water.....	45.2	45.8	—0.6
Financial services.....	2.4	2.5	—0.1
Administration and general.....	1.4	1.3	0.1
	126.5	123.6	2.9
Charged to revenue—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub-offices and other disbursements.....	20.4	20.4	.....
	146.9	144.0	2.9

Public Works

Expenditures of the Department of Public Works for 1955-56 are estimated at \$140 million compared with expenditures of \$131 million for 1954-55. This increase of \$9 million is attributable mainly to increases of \$4 million in the expenditures of the building construction branch and \$3 million in administration and general expenses.

The following table presents a comparative summary of estimated expenditures for 1955-56 and expenditures for 1954-55.

TABLE XXV
(In millions of dollars)

PUBLIC WORKS	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Property and building management branch—			
Maintenance and operation—			
Ottawa.....	12.7	13.8	—1.1
Other centres.....	22.8	20.6	2.2
Administration and general.....	0.2	0.6	—0.4
	35.7	35.0	0.7
Building construction branch—			
Acquisition, construction and improvements of public buildings—			
Ottawa.....	7.9	14.0	—6.1
Other centres in Canada.....	34.0	27.7	6.3
Outside Canada.....	2.6	.....	2.6
Administration and general.....	2.4	0.9	1.5
	46.9	42.6	4.3
Harbours and rivers engineering branch—			
Acquisition, construction and improvements of harbour and river works.....	16.6	17.8	—1.2
Harbours and rivers—generally.....	3.3	3.2	0.1
Dredging.....	4.7	4.2	0.5
Administration and general.....	3.7	3.6	0.1
	28.3	28.8	—0.5
Development engineering branch.....	1.5	.....	1.5
Trans-Canada Highway Division—			
Contributions to the provinces under the terms of the Trans-Canada Highway Act.....	15.0	18.1	—3.1
Trans-Canada highway through National parks.....	4.9	1.5	3.4
Administration and general.....	0.7	0.4	0.3
	20.6	20.0	0.6
Housing.....	1.6	1.8	—0.2
Administration and general.....	5.4	2.6	2.8
	140.0	130.8	9.2

Royal Canadian Mounted Police

Expenditures for the Royal Canadian Mounted Police are estimated at \$37 million for 1955-56, an increase of \$2 million over the total spent in 1954-55. These amounts represent gross expenditures; payments received from the provinces and municipalities for police services estimated at \$5 million are credited to revenue.

The following table presents a comparative summary of estimated expenditures for 1955-56 and actual expenditures for the previous year.

TABLE XXVI
(In millions of dollars)

ROYAL CANADIAN MOUNTED POLICE	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Land and air services.....	25.2	24.7	0.5
Marine services.....	1.9	1.3	0.6
Government contribution to the Royal Canadian Mounted Police pension account.....	0.8	0.7	0.1
Pensions and other benefits.....	2.2	1.9	0.3
Headquarters administration and general.....	6.9	6.9	.....
	37.0	35.5	1.5

Trade and Commerce

Expenditures for the Department of Trade and Commerce are estimated at \$37 million for 1955-56 compared with \$17 million for 1954-55. The increase of \$20 million is almost entirely accounted for by an estimated expenditure of \$19 million for assistance in respect of grain storage costs.

The following table presents a comparative summary of expenditures for 1955-56 and 1954-55.

TABLE XXVII
(In millions of dollars)

TRADE AND COMMERCE	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Assistance re storage costs of grain.....	19.2	.....	19.2
Canada Grain Act.....	5.2	4.9	0.3
Dominion Bureau of Statistics.....	6.2	5.5	0.7
Standards Branch.....	1.7	1.6	0.1
Trade commissioners service.....	2.7	2.5	0.2
Administration and general.....	2.3	3.0	-0.7
	37.3	17.5	19.8

Transport

Expenditures of the Department of Transport in 1955-56 are estimated at \$136 million, a decrease of \$23 million from the expenditures of \$159 million in 1954-55.

Estimated expenditures for air services at \$58 million are \$14 million higher than expenditures in the previous year. Of this increase the civil aviation division is responsible for \$10 million, of which \$9 million is attributable to construction or acquisition of buildings, works, lands and new equipment including construction work on municipal airports.

Estimated expenditures for marine services at \$21 million are the same as the previous year.

Railway and steamship services expenditures are estimated at \$21 million for 1955-56 compared with expenditures of \$30 million for 1954-55. Decreases of \$6 million in expenditures on account of the Strait of Canso causeway and \$4 million in outlay for the construction and acquisition of auto ferries are partially offset by an increase of \$1 million in payments under the Maritime Freight Rates Act.

Expenditures for the Board of Transport Commissioners are estimated at \$13 million; the increase of approximately \$2 million over the previous year's outlay is due mainly to an increase in the government contribution to the railway grade crossing fund.

Payments to cover the net operating deficits of certain Crown corporations are estimated at \$8 million for 1955-56, compared with expenditures of \$37 million in 1954-55. The decrease is due to Canadian National Railways operations which in the calendar year 1955 resulted in a surplus of \$11 million compared with a deficit of \$29 million in 1954. Consequently there is no charge in the government's accounts for 1955-56 comparable to that in the 1954-55 accounts to cover the Railway's 1954 deficit.

The following table presents a comparative summary of estimated expenditures for 1955-56 and expenditures for 1954-55.

TABLE XXVIII
(In millions of dollars)

TRANSPORT	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Air services—			
Telecommunications division.....	14.8	13.9	0.9
Meteorological division.....	8.4	7.4	1.0
Civil aviation division.....	33.4	23.1	10.3
Administration.....	1.6	0.2	1.4
	58.2	44.6	13.6
Canal services.....	8.4	7.8	0.6
Marine services.....	21.0	21.3	-0.3
Railway and steamship services—			
Maritime Freight Rates Act—			
Difference between tariff and normal tolls.....	11.2	10.5	0.7
Strait of Canso causeway.....	2.9	9.2	-6.3
Construction and acquisition of auto ferries.....	2.9	6.8	-3.9
Other.....	3.7	3.7	
	20.7	30.2	-9.5
Board of Transport Commissioners—			
Maintenance of trackage.....	7.0	7.0	
Railway grade crossing fund.....	5.0	3.4	1.6
Administration and general.....	1.0	1.0	
	13.0	11.4	1.6
Canadian Maritime Commission.....	4.3	4.2	0.1
Crown Corporations—			
Net income deficits—			
Canadian National Railways.....		28.8	-28.8
Other.....	4.8	4.4	0.4
Non-active advances.....	3.1	3.9	-0.8
	7.9	37.1	-29.2
Administration and general.....	2.2	2.6	-0.4
	135.7	159.2	-23.5

Veterans Affairs

Expenditures for the Department of Veterans Affairs are estimated at \$249 million in 1955-56 compared with expenditures of \$240 million in 1954-55. The estimated net increase of \$9 million is due mainly to increases of \$11 million in war veterans allowances and other benefits and \$2 million in pensions for disability or death, offset in part by a decrease of \$2 million in war service gratuities and re-establishment credits.

Expenditures relating to the administration of the Soldier Settlement and Veterans Land Acts are expected to amount to \$5 million while the provision for the reserve for conditional benefits under the Veterans Land Act is estimated at \$9 million. These conditional benefits are made to veterans who enter into agreements with the director for purchases of land and chattels provided they fulfil the terms of the agreements for ten years. The estimated amount charged to expenditures under this heading covers one-tenth of the conditional benefits included in sales to veterans.

The following table presents a comparative summary of expenditures for 1955-56 and 1954-55.

TABLE XXIX
(In millions of dollars)

VETERANS AFFAIRS	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Pensions for disability or death.....	130.6	128.8	1.8
Treatment services.....	43.0	43.2	—0.2
War veterans' allowances and other benefits.....	42.3	31.6	10.7
Post-discharge rehabilitation benefits.....	1.8	2.6	—0.8
War service gratuities and re-establishment credits.....	3.7	6.0	—2.3
Soldier Settlement and Veterans' Land Acts—			
Administration and general.....	5.5	5.4	0.1
Provision for reserve for conditional benefits, Veterans Land Act.....	8.9	8.9	.....
Departmental, district and pensions administration and miscellaneous payments.....	13.3	13.6	—0.3
	249.1	240.1	9.0

All other departments

Expenditures of the departments not dealt with in preceding sections are estimated at \$66 million for 1955-56 compared with expenditures of \$61 million in 1954-55, an increase of \$5 million.

The following table presents a comparative summary of expenditures for 1955-56 and 1954-55.

TABLE XXX
(In millions of dollars)

ALL OTHER DEPARTMENTS	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Auditor General.....	0.7	0.7	.....
Chief Electoral Officer.....	0.5	0.3	0.2
Civil Service Commission.....	2.5	2.3	0.2
Fisheries.....	12.6	11.1	1.5
Governor General and Lieutenant-Governors.....	0.4	0.4	.....
Insurance.....	0.5	0.5	.....
Justice.....	6.7	5.9	0.8
Office of the Commissioner of Penitentiaries.....	11.1	10.5	0.6
Labour.....	10.0	9.9	0.1
Legislation.....	6.9	6.7	0.2
National Film Board.....	4.1	3.4	0.7
Privy Council.....	4.0	3.8	0.2
Public Archives and National Library.....	0.5	0.4	0.1
Public Printing and Stationery.....	2.3	2.1	0.2
Secretary of State.....	3.0	2.7	0.3
	65.8	60.7	5.1

4. SUMMARY OF ASSETS AND LIABILITIES OF CANADA AT MARCH 31, 1956

The estimated balances of the asset and liability accounts as at March 31, 1956, the comparable balances at March 31, 1955 and the changes in each category during 1955-56 are shown in the following table.

