



CANADA

# BUDGET SPEECH

DELIVERED BY

HONOURABLE DONALD M. FLEMING

MINISTER OF FINANCE

MEMBER FOR EGLINTON

IN THE

HOUSE OF COMMONS

APRIL 10, 1962

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1962



## INDEX

	PAGE
Introduction .....	3
Government Accounts 1961-62 .....	3
Economic Review .....	4
Management of the Public Debt .....	8
Exchange Rate and Exchange Fund .....	11
Dominion-Provincial Relations .....	13
Government Accounts 1962-63 .....	15
Tax Policy .....	17
Estate Tax .....	19
Sales and Excise Tax Changes .....	19
Customs Tariff .....	20
Income Tax Changes .....	20
Summary .....	25
Conclusion .....	26
Resolutions .....	26
Appendix "A"—International Economic Developments .....	33
Appendix "B"—Dominion-Provincial Relations .....	36
Budget Papers	
Part I Economic Review of 1961 .....	42
Part II Review of Government Accounts 1961-1962 .....	85

# BUDGET SPEECH

DELIVERED BY

HON. DONALD M. FLEMING

MINISTER OF FINANCE

HOUSE OF COMMONS, TUESDAY, APRIL 10, 1962

## THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE  
MINISTER OF FINANCE

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

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

He said: Mr. Speaker, this evening I present my sixth budget. There were as well the financial proposals introduced on December 6, 1957. Each has been designed to serve a long range goal; each has been fashioned also to meet the needs and conditions of its own time. The goal I defined in these words:

The abiding goal of our fiscal policy is the maintenance of a sustainable rate of growth in terms of employment, development of resources, and a sound dollar.

Budgets are normally annual. The fiscal program for the year must be adapted to existing economic conditions. These in an open dynamic and sensitive economy like Canada's are always changing. Flexibility must therefore characterize our financial programs. Adaptation has marked our annual budget programs in these past five years, adaptation to conditions, adaptation to change.

Je suis heureux de signaler que les circonstances dans lesquelles se présente ce budget du Canada sont une prospérité grandissante, un nombre accru d'emplois, de plus grandes possibilités et une rapide croissance économique. La politique énoncée dans ce budget demeurera expansionniste, adaptée à la conjoncture économique nationale. Telle est la note dominante de mon discours.

I am happy to report that the circumstances attending this Canadian budget are rising prosperity, more jobs, greater opportunities,

and rapid economic growth. The policy expressed in this budget will continue to be expansionist, suited to our national economic circumstances. This is my keynote.

## GOVERNMENT ACCOUNTS 1961-62

The financial transactions of the government for the fiscal year which ended on March 31 are set forth and analyzed in detail in the white paper which was tabled and published yesterday. I need therefore refer to them only briefly this evening. The figures presently available are, of course, subject to some changes, since many payments must still be made and the final figures will not be available until the accounts for the year have been closed and audited.

In my last previous budget ten months ago I forecast revenues for the fiscal year ended March 31 at \$5,765 million. Our current estimate is \$5,772 million, an increase of \$7 million, within one eighth of one per cent of the forecast. Expenditures which were forecast at \$6,415 million have turned out to be \$6,563 million, an increase of \$148 million, or 2½ per cent. More than four fifths of this excess is due, however, to events and policy decisions which could not have been foreseen when the earlier budget was presented. There has been an increase of \$40 million in defence expenditures resulting from policy decisions made and announced at the time of the Berlin crisis last August, and the abnormally low crop yields on the prairies required an increase of \$40 million in statutory disbursements under the Prairie Farm Assistance Act and resulted in the decision in this present session to provide further payments of \$42 million to western grain producers. Apart from these three items expenditures for the past year were about \$25 million, or two fifths of one per cent higher than originally forecast.

The budgetary deficit for the year just ended is thus \$791 million, or \$141 million greater than last June's estimate, due to the cost of the unforeseen events to which I have just referred. These additional costs received the unanimous approval of the house, except perhaps for certain hon. members who argued that they should have been considerably greater.

Our non-budgetary receipts and disbursements have differed considerably from the figures I put forward in June, but it will be recalled that my June budget statement explicitly excluded any forecast of unpredictable changes in the exchange fund. Last June I expected an over-all cash requirement of \$980 million. It now appears that our over-all cash deficit has been only \$479 million. This reduction of \$500 million in our cash requirements is largely the result of repayments of more than \$240 million from earlier advances to the exchange fund, a reduction of about \$40 million in the advances anticipated under the National Housing Act due to market sales by Central Mortgage and Housing Corporation of over \$40 million of existing mortgages, a decrease in loans to Canadian National Railways of some \$40 million, and the repayment of \$67 million of advances to the unemployment insurance commission. As a result of the reorganization of the unemployment insurance fund to which I referred last June we have replaced cash advances to the unemployment insurance commission by the purchase of its former portfolio and by redemptions from its holdings of non-marketable bonds.

In conformity with the Old Age Security Act I should also report to the house the current position of the old age security fund. Details of this are set forth on pages 86 and 87 of the white paper. In brief, the revenues of the fund under the statute for the past year have been \$649 million, the pension payments including the increase to \$65 a month effective February 1, 1962, have totalled \$625 million resulting in a surplus for the year of \$24 million. There was, however, an outstanding loan to the fund by the Minister of Finance of \$17 million a year ago. This was repaid, leaving a surplus of \$7 million.

For the new fiscal year, 1962-63, total benefit payments under the Old Age Security Act will be about \$736 million, revenues under the act will be about \$672 million which will result in a deficit for the year of \$64 million and an accumulated deficit of \$57 million. We shall be giving this subject further consideration in the light of future policy decisions regarding social welfare pension plans following the present consultation with the provinces as to a constitutional amendment to permit parliament to legislate a contributory

[Mr. Fleming (Eglinton).]

plan with survivors' benefits. Studies in relation to portability of pensions also are being actively pursued.

#### ECONOMIC REVIEW

It is a source of satisfaction to be able to report to the house, first, that the Canadian economy is experiencing healthy expansion; second, that this expansion is considerably more rapid than in the last similar period and that our international trade and payments are in better balance than they have been for many years; third, that measures taken by this government are contributing constructively and decisively to these developments; and fourth, that given continuation and adaptation of these measures this new fiscal year, we have good reason to expect substantial further economic growth and prosperity.

The increase in levels of economic activity during the course of 1961 has indeed been impressive. The gross national product, expressed at annual rates, increased from the first quarter of the year to the fourth quarter by \$2.4 billion, a gain of 7 per cent. From March to December 1961, the index of industrial output rose by more than 9 per cent. By the year end it was nearly 5 per cent higher than it had ever been before. Particularly sharp increases were achieved in the output of certain types of heavy industry. For example, production of steel ingots in 1961 was 12 per cent greater than in 1960, and reached a record high of almost 6½ million tons. Over the past five years output of this basic product has increased by 23 per cent, and the capacity of the entire industry has been expanded, broadened and diversified. Today this industry is meeting more of our domestic needs. In 1956 Canadian producers supplied 70 per cent of our steel requirements; since then this proportion has risen to approximately 80 per cent. A wide range of primary and secondary steel products previously supplied from abroad, such as heavy steel shapes and large diameter pipe, is now being produced in Canadian mills. Our exports of steel products have also been higher. This is but one example of the many industries in Canada which have been progressing and developing notwithstanding the changing world economic environment.

Mining output, too, has reached new peaks, rising sharply in the course of the past year. The largest increases have been in the production of nickel, asbestos, natural gas and petroleum.

Exports of Canadian goods rose sharply in 1961, and in the fourth quarter of 1961 reached a level of \$6,256 million, seasonally adjusted at annual rates, 19 per cent above the level achieved in the fourth quarter of 1960. The

house is well aware of the success which has crowned our efforts to expand sales of agricultural products, especially wheat. But the house may not be fully aware of the substantial increases which have taken place in sales abroad of other Canadian products such as livestock, cotton textiles, industrial machinery, electrical apparatus, petroleum, nickel, basic plastics, asbestos and chemicals. The increases in the exports of these products in 1961 over 1960 have exceeded \$150 million.

In response to the quickened tempo of economic activity in 1961, employment increased substantially. In 1960, when all of the gain in employment took place in the service industries, women accounted for most of the increase, but in 1961 increased employment in manufacturing was particularly significant and it involved a substantial growth in male employment. In February 1962 there were 196,000 more people employed in Canada than a year earlier, and of these 164,000 were men. Accordingly there was a significant drop in the rate of unemployment, particularly among men.

Largely as a result of this increase in employment labour income increased markedly during 1961. Over the eight months from April to December 1961, the increase in labour income equalled that of the 15 preceding months. Business profits increased sharply as well, and by the fourth quarter of 1961 had reached a new peak of \$3.8 billion, 4 per cent higher than ever before.

Increased incomes encouraged increased consumer spending which rose by over \$800 million during 1961. By the end of 1961, the level of consumer spending was nearly 8 per cent higher than it had been at the previous peak of business activity.

This acceleration in the tempo of our economy is highly gratifying. The rate of expansion during the last nine months of 1961 was more rapid than in comparable stages of the preceding cyclical advance in 1958. During the first nine months of the previous expansion the volume of non-farm output increased by only about 3 per cent. During the first nine months of the present expansion, the increase has been almost 5 per cent. The expansion which we have enjoyed in 1961 has already taken the volume of non-farm output to a level 4 per cent higher than the previous peak. By a similar point in the previous expansion the volume of non-farm output was about 1½ per cent above its previous peak.

All too often in the past a resurgence in economic activity has been accompanied by substantial increase in prices. Happily, this has not been our experience in 1961. During the last nine months of 1961 the consumer

price index increased by only half of 1 per cent, while in the comparable period of the previous advance it went up by 1½ per cent. Having in mind our very proper concern over the dangers of inflation I am sure the house and the people of Canada will welcome such striking evidence of price stability.

A little earlier, Mr. Speaker, I outlined the substantial growth in exports which was achieved in 1961. Imports of goods increased in 1961 by 3 per cent amounting to \$5,717 million with most of the increase occurring in the later months of the year. A substantial increase in imports is quite normal during a business upturn. But contrary to previous experience, exports have increased much more rapidly than imports. As a result we were able to achieve a sizeable trading surplus on merchandise account totalling \$179 million. This is the first favourable balance of trade of any consequence that this country has achieved in the last ten years and is in contrast to a record deficit on merchandise account of \$728 million in 1956. This improvement in our trade position was more than sufficient to offset an increase in our deficit on non-merchandise account. Consequently the total current account deficit in the balance of payments was reduced to \$989 million in 1961. This represents a 19 per cent reduction from the deficit in 1960 and a 28 per cent reduction from the deficit in 1956. In fact the deficit in 1961 was the lowest since 1955.

The growth of our economy in recent years has revealed itself in a number of other ways besides the improvement in our balance of payments. In fact, Mr. Speaker, key economic statistics adjusted for normal seasonal trends show that our record is better than that of either of our major trading partners, Great Britain and the United States. From 1957 to the end of 1961 industrial production in the United States went up by 15 per cent, while in Great Britain it increased by 12 per cent; in Canada it grew by more than 16 per cent. During this same period total British exports rose less than 8 per cent and total United States exports less than 6 per cent; Canadian exports in the same period surged forward by more than 30 per cent. Employment in both Great Britain and the United States increased by about 3 per cent; employment in Canada grew by almost 8 per cent. At the same time prices increased less in Canada than in either Great Britain or the United States.

This marked improvement in our economic situation has not happened by chance. In my budget speech last June I said that the cyclical recovery which was beginning to appear

at that time was likely to be weak and unsatisfactory unless there was some positive government stimulus. I affirmed that an appropriate blending of fiscal, financial and commercial policies was required to impart an impetus to the economy, to employ unused productive capacity, to stimulate growth, to increase trade and thus to expand employment opportunities for our people. Since then we have witnessed a major expansion. The vigour of the expansion that has occurred is due in no small measure to the blend of sound, strong policies we have introduced. While many of these policies have been directed towards particular situations of a specific nature, they have been part of a coherent and co-ordinated approach to the broad objective of improving the performance of the Canadian economy in both the short run and the long run.

In the short run we had as our objective the expansion of domestic demand to take up the slack in the productive resources of the country. To this end we planned and incurred a substantial fiscal deficit. As I explained to the house in my last budget speech, by means of such a deficit the government places in the hands of the public more purchasing power than it draws from it. The increased demand thus generated encourages higher levels of production and employment.

A deficit appropriate in size to economic circumstances such as we have confronted may result from a variety of fiscal measures. Tax cuts, increases in direct expenditures by the government on goods and services, and increases in transfer payments to persons or to other levels of government, may be used singly or in combination. This government has, as you know, made significant tax cuts in order to stimulate consumer demand. Generally speaking there have been only moderate increases in total direct government expenditures on goods and services. Total expenditures on goods and services by the federal government have been a smaller proportion of gross national expenditure in 1961 than they were in 1956. Our most important contribution to the expansion of purchasing power, demand and economic growth, throughout the length and breadth of the country has been through increases in welfare payments and in transfer payments to provinces and municipalities. We have greatly increased payments to meet the needs of old persons, of veterans, of the unemployed. We have consistently chosen to augment the incomes of these people. We have also provided large sums of money for the income maintenance of both farmers and fishermen. Similarly, this government has greatly aided provincial and municipal governments in finding

[Mr. Fleming (Eglington).]

the funds to provide adequate services in their areas of responsibility. Consequently we have given priority to their needs over increases in our own direct federal expenditures. Payments out of the federal treasury to individuals increased by 65 per cent from 1,224 million in 1956 to 2,014 million in 1961. Payments out of the federal treasury to provincial and municipal governments rose over 130 per cent from 485 million in 1956 to 1,123 million in 1961. These increased payments provided a significant stimulus to the whole economy as well as enormous assistance to the other two levels of government in this country.

The stimulation of demand is a desirable objective when there are pools of unused productive resources in the country. But in the long run more is required than mere expansion of demand. People must steadily become more skilled and versatile in order to compete in this increasingly complex world of technological revolution. And they must have at their disposal modern plants and equipment, efficient transportation, abundant fuel and power, all provided at reasonable cost. Our policies have been designed to meet these requirements. In co-operation with the provinces we have encouraged and heavily financed basic and advanced training in technical and vocational schools. We have greatly increased our financial assistance to universities in support of higher education for a greater proportion of our young people. During the fiscal year ended March 31 we have spent on these programs alone about \$80 million, four times more than was spent five years ago. As already announced, we shall be adding substantially to these contributions in the new fiscal year.

Parallel to this policy of improving the technical skills of our people, we have encouraged the modernization and diversification of our industry. Special capital cost allowances for re-equipment and modernization and double depreciation allowances for products new to Canada or new to designated areas of surplus manpower were introduced in the last two budgets to stimulate expenditures on plant and equipment. The establishment of a productivity council and the introduction last year of special incentives to private research are improving the output of Canadian industry. Later this evening I shall be making further proposals to stimulate technological research and development.

The government has pursued a vigorous policy of developing Canadian resources in all parts of the country. The national oil policy has, by providing markets for oil at home and abroad, brought about a substantial increase in production of this important source of energy. In recent weeks we have taken the

initiative in exploring in co-operation with the provinces the technological problems of long-distance, high voltage transmission systems for electric power.

The establishment of a new federal Department of Forestry reflects the interest of the government in this valuable Canadian resource and its determination to help in ensuring that Canadians will benefit to the maximum extent possible from the future growth of world markets in wood and wood products. Action has been taken to push the frontiers northward and to improve the opportunities for exploiting the riches, particularly the mineral resources, in our more remote areas. The roads to resources program and the recent legislation for the construction of the Pine Point, Gaspé and northern Manitoba-Optic lake railways are striking examples of the government's vigorous effort in this field.

In addition to these and many other projects which are already under way, the government has taken action which holds the promise that an extensive but well-balanced program for the development of Canadian resources will continue apace in the future. In October of last year, the resources for tomorrow conference held in Montreal provided a unique opportunity for an intensive survey and study of the potential for Canadian development of renewable resources. The benefits from this broad assessment of opportunities and challenges will be felt increasingly in years to come as Canadians bend to the task of managing our land, water and forest resources. As a first step in the government's comprehensive approach, the Agricultural Rehabilitation and Development Act was designed to make the most effective use of our land, to raise the productivity of our agricultural resources, and to provide for rural adjustment and better income opportunities in rural areas.

Measures related to the functioning of our capital markets have assisted Canadian business to find from domestic sources the capital necessary to expand both production and exports. The wide expansion of activities by the Industrial Development Bank is now providing capital to small and medium sized business at the rate of \$100 million a year. In the 1957 fiscal year the bank approved 401 loans totaling \$30 million; in the 1961 fiscal year the bank approved 1,364 loans amounting to \$71 million. In the past three years ten new branches have been opened and the bank now has 16 regional offices doing business across the country. The new policy of guaranteeing term loans to small businesses by the chartered banks is rapidly achieving results. Export Credits Insurance Corporation has experienced a fourfold expansion of business over the past

few years. These are some of the results that testify to the vigour of the government's measures.

In addition, improvements in the field of debt management, combined with a policy of monetary expansion pursued by the Bank of Canada, have improved our capital markets. In spite of a large increase in the total demands on our capital markets last year, and in spite of a reduction in the inflow of foreign capital to supplement our own financial resources, interest rates in this country are now lower than they were a year ago. The spread between interest rates in Canada and those in the United States has narrowed. Consequently the incentive to capital inflows has been considerably reduced. Later this evening I shall discuss in some detail our exchange rate policy and the beneficial results it is achieving. At this point I shall say only that, largely as a result of the reduction in the external value of the Canadian dollar, prices of Canadian goods are more competitive at home and abroad, and Canadian production is being effectively stimulated.

In connection with these financial developments I should like to express my warm appreciation of the assistance I have received from the Bank of Canada. At the time of Mr. Rasminsky's appointment as governor last July he and I, in separate statements, agreed that a judicious and co-ordinated combination of monetary, fiscal and debt management policies was needed for the promotion of national economic growth and close consultation in order to achieve that co-ordination of policies. Since his appointment the governor and I have held regular meetings at least once a week, and I have profited greatly from our exchange of views and information.