TABLE XXXI
SUMMARY OF THE ASSETS AND LIABILITIES OF CANADA
(In millions of dollars)

	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
LIABILITIES			
Current and demand liabilities.....	928.7	944.0	—15.3
Deposit and trust accounts.....	156.8	154.0	2.8
Annuity, insurance and pension accounts.....	2,185.0	1,977.4	207.6
Undisbursed balances of appropriations to special accounts.....	339.8	332.2	7.6
Suspense accounts.....	38.4	35.5	2.9
Province debt accounts arising out of confederation settle- ments.....	11.9	11.9	
Unmatured debt.....	15,394.3	14,496.5	897.8
	19,054.9	17,951.5	1,103.4
ASSETS			
Current assets.....	1,538.8	565.6	973.2
Advances to the exchange fund account.....	1,955.0	1,980.0	—25.0
Sinking fund and other investments held for retirement of unmatured debt.....	215.9	190.9	25.0
Loans to, and investments in, Crown corporations.....	2,007.9	1,793.5	214.4
Loans to national governments.....	1,549.9	1,620.8	—70.9
Other loans and investments.....	641.2	631.1	10.1
Province debt accounts arising out of confederation settle- ments.....	2.3	2.3	
Deferred charges.....	55.6	67.5	—11.9
Unamortized portion of actuarial deficiency in the super- annuation account.....	189.0	189.0	
Suspense accounts.....	0.5	63.7	—63.2
Capital assets.....	*	*	
Inactive loans and investments.....	80.4	80.4	
Total Assets.....	8,236.5	7,184.8	1,051.7
Less: Reserve for losses on realization of assets.....	496.4	496.4	
Net Assets.....	7,740.1	6,688.4	1,051.7
Net Debt (excess of liabilities over net assets).....	11,314.8	11,263.1	51.7

*Shown at nominal value of \$1.

Liabilities

The gross liabilities of the government as at March 31, 1956, are estimated at \$19,055 million, an increase of \$1,103 million over the total of \$17,952 million at the close of the previous year.

Unmatured debt outstanding, including bonds and treasury bills, is estimated at \$15,394 million at March 31, 1956, or approximately 81 per cent of all liabilities. Of the total outstanding unmaturred debt, \$15,042 million, or 98 per cent, is

payable in Canada and \$352 million, or 2 per cent in foreign currencies—\$300 million in United States dollars and \$52 million in pounds sterling. A complete statement in tabular form of the government's unmatured debt as at March 31, 1956, with details of interest rates, dates of maturity, annual interest charges and amounts of principal outstanding for each loan, is presented at the end of this Part.

The government's liability as at March 31, 1956 in respect of annuity, insurance and pension accounts is estimated at \$2,185 million. Current and demand liabilities, including outstanding cheques, accounts payable (consisting of cheques to be issued in April, 1956 in payment of accounts relating to the fiscal year 1955-56) and notes and other obligations payable on demand, are expected to total \$929 million.

The other liability items are: deposit and trust accounts (consisting of moneys deposited with or held by the Receiver General for various purposes), \$157 million; undisbursed balances of appropriations to special accounts (consisting of undisbursed balances of appropriations to special accounts for which moneys have been appropriated by Parliament and from which disbursements may be made for authorized purposes in periods subsequent to that in which the appropriation was made), \$340 million; suspense accounts (consisting of balances where some uncertainty as to disposition exists and balances whose ultimate accounting treatment is known but which are held until certain conditions are fulfilled), \$38 million; and province debt accounts (representing settlements arising out of agreements at the time of Confederation), \$12 million.

Assets

Offsetting the liabilities, and to some extent explaining their existence—as a large part of the total debt has been incurred on account of them—are the government's assets. For the most part these consist of assets which yield interest, profits or dividends, liquid assets such as cash and departmental working funds together with certain prepaid expenses and suspense accounts.

The total assets at March 31, 1956, are estimated at \$8,236 million, an increase of \$1,052 million from the total at March 31, 1955. The asset categories are: current assets (including cash, departmental working capital advances and working funds and securities held in the securities investment account), \$1,539 million; advances to the exchange fund account to finance the purchase of gold and foreign exchange, \$1,955 million; sinking fund and other investments held for the retirement of unmatured debt, \$216 million; loans to, and investments in, Crown corporations, \$2,008 million; loans to national governments, \$1,550 million other loans and investments (consisting of Canada's subscription to the capital of the International Monetary Fund and the International Bank for Reconstruction and Development, advances to international organizations, loans to provinces and municipalities, veterans and miscellaneous loans and balances receivable), \$641 million; province debt accounts, \$2 million; deferred charges (consisting of loan flotation costs in the process of being amortized), \$56 million; the unamortized portion of the actuarial deficiency in the superannuation account, \$189 million; suspense accounts, \$1 million; capital assets (assets of the government such as land, buildings, works and equipment, etc., which are charged to budgetary expenditures at the time of acquisition or construction, are shown on the statement of assets and liabilities at a nominal value of \$1); and inactive loans and investments (including loans and advances which are not currently revenue-producing or realizable), \$80 million.

A reserve of \$496 million for losses on realization of assets is shown on the statement of assets and liabilities as a deduction from the total assets, bringing the net assets total to \$7,740 million.

A. CHANGES IN PRINCIPAL LIABILITY CLASSIFICATIONS DURING 1955-56

The gross liabilities of the government are expected to show an increase of \$1,103 million over the total at the close of 1954-55. Increases of \$898 million in unmatured debt, \$3 million in deposit and trust accounts, \$208 million in annuity, insurance and pension accounts, \$8 million in undisbursed balances of appropriations to special accounts and \$3 million in suspense accounts are only partially offset by a decrease of \$15 million in current and demand liabilities.

Current and demand liabilities

It is estimated that current and demand liabilities will have decreased by \$15 million during the fiscal year. Decreases of \$25 million in matured debt outstanding, \$5 million in outstanding treasury cheques and \$1 million in non-interest bearing notes payable to the International Monetary Fund and the International Bank for Reconstruction and Development are partially offset by increases of \$10 million in interest accrued, \$2 million in accounts payable, \$2 million in interest due and outstanding and \$1 million in post office account. The estimated changes in the various accounts are shown in the following table:

TABLE XXXII
(In millions of dollars)

CURRENT AND DEMAND LIABILITIES	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Outstanding Treasury cheques.....	260.9	265.6	—4.7
Accounts payable.....	204.1	201.9	2.2
Non-interest bearing notes payable to the International Monetary Fund and the International Bank for Recon- struction and Development.....	223.8	224.6	—0.8
Matured debt outstanding.....	29.0	53.7	—24.7
Interest due and outstanding.....	56.0	54.2	1.8
Interest accrued.....	130.6	120.2	10.4
Post Office (net liability for money orders, etc.).....	22.9	22.4	0.5
Other current liabilities.....	1.4	1.4	
	928.7	944.0	—15.3

Deposit and trust accounts

Deposit and trust accounts are expected to increase by \$3 million during the year. The major changes in this category are increases of \$7 million in the Korean operations pool, \$3 million in contractors securities cash deposits and \$2 million in Indian trust funds and decreases of \$5 million in the prairie farm emergency fund, \$1 million in the post office savings bank and \$2 million in contractors holdbacks. The balance of \$5 million in the prairie farm emergency fund at March 31, 1955, together with \$4 million collected during the year as levies and \$8 million charged to expenditure was used to finance award payments of \$17 million.

Annuity, insurance and pension accounts

It is estimated that the annuity, insurance and pension accounts will have increased by \$208 million during the fiscal year. The changes in the various accounts for the fiscal year are shown in the following table:

TABLE XXXIII

(In millions of dollars)

ANNUITY, INSURANCE AND PENSION ACCOUNTS	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Unemployment insurance fund.....	865.5	852.7	12.8
Less: Investment in bonds and accrued interest.....	852.5	839.3	13.2
	13.0	13.4	—0.4
Government annuities.....	932.0	864.5	67.5
Superannuation account.....	804.8	733.6	71.2
Permanent services pension account.....	343.0	277.6	65.4
Other.....	92.2	88.3	3.9
	2,185.0	1,977.4	207.6

The unemployment insurance fund is expected to increase by \$13 million during the fiscal year bringing the balance at March 31, 1956 to \$866 million. Of this amount it is estimated that \$853 million will be invested in bonds and accrued interest and \$13 million will be held by the Receiver General in the Consolidated Revenue Fund. The increase of \$13 million in the fund represents the amount by which contributions by employers, employees and the government, income from investments and other miscellaneous revenue credited to the fund exceed benefit payments totalling \$213 million during 1955-56.

The increase of \$71 million in the superannuation account is attributable mainly to the government's contribution of \$31 million equal to the estimated current and prior service payments of individuals in 1954-55 and \$31 million interest credited to the account. The remainder of the increase is due to the excess of employees' current and prior service contributions over benefit payments.

The government annuities account is expected to show an increase of \$67 million, reflecting the amount by which premium receipts, interest credited to the account by the government and the amount required to maintain the reserve exceed payments to annuitants and beneficiaries.

It is expected that the permanent services pension account will show an increase of \$65 million, reflecting the government's contribution of \$40 million which is made at the rate of one and two-thirds times the current contributions and contributions for arrears, interest on the account which is estimated at \$12 million and contributions by permanent services personnel for current service and arrears less payments from the account.

Other annuity, insurance and pension accounts will show an increase of \$4 million for the fiscal year.

Old age security fund

Under the Old Age Security Act pensions of \$40 per month are paid from the old age security fund to all eligible persons seventy years of age and over without a means test. Payments from the fund during the fiscal year are estimated at \$366 million while credits to the fund from the proceeds of the 2 per cent tax on personal incomes (maximum tax \$60), the 2 per cent tax on corporation profits and the 2 per cent sales tax are expected to total \$316 million. Temporary loans amounting to \$50 million will be required to cover the deficit resulting from these transactions during 1955-56. Under the authority of Vote 689 of Appropriation Act, No. 5, 1955 the 1954-55 deficit of \$63 million was charged to expenditure in 1955-56.

The following table shows the transactions in the old age security fund for the last two years:

TABLE XXXIV
(In millions of dollars)

OLD AGE SECURITY FUND	Fiscal Year Ended March 31	
	1956 (Estimated)	1955
Pension payments.....	..... 366.1	..... 353.2
Tax receipts—		
2 per cent sales tax.....	160.0	143.1
2 per cent individual income tax.....	102.5	100.9
2 per cent corporation income tax.....	53.2 315.7	46.0 290.0
Excess of pension payments over tax receipts covered by temporary loan from the Minister of Finance.....	..... 50.4	..... 63.2
Carried forward from the previous year.....	..... 63.2	..... 45.8
Charged to parliamentary appropriation.....	..... -63.2	..... -45.8
Temporary loan outstanding at end of fiscal year.....	..... 50.4	..... 63.2

A distribution by provinces of pension payments from the old age security fund for the last two years is shown in the following table.