Let me turn to the future, Mr. Speaker. Recent economic developments have been encouraging, but we must not be complacent. We still have unused capacity in our industry; seasonally adjusted unemployment fell from 7.8 per cent in February 1961 to 6.0 per cent in February 1962, but this gratifying reduction must be carried much further; and our balance of payments position needs to be still further improved. The economic upswing which we are enjoying is strong, but we must not be content to assume that it will automatically carry forward to the point where our productive capacity is fully utilized. The co-ordinated policies announced last summer were good and our resulting progress has been vigorous. However, that progress has not yet reached a point where a fundamental change in approach is required, we must be careful to avoid a premature dampening down of the upswing which is under way. Fiscal policy must continue to provide stimulus to the

economy and further specific measures must be introduced to improve the quality and quantity of our industrial output, thereby stimulating employment and income. There are matters to which I shall return a little later.

The momentum of the upswing now under way, reinforced by the measures already introduced and by others to be announced tonight, will carry the level of economic activity in Canada to record heights. Assuming normal crops and no unforeseen adverse events, I expect that the growth in gross national product from 1961 to 1962 will be about 7 per cent. An increase of this magnitude has been exceeded only twice in the last ten years.

Mr. Speaker, I had expected at this point to say something at length on the subject of international economic developments, but unless the house is prepared to extend the time of this evening's sitting there will not be time for that chapter.

[Editor's note: See Appendix "A" on page 33.]

#### MANAGEMENT OF THE PUBLIC DEBT

During the present fiscal year we have introduced a number of significant changes in the management of the public debt which have lent strength and stability to the bond market. The fluctuations in market yields of government securities have been quite moderate, the trend of interest rates has been downward and the differential between yields on United States and Canadian government securities has been substantially narrowed. The results have been very beneficial to the Canadian economy.

In the past twelve months total sales of new issues of government bonds have amounted to \$3,451 million, of which \$2,233 million were market issues and \$1,218 million were non-market issues, mostly Canada savings bonds. On the other hand \$549 million of market bonds matured and were paid off, \$883 million were retired by advance refunding, \$486 million were acquired and cancelled prior to maturity, and \$676 million of non-market bonds were encashed. The net result is that the outstanding amount of market bonds increased by \$315 million and of non-market bonds by \$542 million. Mr. Speaker, the table which I should ask leave to have printed in *Hansard* at this point contains the more detailed statistics of these issues and retirements.

Mr. Speaker: Has the minister leave to incorporate the table just referred to at this point in his speech?

Some hon. Members: Agreed.

[Mr. Fleming (Eglinton).]

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

TABLE 1			
Bond Issues—Fiscal Year 1961-62 (in millions of dollars)			
<b>Market Bonds</b>			
New issues .....		2,233	
less: Matured .....	549		
Advance Refundings ..	883		
Purchased and Cancelled prior to maturity	486	1,918	
Net increase .....			315
<b>Non-Market Bonds</b>			
Sold to Unemployment Insurance Commission .....	162		
Canada Savings Bonds	1,056	1,218	
less: Redemptions			
Unemployment Insurance Commission .....	109		
Canada Savings Bonds	567	676	
Net Increase .....			542
Total Increase .....			857

Mr. Speaker: Having regard to past experience there may be other tables, and there might be an economy of time if the house would concur now in the incorporation of such other tables as the minister may introduce. Agreed?

Mr. Chevrier: No, Mr. Speaker, I think we should see these tables.

Some hon. Members: Oh, oh.

Some hon. Members: Shame.

Mr. Fleming (Eglinton): Let me say very simply, Mr. Speaker, that in the matter of economy of time the speech I have prepared, as I have indicated, could not be completed unless the house were prepared to extend the time of sitting, as I wish to make it a firm rule that there should be a reasonable time left for reply by the opposition tonight.

Hon. L. B. Pearson (Leader of the Opposition): On that point, Mr. Speaker, the minister will know that we have already agreed to the extension of his time on this subject. When we talk about tables not being printed automatically in *Hansard*, of course if they are long tables they should go in, but if they are short ones naturally the minister would like to read them.

Mr. H. W. Herridge (Kootenay West): Mr. Speaker, I would just like to say on behalf of this group that we will agree to the minister's time being extended provided he agrees on behalf of the government to permit this

budget debate to be continued tomorrow, and continued without interruption for six days as provided by the rules.

**Some hon. Members:** Oh, oh.

**Mr. Fleming (Eglinton):** In my budget speech last June I said that in order to avoid congestion in the long-term bond market we would for at least several months confine new federal issues to short-term bonds. During the past nine months we have issued no long-term bonds; \$375 million ranging in term from 5½ to 6 years were placed directly with the Bank of Canada, and the terms of all other market issues in no case exceeded 3½ years. This policy of not issuing long-term bonds has rendered important assistance to the provinces and municipalities and to corporations in meeting their long-term capital requirements. We intend to continue a debt management program that will promote a sound and orderly investment market and investor confidence.

As announced in the June budget, we purchased last September at their book value all bonds held in the unemployment insurance fund and out of these proceeds, plus its net revenues in October and November, the unemployment insurance commission repaid to the treasury the \$67 million of cash advances previously made to the fund and purchased \$162 million of non-marketable bonds redeemable at par at any time on 30 days' notice. Of these non-marketable bonds \$109 million have since been encashed.

The June budget also announced that we would establish a purchase fund to provide for the orderly retirement of government debt and at the same time contribute to the stability of the longer-term bond market. The initial amount made available to the purchase fund was \$100 million, and in September the house was informed that we would not limit our purchase fund operations to this amount. To date the purchase fund has acquired \$166 million par value of long term bonds in the market at a cost of \$157 million, and all these bonds have been cancelled. I propose to continue to operate the purchase fund during the coming year.

I should like to refer to the increasing popularity and effectiveness of our Canadian savings bond issues. In recent years individuals of moderate incomes have shown increasing interest in investing a substantial amount of their savings in Canada savings bonds. At the end of 1957 the outstanding

amount of Canada savings bonds was \$2,649 million, which was about \$100 million greater than a year earlier. During 1958 the holdings of Canada savings bonds increased by \$250 million, in 1959 by \$300 million, in 1960 by almost \$400 million and in 1961 by nearly \$500 million. The total holdings of Canada savings bonds on December 31, 1961 was \$4,080 million, a net increase of \$1,539 million in five years.

Interest rates on government securities have declined during the past year. The average interest rate on three month treasury bills during March, 1962 was 3.09 per cent, or one eighth per cent below the rate in March, 1961. Between the same periods the yields on two to ten year bonds have dropped by about three quarter per cent, and on over ten year bonds by one quarter to one half per cent. Of even greater significance has been the narrowing of the spread between interest yields on United States and Canadian government issues. The spread between average Canadian and American treasury bill yields during March, 1961 was 0.83 per cent, during the past month it has been 0.36 per cent. In the long term bond area the spread during the first half of 1961 was between 1.25 and 1.40 per cent; from July to September the spread was around 1.00 per cent and during the past month it has averaged 0.89 per cent.

The total net government debt is now \$13.2 billion. This amounts to \$712 per capita as compared with \$685 a year ago, \$701 in 1956 and \$774 in 1952. As a percentage of gross national product our net debt now stands at 35.9 per cent as compared with 34.6 per cent a year ago, 41.6 per cent in 1956 and 52.8 per cent in 1952.

The net interest cost of our net debt in the current year has been 3.77 per cent, a decline from 3.80 per cent a year ago and 4.10 per cent two years ago. The average term of our outstanding debt, excluding Canada savings bonds and perpetuals, was 8.3 years on December 31, 1961. In 1960 it was 9.4 years, in 1956 6.6 years and in 1952 6.8 years.

**Mr. Speaker,** may I insert here in *Hansard* three tables showing details of the figures in regard to debt.

**Mr. Speaker:** Does the house agree to the insertion of these tables?

**Some hon. Members:** Agreed.

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

TABLE 2  
GOVERNMENT OF CANADA  
Gross and net direct debt

	Funded Debt	Total Debt	Net Debt	Net Debt	
				Per Capita	As per cent of G.N.P.
	(billion \$)	(billion \$)	(billion \$)	\$	
March 31—					
1952.....	14.7	17.3	11.2	774	52.8
1953.....	14.8	17.9	11.2	752	46.5
1954.....	14.6	17.9	11.1	727	44.4
1955.....	14.5	18.0	11.3	717	45.3
1956.....	15.4	19.1	11.3	701	41.6
1957.....	14.4	18.3	11.0	664	36.0
1958.....	14.2	18.4	11.0	648	34.6
1959.....	15.6	20.2	11.7	669	35.5
1960.....	15.9	21.0	12.1	679	34.7
1961.....	16.1	21.6	12.4	685	34.6
1962.....	16.9	22.9	13.2	712	35.9

TABLE 3  
GOVERNMENT OF CANADA  
Interest Cost of Gross and Net Direct Debt

Year ending March 31	Interest paid on Total Debt	Return on Investments	Net Interest	Net Interest as p.c. of Net Debt
	(millions \$)	(millions \$)	(millions \$)	
1952.....	432	123	309	2.77
1953.....	451	126	325	2.92
1954.....	476	152	324	2.91
1955.....	478	134	344	3.05
1956.....	493	149	344	3.04
1957.....	520	207	313	2.85
1958.....	539	169	370	3.35
1959.....	606	221	385	3.30
1960.....	735	239	496	4.10
1961.....	757	284	473	3.80
1962.....	804	305	499	3.77

TABLE 4  
GOVERNMENT OF CANADA  
Maturity and Distribution of Direct and Guaranteed Debt

December 31	Average term of debt*	Amount of Debt held by			P.C. held by Gen. Public
		Banks	Government accounts	General Public	
	Years		(\$ millions)		
1952.....	6.8	5,176	1,102	8,909	58.7
1953.....	6.2	5,184	1,314	9,139	58.4
1954.....	7.2	5,633	1,204	8,629	55.8
1955.....	6.3	5,540	1,491	8,969	56.1
1956.....	6.6	4,950	1,518	8,766	57.5
1957.....	6.0	5,105	1,367	8,693	57.3
1958.....	10.3	6,190	1,258	8,968	54.6
1959.....	9.5	5,487	923	10,725	62.6
1960.....	9.4	5,801	866	11,080	62.4
1961.....	8.3	6,669	644	11,323	60.8

\* Excluding Canada Savings Bonds and Perpetuals

[Mr. Speaker.]

**Mr. Fleming (Eglinton):** I continue:

#### EXCHANGE RATE AND EXCHANGE FUND

At this point it is appropriate to review government policy towards the exchange rate against the background of our balance of international payments and our relations with the International Monetary Fund.

Canada's international economic relations are, I believe, more complex and, in relation to our size, more extensive and pervasive than those of any other country. I have in mind such facts as these. On a per capita basis Canada's trade is the highest among the major trading nations of the world; we have been heavy importers of capital from abroad, which has involved us in a network of international associations and transactions that is unique; and finally, we are geographically very close to, and financially closely linked with, the world's largest and most active capital market—New York.

Because of such factors as these our international financial relations have, throughout our history, presented special problems and special challenges. Canada might be regarded as a classic example of a country for which, because of the diversity of our international interests and obligations, it is extremely difficult to devise and pursue an exchange rate policy that may be regarded as completely satisfactory from every point of view.

In this connection it is relevant to recall actual Canadian experience over the past forty years. During that time, and apart from the period of wartime controls from 1939 to 1950 there were only about half a dozen years during which the Canadian dollar was securely and effectively fixed in value despite international efforts to introduce general exchange rate stability. Going back to the inter-war period, it will be recalled that Britain led the world back to a gold standard regime of fixed exchange rates in 1925. It was less than four years after that when, as a result of an outflow of capital to the great stock market boom in New York, the Canadian dollar was driven below the maximum discount under the gold standard rules. After Britain and other countries were driven off the gold standard in 1931, the Canadian dollar floated rather unsteadily and unevenly between sterling and the U.S. dollar. Many hon. members will recall that, in December 1931, Canadians had to pay a premium exceeding 20 per cent on the United States dollar, while we could buy sterling at a discount of about the same amount. With the outbreak of war, in September 1939, major currencies including the Canadian dollar were brought under control and stabilized.

During the war period from 1939 to 1945 the Canadian exchange rate was fixed at a level 10 per cent below the U.S. dollar. This period was, however, exceptional not only for Canada, but for other countries. In Canada, as elsewhere, the stability of our currency in relation to other currencies required the support of a complex system of foreign exchange controls and import controls as well.

During the next five years, from 1945 to 1950, Canada continued to pursue a policy of fixing its exchange rate but it could hardly be claimed that this policy was an unqualified success. In the first place, the system of foreign exchange controls was continued and for part of the period a system of import controls was also needed. In the second place, while the official rate was at no time during those years allowed to fluctuate on the basis of market forces, there was, during much of the period, an "outside" or "unofficial" market, available to investors and tourists abroad, where a fluctuating rate acted as a sort of safety valve in relation to controlled dealings at the official rate. In the third place, it was found necessary during that period to alter the official exchange rate on no fewer than three occasions. In 1946 the government of the day removed the 10 per cent premium that had been established on the United States dollar at the outbreak of war; in 1949 it restored the premium of 10 per cent on the U.S. dollar at the same time that Britain and certain other countries depreciated the value of their currencies by 30 per cent; in 1950 the government of the day found itself unable to counteract the inflationary impact of a rapid inflow of capital, based in part on the conviction in many quarters that the rate chosen by the government in 1949 was proving too low, and the Canadian exchange rate was allowed to float free, to find its own level. Within two years, the last vestige of foreign exchange control was abolished.

Continuously since 1950 the Canadian exchange rate has been basically determined by the market forces of supply and demand, as represented in our international transactions on current and capital account. It should be noted that throughout this period the Canadian exchange rate has in fact been much more stable than it was during the preceding five years. Since 1950 the government, using the exchange fund which was set up in 1935, has operated to restrain and smooth out the more rapid movements of the rate in one direction or the other. At no time, throughout the whole period, have the resources of the exchange fund been used aggressively, to push the exchange rate in one direction or the other against market forces.

In my last budget speech, on June 20, 1961, I expressed the desire of the government to see the Canadian dollar move to a lower level as a means of stimulating Canadian production and employment and of lessening our very heavy international deficit. In some quarters my statement was misinterpreted to mean that we were embarking on an aggressive policy in the market designed to drive our exchange rate down. This, as events made clear, was not the case. Actually, as I explained last June and previously, the essential means by which the exchange rate was to be moved to a lower level was to lessen upward pressures that had been exerted by the inflow of certain types of capital.

In this regard our efforts have been successful; I refer in particular to the various actions announced in the budget last June in the field of interest rates, international interest spreads, and debt management, to the measures taken in the interim budget of December 1960 to eliminate special incentives to capital imports, and to the warning which I issued in my budget of March 31, 1960 regarding the risks associated with capital imports. As a result of the removal of excessive pressures, the exchange value of our dollar fell to a lower level after my last budget, and since that time its fluctuations have been relatively narrow. This movement, combined with the other movements which followed my two earlier budgets, has relieved Canadian producers of a competitive handicap in markets both at home and abroad.

At the same time—and despite certain pessimistic predictions uttered both inside and outside this house—the Canadian cost of living has remained remarkably stable. The confidence of the government that, in the prevailing economic circumstances, a significant movement of the exchange rate could take place without inflation has been fully justified by events.

The government has not hesitated, and will not hesitate in the future, to deploy a substantial volume of funds, on one side of the market or the other, in order to prevent sudden or erratic movements in our exchange rate. In pursuit of this goal we made substantial purchases of United States dollars in the autumn, and we made substantial sales in the early part of this year. The total of our official reserves of gold and United States dollars has risen and fallen by several hundred million dollars. There may well be similar movements in the future; from time to time our cumulative purchases will no doubt substantially exceed our cumulative sales, and vice versa. It may

[Mr. Fleming (Eglinton).]

be of interest to the house to know that since my supplementary budget of December 1960, the published figures show that our market sales and purchases have come within \$70 million of balancing each other.

The changed level of the exchange rate has unquestionably been an important factor contributing to the improvement of our international current account during 1961, including the emergence of a favourable trade balance after nearly a decade of deficits. In this situation we can take satisfaction; but it would be a mistake to allow satisfaction to develop into over-confidence. Unquestionably, with the changed exchange rate, our imports have risen less in physical volume, and our exports have risen more, than they would otherwise have done. Unquestionably, the lower exchange rate has yet to exert its full effect on our trade balance, our balance of tourist expenditures, and other items in our current balance of payments. Nevertheless our overall current deficit is larger than it ought to be, even during the upswing of the business cycle. This must remain a matter of concern. And in this context I would renew my appeal to all Canadians, to management and to labour, to keep Canada competitive; to work together in a spirit of partnership; to hold costs down; to develop our skills and improve our technology; to meet foreign competition at home and abroad with efficient and well designed products of our own manufacture; and to persevere in the drive to expand exports. It is in these fields that the continued reduction of our balance of payment deficits must be sought.

In order to complete this review of the exchange rate and the balance of payments, Mr. Speaker, I should add a few words in regard to the International Monetary Fund and our relations with it. Canada was a founding member of the fund. The Canadian delegation to the Bretton Woods conference in 1944 played an effective and influential part and, ever since the fund opened for business in 1946, Canada has been an active participant and vigorous supporter. Any country with such widespread and diverse international interests as Canada must, in pursuit of its national objectives, support an organization dedicated to expansion of trade and payments on a multilateral basis, and elimination of restrictions.

It was in 1950, as I have already explained that the Canadian government found itself unable to comply with article IV of the fund agreement under which members are required to maintain fixed exchange rates, subject only to alteration in consultation with the fund if a fundamental disequilibrium

develops. At that time when Canada moved from a fixed to a floating exchange rate, and from time to time thereafter, the hope has been expressed by the fund authorities that Canada might find it practicable to rejoin the ranks of those that are in full conformity with this particular article. As was to be expected, this view has been reiterated in our most recent consultations with the fund.

At the same time, it has always been recognized, in recent fund discussions as in earlier ones, that Canada's international economic relations are very complex. The fund is fully aware of the nature of our official operations in the exchange market; that we have responded to and moderated market pressures and that no actions prejudicial to the interest of other countries have been taken.

Moreover, we have played a very active part in making resources available to the fund. When there was a general increase in contributions in 1959 we accepted a higher proportion than most countries; when there was a special call for credits to support sterling last summer we promptly contributed our share; when a new stand-by arrangement for supplementary resources was announced last January, again Canada was found amongst the ten leading industrial countries which participated.

Against such a background of general co-operation, Mr. Speaker, the house will understand why the fund, while naturally and properly retaining the ultimate objective of having Canada declare a fixed exchange rate, has not been disposed to press us into any hasty action which might prove to be premature or impossible to sustain. We on our part would wish the prospects of success to be more assured than they were when the Canadian government made its ill-starred attempts to maintain fixed rates during the years from 1946 to 1950.

#### DOMINION-PROVINCIAL RELATIONS

Mr. Speaker, I had hoped to make a statement to the house concerning dominion-provincial relations, but in view of the statement which has been made with regard to unwillingness to extend the hours of sitting I shall have to forgo that and content myself simply by saying that whereas when the government took office—

[Editor's note: See Appendix "B" on page 36.]

**Mr. Martin (Essex East):** May I ask the Minister of Finance if this document has been given to the press?

**Mr. Fleming (Eglinton):** The usual arrangements with respect to the press have been observed—those which have been prevailing for many years, long years before I came to office as a minister of the crown, the same arrangements as prevailed when the hon. member was a minister.

**Some hon. Members:** Oh.

**Mr. Fleming (Eglinton):** Whereas when this government took office the provinces received a tax rental equal to 10 per cent of the federal income tax, this rental was raised to 13 per cent commencing in the fiscal year 1958-59.

The new arrangements provide for a reduction in federal personal income tax of 16 per cent in the first year of the arrangements, rising by 1 per cent each year to 20 per cent in 1966-67. Thus the provinces without imposing any additional burden of taxation will by the last year of the new arrangements be receiving double the share they received when this government took office in 1957.

At the same time the new system of fiscal arrangements provides for a broader and more realistic system of equalization. The result of the new fiscal arrangements will be to increase very substantially the contributions to the provinces by way of unconditional grants or tax abatements. The estimated value of these unconditional grants and abatements to the provinces for 1962-63 is \$980 million, an increase of \$122 million over last year and of \$428 million over 1956-57.

Although the increase in unconditional grants to the provinces since 1956-57 has been large, the increase in conditional grants has been even more rapid. I should like at this point to insert in *Hansard* a table showing the amount of the federal contributions to the provinces and certain payments to institutions in the provinces for the fiscal years 1956-57 to 1961-62 together with the estimated amount for the years 1962-63. Table 5, Mr. Speaker.

**Mr. Speaker:** Has the minister leave?

**Some hon. Members:** Agreed.

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

TABLE 5

Federal Contributions To or For the Benefit of the Provinces  
(in millions of dollars)

	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62 pre- liminary	1962-63 esti- mated
<b>A. Unconditional Payments.</b>							
1. Statutory subsidies.....	22.8	22.0	21.6	21.4	21.0	23.5	23.5
2. Tax Abatements (estimated).....	157.3	275.6	275.1	313.8	307.7	313.0	715.9
3. Tax rentals.....		213.9	249.0	279.7	288.7	312.6	—
4. Equalization (including stabilization).....	365.9	139.4	149.1	180.7	192.0	170.0	178.2
5. 50% share of federal Estate Tax.....	—	—	—	—	—	—	13.3
6. 50% share of Income Tax on Power Utilities.....	6.6	7.3	8.7	4.8	4.2	6.4	6.5
7. Atlantic Provinces Adjustment grants.....	—	—	25.0	25.0	25.0	25.0	35.0
8. Newfoundland Additional Grant....	—	—	13.6	7.3	7.7	8.0	8.0
Sub-total.....	552.6	658.2	742.1	832.7	846.3	858.5	980.4
<b>B. Conditional Payments</b>							
9. Agriculture.....	0.9	1.0	1.9	6.7	3.8	5.1	4.2
10. Health.....	36.4	34.6	45.9	46.0	47.9	48.9	49.2
11. Hospital Insurance.....	—	—	54.7	150.6	183.9	283.3	324.2
12. Welfare.....	38.4	48.2	74.1	90.8	102.8	139.2	150.8
13. Vocational Training, etc.....	4.7	4.8	8.1	8.4	8.7	61.0	104.8
14. Highways and Transportation.....	26.9	50.9	53.7	56.8	54.2	42.2	50.2
15. Resource Development.....	2.7	4.3	8.7	15.3	17.9	24.0	23.1
16. Municipal Winter Works.....	—	—	.2	6.6	8.9	24.7	37.9
17. Other.....	1.0	1.0	1.1	1.6	2.4	3.7	4.8
Sub-total.....	111.0	144.8	248.4	382.8	435.5	632.1	749.2
<b>C. Payments for the benefit of Provincial Institutions—</b>							
18. University grants (including net value of abatement to Quebec)....	16.0	16.6	25.5	26.1	26.7	27.2	37.0
19. Grants to Municipalities in lieu of taxes on federal government property.....	9.7	17.5	21.9	22.6	24.6	24.9	27.3
Sub-total.....	25.7	34.1	47.4	48.7	51.3	52.1	64.3
<b>Total.....</b>	<b>689.3</b>	<b>837.1</b>	<b>1,037.9</b>	<b>1,264.2</b>	<b>1,333.1</b>	<b>1,542.7</b>	<b>1,793.9</b>

**Mr. Fleming (Eglinton):** It will be seen that the total of all these payments and abatements, conditional and unconditional, is estimated at \$1,794 million for 1962-63, more than two and one half times as great as the total of \$689 million in 1956-57. Conditional grants as estimated for 1962-63 at \$749 million are not far short of seven times the total of \$111 million for the fiscal year 1956-57.

This enormous increase in the contributions to the provinces has assisted them directly and indirectly in the provision of essential services and has placed them in a better position to assist their municipalities. It has greatly added to federal financial burdens and has given rise to federal budgetary deficits.

In fact, the cumulative increase in these contributions to the provinces over the past five years has been greater than the cumulative budgetary deficits for that period by no less than \$376 million. I should like at this point to place in *Hansard* a table which compares the budgetary deficits of the dominion government for the period 1957-58 to 1961-62 with the increase in contributions to or for the benefit of the provinces. Table 6, Mr. Speaker.

**Mr. Speaker:** Has the minister leave?

**Some hon. Members:** Agreed.

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

TABLE 6

Comparison of Federal Budget Deficits with Increases in Contributions to the Provinces and Certain Payments to Institutions in the Provinces from April 1, 1957

Year	Budget Deficits		Contributions to Provinces			
	Annual	Cumulative	Annual	Increase over base year 1956-57	Cumulative Increase over base year 1956-57	Cumulative Increase in Contributions to Provinces minus Cumulative Budget Deficits
1956-57.....	—	—	689.3	—	—	—
1957-58.....	38.6	38.6	837.1	147.8	147.8	109.2
1958-59.....	609.3	647.9	1,037.9	348.6	496.4	-151.5
1959-60.....	413.1	1,061.0	1,264.2	574.9	1,071.3	10.3
1960-61.....	340.4	1,401.4	1,333.1	643.8	1,715.1	313.7
1961-62.....	791	2,192.4	1,542.7	853.4	2,568.5	376.1

#### GOVERNMENT ACCOUNTS 1962-63

**Mr. Fleming (Eglinton):** I turn now to our budget prospects for this new fiscal year. The main estimates for 1962-63 which were tabled on February 12 provide for authorized expenditures of \$6,276 million. Since the main estimates were printed the government has announced a number of important additional spending programs. The largest single item is the \$110 million increase in old age security benefits which, however, are non-budgetary expenditures. Of the enlarged budgetary expenditures the most important are increases of \$12 million in welfare payments to the elderly, the blind and the disabled, of about \$38 million in benefits and support to farmers, and \$70 million related to the extension of the Freight Rates Reduction Act and the recommendation of the royal commission on transportation. Further supplementaries will have to include in due course the Canadian National and the Trans-Canada Airlines deficits which are expected to exceed \$50 million, and also provision for a renewed winter works program which is likely to cost not less than \$35 million. Other costs which are likely to emerge, less probable lapsings, will bring our total budgetary expenditures for 1962-63 to about \$6,525 million. This, I am glad to report, is \$38 million less than in the year just ended.

The shifts in the pattern of expenditures over the past several years have been significant and highly constructive. The increase in controllable expenditures over the past four years has been firmly restricted. But at the same time many important development programs of expenditure have shown very large increases. For example, in the coming year we are providing \$15.5 million for research work in universities, compared with \$3.9 million five years ago; a fourfold increase. In addition there will be grants in various areas totalling \$8 million specifically provided for

direct assistance in industrial research and development, whereas five years ago such provisions did not exist. We are providing \$105 million of assistance to technical and vocational training as compared with only \$5 million in 1957-58. Appropriations for the development of the north will amount to \$41 million, more than double the expenditure of five years ago. The essential development and expansion of air flight safety systems and of efficient airports will cost \$126 million in 1962-63 as compared with \$68 million in 1957-58. Again, the construction element of our new penal reform program requires over \$10 million in 1962-63 compared with less than \$1 million in 1957-58. We are providing \$54 million, compared with \$28 million in 1957-58, for the care of Indians; \$37 million, compared with \$16 million, for university grants; \$51 million, compared with \$38 million, for general health and hospital construction grants; \$50 million, compared with \$35 million, for the Colombo plan; \$10 million for assistance to ship construction, whereas no such provision existed in 1957-58; and \$17 million for the development and care of our forest resources compared with \$10 million in 1957-58. Finally, about \$206 million will be provided in 1962-63 for the promotion of agriculture, including the net budgetary cost of the recently announced changes relating to dairy products, compared with \$129 million in 1957-58. Last, but by no means least, in the five years ending next March 31 the federal government will have paid to the provinces and relieved all the families and individuals in Canada of their onerous hospital and medical expenses to the extent of over \$1,000 million.

I am sure, Mr. Speaker, that hon. members will agree that in the face of such necessary and highly constructive increases the fact that we have held our total controllable expenditures to an average annual increase of

approximately 4 per cent is quite a remarkable achievement and reflects the policy of rigorous examination and control by the treasury board of all items of expenditure.

I should like to add a further word on the size of staff in the public service. Including all civil servants, all prevailing rate and casual employees, and all employees of those crown corporations whose staffs are subject to treasury board control, the rate of growth in the number of employees in the public service during the past four years has been less than half of what it was in the period 1952 to 1956. The numerical increase at December 31, 1956 over 1952 was 23,700, an increase of  $3\frac{1}{2}$  per cent per annum. From 1957 to 1961 the total increase has been 11,600 or a growth of only  $1\frac{1}{2}$  per cent per annum.

While the size of the public service has been effectively controlled, conditions of service have been steadily improved. The new Civil Service Act came into force on April 1. This legislation confers on staff associations the right to be consulted on pay and conditions of employment. It confers on civil servants the right of entitlement to pay and provides for appeals against administrative actions and the creation of grievance procedures. Since 1957-58 there have been two major adjustments in salaries for all classes of the public service amounting to 22 per cent, and prevailing wages have, of course, continued to be adjusted in accordance with conditions in comparable trades and occupations in outside industry. A rotational pay review system has been developed which will ensure a periodic examination of all classes. Under this system, a third review of salaries is in process with the results for the first group recently announced.

During this period also significant changes were made in the Public Service Superannuation Act to grant pensions on a six-year rather than a ten-year average and a medical

insurance plan for public servants, their dependants and members of the regular forces and the Royal Canadian Mounted Police was put into effect. The government as employer pays 50 per cent of the premium cost of this latter provision.

In other words, the improvement in efficiency and economy in government administration and conditions of service since we took office presents a record of which parliament may be justly proud.

On the revenue side we have made the usual careful appraisal of economic trends during the coming year and their effects upon the inflow of budgetary revenues. On the basis of the present tax structure and the economic prospects to which I have already referred I expect that our budgetary revenues in 1962-63 will be \$5,830 million which is \$58 million greater than in 1961-62. This estimate reflects reductions of \$307 million in tax revenues due to the Federal-Provincial Fiscal Arrangements Act of 1961 under which all provinces are now imposing their own income taxes. While we shall be acting as a collecting agent for nine provinces in respect of personal income taxes and eight provinces in respect of corporation income taxes, the provincial revenues that we collect will not in any way appear in our budgetary accounts. All the provinces are now imposing these taxes at rates not less than, and in several provinces at rates higher than our scale of reductions.

May I here insert in *Hansard* a table showing our actual revenues for 1960-61, our estimated revenues for 1961-62 and our forecast of revenues for 1962-63.

Table 7, Mr. Speaker.

**Mr. Speaker:** Has the minister leave?

**Some hon. Members:** Agreed.

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

TABLE 7

## BUDGETARY REVENUES

(in millions of dollars)

	1960-61 Actual	1961-62 Estimated	1962-63 forecast before tax changes
Personal Income Tax.....	1,711	1,800	1,810
Corporation Income Tax.....	1,277	1,205	1,190
Non-Resident Tax.....	88	115	120
Estate Tax.....	85	85	90
Customs Duties.....	499	539	550
Sales Tax.....	721	774	815
Other Duties and Taxes.....	635	639	630
Total Taxes.....	5,016	5,157	5,205
Non-Tax Revenues.....	602	615	625
Total Revenues.....	5,618	5,772	5,830

**Mr. Fleming (Eglinton):** With revenues forecast at \$5,830 million and expenditures expected to be \$6,525 million there would be a budgetary deficit of \$695 million if there were no amendments to our present tax structure. I shall, however, be introducing certain tax changes of economic importance which will modify this figure.

## TAX POLICY

We are in a period of substantial and healthy expansion, and our fiscal policy must neither put the brakes on the momentum of our expansion nor invite the danger of inflation.

Much of our progress is due to the vigour and skill of our people—farmers, workers and management. Credit is also due to the government's policies of the past 4½ years as reflected both in constructive spending and improvements in our tax laws.

Six out of seven individual income-tax payers in Canada are better off under the present tax rates than they were five years ago. On the basis of the latest statistics I would estimate that out of a total of 5,100,000 taxpayers no fewer than 4,400,000, or 85 per cent, pay less income tax under the present rates than they would have paid under the rates in force before this government came into office. This is quite apart from the 16 per cent abatement in personal income taxes which is provided from the beginning of this year under the federal-provincial fiscal arrangements. Single taxpayers with incomes up to \$4,000 now pay less federal income tax, including old age security tax, than they did on the same amount of income in 1957. Married taxpayers without dependants with incomes up to \$5,000 now pay less federal income tax, including

old age security tax, than they did on the same amount of income in 1957. Married taxpayers supporting two children eligible for family allowances with annual incomes up to \$7,500 now pay less federal income tax, including old age security tax, than they paid on the same income in 1957. Thus our policies have brought tax relief to persons of lower and medium incomes.

Since 1957 numerous changes have been made to provide more generous deductions from income on account of medical expenses. The definition of medical expenses has been greatly enlarged by the addition of amounts paid for prescribed drugs and medicines, and numerous medical services and appliances. Formerly there were restrictive upper limits on the amounts deductible as medical expenses, \$1,500 for a single person, \$2,000 for a married couple and \$500 for each dependant. Since 1957 these limitations have been abolished.

Since 1957 university students and their parents have been assisted by provisions for the deduction of tuition fees. Amendments have been enacted to allow a student in full time attendance at a university, if he is proceeding towards a degree, to deduct his tuition fees when computing his taxable income. In addition the parent has been allowed to deduct the amount of the university tuition fee from the student's income in determining whether the student qualifies as a dependant. If the student's income after deduction of his fees falls below \$950 the parent is now entitled to the \$500 exemption.

Since 1957 an amendment has been enacted to encourage corporations to make larger donations to educational institutions and other charitable organizations, by allowing them

to deduct up to 10 per cent of their income for such donations in place of the previous 5 per cent.

Since 1957 the new Estate Tax Act has been introduced. This provides for a simplified form of tax and a reduced burden of death duties, particularly on smaller estates, a result which followed mainly from the generous exemptions. When a husband dies leaving a widow, there is a deductible exemption of \$60,000 and there is an additional exemption of \$10,000 for each dependent child.

Since 1957 important measures of relief have been introduced to minimize or avoid any combined impact of income tax and estate tax. An individual receiving income in the form of a pension or a pension benefit under a registered retirement savings plan or a payment of a death benefit by an employer upon the death of an employee is now allowed to make a deduction from such payments for income tax purposes if the asset represented by the payments has been subject to estate tax or provincial succession duties.

Since 1957 estate tax relief has been granted where the value of a pension or annuity that was part of an estate is reduced because of marriage or death of the recipient within the four year period normally allowed for reassessment.

Since 1957 an important new departure has been made in connection with gift taxes. In addition to the existing exemptions, an individual is now permitted to make a tax free gift once during his lifetime of up to \$10,000 to his wife in the form of ownership of their home or of a farm to his child.

Since 1957, as hon. members are well aware, the special excise tax on automobiles, which was formerly 10 per cent has been repealed. In effect this has relieved taxpayers of a burden of about \$90 million per year.

Since 1957 assistance has been given to municipalities by providing them with exemptions from sales taxes on many of their important purchases. These include the materials used in sewage and drainage systems, culverts, chassis for fire trucks, fire hose, structural aluminum and laminated timber for bridges and diesel fuel for use in generating electricity.

Since 1957, in addition, exemptions from sales taxes have been granted in respect of certain materials used in the construction industry, certain equipment purchased by educational institutions, certain machinery used on farms and certain articles needed by disabled persons.

Since 1957 the first bracket of corporation taxable income which is subject to a low rate of tax has been enlarged on two occasions to benefit a large number of small and medium sized companies. This bracket of income was

increased from \$20,000 to \$25,000 in 1958 and to \$35,000 in 1961. It is estimated that, on account of these successive enlargements of the lower bracket, some 12,000 companies now pay less tax than they would have paid on the same income in 1957.