TABLE XXXV
(In millions of dollars)

OLD AGE SECURITY PAYMENTS BY PROVINCES	Fiscal Year Ended March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Newfoundland.....	7.6	7.5	0.1
Nova Scotia.....	18.4	18.1	0.3
Prince Edward Island.....	3.3	3.3	...
New Brunswick.....	13.2	12.9	0.3
Quebec.....	77.0	74.7	2.3
Ontario.....	134.7	130.3	4.4
Manitoba.....	22.0	21.1	0.9
Saskatchewan.....	22.3	21.2	1.1
Alberta.....	22.7	21.4	1.3
British Columbia.....	44.6	42.5	2.1
Northwest and Yukon Territories.....	0.3	0.2	0.1
	366.1	353.2	12.9

Undisbursed balances of appropriations to special accounts

This category is set up to record the undisbursed balances of appropriations to special accounts for which moneys have been appropriated by parliament and from which disbursements may be made for authorized purposes in periods subsequent to that in which the appropriation was made. It is estimated that there will be a net increase of \$8 million during the year in these accounts, due chiefly to increases of \$5 million in the national defence equipment account and \$5 million in the railway grade crossing fund and a decrease of \$3 million in the national capital fund.

The railway grade crossing fund is expected to show an increase of approximately \$5 million for the year, representing the amount credited to this account and charged to expenditure less disbursements from the account.

The transactions in the national defence equipment account reflect an increase in the undisbursed balance in the account which was established under section 3 of the Defence Appropriation Act, 1950, and continued by subsequent votes of parliament for the same purpose. Under the terms of the Act, the value of defence materials and supplies acquired prior to March 31, 1950, and transferred to members of the North Atlantic Treaty Organization may be credited to the account and these credits may be used in subsequent years to purchase equipment or supplies for the naval, army or air services of the Canadian forces. Disbursements from the account during the fiscal year are estimated at \$49 million and credits for equipment transferred at \$54 million.

Suspense accounts

Suspense accounts are expected to show a net increase of \$3 million. The major changes in the accounts of this category are increases of \$4 million in balances receivable under agreements of sale of Crown assets and \$2 million in the replacement of materiel account and decreases of \$1 million in military relief and currency credits and \$1 million in emergency gold mining assistance holdbacks.

The replacement of materiel account established by section 11 of the National Defence Act is credited with amounts realized from the sale of materiel that has not been declared surplus to requirements but has been authorized by the Governor in Council to be sold to other countries. The account is debited with disbursements representing amounts paid for the procurement of replacement materiel. It is estimated that during 1955-56 credits to the account will exceed disbursements by \$2 million.

The increase in balances receivable under agreements of sale of Crown assets reflects certain new agreements of sale, including \$2 million with Canadian Pratt and Whitney Aircraft Limited and \$2 million with English Electric Company Limited.

Unmatured debt

The outstanding unmatured debt at the close of 1955-56 is estimated at \$15,394 million. An increase of \$946 million reflected in debt payable in Canada will be only partly offset by a decrease of \$48 million in debt payable in New York, leaving a net increase for the year in unmatured debt of \$898 million.

B. CHANGES IN THE PRINCIPAL ASSET CLASSIFICATIONS DURING 1955-56

It is estimated that assets will have increased by \$1,052 million during the fiscal year ending March 31, 1956. Increases of \$973 million in current assets, \$214 million in loans to, and investments in, Crown corporations, \$25 million in sinking funds and \$10 million in other loans and investments are offset in part by decreases of \$71 million in loans to national governments, \$25 million in advances to the exchange fund account, \$12 million in deferred charges and \$63 million in suspense accounts. No change is expected in the reserve for losses on the realization of assets which stood at \$496 million at March 31, 1955.

Current Assets

The changes during the fiscal year in the various accounts in this category are shown in the following table:

TABLE XXXVI
(In millions of dollars)

CURRENT ASSETS	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Cash in current and special deposits (including blocked currency of \$0.4 million at March 31, 1956 and \$1.2 million at March 31, 1955)	528.1	231.1	297.0
Cash in hands of collectors and in transit	124.3	126.2	—1.9
Departmental working capital advances and revolving funds—			
Agricultural prices support account	36.0	31.6	4.4
Defence production revolving fund	70.0	72.8	—2.8
Temporary loan to old age security fund	50.4	.....	50.4
Miscellaneous departmental imprest and advance accounts	19.3	21.5	—2.2
Other	20.7	19.7	1.0
Other current assets—			
Securities investment account	671.6	45.6	626.0
Moneys received after March 31 but applicable to the current year	18.4	17.1	1.3
	1,538.8	565.6	973.2

The estimated increase of \$973 million in current assets is due to increases of \$626 million in the securities investment account (which records the government's temporary holdings of its own securities including those held for the government employees purchase plan), \$297 million in cash in current and special deposits and \$51 million in departmental working capital advances and revolving funds.

Of the net increase of \$51 million in departmental working capital advances and revolving funds, \$50 million is due to temporary loans during 1955-56 to the old age security fund and \$4 million to a net increase in the agricultural prices support account offset by decreases of \$3 million in the defence production revolving fund and \$2 million in miscellaneous imprest and advance accounts.

The amount of \$50 million advanced as a temporary loan to the old age security fund is the amount by which pension payments during 1955-56 exceeded tax receipts credited to the fund. The deficit in the fund for 1954-55 was carried in suspense accounts at March 31, 1955 as parliament by Vote 689 of Appropriation Act No. 5, 1955, had authorized the deficit resulting from 1954-55 transactions to be charged to budgetary expenditures in 1955-56.

The estimated increase of \$4 million in the agricultural prices support account reflects an increase in inventory holdings during the year estimated at \$10 million and a reduction of \$6 million in respect of the loss on 1955-56 operations included in the year's expenditures.

The decrease of \$3 million in the defence production revolving fund reflects the amount by which credits to the account from the sale of essential materials and defence supplies exceed the cost of acquiring, storing, maintaining and transporting such materials.

Miscellaneous departmental imprest and advance accounts record accountable advances to departments held on deposit in various banks in the name of the department concerned, certain travelling and imprest advances to public officers and advance payments to contractors. During the fiscal year these advances are carried as charges to the relevant appropriations; if they are not repaid or accounted for at the year-end, they are cleared from the appropriation and debited to this account and at the beginning of the new fiscal year are cleared from the account and charged to the appropriation concerned until such time as an accounting is made.

Advances to the exchange fund account

Advances to the exchange fund are estimated at \$40 million and repayments at \$65 million, resulting in a net repayment of \$25 million during the fiscal year.

Sinking fund and other investments held for retirement of unmatured debt

It is expected that there will be an increase of \$25 million in this account during the fiscal year 1955-56, due mainly to an increase in the holdings of bonds of various Government of Canada issues payable in United States dollars.

Loans to, and investments in, Crown corporations

It is estimated that loans to, and investments in, Crown corporations will increase by \$214 million during the year. The most important changes are net increases of \$178 million in loans and advances to the Canadian National Railways, \$20 million in advances to the St. Lawrence Seaway Authority, \$12 million in advances to Atomic Energy of Canada, Limited and \$9 million in loans to the Canadian Broadcasting Corporation and a net decrease of \$9 million in loans to Central Mortgage and Housing Corporation.

The changes in this category are shown in the following table:

TABLE XXXVII
(In millions of dollars)

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Atomic Energy of Canada Limited.....	44.0	32.0	12.0
Bank of Canada.....	5.9	5.9	.....
Canadian Arsenal Limited.....	7.5	7.5	.....
Canadian Broadcasting Corporation.....	27.5	19.0	8.5
Canadian Commercial Corporation.....	6.0	10.0	-4.0
Canadian Farm Loan Board.....	41.9	37.0	4.9
Central Mortgage and Housing Corporation.....	565.9	575.0	-9.1
Canadian National Railways.....	1,111.8	934.0	177.8
Canadian National (West Indies) Steamships Limited.....	3.7	3.8	-0.1
Canadian Overseas Telecommunication Corporation.....	7.6	4.1	3.5
Eldorado Mining and Refining Limited.....	8.2	8.2	.....
Export Credits Insurance Corporation.....	10.0	10.0	.....
National Harbours Board.....	107.5	107.2	0.3
Northwest Territories Power Commission.....	7.8	7.8	.....
Polymer Corporation Limited.....	30.0	30.0	.....
St. Lawrence Seaway Authority.....	21.5	1.3	20.2
Other Crown Corporations.....	1.1	0.7	0.4
	2,007.9	1,793.5	214.4

Advances to Atomic Energy of Canada Limited are estimated at \$12 million for the fiscal year, resulting in an increase of \$12 million and bringing advances to \$44 million at March 31, 1956. The advances are to be covered by obligations or shares of the company in the same amount. Of the total for the year \$2 million is for working capital and \$10 million for the construction or acquisition of buildings and equipment at Chalk River and Deep River and for the commercial products division at Ottawa.

Loans amounting to \$9 million are expected to be made during the year to the Canadian Broadcasting Corporation to cover the capital costs of television installations and to support the development of the service. The total loans to the Corporation outstanding at March 31, 1956 are expected to amount to \$28 million.

It is estimated that in the fiscal year ending March 31, 1956, the Government will have made net advances to the Canadian National Railway Company of \$157 million for capital purposes and retirement of funded debt in the hands of the public.

In addition, to assist the Company to finance additional expenditures, the Government will have purchased an estimated amount of \$21 million of the 4 per cent preferred stock of the Canadian National Railway Company. This stock is issued under the authority of the Canadian National Railways Capital Revision Act, 1952 in an amount equal to three per cent of the gross revenues of the Company.