Since 1957 the surtax of 4 per cent on investment income has been repealed as applied to income from Canadian sources, in order to encourage investment and to ensure more efficient application of the savings of the Canadian people.

Provision was made last year for a re-equipment and modernization allowance which was designed to assist industry and to stimulate expansion. This is in the form of a 50 per cent increase in the first year in the rate of capital cost allowance in respect of new assets acquired for use in Canada in the period from June 21, 1961 to March 31, 1963.

Employment has been rising rapidly and unemployment falling, but we still have more unemployment than is consistent with our national objectives. Capital investment is picking up sharply, but we need still more. It is important, therefore, not to apply any fiscal brakes at this time by abruptly closing the gap between revenues and expenditures.

On the other hand, prices have been very stable during the past year, and indeed during the past several years. One of my duties as Minister of Finance is the avoidance of inflation with its attendant damage and injustice, and I can assure you, Mr. Speaker, that I shall not neglect that duty. But at the present time, with a good deal of surplus capacity still in our economy and increasingly keen competition in both domestic and external markets, there appears to be little current risk of inflation. It seems to me, therefore, that the deficit I am presently forecasting will provide a sound degree of economic stimulus and at the same time will not endanger the price level during the coming year.

The encouragement of economic growth has been one of the main objectives of the government and it is the central purpose of this budget. One of the new measures is expressly designed as an incentive for further industrial expansion and increased employment. Another is intended to give a significant stimulus to scientific research in industry. Because of their economic nature these measures will offer benefits to industry. They will constitute an important addition to the structure of tax changes which I have brought to this house in recent years. Encouragement and incentive are thus being given to private industry under several related headings, to increase its efficiency, to expand employment, to improve Canada's

[Mr. Fleming (Eglinton).]

competitive position and to keep current with the most advanced technical and scientific methods.

I shall also put before you, Mr. Speaker, a fairly large number of particular tax proposals. To some extent these are of a technical nature. A number of them result from probing into the deficiencies of the tax system in a continuing effort to overcome obstacles to progress and to achieve greater equity among taxpayers.

#### ESTATE TAX

I have not received many representations asking for changes in the estate tax. This indicates that the Estate Tax Act, sponsored by this government in 1958, is continuing to work well. As is usual, however, experience has revealed the need for a few changes to give relief, to block loopholes or to provide clarification. I am glad to say that of the few amendments I am proposing most are designed to afford relief. I should like to comment on one that is of general interest.

The Estate Tax Act contains provisions for assuring collection of the tax. Where real property situated in Canada is concerned this security is obtained by a provision imposing a lien in respect of tax payable by the successor to the property. This has caused difficulties in certifying that the title to a particular property is clear, especially in those provinces where the Torrens system of land titles is in effect. If the provincial authorities would not permit the registration of the transfer of real property until they were satisfied that the Minister of National Revenue had given his consent to the transfer, for purposes of the estate tax, the provision for imposing the lien would no longer be necessary. I am accordingly proposing that where a federal-provincial agreement to this effect has been entered into, the lien provision shall not apply. The authorities of some provinces have already been acting in the manner indicated by an agreement of the kind proposed and I am hopeful that eventually all provinces may wish to co-operate in solving the problem in this way. In the meantime, however, I have come to the conclusion that the existing provision for the lien can be restricted so as to cause much less difficulty in practice.

I am proposing therefore that the cases to which the lien is to apply shall be only those where the records of the land titles or the land registry office concerned show that the deceased person had an interest in the property.

#### SALES AND EXCISE TAX CHANGES

The changes I am proposing in the sales tax are intended to extend and clarify some

existing exemptions and take account of technological changes. In the 1958 budget the list of exemptions for municipalities was extended to include materials used in sewage and drainage systems. Since then the trend has been for municipalities to require sub-dividers and contractors to install these services. Accordingly, I am proposing that this exemption be extended to include all sewage and drainage materials. The proposed specific exemption for several items used in the fishing industry will clarify the tax exempt status of these articles and extend the exemption to goods used in their manufacture.

It is estimated that these amendments in sales taxes will reduce revenues by \$2 million per year.

I referred in my budget speech last year to the increasing tendency on the part of non-resident corporations carrying on business in Canada, and also Canadian corporations which are controlled outside of Canada, to arrange their fire and casualty insurance in respect of risks in Canada through agents or brokers located outside Canada. Certain amendments to the Excise Tax Act were proposed at that time respecting insurance placed with insurers which are not authorized to transact the business of insurance in Canada and such amendments were subsequently made. I also stated at that time that the practice of arranging insurance of risks in Canada through non-resident agents and brokers was being studied and that further steps might be taken, if necessary, to curb this undesirable practice.

Surveys that have recently been made indicate that the practice referred to continues in substantial volume. Since this practice results in loss of taxes otherwise payable in Canada, as well as loss of business, employment and income for persons in Canada, and since the laws and regulations of some other jurisdictions require that insurance covering risks in those jurisdictions be placed only through agents or brokers who are licensed therein, it is proposed to amend the Excise Tax Act further so as to extend the application of the present tax of 10 per cent levied on premiums paid to unauthorized insurers by Canadian residents. The proposed amendment would extend the tax to premiums paid to insurers authorized to transact business in Canada where insurance covering risks in Canada is effected or renewed through an agent or broker or other representative of the insurer outside Canada, subject to certain exceptions. As in the case of the present tax on insurance placed with unauthorized insurers, the new tax will not apply to certain classes of insurance, namely life

insurance, personal accident and sickness insurance, marine insurance, and, to the extent that such insurance is not available in Canada, insurance against nuclear risks.

#### CUSTOMS TARIFF

On budget night last June I tabled, on behalf of the Prime Minister, a report prepared by Professor V. W. Bladen on the problems of the Canadian automotive industry. At that time I announced that, in accordance with Professor Bladen's recommendations, the special excise tax of 7½ per cent on passenger cars would be removed, effective immediately.

Professor Bladen's other recommendations included a far reaching proposal under which exports of particular parts or vehicles from Canada to other countries would earn, for a manufacturer, free entry for other parts or vehicles. Thus, it was argued, the Canadian industry could be more effectively integrated with industry abroad, and the economies of longer runs and greater output made available here.

I should like to repeat now part of what I said last June about this proposal:

The government warmly approves these objectives, and it is grateful to Professor Bladen for the constructive and imaginative suggestions that are embodied in his report. Nevertheless, his recommendations relating to tariffs are complex and sweeping, and would require extensive readjustments in the industry. It is essential that those concerned, both management and unions, should have an opportunity to assess not merely the objectives but the desirability and practicability of the means by which these objectives are to be obtained.

The response to our invitation for those concerned to submit detailed comments on Professor Bladen's tariff proposals has been quite extensive, and it is still continuing. Many constructive and helpful comments have been received. They have brought to light a number of practical problems which require further examination. For this reason, and also because the implementation of the remaining recommendations would require extensive modifications of Canada's existing international commitments respecting automobiles and parts, no further action on the Bladen report is being proposed in this budget. Indeed, I am not proposing any changes whatsoever in the automotive schedule at this time, pending completion of our review of the whole problem.

The resolutions which I shall table at the conclusion of my remarks will, however, include proposals for a number of tariff changes. All of them are in a downward direction. In some cases the effect of the proposed amendment is to remove an existing duty; in others, it is to extend the duration of an

[Mr. Fleming (Eglinton).]

existing free entry provision which otherwise would expire during the current year.

I am proposing that existing duties be removed from certain preparations used for medical purposes, and from certain materials imported by religious or educational institutions or societies. I am proposing also that several existing free entry provisions having statutory expiry dates of July 1, 1962, be extended. The most important of these items relate to aircraft and aircraft engines of types or sizes not made in Canada. Others relate to uranium and heavy water; conductive shoes for use in hospitals; and sodium borate for use as a fire retardant in combating forest fires.

Before leaving the subject of tariffs, I should like to refer briefly to tariff board reports which were received during the past year, and to two new tariff board references which are contemplated. During 1961 the tariff board completed its work on reference 125 relating to textiles, and submitted the final three reports thereon. These related to coated or impregnated fabrics, miscellaneous textiles, and hats and caps, respectively. The tariff amendments recommended by the board in these reports would affect items which are bound under the general agreement on tariffs and trade. Negotiations now are in progress looking toward securing adjustments in our present international commitments so as to permit the implementation of these recommendations, subject to some minor modifications which are deemed advisable in the light of representations which have been received, subsequent to the hearings. If the negotiations in question should be completed before tonight's resolutions are disposed of by parliament, consideration will be given to the possibility of introducing supplementary resolutions to implement the results.

Of the two new tariff board references which are contemplated, one relates to wire and wire fencing. The other relates to machinery and apparatus used by the Canadian printing industry, including printing presses, engraving machines, bookbinding machines, and printing plates of all kinds. If any interested parties should wish to submit views regarding the scope of either of these proposed references, they are invited to do so.

#### INCOME TAX CHANGES

I now come to changes in the Income Tax Act.

#### Personal Income Tax

The first of my proposals pertains to personal income tax. Hon. members will recall that the first fiscal measures I was privileged to place before this house, in December, 1957, included an increase in the amount deductible

for dependants. At that time I announced that the deduction for children eligible for family allowances and for other dependants would be increased by \$100. I am now proposing a further increase to \$300 on account of a child qualified for family allowance. This is twice the amount of the deduction of \$150 in force before 1957. For other dependants the new deduction will be \$550. This compares with \$400 allowed before 1957.

This further increase in deductions will free completely from income tax about 80,000 taxpayers and will bring a modest tax reduction to all remaining taxpayers who support dependants. Taxpayers who support children over age 16 who are attending school or university will be able to deduct \$550 in respect of each dependent child and, as I have previously explained, the amendment introduced last year permits tuition fees to be deducted in determining if a child qualifies as a dependant. This tax relief will reduce budgetary revenue by \$26 million in this fiscal year and by \$35 million next year. There will also be a reduction in old age security tax revenue of \$4 million in this fiscal year and \$5 million next year.

#### Production Incentive

As I have already said, one of the continuing objectives of government policy is economic growth. I am bringing forward in this budget a plan to use tax incentives to induce increased production and employment. This will provide encouragement for private industry in its search for new and expanding markets. A benefit will be allowed to a company in the form of a reduction in tax on profits derived from increased sales. Since larger sales will involve more production and more employment for our citizens, this new incentive will bring benefits to the community at large in substantial addition to those which will accrue directly to the successful enterprises.

The benefit, which will be available to companies engaged in manufacturing or processing, will consist of cancellation of 50 per cent of the tax on the first \$50,000 of taxable income arising from increased sales and cancellation of 25 per cent of the tax on any additional income arising from increased sales. In the first year the plan is in operation the amount of taxable income to be attributed to the increased sales will be calculated by reference to the amount, if any, by which gross sales in the current tax year exceed the gross sales of the immediately preceding year. The ratio of this excess to sales in the current year will be applied to taxable income to determine the amount of taxable income to be attributed to increased sales.

In the second year of the plan the amount by which sales have increased in the current year will be determined on the basis of average sales in the two preceding years.

In the third year of the plan, and thereafter, the amount by which sales have increased will be determined on the basis of average sales in the three preceding years.

In this way the gradual extension of the base to the average gross sales of the preceding three years will provide as time goes on for the continuing effectiveness of this new measure and for the increasing stability of its operation.

The proceeds of disposal of a company's capital assets will not, of course, be included in gross sales for the purposes of the tax concession.

The cancellation of half the tax on as much as \$50,000 of taxable income arising from increased sales is sufficiently generous to allow the great majority of eligible companies to obtain the full 50 per cent cancellation of tax on all income arising from increased sales. For example, a company which increases its sales by 10 per cent, thus bringing its total taxable income to over half a million dollars, will pay tax on only half its taxable income arising from the increase in its sales.

Small companies whose taxable income is wholly or largely within the first bracket of \$35,000, and therefore subject to the lower rate of corporation income tax, will be able to claim the reduction of 50 per cent on all of their taxable income attributed to increased sales, both the amounts normally taxed at 12 per cent and any amounts normally taxed at 41 per cent.

It is the policy of the government to promote by every practical means the further development of processing and manufacturing in Canada. In existing economic circumstances, furthermore, the greatest opportunities for increased employment are to be found in the industries which manufacture and process. The benefits of the new plan are to be made available, therefore, in these large areas of industry where they can do the most good by having the greatest effect.

More concretely, the benefit is to be made available to companies whose principal business is manufacturing or processing of goods for sale. Companies will be excluded whose principle business is shipbuilding, oil or gas wells or mines benefiting from percentage depletion. A company whose principal business is processing will be able to qualify whether it be crushing and concentrating ore, refining petroleum or freezing and canning foodstuffs.

The new plan will not be extended to unincorporated businesses in which the earnings are subject to taxation at the graduated rates

of individual income tax. The large majority of unincorporated businesses are in any event in the fields other than the manufacturing and processing of goods for sale. As for the others, it has been found after careful technical study that a benefit comparable to the one being extended to corporations would be both inequitable and far too complicated.

New companies will be allowed to claim the tax credit provided they have at least one full year of sales experience, prior to the current tax year, on which to base their claims.

The bill to be put before the house will contain some special rules to deal with cases in which an extensive corporate reorganization of some sort has taken place including amalgamations, mergers, purchase of assets, transfers of sales contracts and so forth. In each case the purpose will be to establish, if possible, a total of gross sales during the preceding year which can be compared with gross sales in the current year.

The plan to induce increased production and employment is to take effect as from the beginning of this month. Taxpayers will be allowed to claim the benefit in respect of their current taxation year, a portion of which will already have expired in most cases. In this first taxation year the taxpayer will calculate the full amount of tax credit according to the formula and will then reduce this amount by the proportion of his taxation year which had expired by April 1.

In summary, by means of this plan to induce increased production and employment the large majority of processing and manufacturing companies which increase their sales will be allowed to retain half the taxes they would otherwise be required to pay on their additional income. The effect on revenue of this plan is very difficult to estimate because the extent of sales increases cannot be precisely estimated in advance. It is believed that the amount of tax cancelled under the plan in a full year will be at least \$50 million and it may be considerably more. The tax that is given up will be offset in some measure by compensating benefits including increased revenue on other income. Although the plan is expected to exert an immediate stimulus the reduction in corporation income tax revenue in this fiscal year will not be great because in a period of rising profits most companies base their interim monthly payments of estimated tax on their previous year's actual income.

#### Double Depreciation

In the supplementary budget of December 20, 1960 I introduced the program of double depreciation for investment in assets acquired to manufacture products new in Canada or

[Mr. Fleming (Eglinton).]

new in designated surplus manpower areas. This program was designed to encourage the production in Canada of goods not hitherto produced here and to stimulate industrial development in surplus manpower areas. In the June budget speech I informed the house that an increasing amount of interest was being shown in this program on the part of Canadian industries. Up to the present, assets certified under the plan have reached a total of \$112,000,000 and a steady stream of applications is still being received and processed. This program was introduced initially for a period of two years extending to January 1, 1963. However, manufacturers whose plans for additional investment may require a longer time for completion are already beginning to make inquiries concerning continuation for a further period. I am pleased to announce, therefore, that this program of double depreciation is to be extended for another calendar year, that is until January 1, 1964.

The extension of this program will not substantially affect revenues in 1962-63 but, it will, of course, extend the revenue effects of the program, originally estimated to be about \$25 million a year, for an additional twelve months.

#### Scientific Research in Industry

The government gives a high priority to encouraging and assisting scientific research in Canada of all kinds. There has been steady and substantial expansion in the areas where the federal government directly supports research through Atomic Energy of Canada, the Defence Research Board, the National Research Council and various other agencies. If Canada is to maintain and extend its place in the world continuous advances must be made in industrial research and in the development of new methods and new products.

In the 1961 budget I expressed the view that Canadian industries, particularly the subsidiaries of foreign companies, have developed an excessive dependence on research done abroad. To stimulate increased industrial research in this country I announced important tax changes at that time, providing for acceleration of the rate at which capital expenditures on research could be written off as expenses. These amendments have apparently given rise to very constructive results in the limited time they have been in operation.

As announced in the speech from the throne, the government has this year introduced a program of direct financial aid to research in industry. Under this plan, administered through the National Research Council, financial assistance for applied research and

development will be given on a matching basis, with the government contributing up to as much as 50 per cent of the cost of some projects. It is believed that this program will be of far reaching assistance in building up new research and development in industry, and in expanding existing efforts.

Unprecedented opportunities exist today for the enhanced co-operation of science and industry. The great need is for industry itself to grasp the vital importance of more research if it is to forge ahead. I now propose a new and powerful incentive to corporate taxpayers who undertake increased industrial research in Canada.

Commencing in 1962 such taxpayers will be permitted to deduct 150 per cent of their increased expenditures on scientific research for industrial purposes when computing income for tax purposes. This deduction will apply in each year to current as well as capital expenditures on research to the extent that these exceed similar expenditures by the taxpayer in his latest tax year which ended before tonight. The use in this way of a fixed base period will provide taxpayers with scope to earn substantial tax benefits through increased research. Because there will be need to reconsider the formula after a few years the plan will be introduced initially for a five year period. This will provide time for taxpayers to put comprehensive programs into operation.

This amendment to allow taxpayers to deduct 50 per cent more than the amount actually spent will make it necessary to review carefully what should qualify under the heading of scientific research.

A definition of eligible research must, of course, rule out programs for which taxpayers receive payments from governments as well as expenditures related to sales promotion, such as market research and surveys of customer acceptance. It is intended that payments should qualify which are made to universities and approved institutions and associations in Canada to have research carried out. In administering this tax concession my colleague, the Minister of National Revenue, will have the assistance of the National Research Council.

I should add that this new measure is not intended to serve as a precedent to encourage taxpayers to seek the right to deduct more than they spend in other fields.

Here also the effect of the proposed incentive upon revenue is very difficult to forecast because it will depend upon the extent to which taxpayers avail themselves of the potential benefits. Moreover, it is expected that the revenue cost will increase over the next several years as new research programs proceed. The revenue given up may easily

be \$20 million in a full year after the plan has been in operation for one or two years. The loss of revenue in fiscal year 1962-63 is expected to be about \$8 million.

#### Oil and Gas Industry

The government has given much study to the position of the oil industry. Numerous proposals by representatives of the industry and others have been received and considered. The measures I am including in this budget have been selected on the basis that they are responsive to requests received from the oil industry and particularly from those known as independents, that their cost to the treasury in terms of tax revenues can be justified and that they will contribute constructively to the attainment of national objectives.

The petroleum and natural gas industries have developed at an increasing pace during the past year. These industries are in a much healthier condition than before this government took office. The improvement which has taken place is due in no small measure to the policies the government has pursued and, in particular, to the national oil policy. The natural gas industry is consolidating its position in the Canadian markets to which it has access and it has penetrated very large United States markets under the export policies implemented by this government. The response of the oil industry to the new policies has been commendable, particularly since some of the readjustments involved are, at least in the short term, expensive for the companies concerned.

Representatives of the petroleum industry have expressed a strong desire, which is shared by the government, to secure a more substantial and widespread participation in the oil industry by persons normally operating in other fields of industry and by Canadian investors. They have sought tax concessions to this end.

Although surplus productive capacity for oil still exists the prospects for the petroleum and natural gas industries are very good in the long run. There is growing concern, which the government shares, that the pace of exploration for hydrocarbons is not sufficient to maintain reserves of oil adequate to meet anticipated demands.

After careful consideration of all the circumstances I am putting before the house three new proposals:

1. That individuals be granted the right to charge petroleum preproduction expenses against income earned from oil and gas production;
2. That all companies including those not normally engaged in petroleum or in mining

be granted the right to charge petroleum preproduction expenses against income earned from oil and gas production; and

3. That expenditures involved in the acquisition after April 10 of rights to explore or drill for oil or gas or to extract oil or gas be deductible under section 83A of the Income Tax Act along with other drilling and exploration expenses and proceeds from sales of such rights be taken into income by all taxpayers including individuals.

When these amendments have been implemented oil companies will be in a position to deduct without limit of time, in computing income, all of their preproduction expenses including the costs of acquiring rights, the costs of exploration and the costs of drilling. In addition, they will continue to enjoy the benefits of depletion calculated at 33½ per cent of income. To the extent of the income earned in the oil and gas industry, individuals and companies outside the industry will henceforth be allowed full access to the special tax benefits associated with oil and gas.

As with the other proposed incentive measures the effect of these amendments upon revenue will be dependent upon the extent to which they are used by taxpayers. In a full year the revenue loss may be \$15 million. The loss of revenues in 1962-63 will be about \$7 million.

#### Iron Ore

In 1960 when the additional 15 per cent tax was imposed on income earned in Canada by branches of non-resident corporations it was decided to exempt certain classes of companies from the tax. These exemptions granted recognition to the fact that companies sometimes have no real alternative to the branch office form of organization when operating abroad. I am now proposing that non-resident companies whose principal business is mining iron ore be added to the group of companies which are excluded from this special tax. It has been found that such enterprises which require tremendous amounts of capital normally involve joint participation by Canadian interests and foreign users of iron ore. This kind of venture does not readily lend itself to the formation of a subsidiary company in Canada and logically it should be included in the group of companies which are relieved of this tax.

#### Logging Tax

At the dominion-provincial conference of February 23-24, 1961, the Prime Minister referred to heavier taxation borne by corporations engaged in the forest industries as a result of the fact that successive fiscal

arrangements entered into by Canada and the provinces since 1947 have permitted the provinces to impose a tax on logging profits which is deductible as an expense in computing federal income tax. The Prime Minister stated:

During the period covered by the current agreements, companies engaged in the forest industries in British Columbia and Ontario have borne a considerably higher burden of tax rates than other industries. This is because of the combined effect of federal income taxes and provincial logging taxes... It is proposed that... the federal government and the provinces in question should seek agreement by which each will make a concession in the interest of resolving this problem.

The Prime Minister made a more specific statement on this matter in his letter of June 16, 1961, to the provincial premiers in which he made the following generous proposal:

Subject to reaching agreement on this matter of the definition of logging income, the federal government is prepared as a means of relieving the tax burden on the forest industry to offer a tax credit equal to two thirds of the logging tax up to a maximum rate of 10 per cent, provided the province gives a tax credit equal to the remaining one third of such logging tax.

With a view to reaching agreement on this matter in order that any new arrangement might apply to the 1962 taxation year, I wrote on January 4 to the treasurer of Ontario, the minister of finance of British Columbia, who is also the premier of the province, and to the presidents of the Ontario Forest Industries Association, the Council of Forest Industries of British Columbia, and the Canadian Lumbermen's Association proposing that technical discussions be held in Ottawa at an early date. However, owing to the position taken by British Columbia it was not possible to choose a date for the proposed meeting which was satisfactory to all the parties concerned.

Notwithstanding the fact that it has been impossible to hold the proposed discussions and to reach complete agreement on the concessions to be made by the two levels of government, I propose to remove discrimination in the taxation of logging income so far as the federal government is concerned. In order to accomplish this objective I am recommending to parliament that the Income Tax Act be amended so that a federal tax credit will be allowed equal to two thirds of a provincial logging tax up to a maximum rate of tax of 10 per cent on the basis of the existing definition of logging income, that is, the definition contained in the 1957 tax rental agreements. This action will go a long way toward removing the existing tax discrimination of forest industry corporations irrespective of any action which the provinces may take. Moreover, if the provinces imposing a logging tax supplement our tax credit with a

[Mr. Fleming (Eglinton).]

credit of their own equal to one third of the logging tax, as it is to be hoped they will, the discrimination will be removed completely. The reason for proposing that the federal government should bear two thirds of the full tax credit is that the federal income tax is approximately twice as large as the provincial income tax and logging tax combined in provinces which now impose a tax on income from logging. This proposal constitutes a unique concession inasmuch as no other provincial tax is allowed as a tax credit under the Income Tax Act.

It is estimated that this concession may reduce revenues by \$3 million net in a full year and \$1½ million in 1962-63.

#### University Grants

Commencing in the year 1962-63 federal grants to universities will be increased by one third, that is from \$1.50 per capita for the population of each province to \$2.00 per capita. Before 1960 these grants were paid to the National Conference of Canadian Universities (later succeeded by the Canadian Universities Foundation) for distribution to the universities of each province in proportion to student enrolment. However, in 1960 this government introduced legislation to provide an alternative arrangement for a province wishing to administer its own grants. This was done to meet the long standing difficulty with respect to university grants in the province of Quebec. Under section 9A of the Federal-Provincial Tax-Sharing Arrangements Act it is provided that a province may be prescribed if it has not entered into a tax rental agreement with Canada under which it agrees to refrain from levying corporation income taxes and if satisfactory arrangements exist in that province for the payment of university grants of at least \$1.50 per capita in addition to grants to universities made as part of the ordinary expenditure of the province. In a province thus prescribed an additional abatement of 1 per cent in the rate of corporation income tax was provided under Section 40 of the Income Tax Act for taxation years 1960 and 1961.

In order that there should be equity in treatment as between provinces section 9A also provided that where the value of the additional abatement of 1 per cent in the rate of corporation income tax in a prescribed province was less than \$1.50 per capita an additional payment would be made to the province to bring it to that level and when it exceeded \$1.50 per capita the excess would be recovered from the province. The Prime Minister has received assurance that the government of the province of Quebec desires a continuation of the alternative arrangements for the payment of university grants. Accordingly provision will be made to continue this

additional abatement of 1 per cent in the rate of corporation tax in a prescribed province. In addition, it is necessary to provide for the increase in the level of university grants from \$1.50 to \$2.00 per capita. This will be done by amendment to the Federal-Provincial Fiscal Arrangements Act which it is proposed to introduce subsequently.

#### SUMMARY

I can now summarize the net budgetary cost of all the proposed tax changes. The major reductions in revenues will occur in personal and corporation income taxes. The benefits to individuals will amount to about \$30 million in this fiscal year and about \$40 million in a full year. Of these amounts \$4 million in this fiscal year and \$5 million in a full year will be reductions in contributions to the old age security fund, and the remainders will be reductions in budgetary revenues. The business incentives will cost about \$22 million in 1962-63 and \$88 million in a full year. The sales tax reductions will amount to about \$2 million. Total benefits resulting from these tax changes will be about \$54 million in this fiscal year and \$130 million on a full year basis.

I should like to place in *Hansard* at this point the revised table of revenues for the fiscal year ending March 31, 1963.

**Mr. Speaker:** Has the hon. minister leave?

**Some hon. Members:** Agreed.

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

TABLE 8

Estimated budgetary revenues, 1962-63

(millions of dollars)

Personal Income Tax .....	\$1,784
Corporation Income Tax ....	1,168
Non-Resident Tax .....	120
Estate Tax .....	90
Customs Duties .....	550
Sales Tax .....	813
Other Duties and Taxes .....	630
<b>Total Taxes .....</b>	<b>5,155</b>
Non-tax revenues .....	625
<b>Total revenues .....</b>	<b>5,780</b>

**Mr. Fleming (Eglinton):** Total budgetary revenues in 1962-63 will thus be reduced to an estimated \$5,780 million, and since expenditures are expected to be \$6,525 million our estimated budgetary deficit will be about \$745 million. Any forecast covering a full year ahead is, of course, subject to some degree of uncertainty and a deviation

of as little as 1 per cent in either revenues or expenditures can mean a difference of \$60 million.

Our non-budgetary cash requirements during this year, excluding as has always been done in the past any increases or decreases in the exchange fund account, appear likely to be about \$295 million. Our non-budgetary cash receipts will be about \$280 million, and our net loans, investments and advances will be about \$575 million. The main components of our non-budgetary cash outlays are \$230 million for Central Mortgage and Housing Corporation, \$80 million for financing export credits, \$68 million of advances to the old age security fund and \$60 million to the Farm Credit Corporation. Loans to the Canadian National Railways, which include the capital requirements of Trans-Canada Air Lines, will amount to only \$20 million.

Statistically, our net cash requirements for 1962-63, including both budgetary and non-budgetary accounts, will be about \$1,040 million; but as I said in the early part of my speech this evening, while our net cash requirements in 1961-62 turned out to be \$479 million, the net increase in outstanding bond issues during the past year was \$857 million. Consequently our cash balances at the end of the fiscal year were about \$400 million greater than on March 31, 1961 and stood at \$762 million. Subject to unpredictable changes in our exchange fund, the use of surplus cash balances now held will reduce our borrowing requirements in 1962-63 to a level below those of 1961-62.

#### CONCLUSION

Mr. Speaker, it is with grateful satisfaction that we survey in Canada today the unchallengeable evidences of rising prosperity, increased employment, greater opportunities and rapid economic expansion.

Monsieur l'Orateur, c'est avec une agréable satisfaction que nous constatons au Canada aujourd'hui les preuves irréfutables d'une prospérité croissante, d'une embauche plus forte, de perspectives plus vastes et d'une rapide croissance économique. Nombre de nouvelles réalisations attestent de la fermeté et de l'ampleur de notre croissance économique. Les lignes de conduite et les programmes énoncés dans nos exposés budgétaires précédents ont contribué efficacement à ces réalisations étonnantes.

Many new records have testified to the strength and extent of our economic growth. Policies and programs enunciated in previous budgets have contributed effectively to these striking achievements.

But we must not be complacent. We must not rest. This budget is designed to continue

[Mr. Fleming (Eglinton).]

and to extend those policies which have contributed so much to dynamic growth in Canadian economy and to the creation of 200,000 new jobs in Canada in the last year. It is also designed to stimulate Canadian enterprise to new effort and new peaks of achievement. It offers tangible incentives to Canadian producers to seek out more markets, to take more risks, to breast the keen competition of the trading world with new confidence and resolve, and with the highest standard of efficiency. It summons all members of the great Canadian family to work together in the spirit of partnership for the attainment of national goals beneficial to all. It asks all to face realistically the challenges of our national and international responsibilities. It calls for effort, confidence and achievement in keeping with our resources, our high position in the free world, and the incomparable destiny of the Canadian nation.

#### RESOLUTIONS

##### INCOME TAX ACT

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

(1) That for the 1962 and subsequent taxation years the amount deductible in computing taxable income in respect of a child qualified for family allowance be increased to \$300 and the amount deductible in respect of other dependants be increased to \$550 each.

(2) That with respect to income earned after March 31, 1962 a corporation whose principal business is manufacturing or processing (not including a corporation whose principal business is shipbuilding, mining, logging or the operation of oil or gas wells) be allowed to deduct from its tax otherwise payable an amount equal to 50 per cent of the tax on the first \$50,000 of its taxable income attributable to increased sales and an amount equal to 25 per cent of the tax on the remainder of its taxable income so attributable.

(3) That with respect to its first taxation year ending after April 10, 1962 and the next succeeding four taxation years a corporation be permitted to deduct in computing income 150 per cent of the amount by which expenditures of a current and capital nature on scientific research in Canada incurred by it in the year exceed expenditures of a current and capital nature on scientific research in Canada incurred by it in its last taxation year ending on or before April 10, 1962.

(4) That for the 1962 to 1966 taxation years both inclusive the deduction from tax allowed to corporations in respect of taxable income earned in a province be increased from 9

per cent to 10 per cent in a prescribed province in which arrangements exist for the replacement of federal grants to universities by additional provincial grants in accordance with the proposed amendments to the Federal-Provincial Fiscal Arrangements Act.

(5) That with respect to taxation years commencing in 1962 a taxpayer be allowed a deduction from tax of an amount equal to the lesser of two-thirds of the amount payable for the year to a province as a tax on income from logging operations or  $\frac{3}{4}$  of 10 per cent of the taxpayer's income from logging operations in the province, and the right to deduct in computing income amounts paid to a province as a tax on income from logging operations be repealed.

(6) With respect to expenses incurred after April 10, 1962 any corporation be allowed to deduct in computing income the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by it on or in respect of exploring or drilling for petroleum or natural gas in Canada and the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada not exceeding its income for the year from oil or gas wells in Canada.

(7) That with respect to expenses incurred after April 10, 1962 an individual be allowed to deduct in computing income the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by him on or in respect of exploring or drilling for petroleum or natural gas in Canada not exceeding his income for the year from oil or gas wells in Canada.

(8) That with respect to acquisitions after April 10, 1962 amounts paid by

(a) a corporation whose principal business is production, refining or marketing of petroleum, petroleum products or natural gas, or exploring or drilling for petroleum or natural gas, or mining or exploring for minerals,

(b) an association, partnership or syndicate formed for the purpose of exploring or drilling for petroleum or natural gas,

(c) a corporation (other than a corporation that qualifies under (a)), or

(d) an individual for a right, licence or privilege to explore for, drill for or take petroleum or natural gas in Canada shall be classed as drilling or exploration expenses for purposes of computing deductions from income.

(9) That with respect to sales of property acquired after April 10, 1962 there shall be included in the income of a taxpayer any amount received as consideration for the disposition of a right, licence or privilege to

explore for, drill for or take petroleum or natural gas except where the right, licence or privilege was acquired by inheritance or bequest.

(10) That the right of a successor corporation to deduct drilling, exploration, prospecting and development expenses incurred by a predecessor corporation from the income of the successor corporation attributable to the production of petroleum or natural gas from wells, or the production of minerals from mines, situated on property acquired from the predecessor corporation shall not be lost by reason of the fact that the successor corporation assumed liabilities of the predecessor corporation.

(11) That a joint exploration corporation may renounce an appropriate share of the drilling, exploration, prospecting and development expenses incurred by it after 1956 in searching for oil, gas or minerals in Canada in favour of a shareholder corporation whose principal business is

(a) production, refining or marketing of petroleum, petroleum products or natural gas, or exploring or drilling for petroleum or natural gas,

(b) mining or exploring for minerals,

(c) processing mineral ores for the purpose of recovering metals therefrom,

(d) a combination of

(i) processing mineral ores for the purpose of recovering metals therefrom, and

(ii) processing metals recovered from the ores so processed, or

(e) fabricating metals,

and in such case the expenses renounced shall be deductible by the shareholder corporation and not by the joint exploration corporation.

(12) That the right of a successor corporation to deduct drilling, exploration, prospecting and development expenses incurred by a predecessor corporation from the income of the successor corporation attributable to the production of petroleum or natural gas from wells, or the production of minerals from mines, situated on property acquired from the predecessor corporation be extended to a second successor corporation which has acquired the property from a predecessor corporation which was itself a successor corporation.

(13) That for the 1962 and subsequent taxation years income earned in Canada by a non-resident corporation whose principal business is mining iron ore in Canada, be exempt from the additional 15 per cent tax imposed by part IIIA on profits earned in Canada by non-resident corporations.

(14) That where an employee who is a member of one deferred profit sharing plan

becomes a member of another deferred profit sharing plan the amount to his credit in the first mentioned plan may be transferred to his credit in the second mentioned plan without attracting tax on the amount so transferred.

(15) That the amount to the credit of an annuitant under a registered retirement savings plan may be transferred at any time before the maturity of the plan to another registered retirement savings plan or to a registered pension fund or plan without attracting tax on the amount so transferred.

#### ESTATE TAX ACT

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

(1) That the lien in respect of tax payable by a successor to real property situated in Canada of a deceased person shall be applicable only where it appears from the records of the appropriate land titles or land registry office or where it can be established from any document or other writing of which notice is given in those records that the deceased person had an estate or interest in that real property, but no such lien shall be applicable where the real property is situated in a province whose government has entered into an agreement with the government of Canada whereby no transfer of an estate or interest in the real property may be registered until the consent of the Minister of National Revenue to the transfer has been obtained.

(2) That for purposes of the deduction from aggregate net value allowed for the value of a gift made to a charitable organization in Canada, such an organization shall include not only one that devotes its resources to the making of gifts to other such organizations in Canada, but also one that devotes part of all of its resources to the making of gifts to Her Majesty in right of Canada or a province, a Canadian municipality or a municipal or other public body in Canada performing a function of government.

(3) That the tax applicable in respect of the property of a person dying domiciled outside of Canada shall not apply to the property situated in Canada of an officer or servant of an organization as defined for the purpose of section 3 of the Privileges and Immunities (United Nations) Act, where the property was acquired during his lifetime for or incident to his residence in Canada as such an officer or servant whose duties required him to reside in Canada at the time of his death.