Loans to Central Mortgage and Housing Corporation during the fiscal year are expected to amount to \$4 million, of which \$3 million is for federal-provincial housing projects and \$1 million for house construction. Repayments are estimated at \$13 million, of which \$9 million is in respect to direct loans by the corporation and joint loans with lending institutions, \$3 million on account of advances for house construction and \$1 million in respect of loans for federal-provincial projects. The net decrease for the fiscal year in loans to the corporation is thus \$9 million.

The net increase in advances to the St. Lawrence Seaway Authority during the year is estimated at \$20 million, bringing total loans at the close of the fiscal year to \$21 million.

Other increases in loans and advances to Crown corporations include \$5 million to the Canadian Farm Loan Board and \$4 million to the Canadian Overseas Telecommunication Corporation. It is also expected that there will be a decrease of \$4 million in loans and advances to the Canadian Commercial Corporation.

Loans to national governments

It is estimated that loans to national governments will total \$1,550 million at the end of the fiscal year, a decrease of \$71 million from the total at the close of the previous year. The estimated changes in these loans are shown in the following table:

TABLE XXXVIII
(In millions of dollars)

LOANS TO NATIONAL GOVERNMENTS	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Loans to United Kingdom—			
The War Appropriation (United Kingdom Financing) Act, 1942.....	82.5	112.5	—30.0
The United Kingdom Financial Agreement Act, 1946..	1,112.1	1,127.3	—15.2
	1,194.6	1,239.8	—45.2
Loans under the Export Credits Insurance Act, Part II—			
Belgium.....	48.5	50.8	—2.3
Czechoslovakia.....	6.0	9.9	—3.9
France.....	184.1	192.5	—8.4
Indonesia.....		3.1	—3.1
Netherlands.....	96.4	101.0	—4.6
Norway.....	10.5	10.5	
	345.5	367.8	—22.3
Miscellaneous loans and advances—			
France—Military relief credits settlement.....	2.0	3.0	—1.0
Interim credit—consolidated interest.....	1.8	1.9	—0.1
Netherlands—Military relief and currency credit settle- ment.....	3.4	4.0	—0.6
Union of Soviet Socialist Republics.....	1.8	3.6	—1.8
Miscellaneous.....	0.8	0.7	0.1
	9.8	13.2	—3.4
	1,549.9	1,620.8	—70.9

During the year the Government of the United Kingdom will have reduced the balance of the \$700 million interest free loan granted under the provisions of the War Appropriation (United Kingdom Financing) Act, 1942 by \$30 million as arranged under the terms of an agreement entered into on August 13, 1953, between the Governments of the United Kingdom and Canada. The balance outstanding at March 31, 1956 is estimated at \$83 million. Under the terms of the agreement the loan is to continue to be free of interest until December 1958.

The Government of the United Kingdom has repaid \$15 million on account of the \$1,185 million loan made under the \$1,250 million credit authorized by the United Kingdom Financial Agreement Act, 1946, reducing the unpaid balance to \$1,112 million at the close of the fiscal year.

Repayments of advances under Part II of the Export Credits Insurance Act to certain foreign countries to assist them in purchasing goods and services in Canada are estimated at \$22 million for the year, as shown in the preceding table. The payment on the loan to Norway, due on June 30, 1955, was received in September 1954, which accounts for no decrease being shown on this loan for the current year. There has been no payment received during the year on account of the \$49 million loan to China which now is included in "inactive loans and investments".

Other loans and investments

Other loans and investments are estimated to increase by \$10 million during the year. The balances of the main accounts in this category together with the changes during the year are shown in the following table:

TABLE XXXIX

(In millions of dollars)

OTHER LOANS AND INVESTMENTS	Balance at March 31		Increase or Decrease (—)
	1956 (Estimated)	1955	
Subscriptions to capital of, and working capital advances to, international organizations—			
Canada's subscription to capital of—			
International monetary fund.....	299.0	293.4	5.6
International bank for reconstruction and develop- ment.....	70.9	70.9	—0.1
Working capital advances to international organizations..	1.6	1.7	5.5
	371.5	366.0	
Loans to provincial governments—			
Alberta.....	10.0	10.4	—0.4
British Columbia.....	19.4	20.1	—0.7
Manitoba.....	16.2	16.8	—0.6
Nova Scotia.....	0.1	0.1	—
Prince Edward Island.....	0.1	0.1	—
Saskatchewan.....	27.3	29.2	—1.9
	73.1	76.7	—3.6
Soldiers Settlement and Veterans Land Acts advances.....	162.8	162.5	0.3
Miscellaneous—			
Balances receivable under agreements of sale of Crown assets.....	11.0	6.8	4.2
Municipal Improvements Assistance Act, 1938.....	2.9	3.1	—0.2
Dominion Coal Company Limited.....	4.4	4.4	—
Acquisition of land to control properties in the vicinity of main terminal airports.....	3.4	2.0	1.4
Construction of dock and rail facilities for Steep Rock Iron Mines Limited.....	2.5	2.6	—0.1
Other.....	9.6	7.0	2.6
	33.8	25.9	7.9
	641.2	631.1	10.1

The increase of \$6 million during the year in Canada's subscription to the capital of the International Monetary Fund is due to the adjustment of the government's Canadian dollar equity in the fund.

Loans to provincial governments are expected to be reduced by the amount of \$4 million reflecting repayments by the governments concerned.

Advances under the Soldier Settlement and Veterans Land Acts are expected to increase by \$7 million during the year. However, as approximately \$7 million will have been added to the reserve for conditional benefits under the Veterans Land Act, there is no net change.

Miscellaneous loans and investments are expected to increase by \$8 million during the year due mainly to increases of \$4 million in balances receivable under agreements of sale of Crown assets, \$1 million in the acquisition of land to control properties in the vicinity of main terminal airports and \$3 million in other accounts.

Deferred charges

Unamortized loan flotation costs are expected to decrease by \$12 million during the year to \$56 million at March 31, 1956. Payments of \$8 million for commissions and discounts on new loans are more than offset by the annual amortization charges of \$20 million applicable to 1955-56 included in the year's expenditures.

Unamortized portion of actuarial deficiency in the superannuation account

No change is expected during the fiscal year in the unamortized portion of the actuarial deficiency in the superannuation account, the balance at March 31, 1956 remaining at \$189 million.

Suspense accounts

The decrease of \$63 million in this category is in respect of the 1954-55 deficit in the old age security fund which was included as a charge in budgetary expenditures for 1955-56 under the authority of Vote 689 of Appropriation Act No. 5, 1955. The temporary loan to cover the 1955-56 deficit, estimated at \$50 million, is shown under current assets.

Capital assets

This asset category records on the government's statement of assets and liabilities, at a nominal value of \$1, the capital assets that are charged to net debt at the time of acquisition or construction.

Inactive loans and advances

This category records those loans and advances which are not currently revenue-producing or realizable. The balance at March 31, 1956 is estimated at \$80 million and includes the loan of \$49 million to China under the Export Credits Insurance Act, and loans of \$24 million to Roumania and \$7 million to Greece, made in 1919-20 and 1920-21.

Reserve for losses on realization of assets

There is no change in the reserve for losses on realization of assets during the year, the balance at March 31, 1956 being \$496 million, unchanged from the end of the previous year.

C. INCREASE IN NET DEBT

The estimated deficit for the fiscal year of \$52 million will result in a corresponding increase in the net debt of Canada from \$11,263 million at March 31, 1955 to \$11,315 million at March 31, 1956.

5. THE CASH POSITION

Although most of the government's financial transactions are reflected in the budgetary accounts it is to be noted that the government also receives and disburses substantial amounts of cash that are not recorded as budgetary revenues and expenditures. These other receipts and disbursements relate to transactions which result in increases or decreases in the government's assets and liabilities and they do not therefore appear in what might be called the government's income account for the fiscal year nor do they enter into the calculation of the annual budgetary surplus or deficit.

As previously indicated it is expected that when the books for the year are closed the budgetary transactions for 1955-56 will have resulted in a deficit of \$52 million. However, during the same period it is estimated that unmatured debt in the hands of the public (that is the outstanding unmatured debt less the government's holdings of that debt in the securities investment and sinking fund accounts) will have increased by \$247 million while cash balances will have risen by \$297 million. It is apparent that in considering the full scope of the government's financial operations and in measuring their effect on the government's cash position and their impact upon the economy, non-budgetary as well as budgetary transactions must be taken into account.

On the assets side the non-budgetary transactions consist, for the most part, of loans and advances to, and repayments by, Crown corporations and other government agencies and funds (including the old age security fund), national, provincial and municipal governments, international organizations, veterans and other borrowers.

On the liabilities side the non-budgetary transactions relate mainly to receipts and payments in connection with the many deposit and trust, and annuity, insurance and pension funds held or administered by the government.