(4) That any enactment founded on paragraphs (1) and (3) shall apply in respect of deaths occurring after December 31, 1958.

[Mr. Fleming (Eglinton).]

#### 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 present exemption from sales tax for "Books, printed and bound, that contain no advertising and are solely for educational, technical, cultural or literary purposes," be changed to read "Printed books that contain no advertising and are solely for educational, technical, cultural or literary purposes,".

(2) That audio tapes and materials used in the manufacture thereof, authorized by the department of education of any province in Canada for instruction in the English and the French language, be exempt from sales tax.

(3) That baler twine and materials used in the manufacture thereof be exempt from sales tax, regardless of use.

(4) That barrels and boxes for fish, lobster crates, lobster pots, lobster traps, scallop bags, and materials used in the manufacture thereof be exempt from sales tax.

(5) That drums or cans for honey and materials used in the manufacture thereof be exempt from sales tax.

(6) That goods for use in sewerage and drainage systems and materials used in the manufacture thereof be exempt from sales tax.

(7) That the present liability for sales tax on motor vehicles, tractors and machines and tools operated by such vehicles or tractors, that are diverted from an exempt use to a taxable use, be limited to five years from the time of the first sale by a person who would have been required to pay sales tax if the sale had not been for an exempt use, and where motor vehicles, tractors and machines and tools operated by such vehicles or tractors were imported or sold by a manufacturer or licensed wholesaler and sales tax was not payable or was refunded by reason of the intended use of the goods, any person who within five years of such importation or sale applies the goods to any other use (other than of a casual nature) for which the goods could not originally have been purchased exempt from sales tax, and the person from whom he purchased or rented the goods including the importer, manufacturer or licensed wholesaler, shall be jointly and severally liable for payment of sales tax on the fair market value of the goods at the time they are applied to that other use.

(8) That the present tax of 10 per cent on net premiums in respect of insurance against risks in Canada paid or payable by

Canadian residents to an insurer not authorized under the laws of Canada or any province to transact the business of insurance, be extended to apply to net premiums in respect of any such insurance paid or payable by or on behalf of Canadian residents, where such insurance is entered into or renewed through a broker or agent outside Canada with an insurer that at the time the contract is entered into or renewed is authorized under the laws of Canada or any province to transact the business of insurance.

(9) That any enactment founded on paragraphs 1 to 7 of this resolution be deemed to have come into force on April 11, 1962 and

that any enactment founded on paragraph 8 of this resolution be applicable in respect of contracts of insurance entered into or renewed after April 10, 1962.

#### CUSTOMS TARIFF

1. Resolved, that Schedule A to the Customs Tariff be amended by striking out tariff items 206b, 237a, 296g, 409f, 431h, 440m, 440n, 611a(4) and 696(1), and the enumerations of goods and the rates of duty set opposite each of these 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
206b	Dextrose (glucose) solutions and levulose (fructose) solutions, prepared for parenteral administration in therapeutic treatments; component materials and articles to be used in making such preparations.....	Free	Free	Free	Free 17½ p.c.	Free 20 p.c.	Free 40 p.c.
220b	Phenylalanine deficient dietary preparations specially compounded for use in the treatment of phenylketonuria.....	Free	Free	25 p.c.	15 p.c.	20 p.c.	25 p.c.
237a	Deuterium oxide or heavy water; uranium in the form of pigs, ingots, billets or bars.....	Free	Free	25 p.c.	Free	Free	25 p.c.
	On and after July 1, 1964	Free	15 p.c.	25 p.c.	Free	15 p.c.	25 p.c.
296g	Sodium calcium borate ore for use as a fire retardant....	Free	Free	25 p.c.	Free	Free	25 p.c.
	On and after July 1, 1964	15 p.c.	20 p.c.	25 p.c.	15 p.c.	20 p.c.	25 p.c.
409f	Animal clippers; Automatic stock watering devices; Barn hay forks, carriage, pulleys and track; Barn litter carriers and track; Combination excavating and transporting scraper units; Egg cooling cabinets; Elevators (other than storage elevators); Grain crushers; Grain or hay dryers; Grain or hay grinders; Grain loaders; Gravity discharge farm wagon boxes; Hay stack forms; 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;				(On and after July 1, 1962)	(On and after July 1, 1962)	

*Stack heaters for orchards;*

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;

Ensilage cutters;

Fodder or feed cutters;

Hay loaders;

Hay tedders;

Post hole diggers;

Potato diggers;

Potato planters;

Snaths;

Stumping machines;

All other agricultural implements or agricultural machinery, n.o.p.;

Parts of all the foregoing..... Free

Free

Free

Free  
10 p.c.

Free  
22½ p.c.

Free  
35 p.c.

- 431h Geophysical surveying precision instruments and equipment for use exclusively in prospecting for, or in the exploration and development of, petroleum, natural gas, water wells and minerals, or for geophysical studies for engineering projects, including the following: Magnetometers; gravity meters and other instruments designed to measure the elements, variations and distortions of the natural gravitational force; field potentiometers, meggers, non-polarizing electrodes, and electrical equipment for making measurements in drill holes; instruments and equipment for seismic prospecting; geiger muller counters and other instruments for radioactive methods of geophysical prospecting; electrical and electronic amplifying devices and electrical thermostats designed to be used with any of the foregoing; sodium iodide crystals, thallium activated, in rough cut blanks, when imported to be manufactured into parts for use in instruments for prospecting; all the foregoing of a class or kind not made in Canada, and parts, tripods and fitted carrying cases for any of the foregoing.....

Free

Free

30 p.c.

Free  
10 p.c.  
20 p.c.

Free  
22½ p.c.  
20 p.c.

30 p.c.  
35 p.c.  
30 p.c.

- 440m Aircraft, not including engines, under such regulations as the Minister may prescribe:

1. When of types or sizes not made in Canada..... Free  
On and after July 1, 1963 Free

Free  
15 p.c.

27½ p.c.  
27½ p.c.

Free  
Free

Free  
15 p.c.

27½ p.c.  
27½ p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
440n	Aircraft engines, when imported for use in the equipment of aircraft: 1. When of types or sizes not made in Canada. . . . . On and after July 1, 1963	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (On and after July 1, 1962)	27½ p.c. 27½ p.c.
611a	(4) Conductive shoes for use in hospitals. . . . . On and after July 1, 1963	Free 20 p.c.	Free 27½ p.c.	40 p.c. 40 p.c.	Free 20 p.c.	Free 27½ p.c. (On and after July 1, 1962)	40 p.c. 40 p.c.
696	(1) Philosophical and scientific apparatus (and ancillary equipment thereto), utensils, instruments, and preparations, including boxes and bottles containing the same; maps, charts, photographic reproductions and other pictorial illustrations; <i>video tape recordings; stencils and cards, specially designed for the preparation of library index cards</i> ; casts as models; animals as research or experimental subjects; living plants, seeds, cuttings, buds, scions, tubers, bulbs and root-stock; mechanical equipment of a class or kind not made in Canada; parts of the foregoing. All articles in this item, when for the use and by order of any society or institution incorporated or established solely for religious, philosophical, educational, scientific or literary purposes, or for the encouragement of the fine arts, or for the use and by order of any public hospital, college, academy, school, or seminary of learning in Canada, and not for sale or for rental, under such regulations as the Minister may prescribe. . . . .	Free	Free	Free	Free 15 p.c. 15 p.c. 10 p.c.	Free 20 p.c. 22½ p.c. 22½ p.c.	Free 30 p.c. 25 p.c. 35 p.c.

2. Resolved, that any enactment founded upon the foregoing resolution shall be deemed to have come into force on the eleventh day of April, 1962, and to have applied to all goods mentioned in the said resolution 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.

#### APPENDIX "A"

*[The complete text of the Budget Speech, as originally prepared for presentation to Parliament, included the following section which was omitted during the actual presentation.]*

##### INTERNATIONAL ECONOMIC DEVELOPMENTS

The House will recall that in referring to international trade and economic policy developments in my last budget speech I said that in perhaps no other field of our economic life are events moving more quickly or dramatically. Since last June the pace of change on the international economic scene has quickened and I would now like to highlight briefly the main events of the intervening months and to indicate the position which the Canadian government has adopted in the face of these developments.

The most important event was undoubtedly the decision of the British government to commence negotiations with the European Economic Community in order to ascertain whether or not there exists a basis for the accession of the United Kingdom to the Common Market. Before turning to the implications of this decision, however, I should like to draw the attention of the House to the latest developments which have occurred in the European Economic Community.

At the turn of the year the EEC moved into the second stage of its transitional period. According to the time-table now envisaged, the Common Market of the six member countries of the Community will have been fully established by the end of 1969. The Community's entry into the second stage implies an acceleration in the rate of economic integration in the area. This will be facilitated by the progress which can be expected in the difficult sector of agriculture now that the member countries have agreed on the broad lines which their common agricultural policy should take.

It is against this background that I should now like to say a few words about the decision of the United Kingdom to open the negotiations with the EEC looking towards eventual accession to the Community.

This decision has been the subject of a great deal of analysis and comment. I do not intend, therefore, to go into any great detail in describing the implications which it may hold for Canada and for the Commonwealth. It is, in any case, impossible to speak with firm assurance about these implications, since the outcome of the present negotiations between Britain and the European Economic Community cannot yet be foretold. Nevertheless, we share in common with the other countries of the Commonwealth a natural concern for the effects of British accession to the Community on our interests, both individual and collective. As the House is aware the British minister responsible for these negotiations, Mr. Edward Heath, Lord Privy Seal, has visited Ottawa on two occasions, in January and again in March, to inform us of the progress of the negotiations and to consult us about the Canadian interests involved. These meetings proceeded in an atmosphere of friendly understanding. They were of great value to the Canadian government and Mr. Heath was good enough to say that they were of great value from the point of view of the British government.

At the invitation of the United Kingdom, we in common with the other countries of the Commonwealth have expressed our views on these issues. In addition we have made arrangements to assist the British negotiators by making available to them full and up-to-date information on every aspect of Canada's trade interests. We have also sent senior Canadian officials to Brussels for this purpose.

In suggesting that until the current negotiations between the United Kingdom and the European Economic Community are concluded we shall unavoidably continue to be faced with uncertainty, I do not wish to detract from the assurances which the British government have repeatedly given Canada and the other countries of the Commonwealth. They have made it very clear that unless they can secure terms which will adequately safeguard the essential interests of Commonwealth countries, they will not join the Common Market. We have welcomed these assurances and we do not for a moment doubt the steadfast determination of Britain to endeavour to obtain the necessary safeguards.

We must recognize, nonetheless, that even at best, Canada and other Commonwealth countries will have to face some trade adjustments should the United Kingdom decide to join the Common Market. In the new pattern of international trading relationships which is likely to emerge in the wake of such a development, losses in one direction will have to be compensated by gains in another if we are to succeed in expanding international

trade and in raising living standards throughout the world. Failing this, the collective multilateral approach to world economic problems would suffer a serious reverse.

The need for multilateral solutions to world economic problems is as great now as it has ever been. The new pattern of world trading arrangements emerging from the creation of the European Economic Community and its possible enlargement to include the United Kingdom and other European countries raises fundamental problems for the entire free world. Hence, effective solutions cannot be found by Canada or any other single country acting alone, but will require the collective efforts of all the principal trading countries. To be equitable as well as effective such solutions will have to be non-discriminatory in character and multilateral in application. A program of action confined to any limited group of countries such as the North Atlantic region would simply intensify the problems faced by the countries outside the group.

It is obvious that any effective collective approach to these problems will require the constructive and imaginative leadership of the United States as the greatest world power and the central bastion of the free nations.

This is in fact the kind of leadership President Kennedy has displayed in submitting his new trade program to congress. This program was a major topic of discussion on the occasion of the Joint Canada-United States Committee on Trade and Economic Affairs which was held in Ottawa in mid-January. Canadian ministers reiterated their support for the expansion of world trade on a multilateral, non-discriminatory basis and Canada's readiness to play a constructive role in the promotion of freer world trade. The United States members of the committee welcomed this statement and explained that the new trade legislation forwarded to congress by President Kennedy was designed to contribute substantially to these objectives.

In essence, President Kennedy's proposals for the Trade Expansion Act of 1962 are aimed at a very substantial reduction in tariffs, particularly the tariffs of the United States and the EEC. I am glad to say that the President is not contemplating the creation of a closed North Atlantic trading community. Instead he has made it clear that the benefits of the tariff negotiations he is proposing would be extended to the other member countries of the GATT, including Canada on the basis of the most-favoured-nation principle. Countries receiving indirect benefits in substantial measure would of course be expected to make their own contribution to the collective effort.

[Mr. Fleming (Eglinton).]

There is no doubt that President Kennedy's initiative in launching this trade program is a most important and significant development. Successful negotiations of the nature and scope envisaged could have profound effects on the trade patterns of other countries, including of course Canada. A full assessment of these effects, however, must await the outcome of the debate in the United States congress as well as the considered response of the European Economic Community, the major negotiating partner of the United States. The initial response of the EEC, while favourable, was also cautious.

We attach the greatest importance to the success of the President's initiative and we consider it vital that the EEC in its new role as one of the world's leading trading units should play its full part. We are certainly prepared to make our own contribution to the collective efforts in the period ahead.

I should now like to turn to the other international economic developments which have taken place since June. In my last budget speech I referred to the GATT Tariff Conference which was then in progress in Geneva and which is now almost concluded. The purpose of this conference, in which Canada has participated actively was to renegotiate the previously bound tariff rates of the six individual members of the European Economic Community, which are now being merged into a common external tariff and to hold a fresh round of general tariff negotiations aimed at the exchange of new concessions among participating countries.

As I have indicated, the GATT Tariff Conference is now ending and I can report that the results contain important benefits for Canada. On March 7 I announced to the house the results of an interim agreement signed on that day at Geneva between Canada and the United States. Members will recall that this agreement provides for direct tariff concessions on items which have been traded between Canada and the United States in recent years at a level of between \$130 and \$140 million per annum. At that time I also drew the attention of the house to the interim agreements which the United States negotiated with a number of other countries and which, under the operation of the most-favoured-nation principle of the GATT, will convey indirect benefits of very considerable significance to Canadian exports. On April 6 my colleague, the Minister of Trade and Commerce, informed the house that, arising out of these agreements, Canada will receive indirect concessions on items amounting to \$85 million on our exports to the United States and \$140 million on our exports to the European Economic Community.

The results of Canada's bilateral negotiations with other countries will be announced in the near future. I should also point out that numerous agreements will be concluded between other pairs of countries which will, on the most-favoured-nation principle, yield further indirect benefits to our export trade. These will be made known at the conclusion of the conference.

In addition to the Tariff Conference, another important development in the GATT was the Ministerial Meeting which was held in Geneva from November 27 to 30, 1961, at which Canada was represented by my colleague the Minister of Trade and Commerce. Ministers addressed themselves on this occasion to three main questions: the possibilities for further reduction of tariff barriers to trade including possible new techniques for tariff reduction, methods of reducing barriers to trade in agricultural products, and obstacles to the trade of less-developed countries. During the meeting ministers reaffirmed their confidence in the General Agreement as the basis for the trading relationships of their countries.

Another noteworthy development in the GATT was the negotiation under its auspices of the International Cotton Textile Arrangements. A Short-Term Arrangement valid until the end of September this year was drawn up last July, and was followed this February by a Long-Term Arrangement which will last five years beginning October 1, 1962. The object of both Arrangements is to expand export opportunities for the less-developed countries which produce cotton textiles in substantial quantities as well as for Japan while, at the same time, preventing disruption in the domestic markets of importing countries.

As members know, the Canadian government has consistently supported the principle of orderly growth in this field. In respect of Japan which is by far the largest supplier of low-cost textiles to Canada we have relied upon the Japanese government's system of voluntary controls on exports to Canada of products where Canadian producers have experienced market disruption. On April 3 I informed the House that an understanding had been reached with Hong Kong pursuant to the Geneva Textile Arrangements whereby shipments to Canada of certain textile products from that country will be limited.

The Geneva Arrangements on Cotton Textiles embody an internationally agreed framework in the cotton textile sector (as well as in substitutes for cotton), for the kind of solutions to the problem of avoiding market disruption which we have consistently advocated and pursued in the past.

Turning to world payments and the activities of the International Monetary Fund, 1961 continued to be marked by some instability in the exchange markets. The outflow of gold from the United States was much reduced last year but sterling came under heavy pressure. In August the International Monetary Fund agreed to lend the United Kingdom the equivalent of U.S. \$1,500 million in the currencies of nine member countries, including the equivalent of U.S. \$75 million in Canadian dollars. Since then, the position of sterling has substantially improved.

The events of 1961 clearly demonstrated the growing interdependence of major currencies in an era of widespread convertibility and their vulnerability to speculative attacks in the absence of adequate international co-operation. The need for effective arrangements to overcome such problems led to the recently announced decision by ten major industrial countries to stand prepared to lend their currencies to the International Monetary Fund up to specified amounts when the fund and these countries consider that supplementary resources are needed to forestall or cope with an impairment of the international monetary system. The total amount of supplementary resources to be made available is the equivalent of U.S. \$6.0 billion, of which Canada's undertaking will, subject to the approval of parliament, be U.S. \$200 million.

The purpose of these supplementary standby funds is to ensure that adequate resources will be available to the International Monetary Fund to enable it to support the stability of important currencies and reduce the dangers of speculative pressures. This is an essential aim if the expansion of world trade is not to be hampered by restrictive actions on the part of countries in balance of payments difficulties. Canada, as a major trading nation, has supported these proposals to enlarge the resources available to the International Monetary Fund, and will benefit from the new stability which this arrangement will undoubtedly impart to the system of world trade and payments.

In addition to our activities in the GATT and the International Monetary Fund, Canada has, of course, taken a full and active interest in the new Organization for Economic Co-operation and Development which replaced the organization for European Economic Co-operation last year. It will be recalled that Canada was the first country to ratify the new convention under which Canada and the United States are now full members of the Organization along with the eighteen countries of western Europe. Elected as its first Chairman, I had the honour to preside over the first meeting of the Ministerial Council of the OECD last November 16 and 17 in

Paris. On that occasion the ministers expressed their determination to promote the three objectives of the OECD, namely, the achievement of sustained economic growth, greater aid to the less-developed countries, and the expansion of trade on a multilateral non-discriminatory basis both among OECD countries and between OECD countries and the rest of the world.