The following statement summarizes these non-budgetary transactions for 1955-56 and indicates how they, together with the budgetary transactions, affect the government's unmatured debt and cash position. For purposes of comparison the corresponding figures for 1954-55 are also shown:

TABLE XL

(In millions of dollars)

CHANGES IN CASH POSITION	Fiscal year ended March 31	
	1956 (Estimated)	1955
NON-BUDGETARY RECEIPTS AND CREDITS (excluding unmatured debt transactions)		
Repayments of loans, investments and working capital advances—		
Loans to Canadian Commercial Corporation.....	4.0	.....
Advances to defence production revolving fund.....	2.8	7.4
Loans to Central Mortgage and Housing Corporation.....	9.1	-43.7
Advances to exchange fund.....	25.0	-25.0
1942 loan to United Kingdom.....	30.0	30.0
1946 loan to United Kingdom.....	15.2	14.8
Loans to other national governments.....	25.7	26.5
Loans to provincial governments.....	3.6	3.4
Other loans, investments and working capital advances.....	2.6	27.0
	118.0	40.4
Net government annuities account receipts—		
Premium receipts less payments to beneficiaries.....	32.8	34.0
Government contribution to maintain reserve.....	0.4	0.4
Interest paid by government.....	34.3	31.6
	67.5	66.0
Net insurance and pension account receipts—		
Employee contributions less payments to beneficiaries.....	24.9	27.0
Government contributions.....	72.4	74.9
Interest paid by government.....	43.2	37.5
	140.5	139.4
Temporary loans to old age security fund.....	12.8	-17.4
Net increase in special defence accounts.....	7.0	-48.1
Net reduction in unamortized loan flotation costs.....	11.9	3.4
Net increase in reserve for conditional benefits—Veterans Land Act....	6.7	8.7
Net receipts in sundry other accounts.....	20.8	31.7
	385.2	224.1
NON-BUDGETARY DISBURSEMENTS AND CHARGES (excluding unmatured debt transactions)		
Loans, investments and working capital advances—		
Advances to agricultural prices support account.....	4.4	9.3
Loans to Atomic Energy of Canada Limited.....	12.0	16.0
Loan to Canadian Broadcasting Corporation.....	8.5	3.0
Loans to Canadian Farm Loan Board.....	4.9	4.4
Loans to, and investments in, Canadian National Railways.....	177.8	-93.4
Subscription to capital of International Monetary Fund.....	5.6	-29.1
Loans to St. Lawrence Seaway Authority.....	20.2	1.3
Loans under Soldier Settlement and Veterans Land Acts.....	7.0	9.3
Other loans, investments and working capital advances.....	13.2	10.4
	253.6	-68.8
Net decrease in prairie farm emergency fund.....	4.7	11.9
Net decrease in matured debt and other demand liabilities.....	15.3	50.0
Net disbursements from sundry other accounts.....	9.7	11.7
	283.3	4.8
Net amount available from non-budgetary transactions.....	101.9	219.3
Deduct Budgetary Deficit.....	-51.7	-151.8
Overall cash available for debt reduction.....	50.2	67.5
Net increase or decrease (-) in unmatured debt outstanding in the hands of the public—		
Securities investment account.....	-626.0	-27.6
Sinking fund.....	-25.0	-89.0
Unmatured debt.....	897.8	-79.7
	246.8	-196.3
Net increase or decrease (-) in cash balances on deposit to the credit of the Receiver General.....	297.0	-128.8

Non-budgetary receipts and credits (excluding unmatured debt transactions) are estimated at \$385 million while non-budgetary disbursements and charges (also excluding unmatured debt transactions) are expected to total \$283 million resulting in a net amount of \$102 million available from non-budgetary transactions. As the budgetary deficit is estimated at \$52 million, \$50 million will be available for debt reduction or increase in cash balances. In 1954-55 the excess of receipts over disbursements was \$219 million which after deducting the budgetary deficit of \$152 million left \$67 million available for debt reduction.

Non-budgetary receipts and credits are estimated at \$385 million. Repayments of loans, investments and working capital advances are expected to amount to \$118 million, including \$25 million from the exchange fund, \$45 million from the Government of the United Kingdom and \$26 million from other national governments. Net government annuity account receipts are estimated at \$67 million and net insurance and pension account receipts at \$141 million. The net repayment of \$13 million in temporary loans to the old age security fund reflects loans of \$50 million during the fiscal year and the charge to budgetary expenditures during 1955-56 of the 1954-55 deficit of \$63 million. Net receipts in various other accounts are estimated at \$46 million.

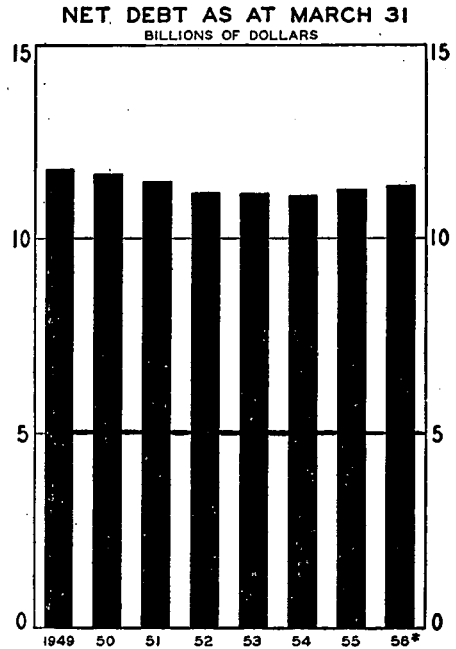
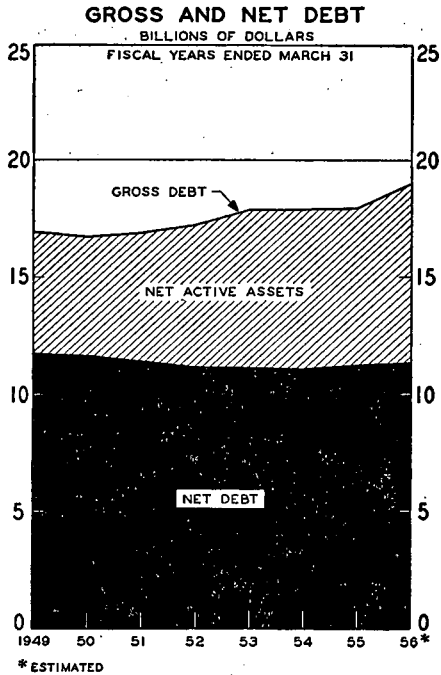
Non-budgetary disbursements and charges are expected to amount to \$283 million in 1955-56. Loans, investments and working capital advances, estimated at \$254 million, include \$12 million to Atomic Energy of Canada Limited for working capital and to finance the construction of the new reactor and other buildings and works at Chalk River and Deep River, \$9 million to the Canadian Broadcasting Corporation to cover capital costs of television installations and to support the development of the service, \$178 million to the Canadian National Railways for additions and betterments, the acquisition of equipment and new rolling stock, additional working capital and the redemption of maturing Canadian National Railways bond issues, \$20 million for loans to The St. Lawrence Seaway Authority for construction purposes, \$7 million for loans to veterans and \$28 million for other loans, investments and working capital advances. Other non-budgetary disbursements are expected to total \$30 million.

In summary, unmatured debt in the hands of the public after taking into account transactions in the securities investment account and sinking fund is expected to increase by \$247 million and this amount with the \$50 million available from budgetary and non-budgetary transactions will increase cash balances on deposit with banks by an estimated \$297 million.

6. THE PUBLIC DEBT

Gross and net debt

It is estimated that the unmatured debt of Canada will increase by \$898 million and other liabilities by \$205 million during the fiscal year. Consequently it is expected that the gross public debt of Canada will increase by \$1,103 million from \$17,952 million at March 31, 1955 to an estimated total of \$19,055 million at March 31, 1956. As the government's assets as shown on the statement of assets and liabilities are expected to increase by \$1,052 million during the same period, the net debt is expected to increase by \$52 million.



The following table shows the relationship between the gross public debt, the unmatured debt and the net debt at the end of each fiscal year, March 31, 1949 to 1956 inclusive, the 1956 amounts being estimated.

TABLE XLI
STATEMENT OF PUBLIC DEBT, UNMATURED DEBT, RECORDED ASSETS AND NET DEBT OF CANADA
(In million of dollars)

As at March 31	Gross Public Debt			Less Recorded Assets	Net Debt	Increase or Decrease (—) in Net Debt during Fiscal Year
	Unmatured Debt	Other Liabilities	Total			
1949.....	15,585.0	1,365.4	16,950.4	5,174.3	11,776.1	—595.5
1950.....	15,188.1	1,562.7	16,750.8	5,106.1	11,644.6	—131.5
1951.....	15,026.8	1,896.5	16,923.3	5,490.0	11,433.3	—211.3
1952.....	14,695.4	2,562.3	17,257.7	6,072.4	11,185.3	—248.0
1953.....	14,810.5	3,108.0	17,918.5	6,756.8	11,161.7	—23.5
1954.....	14,576.2	3,347.0	17,923.2	6,807.3	11,115.9	—45.8
1955.....	14,496.5	3,455.0	17,951.5	6,688.4	11,263.1	147.2
1956 (Estimated).....	15,394.3	3,660.6	19,054.9	7,740.1	11,314.8	51.7

Unmatured debt

It is estimated that the unmatured debt of Canada will total \$15,394 million at March 31, 1956, an increase of \$898 million over March 31, 1955. However, it is to be noted that during the same period the holdings of securities in the sinking fund and the securities investment accounts are expected to increase by \$651 million, resulting in an increase of \$247 million in the unmatured debt outstanding in the hands of the public. Of the increase of \$651 million, \$445 million represents the repurchase of treasury notes originally purchased and held by the Bank of Canada.

Summary of security issues and redemptions during the fiscal year

It is estimated that during the fiscal year 1955-56 the government will have issued securities payable in Canadian dollars in the principal amount of \$3,229 million (excluding the refunding of treasury bills which mature periodically) and redeemed maturing issues in the amount of \$2,331 million, \$48 million of which was payable in United States dollars and the balance in Canadian dollars.

The financing of redemptions was effected as follows:

(in millions of dollars)

By proceeds of new issues:			
Canada savings bonds, series 10 (net).....	644.1		
Two year ten month loan.....	100.0		
Increase in treasury bills.....	710.0		
		1,454.1	
By refunding or conversion into new issues.....		1,775.0	
			3,229.1

As a result of these transactions the net increase in unmatured debt is estimated at \$898 million.

The amount of treasury bills outstanding at the end of the fiscal year is estimated at \$1,600 million or \$710 million more than at March 31, 1955. Of this amount \$1,340 million is in three month bills and \$260 million in nine month bills. The increase of \$710 million reflects the government's desire to meet a growing demand for short-term securities.

Details of redemptions and new issues of securities during the fiscal year are set out in the following tables:

TABLE XLII
REDEMPTION OF DEBT DURING FISCAL YEAR ENDING MARCH 31, 1956

Maturity Date	Interest Rate	Where Payable	Amount
	%		\$
May 2, 1955.....	1½	Canada	500,000,000
May 2, 1955.....	1½	Canada	200,000,000
July 1, 1955.....	2½	Canada	200,000,000
July 1, 1955.....	2½	Canada	400,000,000
November 1, 1955.....	1½	Canada	675,000,000
January 15, 1961 ⁽¹⁾	3½	New York	48,000,000
Canada Savings Bonds Series 1-9.....	2½-3½	Canada	308,247,000
Total Redemption of Debt.....			2,331,247,000

⁽¹⁾ Called for redemption January 15, 1956.

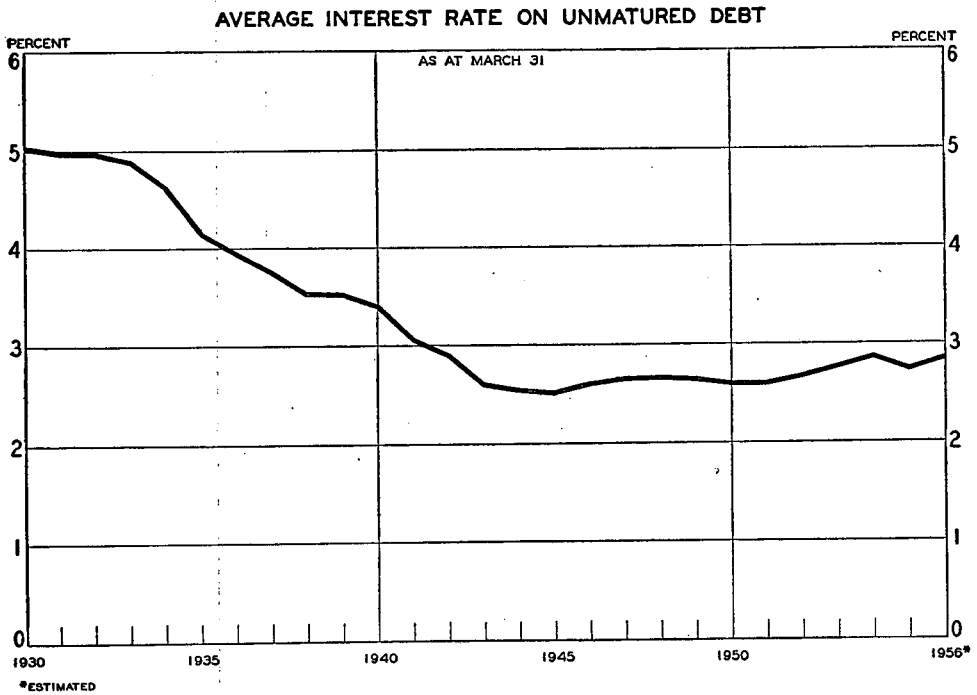
TABLE XLIII

NEW SECURITY ISSUES DURING FISCAL YEAR ENDING MARCH 31, 1956

	Issue Date	Maturity Date	Interest Rate	Price to Government	Yield at Price to Government	Total Amount Issued	Renewals or Reconversion Included in Amount Issued	Amount Issued for Cash
			%		%	\$	\$	\$
<i>Issued to Bank of Canada</i>								
Six Months Treasury Notes.....	May 2, 1955	Nov. 1, 1955	1½	100	1.375	675,000,000	675,000,000	
Six Months Treasury Notes.....	Nov. 1, 1955	May 1, 1956	2½	100	2.25	500,000,000	500,000,000	
						1,175,000,000	1,175,000,000	
<i>Issued to General Public</i>								
Loan, Two Years, Ten Months.....	July 1, 1955	May 1, 1958	2	99.85	2.06	700,000,000	600,000,000	100,000,000
Canada Savings Bonds Series 10 (net)....	Nov. 1, 1955	Nov. 1, 1967	3½	99.25	3.33	644,100,000		644,100,000
Increase in Treasury Bills.....	Various	Various	Various	Various	Various	710,000,000		710,000,000
						2,054,100,000	600,000,000	1,454,100,000
GRAND TOTAL.....						3,229,100,000	1,775,000,000	1,454,100,000

Interest rates

Interest rates rose sharply during the year, particularly on short-term securities. The average interest rate on the government's outstanding unmatured debt at March 31, 1956 is estimated at 2·86 per cent compared with 2·74 per cent at the end of the previous fiscal year and 2·60 per cent at March 31, 1951.



There has also been a rise in treasury bill yields during 1955-56. The yield on the issue of three month bills sold on March 9, 1956 was 2·60 per cent compared with 1·13 per cent for the last issue sold in 1954-55.

The following table shows the high and low yields together with the yield on the last issue for the fiscal years 1946-47 to 1955-56 inclusive on three month and nine month bills.

TABLE XLIV
TREASURY BILL YIELDS

Fiscal Year	Three-month bills			Nine-month bills		
	High	Low	Last issue	High	Low	Last issue
	per cent	per cent	per cent	per cent	per cent	per cent
1946-47.....	·404	·373	·404	.....	.....	.....
1947-48.....	·411	·406	·411	.....	.....	.....
1948-49.....	·451	·410	·451	.....	.....	.....
1949-50.....	·513	·489	·512	.....	.....	.....
1950-51.....	·754	·512	·754	.....	.....	.....
1951-52.....	·943	·754	·943	.....	.....	.....
1952-53.....	1·521	·956	1·521	2·380	2·249	2·380
1953-54.....	1·965	1·513*	1·585	2·756	1·903	1·903
1954-55.....	1·615	·782	1·130	1·908	1·095	1·342
1955-56 ⁽¹⁾	2·636	1·084	(2)2·604	2·900	1·285	(3)2·900

(1) For the period from April 1, 1955 to March 9, 1956

(2) Sold March 9, 1956.

(3) Sold November 25, 1955.

Indirect debt or contingent liabilities

In addition to the direct debt set out in the statement of assets and liabilities the Government has assumed certain indirect or contingent obligations. These consist of securities of the Canadian National Railways, guaranteed as to principal and interest, or as to interest only, and a number of miscellaneous guarantees, the chief of which are the guarantee of insured loans made by chartered banks and other approved lending institutions under the National Housing Act, 1954, deposits maintained by the chartered banks in the Bank of Canada, bank advances to the Canadian Wheat Board, advances under the Export Credits Insurance Act and bank loans under the Farm Improvement Loans Act.

There is a large increase during the year in the government's liability under its guarantee of insured loans under the National Housing Act, 1954. This liability is estimated at \$529 million at December 31, 1955 compared with about \$121.6 million at December 31, 1954 and \$185.8 million at March 31, 1955.

The following tables give details of the bonds and debenture stocks guaranteed by the Government, and also indicate the nature and approximate extent of the government's other guarantees and contingent liabilities.

TABLE XLV

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE GOVERNMENT AS AT MARCH 31, 1956

Date of Maturity	Issue	Interest Rate	Estimated Amount Outstanding
		%	\$
July 1, 1957.....	Canadian National.....	4½	64,136,000
July 20, 1958.....	Canadian Northern.....	3½	5,500,208
Jan. 15, 1959.....	Canadian National.....	3	35,000,000
May 4, 1960.....	Canadian Northern Alberta.....	3½	316,856
May 19, 1961.....	Canadian Northern Ontario.....	3½	2,069,805
Jan. 1, 1962.....	Grand Trunk Pacific.....	3	26,465,130
Jan. 1, 1962.....	Grand Trunk Pacific.....	4	7,999,074
Feb. 1, 1963.....	Canadian National.....	2½	250,000,000
Jan. 3, 1966.....	Canadian National.....	3	35,000,000
Jan. 2, 1967.....	Canadian National.....	2½	50,000,000
Sept. 15, 1969.....	Canadian National.....	2½	70,000,000
Jan. 16, 1971.....	Canadian National.....	2½	40,000,000
Feb. 1, 1974.....	Canadian National.....	3½	200,000,000
June 15, 1975.....	Canadian National.....	2½	6,000,000
Perpetual.....	Grand Trunk Debenture Stock.....	5	56,790
Perpetual.....	Grand Trunk Debenture Stock.....	4	11,068
			792,554,931

TABLE XLVI

OTHER OUTSTANDING GUARANTEES AND CONTINGENT LIABILITIES	
	Estimated Amount Outstanding
Province of Manitoba Treasury Bill (March 31, 1956)..	\$ 500,000
Deposits maintained by the chartered banks in the Bank of Canada (March 7, 1956).....	546,628,871
Loans maintained by approved lending institutions under National Housing Acts prior to 1954 Act (December 31, 1955).....	Indeterminate
Loans made by approved lending institutions under the Home Improvement Loans Guarantee Act, 1937 (December 31, 1955).....	43
Loans made by approved lending institutions under Part IV of the National Housing Act, 1944, for home extensions and improvements (December 31, 1955).....	4,285
Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements (December 31, 1955).....	21,336,699
Guarantees to approved lending institutions in respect of land assembly projects under the National Housing Acts, 1944 and 1954 (December 31, 1955)	Nil
Insured loans made by approved lenders under the National Housing Act, 1954 (December 31, 1955)	529,000,000
Guarantees under the Export Credits Insurance Act Part I (March 31, 1956).....	36,000,000
Guarantees under the Export Credits Insurance Act Part II (March 31, 1956).....	6,375,000
Loans made by chartered banks under the Farm Improvement Loans Act (December 31, 1955)....	35,712,360
Loans made by chartered banks under The Veterans' Business and Professional Loans Act (December 31, 1955).....	2,502,822
Loans made by chartered banks under the Prairie Grain Producers' Loans Act (December 31, 1955)	673,107
Loans made by chartered banks under the Prairie Grain Producers' Interim Financing Act, 1951 (February 28, 1956).....	600
Loans made by chartered banks to Canadian Wheat Board (February 29, 1956).....	86,209,001