The OECD ministers set as a collective target the attainment during the decade from 1960 to 1970 of a growth in real gross national production of 50 per cent for the 20 member countries taken together. This is a collective target; the rates of growth of individual countries are naturally not expected to be uniform. However, the OECD emphasis on growth and on measures to expand trade means that the efforts of a particular country will be aided and made more effective by simultaneous expansion in other countries. Canada will continue to support these objectives of the OECD and will continue to participate actively with the other members in economic discussions on a wide range of issues in a spirit of friendly co-operation.

It will be clear from this review of international trade and financial developments that Canada has continued to play a full, responsible and constructive role in whatever co-operative arrangements are needed to promote the objectives of expanding international trade, raising living standards and improving the functioning of the world payments system. In the face of the rapid march of events we have been alert to the opportunities for Canada as well as the dangers and have been active in the search for whatever solutions will best serve the interest of Canada, the Commonwealth and the free world.

## APPENDIX "B"

*[The complete text of the Budget Speech, as originally prepared for presentation to Parliament, included the following section which was abbreviated during the actual presentation.]*

### DOMINION PROVINCIAL RELATIONS

During the past year parliament has approved a new system of fiscal arrangements with the provinces. Under this new system the provinces have reassumed their constitutional rights and responsibilities to impose and vary their personal and corporation income taxes as they see fit. At the same time the dominion government has offered to collect these provincial taxes free of charge provided the tax base is the same as under the federal tax law. Thus the provinces have

[Mr. Fleming (Eglington).]

been spared the expense of administering their own tax systems while preserving the right to vary the yield from them by action independent of the dominion government. At the same time the offer of this free collection service encourages the provinces to adopt a uniform tax base and is therefore a contributing factor to simplicity and uniformity in the tax system as a whole and the taxpayer is helped by not being required to complete more than one return.

Under the new arrangements the Department of National Revenue will collect the personal income tax for nine provinces and will collect the corporation income tax for eight provinces.

This new freedom for the provinces has been accompanied by an increase in the provincial share of the personal income tax. When this government took office the provinces received a tax rental equal to 10 per cent of the federal income tax. This rental was raised to 13 per cent commencing in the fiscal year 1958-59. The new arrangements provide for a reduction in federal personal income tax of 16 per cent in the first year of the arrangements rising by 1 per cent each year to 20 per cent in 1966-67. Thus the provinces without imposing any additional burden of taxation will by the last year of the new arrangements be receiving double the share they received when this government took office in 1957.

At the same time the new system of fiscal arrangements provides for a broader and more realistic system of equalization which takes account of the variations in natural resource revenue as well as in the yields of personal income tax, corporation income tax, and estate tax. In addition, the Atlantic Provinces Adjustment Grants which this government introduced in 1958 have been increased by 40 per cent from \$25 million to \$35 million per annum and the special payment of \$8 million per annum to Newfoundland has been extended for a further five-year period.

The result of the new fiscal arrangements will be to increase very substantially the contributions to the provinces by way of unconditional grants or tax abatements. The estimated value of these unconditional grants and abatements to the provinces for 1962-63 is \$980 million, an increase of \$122 million over last year and of \$428 million over 1956-57. Although the increase in unconditional grants to the provinces since 1956-57 has been large, the increase in conditional grants has been even more rapid. I should like at this point to insert in *Hansard* a table showing the amount of the federal contributions to the provinces and certain payments

to institutions in the provinces for the fiscal years 1956-57 to 1961-62 together with the estimated amount for the years 1962-63.

[Editor's note: See Table 5 on page 14.]

It will be seen that the total of all these payments and abatements, conditional and unconditional, is estimated at \$1,794 million for 1962-63, more than two-and-one-half times as great as the total of \$689 million in 1956-57. Conditional grants as estimated for 1962-63 at \$749 million are not far short of seven times the total of \$111 million for the fiscal year 1956-57.

This enormous increase in the contributions to the provinces has assisted them directly and indirectly in the provision of essential services and has placed them in a better position to assist their municipalities. It has

greatly added to federal financial burdens and has given rise to federal budgetary deficits. In fact, the cumulative increase in these contributions to the provinces over the past five years has been greater than the cumulative budgetary deficits for that period by no less than \$376 million. I should like at this point to place in *Hansard* a table which compares the budgetary deficits of the dominion government for the period 1957-58 to 1961-62 with the increase in contributions to or for the benefit of the provinces.

[Editor's note: See Table 6 on page 15.]

As a further measure of federal assistance to the provinces I should also refer to the resolution now in the order paper which makes provision for federal crown corporations to pay provincial commodity taxes and licence fees.

# BUDGET PAPERS

presented by

the Honourable Donald M. Fleming, M.P.,

for the information of Parliament

in connection with the Budget of 1962-1963

## FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1961, 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 ending March 31, 1962.

# PART I

## ECONOMIC REVIEW OF 1961

	PAGE
1. General.....	43
2. National Accounts—	
National Income and Product.....	45
National Expenditure.....	49
Personal Income and Its Disposition.....	53
Source and Disposition of Saving.....	55
Investment and Capital Expenditure.....	57
Revenue and Expenditure of all Governments.....	60
3. Employment and earnings.....	64
4. Price Trends.....	67
5. Balance of International Payments.....	70
6. Financial Developments—	
Credit Conditions.....	77
Federal Debt Management.....	81
Federal Government Financing.....	81
Provincial and Municipal Financing.....	82
Non-Farm Business Financing.....	82
Housing Finance.....	82
Consumer Credit.....	83

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 1961 estimates are preliminary and subject to revision.

## ECONOMIC REVIEW OF 1961

### GENERAL

1961 was a year of expansion in the Canadian economy. In the midst of a wide variety of economic forces which influenced Canadian developments, some of which will continue to be of importance in the years ahead, the economy responded to policies undertaken during 1961. Then too, the external environment, one of the more basic elements determining Canada's economic well-being, was, on the whole, favourable to the course of expansion.

In the 1960 Budget Papers reference was made to the unusual conjuncture of economic forces, special, cyclical and longer term that were having adverse effects on the Canadian economy. This condition lasted into the early months of 1961, and by March 1961 the index of industrial production was 4 per cent below the peak level reached at the beginning of 1960. Unemployment was high, being close to 8 per cent of the labour force, after allowing for normal seasonal movements. The deficit on international current account was running at an annual rate of \$1.2 billion, or the equivalent of about  $3\frac{1}{2}$  per cent of the Gross National Product. This represented, in effect, the net importation of resources from abroad which, given the extent of unused capacity in Canada at that time, was at a level clearly inappropriate to Canada's economic circumstances. These relatively unfavourable conditions do not, of course, tell the entire story: employment and incomes had continued to rise throughout 1960 and prices had risen scarcely at all.

It was against this very briefly sketched background that Canada entered the spring months of 1961. At that time economic conditions in the United States began to improve and, as the earlier American deterioration there had imparted a downward influence on Canada's economic activity, so did the subsequent business upswing impart a more favourable influence. At the same time the expansion of exports to other countries was reinforced by some additional large grain sales, helping to improve Canada's external position.

The wide range of economic and financial policies followed by the federal government in 1960 and 1961 was designed to facilitate the flow of Canadian savings to Canadian borrowers and reduce excessive capital inflows from abroad. In the event, these policies resulted in a reduction of upward pressures on Canada's exchange rate and reduced the deficit on international current account. At the same time, the size of the budget deficit was increased to enlarge the flow of purchasing power to the general public, in a period when there was a considerable amount of unused economic capacity.

From March to December 1961, (the month of the latest available data) the index of industrial production rose by 9.1 per cent, bringing it to a level 4.7 per cent above the previous cyclical peak of January 1960. The most comprehensive measurement of economic activity, the Gross National Product, increased from its first quarter low to the fourth quarter by \$2.4 billion, or by 7 per cent, and at year end was about 3 per cent above the average of 1961 as a whole. Employment responded to the improved pace of economic activity and rose at a more rapid rate than in 1960 and the rate of unemployment began to fall. By August 1961, the numbers of unemployed were below those experienced one year earlier and, by year end, the rate of unemployment (after allowance for normal seasonal movements) had fallen from the cyclical peak of 7.8 per cent at the beginning of the year to 6.1 per cent of the labour force.

**TABLE 1**  
**NATIONAL INCOME AND GROSS NATIONAL PRODUCT**  
(Seasonally Adjusted at Annual Rates)

	1960				Preliminary 1961			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Wages, salaries, and supplementary labour income.....	17,992	18,044	18,172	18,268	18,412	18,736	19,060	19,328
2. Military pay and allowances.....	500	500	504	532	540	544	544	572
3. Corporation profits before taxes and before dividends paid to non-residents.....	3,516	3,244	3,176	3,172	2,956	3,364	3,588	3,844
4. Deduct: Dividends paid to non-residents <sup>(1)</sup> .....	-484	-488	-488	-420	-748	-544	-548	-512
5. Rent, interest, and miscellaneous investment income.....	2,356	2,396	2,372	2,436	2,430	2,468	2,616	2,552
6. Accrued net income of farm operators from farm production <sup>(2)</sup> .....	1,248	1,136	1,140	1,252	864	932	1,016	936
7. Net income of non-farm unincorporated business.....	2,176	2,196	2,136	2,252	2,092	2,224	2,372	2,308
8. Inventory valuation adjustment <sup>(3)</sup> .....	-136	-104	-64	84	48	-64	-124	-204
<b>9. National Income (1+2+3+4+5+6+7+8).....</b>	<b>27,168</b>	<b>26,924</b>	<b>26,948</b>	<b>27,576</b>	<b>26,644</b>	<b>27,660</b>	<b>28,524</b>	<b>28,824</b>
10. Indirect taxes less subsidies.....	4,456	4,480	4,392	4,456	4,556	4,584	4,540	4,892
11. Capital consumption allowances and miscellaneous valuation adjustments.....	4,320	4,320	4,284	4,248	4,312	4,284	4,388	4,412
12. Residual error of estimate.....	44	-104	96	104	48	-40	-56	-196
<b>13. Gross National Product at Market Prices (9+10+11+12).....</b>	<b>35,988</b>	<b>35,620</b>	<b>35,720</b>	<b>36,384</b>	<b>35,560</b>	<b>36,488</b>	<b>37,396</b>	<b>37,932</b>
14. (Gross National Product at Market Prices excluding Accrued Net Income of Farm Operators).....	(34,740)	(34,484)	(34,580)	(35,132)	(34,696)	(35,556)	(36,380)	(36,996)

<sup>(1)</sup> Includes withholding tax applicable to this item. Since the withholding tax is also part of National Product it is included again in Rent, interest and miscellaneous income. Also includes some net profits of non-Canadian non-financial corporations.

<sup>(2)</sup> Includes accrued earnings arising out of the operations of the Canadian Wheat Board.

<sup>(3)</sup> See footnote 2, Table 3.

On the financial side, interest rates declined generally after mid-year, and the spread between Canadian and United States interest rates narrowed appreciably. Liquidity increased in the economy and a larger share of total borrowing was financed in Canada. This was reflected in the decline in the capital inflow from abroad and the reduction of the external price of the Canadian dollar. The international current account deficit was accordingly reduced in 1961.

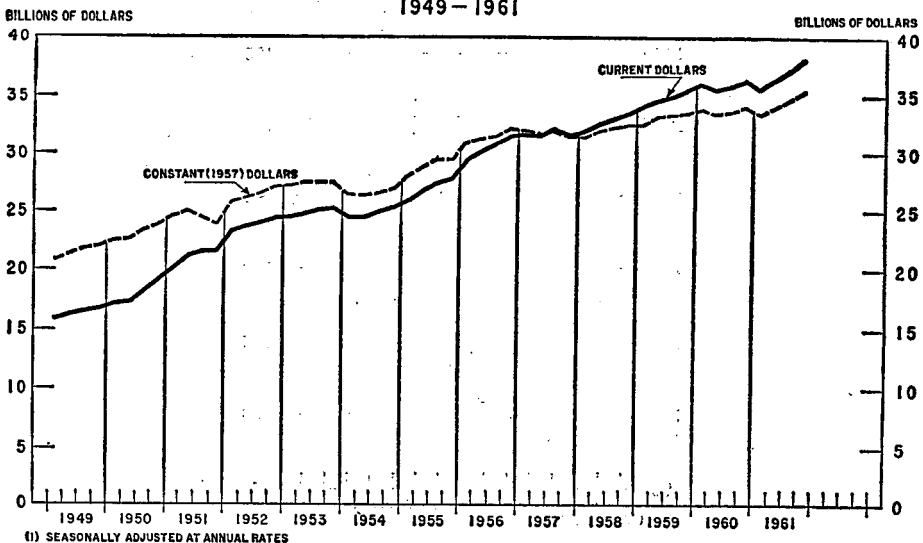
The economic expansion of 1961 was achieved without disturbance to the relative stability of prices. A variety of price indexes, including the consumer price index and the price index applicable to Gross National Product, averaged less than 1 per cent higher in 1961 than in 1960. These and other developments are discussed more fully below.

## THE NATIONAL ACCOUNTS

### NATIONAL INCOME AND PRODUCT

As indicated above, the Gross National Product rose substantially throughout the last nine months of 1961. By contrast, the movement within 1960 had been irregular, falling from the first to the second quarter, then increasing to the fourth quarter before declining again at the beginning of 1961. The irregularity of the movement of G.N.P. throughout 1960 and into the first quarter of 1961 makes less meaningful a comparison of the annual averages of these two years; indeed such a comparison masks the significant strengthening in economic activity which took place throughout 1961. Further, the measurement of Gross National Product includes the value of farm production and the annual figures for 1961 reflect the sharp decline in farm inventories which resulted from the drought in western Canada as well as enlarged grain exports. The 1961 grain crop turned out to be only about three-fifths of its average value in recent years, and the increase in G.N.P. was correspondingly reduced by about \$400 million, or about 1 per cent. (It should be noted, however, that farm cash income was maintained at peak levels, with sales made possible out of previously accumulated stocks.) The net result of all these factors was that

GROSS NATIONAL EXPENDITURE  
IN CURRENT AND CONSTANT (1957) DOLLARS<sup>(1)</sup>  
1949-1961



G.N.P. in 1961 rose to about \$36.8 billion, 2.5 per cent above the average of 1960. With prices relatively stable, about four-fifths of this increase in yearly averages represented a gain in real volume.

As was previously pointed out, the G.N.P. seasonally adjusted in the fourth quarter of 1961 was already about 3 per cent above the average of the year as a whole, and 7 per cent above the first quarter of 1961. This compares favourably with the increases during the early phases of previous upswings.

The following table and accompanying chart illustrate this point. They show changes in the value and volume of non-farm output during the downswing and early phases of the upswing in 1953-54, 1957-58 and 1960-61. The purpose of making comparisons with the low point of activity is, of course, to show the relative strength of the upturn. However, this type of comparison has only a limited meaning by itself, since an upturn is more likely to be strong after a steep than after a mild decline. For this reason, it is useful also to compare the current level of activity with that prevailing before the declines took place, i.e. at the previous peak, in terms of both the value and the physical volume of output at these points. This shows that the recent gain (late 1961) in real terms was larger than the expansion in the immediately preceding upturn (1958) in which the value increase contained substantial elements of price.

Output of the services-producing industries of the economy rose during 1961, reflecting a continuation of the almost uninterrupted longer run movement, and reached new peaks, both in total and for each major service industry. For the year as a whole, output in services averaged about 3 per cent above the level of 1960.

The goods-producing sector of the economy produced a less even picture, as might be expected. This is typical of the goods sector, which is more subject to varying demands, including shifts in inventories and in fixed investment within the country, and changes in foreign demand for goods including, again, shifts in inventories and fixed investment in foreign markets. The greater volatility of output in this sector, relative to services, is associated with wider swings in employment, particularly of males, who predominate in goods-producing industries.

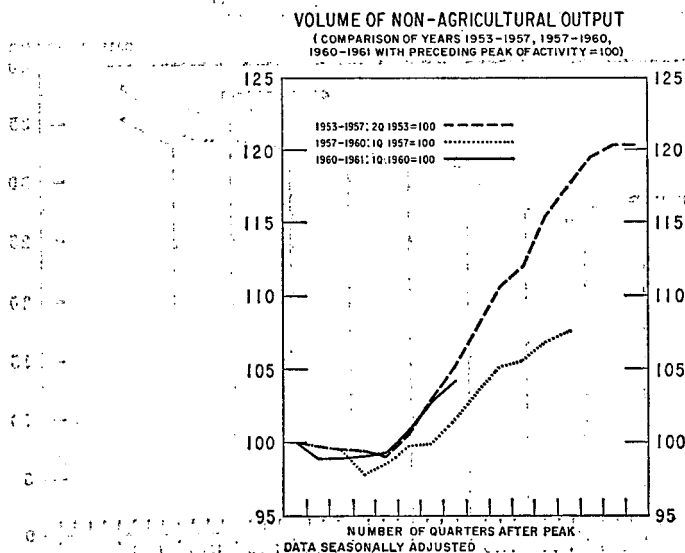


TABLE 2  
SOME COMPARATIVE RATES OF RECOVERY

Date	Value of Non-farm Output <sup>(1)</sup> (Preceding Peak=100)	% Change 3 quarters after trough	% Change Preceding Peak to 3 quarters after trough	Volume of Non-farm Output <sup>(1)</sup> (Preceding Peak=100)	% Change 3 quarters after trough	% Change Preceding Peak to 3 quarters after trough
1Q 1960	100.0			100.0		
1Q 1961	100.5			99.4		
4Q 1961	106.6	+6.0	+6.6	104.0	+4.6	+4.0
1Q 1957	100.0			100.0		
1Q 1958	100.2			98.4		
4Q 1958	104.9	+4.7	+4.9	101.7	+3.4	+1.7
2Q 1953	100.0			100.0		
2Q 1954	101.3			99.0		
1Q 1955	107.0	+5.6	+7.0	105.1	+6.2	+5.1

(1) The data in this table and in the accompanying chart exclude farm output and interest and dividend payments to and from abroad, and thus differ somewhat from the measurement of gross national product. The value of farm production has been deducted since, for statistical reasons, the seasonally adjusted value of the grain crop for the calendar year is allocated evenly throughout the four calendar quarters, complicating comparisons between quarters of different years. The interest and dividend adjustment has been made to the value figures in order to make them comparable to the volume figures, which measure output on a gross domestic basis, i.e. of goods and services physically produced in Canada. It should also be noted that price comparisons cannot be derived with precision from the value and volume indexes in this table. For purposes of price comparison, the deflators of Gross National Expenditure are more accurate.