7. SUPPLEMENTARY DETAILED TABLES

REVENUES

EXPENDITURES

LOANS AND ADVANCES AND INVESTMENTS

UNMATURED DEBT

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

	1951-52	1952-53	1953-54	1954-55	Estimated 1955-56
	\$	\$	\$	\$	\$
TAX REVENUES—					
Income tax—					
Personal (1).....	975.7	1,180.0	1,187.7	1,183.4	1,180.0
Corporation (1).....	1,130.7	1,240.1	1,191.2	1,020.6	1,035.0
On dividends, interets, etc. going abroad.....	55.0	53.7	53.8	61.3	67.0
Excess profits tax.....	2.4				
Excise taxes—					
Sales taxes (1) (2).....	587.2	566.2	587.3	572.2	640.0
Other excise taxes—					
Automobiles, tires and tubes.....	100.9	89.9	106.1	81.8	81.0
Beverages (soft drinks).....	19.2	12.5	11.7	8.2	8.7
Candy and chewing gum.....	11.5	12.4	12.8	9.9	9.2
Cigarettes, cigars and tobacco.....	106.3	102.6	113.2	114.5	122.5
Cigarette papers and tubes.....	0.4				
Electrical appliances.....	4.9	4.3	5.1	0.4	
Furs.....	4.8	5.7	3.7	0.1	
Jewellery, watches, ornaments, etc.....	9.7	7.5	7.2	4.8	5.0
Matches and lighters.....	1.9	1.4	1.4	0.9	0.9
Stamps on cheques, money orders, etc.....	11.3	10.6			
Stoves, washing machines and refrigerators.....	10.9	1.5			
Television sets, radios, tubes and phonographs.....	8.2	10.7	16.8	21.5	23.0
Toilet preparations.....	8.5	7.2	7.1	5.2	5.6
Trunks, bags, luggage, etc.....	4.0	3.6	3.5	0.4	
Wines.....	2.2	2.2	2.2	2.4	2.5
Sundry commodities.....	7.2	6.0	6.4	2.3	2.1
Licences, interest and miscellaneous	0.5	0.5	0.4	0.4	0.4
Less refunds.....	-13.7	-2.9	-1.6	-0.8	-0.9
Customs duties.....	298.7	275.7	296.0	262.0	260.0
Excise duties—	346.4	389.4	407.3	397.2	475.0
Spirits, malt and beer.....	120.9	127.7	133.0	130.1	140.2
Cigarettes, cigars and tobacco.....	100.7	116.9	97.0	100.8	108.6
Less refunds.....	-3.7	-3.3	-3.3	-4.4	-3.8
Succession duties.....	217.9	241.3	226.7	226.5	245.0
Tax on insurance premiums.....	38.2	38.1	39.1	44.8	75.0
Miscellaneous tax revenue.....	4.8	12.4	13.8	14.5	15.0
Miscellaneous tax revenue.....	0.8	0.7	0.7	1.0	1.0
TOTAL REVENUE.....	3,657.8	3,997.6	4,003.6	3,773.5	3,993.0
NON-TAX REVENUES—					
Bullion and coinage.....	4.8	4.4	4.2	1.8	2.8
Post Office—net postal revenue.....	104.6	111.9	111.0	131.3	136.8
Premium, discount and exchange.....	17.7	1.5	0.8		1.6
Return on investments.....	123.0	125.5	152.1	134.0	147.0
Other.....	73.0	119.9	124.6	82.9	104.2
Other.....	325.1	363.2	392.7	350.0	392.4
TOTAL REVENUE.....	3,980.9	4,360.8	4,396.3	4,123.5	4,385.4

(1) Excluding tax credited to the old age security fund—

	1951-52	1952-53	1953-54	1954-55	Estimated 1955-56
2% personal income tax.....	0.1	45.3	90.7	100.9	102.5
2% corporation income tax.....	2.0	36.8	55.6	46.0	53.2
2% sales tax.....	24.3	141.6	146.8	143.1	160.0

(2) The total for 1951-52 represents gross collections less transfer to the old age security fund, and in subsequent years the totals are net after deduction of refunds and drawbacks as well as transfers to the old age security fund.

**STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS**

(in millions of dollars)

	1951-52	1952-53	1953-54	1954-55	Estimated 1955-56
	\$	\$	\$	\$	\$
Agriculture—					
Administration and general.....	0.7	0.8	0.9	1.0	1.1
Science service.....	7.0	8.1	9.0	9.3	9.3
Experimental farms service.....	7.7	8.3	8.6	9.6	10.9
Production service.....	9.3	9.3	9.5	10.0	10.4
Marketing service.....	4.6	4.8	4.2	9.3	6.9
Rehabilitation and reclamation projects	11.8	13.9	14.7	12.6	12.3
Freight assistance on western feed grains	15.0	20.7	17.0	19.0	15.5
Premium on hog carcasses suitable for export to United Kingdom.....	5.4	6.4	4.7	5.1	5.8
Net operating loss-Agricultural prices support account.....	1.7	32.5	37.7	3.1	5.8
Deficit—Prairie farm emergency fund:					8.0
Other expenditure.....	3.9	1.9	2.1	2.8	2.1
	67.1	106.7	108.4	81.8	88.1
Atomic Energy.....	12.3	12.9	12.7	15.0	19.5
Auditor General's Office.....	0.6	0.6	0.6	0.7	0.7
Canadian Broadcasting Corporation.....	8.3	8.2	8.3	8.4	8.2
Payment from the consolidated revenue fund of amounts equal to taxes col- lected under the Excise Tax Act in respect of radio and television sets and equipment.....			16.7	20.8	23.0
	8.3	8.2	25.0	29.2	31.2
Office of the Chief Electoral Officer.....	0.4	0.5	5.5	0.3	0.5
Citizenship and Immigration—					
Administration and general.....	1.2	1.4	1.7	1.7	2.8
Immigration branch.....	8.1	7.1	7.3	8.3	8.3
Indian Affairs branch.....	14.0	15.2	16.5	18.0	21.6
	23.3	23.7	25.5	28.0	32.7
Civil Service Commission.....	1.7	1.9	2.1	2.3	2.5
Defence Production—					
Administration and general.....	8.3	9.7	10.1	9.2	9.8
Capital assistance to defence industry...	22.7	79.1	37.8	9.7	6.5
	31.0	88.8	47.9	18.9	16.3
External Affairs.....	8.2	9.2	10.3	11.9	13.7
Membership in commonwealth and international organizations.....	2.7	3.5	3.5	4.4	4.4
Assistance to other countries and in- ternational organizations.....	26.7	26.6	31.9	27.5	27.3
	37.6	39.3	45.7	43.8	45.4
Finance—					
Departmental administration and gen- eral.....	8.3	9.4	9.4	9.3	13.8
Office of the Comptroller of the Treasury.....	12.6	13.3	13.7	14.9	15.1
Interest on public debt.....	432.4	451.3	476.1	477.9	490.9
Additional amount required to place interest on public debt on accrual basis.....	87.5				
Cost of issuing new loans and annual amortization of bond discounts and commissions.....	10.7	13.1	19.1	23.6	21.4
Servicing of public debt.....	0.4	0.5	0.6	0.8	0.6
Subsidies to provinces.....	20.1	20.1	20.1	20.4	20.4
Compensation to provinces—					
Tax rental agreements, 1947 Act.....	96.9	23.8			
Tax rental agreements, 1952 Act.....		284.8	309.2	327.4	319.7
Transfer of certain public utility tax receipts, under tax rental agree- ments.....	3.7	4.4	6.8	7.3	8.9
Transitional grant to Newfoundland...	6.5	5.6	4.8	3.9	3.1
Government contributions with respect to the superannuation account—					
General.....	12.9	13.8	16.4	37.4	31.5
Special.....	98.0	25.0	38.0		
Grants to universities.....	7.0	5.1	5.2	5.4	5.6
Implementation of guarantees (Ming Sung Industrial Co. Ltd.).....	1.3	1.7	1.6	1.5	1.5

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Continued*
(in millions of dollars)

	1951-52	1952-53	1953-54	1954-55	Estimated 1955-56
	\$	\$	\$	\$	\$
<i>Finance—concluded</i>					
Premium, discount and exchange.....				3.8	
Wartime Prices and Trade Board— Administration.....	0.2				
Commodity Prices Stabilization Cor- poration Limited.....	0.1		0.3	0.1	
Relief <i>re Hurricane Hazel</i>				0.3	0.4
Provision for reserve for losses on realization of assets.....	75.0	75.0	50.0		
	873.6	946.9	971.3	934.0	932.9
Fisheries.....	8.7	10.8	9.3	11.2	12.6
Governor General and Lieutenant-Gov- ernors.....	0.3	0.4	0.4	0.4	0.4
Insurance.....	0.4	0.4	0.4	0.5	0.5
Justice.....	5.1	5.6	5.8	5.9	6.7
Office of the Commissioner of Peni- tentiaries.....	8.9	9.3	9.2	10.5	11.1
	14.0	14.9	15.0	16.4	17.8
Labour.....	9.5	10.1	9.6	9.4	9.6
Government annuities—amount re- quired to maintain reserve.....	0.9	0.7	0.1	0.4	0.4
Unemployment Insurance Act, 1940— Administration and general.....	23.9	25.1	26.1	28.3	27.1
Government contribution.....	30.0	31.1	31.8	31.7	33.9
	64.3	67.0	67.6	69.8	71.0
<i>Legislation—</i>					
House of Commons.....	4.3	4.5	4.0	4.8	5.0
Library of Parliament.....	0.1	0.3	0.3	0.3	0.3
Senate.....	1.2	1.1	1.0	1.3	1.3
General.....	0.3	0.3	0.3	0.3	0.3
	5.9	6.2	5.6	6.7	6.9
Mines and Technical Surveys.....	10.8	12.0	13.0	16.4	17.8
Dominion Coal Board.....	5.1	6.5	10.3	11.8	11.2
Emergency gold mining assistance....	11.8	11.2	15.2	15.5	10.5
	27.7	29.7	38.5	43.7	39.5
<i>National Defence—</i>					
General.....	0.3	0.3	0.3	0.3	0.5
Defence forces, Army, Navy and Air services.....	1,217.6	1,557.7	1,424.3	1,313.8	1,453.5
Mutual aid to NATO countries.....	126.4	246.3	300.2	260.0	175.0
Defence research and development....	35.4	43.0	40.8	50.0	65.9
<i>Pensions—</i>					
Payments under defence services pension act.....	5.1	5.1	5.1	5.2	5.3
Government contribution to perman- ent services pension account.....	30.7	30.0	35.2	36.7	40.1
	1,415.5	1,832.4	1,805.9	1,666.0	1,740.3
National Film Board.....	2.7	2.9	3.0	3.4	4.1
National Health and Welfare.....	21.1	23.0	28.0	28.6	30.9
General health grants.....	24.3	27.3	29.2	31.6	33.5
Family allowances.....	320.4	334.2	350.1	366.5	382.4
Old age pensions including pensions to blind persons.....	80.2				
Old age assistance, blind and disabled persons allowances.....	3.0	22.1	23.2	24.2	29.9
Deficit—Old age security fund.....	49.7			45.8	63.3
	498.7	406.6	430.5	496.7	540.0
National Research Council.....	12.8	15.4	15.4	15.7	16.3
National Revenue including taxation division.....	45.8	47.3	49.9	55.0	56.7
Northern Affairs and National Resources Post Office.....	17.4	19.5	19.3	20.2	25.8
	98.0	105.6	113.6	123.6	126.5
Privy Council including Prime Minister's Office.....	4.1	3.8	3.7	3.8	4.0
Public Archives and National Library...	0.3	0.3	0.4	0.4	0.5
Public Printing and Stationery.....	1.1	1.6	2.0	2.1	2.3
Public Works.....	79.1	83.9	101.5	112.7	125.0
Trans-Canada highway contributions..	12.8	14.0	13.4	18.1	15.0
	91.9	97.9	114.9	130.8	140.0

**STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Concluded***

(in millions of dollars)

	1951-52	1952-53	1953-54	1954-55	Estimated 1955-56
	\$	\$	\$	\$	\$
Royal Canadian Mounted Police.....	27.3	31.1	33.9	35.5	37.0
Secretary of State.....	2.4	2.2	3.3	2.7	3.0
Trade and Commerce.....	21.8	16.5	16.5	17.5	18.1
Assistance re storage costs on grain.....					19.2
	21.8	16.5	16.5	17.5	37.3
Transport—					
Administration and general.....	3.2	3.2	4.2	7.0	8.2
Canal services.....	8.0	9.9	8.4	7.8	8.4
Marine services.....	17.5	21.7	20.3	21.3	21.0
Railway and steamship services.....	2.3	10.5	20.4	26.7	16.5
Maritime freight rates act.....	10.0	10.1	10.5	10.5	11.2
Air services.....	36.3	39.2	41.4	44.7	58.2
Canadian Maritime Commission.....	4.4	4.0	4.2	4.2	4.3
Deficits—					
Canadian National Railway.....	15.0			28.8	
Canadian National (West Indies) Steamships Limited.....	0.5		0.6	0.6	0.1
Prince Edward Island car ferry and terminals.....	1.4	1.5	1.6	1.5	1.6
North Sydney—Port-aux-Basques ferry and terminals.....		1.8	2.2	2.2	3.1
National Harbours Board.....	0.1	0.1			
Non-Active assets—					
National Harbours Board.....	1.2	1.9	4.2	3.9	3.1
	99.9	103.9	118.0	159.2	135.7
Veterans Affairs—					
Administration and general.....	2.5	3.6	2.3	2.3	2.2
Pensions.....	103.7	127.1	127.6	128.8	130.6
Treatment and after-care of returned soldiers and allowances to depend- ents.....	76.1	78.5	79.5	82.2	93.1
Hospital accommodation, additions, alterations and improvements.....	3.8	4.0	4.1	3.9	3.3
Post-discharge rehabilitation benefits..	6.6	3.8	2.5	2.6	1.8
War service gratuities and re-estab- lishment credits.....	9.8	10.7	8.9	6.0	3.7
Soldier settlement and veterans land acts.....	5.9	5.7	5.3	5.4	5.5
Provision for reserve for conditional benefits under veterans land act.....	7.6	8.0	8.5	8.9	8.9
	216.0	241.4	258.7	240.1	249.1
TOTAL EXPENDITURE.....	3,732.9	4,337.3	4,350.5	4,275.4	4,437.1

ANNUAL CHANGES IN LOANS AND INVESTMENTS FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

	1951-52	1952-53	1953-54	1954-55	Estimated 1955-56
	\$	\$	\$	\$	\$
LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS					
Atomic Energy of Canada, Limited.....		8.8	✓7.2	16.0	12.0
Canadian Broadcasting Corporation.....	0.9	2.0	4.7	3.0	8.5
Canadian Commercial Corporation.....	6.5				Cr. 4.0
Canadian Farm Loan Board.....	1.3	1.6	3.7	4.4	4.9
Canadian National Railways.....	140.0	141.8	Cr. 18.1	Cr. 93.4	177.8
Canadian National (West Indies) Steam- ships Limited.....	Cr. 0.2			3.6	Cr. 0.1
Canadian Patents and Development Limited.....	Cr. 0.3				
Central Mortgage and Housing Corpora- tion.....	73.6	72.6	98.8	43.7	Cr. 9.1
Commodity Prices Stabilization Corpora- tion.....			Cr. 1.2		
National Harbours Board.....	0.2	Cr. 0.1	Cr. ✓0.6	1.0	0.3
Polymer Corporation Limited.....	Cr. 3.0	Cr. 1.0	Cr. ✓3.0	Cr. 4.0	
St. Lawrence Seaway Authority.....				1.3	20.2
Other Crown corporations.....	2.6	6.8	Cr. ✓2.8	0.3	3.9
	221.6	232.5	88.7	Cr. 24.1	214.4
LOANS TO NATIONAL GOVERNMENTS					
United Kingdom—					
The War Appropriation (U.K. Finance ing) Act, 1942.....	Cr. 31.1	Cr. 24.3	Cr. 53.6	Cr. 30.0	Cr. 30.0
The United Kingdom Financial Agree- ment Act, 1946.....	Cr. 14.0	Cr. 14.3	Cr. 14.6	Cr. 14.8	Cr. 15.2
Export Credits Insurance Act.....	Cr. 20.7	Cr. 20.6	Cr. 19.4	Cr. 23.6	Cr. 22.3
Other.....	5.5	Cr. 1.6	Cr. 4.9	Cr. 2.9	Cr. 3.4
	Cr. 60.3	Cr. 60.8	Cr. 92.5	Cr. 71.3	Cr. 70.9
OTHER LOANS AND INVESTMENTS					
Subscriptions to capital of, and working capital advances to, international organizations—					
Canada's subscription to capital of—					
International monetary fund.....				Cr. 29.1	5.6
International bank for reconstruction and development.....	0.2				
Working capital advances to inter- national organizations.....				1.7	Cr. 0.1
Loans to provincial governments.....	Cr. 3.9	Cr. 3.5	Cr. 3.4	Cr. 3.4	Cr. 3.6
Miscellaneous—					
Balances receivable under agreements of sale of Crown assets.....	Cr. 0.9	0.9	8.5	Cr. 8.0	4.2
Soldier settlement and veterans land act advances.....	1.5	Cr. 1.3	Cr. 0.7	0.6	0.3
Other.....	2.7	Cr. 0.5	Cr. 0.1	3.9	3.7
	Cr. 0.4	Cr. 4.4	4.3	Cr. 34.3	10.1
Sinking fund and other investments held for retirement of unmatured debt.....	3.2	1.7	74.2	89.0	25.0
Net total of changes in loans and invest- ments.....	164.1	169.0	74.7	Cr. 40.7	178.6

**UNMATURED DEBT AND TREASURY BILLS AS AT MARCH 31, 1956 AND THE ANNUAL
INTEREST PAYABLE THEREON**

Date of maturity	Rate per cent	Where payable	Amount of loan	Annual interest charge
			\$	\$
1956, May 1.....	2½	Canada	500,000,000	11,250,000
July 1.....	2½	Canada	400,000,000	9,000,000
November 1.....	2½	Canada	*56,500,000	1,553,750
December 15.....	2½	Canada	550,000,000	12,375,000
1957, October 1.....	2	Canada	700,000,000	14,000,000
November 1.....	2½	Canada	*30,100,000	827,750
1958, May 1.....	3	Canada	300,000,000	9,000,000
May 1.....	2	Canada	700,000,000	14,000,000
November 1.....	2½	Canada	*27,700,000	761,750
1959, January 1.....	3	Canada	1,197,324,750	35,919,742
November 1.....	2½	Canada	*40,900,000	1,124,750
1960, June 1.....	3	Canada	1,165,300,350	34,959,011
November 1.....	2½	Canada	*37,500,000	1,031,250
1962, February 1.....	3	Canada	1,315,639,200	39,469,176
August 1.....	3½	Canada	*137,500,000	4,812,500
1963, July 1.....	3	London	(1) 49,833,091	1,494,993
July 1.....	3½	London	(1) 1,978,362	64,297
August 1.....	3½	Canada	*152,300,000	5,711,250
August 1.....	3	New York	(2) 150,000,000	4,500,000
October 1.....	3	Canada	1,295,819,350	38,874,581
1965, November 1.....	3½	Canada	*632,800,000	23,730,000
1966, June 1.....	3½	Canada	54,703,000	1,777,848
September 1.....	3	Canada	1,691,796,700	50,753,901
November 1.....	3½	Canada	*607,500,000	19,743,750
1967, November 1.....	3½	Canada	*644,100,000	20,933,250
1968, June 15.....	2½	Canada	350,000,000	9,625,000
1974, September 1.....	2½	New York	(2) 100,000,000	2,750,000
1975, September 15.....	2½	New York	(2) 50,000,000	1,375,000
1976, June 1.....	3½	Canada	300,000,000	9,750,000
1978, January 15.....	3½	Canada	100,000,000	3,750,000
1979, October 1.....	3½	Canada	400,000,000	13,000,000
Perpetuals.....	3	Canada	55,000,000	1,650,000
Various, three months treasury bills..	(3) 2.604	Canada	1,340,000,000	34,893,600
Various, nine months treasury bills...	2	Canada	260,000,000	5,200,000
			15,394,294,803	439,662,149
Payable in Canada.....			15,042,483,350	429,477,859
Payable in London.....			51,811,453	1,559,290
Payable in New York.....			300,000,000	8,625,000
			15,394,294,803	439,662,149

* Estimated.

(1) Conversion rate \$2.80 to the pound sterling.

(2) Conversion rate \$1.00 Can. to the U.S. dollar.

(3) Rate of discount on bills sold March 9, 1956.