Data prepared in Department of Finance.

In 1961 the volume of total agricultural output declined because of drought conditions in western Canada, the drop in grain output more than offsetting increases in the remainder of the agricultural sector. Apart from agriculture, output in the rest of the goods sector showed a yearly average gain. Manufacturing output, which had declined during 1960, rose throughout 1961 and at December was somewhat above the previous peak level of January 1960. This reflected, in the main, movements in durable goods production, since output of non-durable goods had been relatively flat in 1960 and rose significantly in 1961. Developments in durable manufacturing were more volatile. From January 1960 to January 1961, output in durable manufacturing declined by 11 per cent, then increased and by December 1961, was almost back to the level of January 1960.

Mining output reached new peaks in 1961, rising sharply in the course of the year. There were gains in some metals including nickel and copper, but the larger increases came from the output of non-metals and fuels, especially asbestos, natural gas and petroleum, the latter groups enjoying larger markets both at home and abroad.

The output and distribution of electric power and gas utilities continued its steady rise and increased by 7 per cent over 1960.

In the construction industry, there was an increase of about 3 per cent in the yearly average due to the increase in the non-residential component. During the year as a whole forestry output declined but fishing and trapping showed increases.

Considering developments in the labour force in 1961, which will be discussed more fully in a later section, four main points stand out: the recent sharp increases in the labour force slackened; there were significant increases in employment; employment of males rose substantially for the first time in about two years; and the level of unemployment declined in the course of the year. By December 1961, the labour force was 1 per cent, or 65,000 higher than a year

**TABLE 3**  
**GROSS NATIONAL EXPENDITURE**  
(Seasonally Adjusted at Annual Rates)

	1960				Preliminary 1961			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	22,856	23,332	23,376	23,904	23,784	24,124	24,504	24,600
2. Government expenditure on goods and services.....	6,492	6,544	6,804	6,892	6,924	7,140	7,284	7,384
3. Business gross fixed capital formation <sup>(1)</sup> .....	7,008	6,548	6,564	6,648	6,392	6,260	6,620	6,700
new residential construction.....	1,624	1,372	1,396	1,380	1,344	1,436	1,576	1,476
new non-residential construction.....	2,624	2,524	2,580	2,580	2,616	2,560	2,652	2,760
new machinery and equipment.....	2,760	2,652	2,588	2,688	2,432	2,264	2,392	2,464
4. Value of physical change in inventories—total <sup>(2)</sup> .....	780	484	-92	264	-332	-212	-316	-92
non-farm business inventories.....	692	380	-132	156	60	168	104	504
farm inventories and grain in commercial channels.....	88	104	40	108	-392	-380	-420	-596
5. Exports of goods and services <sup>(3)</sup> .....	7,244	6,748	7,204	6,892	7,184	7,316	7,856	7,956
6. Imports of goods and services <sup>(3)</sup> .....	-8,348	-8,144	-8,036	-8,112	-8,344	-8,184	-8,608	-8,812
7. Residual error of estimate.....	-44	108	-100	-104	-48	44	56	196
8. <b>Gross National Expenditure at Market Prices (1+2+3+4+5+6+7)....</b>	<b>35,988</b>	<b>35,620</b>	<b>35,720</b>	<b>36,384</b>	<b>35,560</b>	<b>36,488</b>	<b>37,396</b>	<b>37,932</b>

<sup>(1)</sup>Includes private businesses and institutions, and publicly owned Business Enterprises.

<sup>(2)</sup>The book value of inventories is deflated to remove the effect of price changes and the derived "physical" change is then valued at average prices of the current period to obtain the value of physical change. The difference between this value of physical change and the change in book value is called the inventory valuation adjustment (see line 7, Table 1).

<sup>(3)</sup>Minor adjustments have been made to the figures of current receipts and payments shown in Table 31 to achieve consistency with the other component series.

earlier, and total employment was up 3 per cent, or 180,000, of which 125,000 were males and 55,000 females. Unemployment declined by 115,000 persons from December 1960 to December 1961.

Turning to the flow of incomes in 1961, the major components showed increases from the first quarter of the year. By the fourth quarter, national income was running at an annual rate of \$28.8 billion, compared with \$26.6 billion in the first quarter of the year and \$27.2 billion in the first quarter of 1960.

The sharpest gain within 1961 took place in corporation profits, which had, however, shown the sharpest decline during 1960 and early 1961. During 1961 corporation profits increased from the first to the fourth quarter by 30 per cent. This brought profits to a new peak rate of about \$3.8 billion in the fourth quarter, surpassing the previous peak of the fourth quarter of 1959 by about 4 per cent. The increase in profits during 1961 reflected the sharp pickup in production and the relative steadiness of costs.

Labour income rose by 5 per cent from the first to the fourth quarter of the year. During the same period the number of paid workers and average hourly earnings rose significantly while there was also a modest rise in the length of the average work week. The rise in personal disposable income paralleled that of labour income. Taking into account the stability in consumer prices and the estimated rise in population, there was a significant gain in per capita real disposable income from the beginning to the end of 1961.

Rent, interest and miscellaneous investment income increased about 6 per cent from 1960 to 1961. The level of farm income in 1961 was reduced from 1960 due to the drought and subsequent decline in grain production in western Canada. Cash income was maintained at record levels, however, due to increasing export and domestic sales of grains and other farm commodities, requirements of grain being met out of previously held stocks.

Net income of "other unincorporated business" rose somewhat in 1961.

#### NATIONAL EXPENDITURE

Between the beginning and end of 1961 all of the components of demand on a seasonally adjusted basis increased thus providing the support for the upward movement in the economy. Over the period as a whole, gains in consumer spending and exports were the largest elements in the rise, with increases in government

TABLE 4  
CHANGES IN COMPONENTS OF GROSS NATIONAL EXPENDITURE  
(Millions of dollars)

First Quarter 1961 to Fourth Quarter 1961	
Consumers.....	+816
Government.....	+460
Business Investment.....	
Housing.....	+132
Plant and Equipment.....	+176
Exports.....	+772
Sub-total.....	+2,366
Non-farm business inventories.....	+444
Farm inventories and grain in commercial channels.....	-204
Total Purchases.....	+2,596
Imports.....	-(+468)
Residual Error.....	+244
Gross National Expenditure.....	+2,372

**TABLE 5**  
**GROSS NATIONAL EXPENDITURE IN CONSTANT (1957) DOLLARS**  
(Seasonally Adjusted at Annual Rates)

	1960				Preliminary 1961			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	21,856	22,200	22,220	22,572	22,476	22,776	23,068	23,116
2. Government expenditure on goods and services.....	6,148	6,128	6,336	6,416	6,392	6,608	6,720	6,712
3. Business gross fixed capital formation.....	6,564	6,096	6,088	6,176	5,904	5,780	6,108	6,168
new residential construction.....	1,500	1,260	1,276	1,256	1,220	1,312	1,440	1,344
new non-residential construction.....	2,448	2,360	2,396	2,412	2,424	2,376	2,476	2,564
new machinery and equipment.....	2,616	2,476	2,416	2,508	2,260	2,092	2,192	2,260
4. Value of physical change in inventories—total.....	744	464	—116	240	—364	—248	—340	—96
non-farm business inventories.....	668	372	—132	152	64	176	112	484
farm inventories and grain in commercial channels.....	76	92	16	88	—428	—424	—452	—580
5. Exports of goods and services.....	7,140	6,592	7,056	6,748	7,036	7,148	7,564	7,624
6. Imports of goods and services.....	—8,276	—7,944	—7,796	—7,892	—8,068	—7,884	—8,080	—8,236
7. Residual error of estimate.....	—40	100	—96	—96	—44	40	52	184
8. <b>Gross National Expenditure in Constant (1957) Dollars (1+2+3+4+5+6+7).....</b>	<b>34,136</b>	<b>33,636</b>	<b>33,692</b>	<b>34,164</b>	<b>33,332</b>	<b>34,220</b>	<b>35,092</b>	<b>35,472</b>

spending on goods and services being next in magnitude. Business investment in fixed plant and equipment and in non-farm inventories also increased significantly from the first to the fourth quarter. In total, demand, both domestic and foreign, rose by about \$2.6 billion over the period, and was met by increases in domestic production of \$2.1 billion and additional imports totalling \$0.5 billion.

As between the first quarter of 1960 (the preceding peak) and the fourth quarter of 1961, the change in the composition in total demand was substantially different from that which took place from the beginning to the end of 1961. Between the first quarter of 1960 and the fourth quarter of 1961, farm inventories and grain in commercial channels declined by about \$700 million, reflecting both the lower grain crop in 1961 and higher export sales. At the same time the accumulation of non-farm business inventories was smaller by \$188 million, reflecting the reaction to the post-U.S. steel strike inventory accumulation in early 1960. Total business fixed investment was also at a lower level in the fourth quarter of 1961. Offsetting these influences were larger increases in consumer and government spending, the two sectors rising in total by \$2.6 billion over the seven quarters.

During 1961 consumer spending increased steadily from the first to the fourth quarter. Increases in government spending on goods and services were fairly steady throughout the year. Housing outlays were higher in the second half of the year as were outlays on business plant and equipment. Exports rose very sharply in the third quarter and more than maintained the rate in the last quarter of the year. Liquidation of farm inventories was very heavy throughout the year, reflecting large grain sales and a much reduced crop. The accumulation of non-farm business inventories was small during the first three quarters of the year, but moved up significantly in the last quarter. In contrast with previous upswings, inventories have so far played a more modest role in the expansion of demand reflecting different fundamental conditions including ample supply and steady prices.

Turning to expenditure items in more detail, consumer spending rose throughout 1961 after having shown a fractional decline in the first quarter of the year. In the last three quarters of 1961 consumer spending increased by about  $3\frac{1}{2}$  per cent and by the end of 1961 was 8 per cent above the rate in the previous peak in general business activity in the first quarter of 1960. Prices of consumer goods and services changed very little in the course of 1961, so that the value increases in spending represented gains in real terms.

Purchases of durable goods seasonally adjusted rose by more than 14 per cent within 1961. The gains were concentrated in purchases of new cars which after declining in the first quarter of the year reached a level in the fourth quarter about 10 per cent above the level of a year earlier. Prices of durable goods, particularly automobiles, declined in 1961, compared with 1960, so that the increases in real terms were even greater than the gains in value terms.

Consumer spending on non-durable goods rose steadily until the fourth quarter of the year when it declined slightly but was still more than one per cent above the level of the first quarter. Consumer spending on services continued its long term rise throughout 1961, increasing from the first to the fourth quarter by about 3 per cent, of which nearly 2 per cent represented increases in real terms. The main part of the value increase was accounted for by spending on medical services and on rents (paid or imputed on owner-occupied dwellings).

Government spending on goods and services rose from the first to the fourth quarter by 7 per cent. More than one-half of the increase in this period took place at the provincial and municipal levels. For the year as a whole, government spending on goods and services rose by \$500 million, of which about \$45 million reflected increased capital outlays.

Business fixed capital formation rose in the second half of 1961, after declining in the earlier part of the year and by the fourth quarter of 1961 had surpassed the level achieved one year earlier. Movements were diverse throughout the year. During the first quarter of the year housing starts were at a very high rate carrying forward the upward movement begun in the last quarter of 1960. This increase in starts was not reflected in housing completions until the third quarter of the year. Starts declined from the very high rate in the first quarter, and then increased irregularly until the closing months of the year. For 1961 as a whole starts totalled about 125,000 units, some 15 per cent above the previous year, while completions were 116,000 units, 7 per cent below 1960. In November 1961 the N.H.A. maximum interest rate was lowered from  $6\frac{3}{4}$  per cent to  $6\frac{1}{2}$  per cent.

Business investment in new plant and equipment is described more fully in the section on Investment and Capital Expenditure. In broad terms, outlays for both plant and equipment were somewhat below the levels of 1960, although within 1961 itself there was a firm upward trend during the second half of the year. For the first time in seven years there was a relative stability in costs of non-residential construction.

During 1961 there was a net liquidation of inventories in Canada. This liquidation was more than accounted for by a reduction in grain inventories which arose from a combination of increased marketings (notably exports) of grains and a much reduced grain crop in western Canada. On the other hand, there were some increased livestock inventories on farms. As against the net depletion of farm stocks there was an increase in holdings of non-farm business inventories of \$209 million, with the largest increase taking place in the fourth quarter of 1961.

TABLE 6  
CHANGES IN INVENTORIES

	1961 quarterly at annual rates				1961 Annual
	1Q	2Q	3Q	4Q	
	(Millions of dollars)				
Manufacturing.....	- 24	- 60	- 84	252	21
Wholesale Trade.....	68	16	- 4	176	64
Retail Trade.....	- 64	20	204	224	96
Other.....	80	192	- 12	-148	28
Non-farm Business Inventories.....	60	168	104	504	209
Farm Inventories and Grain in Commercial Channels.....	-392	-380	-420	-596	-447
<b>Total Inventory Change.....</b>	<b>-332</b>	<b>-212</b>	<b>-316</b>	<b>- 92</b>	<b>-238</b>

During 1961, manufacturers, especially of durable goods, continued to draw down stocks well after the pickup in general business activity, and it was not until the fourth quarter that significant accumulation of inventories took place in that sector. Other non-farm business sectors tended to accumulate inventories hesitantly and erratically in the course of the year. Over the year as a whole the buildup was small in relation to previous upswings and in the manufacturing sector the rate of increase in stocks was less than in shipments, so that at year end the ratio of stocks to sales was somewhat below that of the previous year.

Some indication of the modest increase in inventories may be given by measuring the "swing" in non-farm business inventories for the three quarters from the low point in general business activity for 1961 and 1958.

(1)	(2)	(3)	(4)
Trough in Business activity	Change in Non-Farm Business Inventories during quarter	Change in Non-Farm Business Inventories three quarters after trough	"Swing"  Col. (3) Minus Col. (2)
	(Millions of dollars)		
1Q 1961.....	60	504	+444
1Q 1958.....	-688	72	+760

The moderate nature so far of the inventory upswing reflects, as has been previously noted, conditions of more ample supply and rapid delivery as well as more cost consciousness and a decline in the fear of the possibility of inflation. The lower rate of inventory accumulation in this upswing compared with the last may have had some bearing on the demand for financial resources and the lesser increase in interest rates as compared with the preceding upswing in 1958.

Exports of goods and services rose in 1961 more rapidly than imports, so that the deficit on current account narrowed, compared with 1960. The increase in exports was generally maintained throughout the year and was concentrated in commodity exports which rose to a new peak. There were, in addition, other significant developments which are discussed more fully in a subsequent section. For the first time since 1954, there was a surplus on merchandise trade account (adjusted to conform with balance of payments definitions).

#### PERSONAL INCOME AND ITS DISPOSITION

Personal income fell slightly from the fourth quarter of 1960 to the first quarter of 1961, but subsequently rose to \$28.8 billion in the fourth quarter of 1961, a 5.6 per cent increase over the first quarter.

TABLE 7  
SOURCES OF PERSONAL INCOME

	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
1. Wages, salaries and supplementary labour income. <i>Deduct:</i> Employer and employee contributions to social insurance and government pension funds.	16,521 -615	17,463 -651	18,119 -735	18,884 -781
2. Military pay and allowances.....	491	496	509	550
3. Net income received by farm operators from farm production <sup>(1)</sup> .....	1,201	1,123	1,188	909
4. Net income of non-farm unincorporated business...	2,125	2,192	2,190	2,249
5. Interest, dividends and net rental income of per- sons <sup>(2)</sup> .....	2,277	2,551	2,742	2,850
6. Transfer payments to persons— (a) from government (excluding interest).... (b) charitable contributions made by corpo- rations.....	2,637 38	2,756 42	3,121 44	3,343 45
7. Personal Income (1+2+3+4+5+6).....	24,675	25,972	27,178	28,049

(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.

Among the components of personal income, wages, salaries, and supplementary labour income rose throughout the year; farm income itself, while lower for the year as a whole due to the smaller grain crop, was higher in the latter half of 1961. Income of unincorporated businesses rose during the second half of the year due to improvements in trade and construction. Interest and dividend payments to persons, along with net rental incomes, rose 5 per cent during the year. The increase throughout 1961 in transfer payments from Government (excluding interest) was the reflection of a regular growth in family allowances and old age security payments, as well as payments to farmers under the Prairie Farm Assistance Act. These increases were offset to some extent by lower unemployment insurance benefit payments as the numbers of unemployed declined during the year.

TABLE 8  
DISPOSITION OF PERSONAL INCOME

	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
1. Personal direct taxes—				
(a) income taxes.....	1,554	1,744	1,978	2,126
(b) succession duties.....	126	130	158	146
(c) miscellaneous taxes.....	115	213	221	232
Total direct taxes.....	1,795	2,087	2,357	2,504
2. Personal expenditure on consumer goods and services—				
Goods—				
(a) non-durable.....	10,878	11,303	11,699	12,139
(b) durable.....	2,499	2,678	2,667	2,694
Services.....	7,868	8,514	9,001	9,420
Total consumer expenditure.....	21,245	22,495	23,367	24,253
3. Personal saving—				
(a) personal saving excluding farm inventories...	1,727	1,466	1,439	1,606
(b) change in farm inventories.....	-92	-76	15	-314
Total personal saving.....	1,635	1,390	1,454	1,292
4. Personal Income (1+2+3).....	24,675	25,972	27,178	28,049

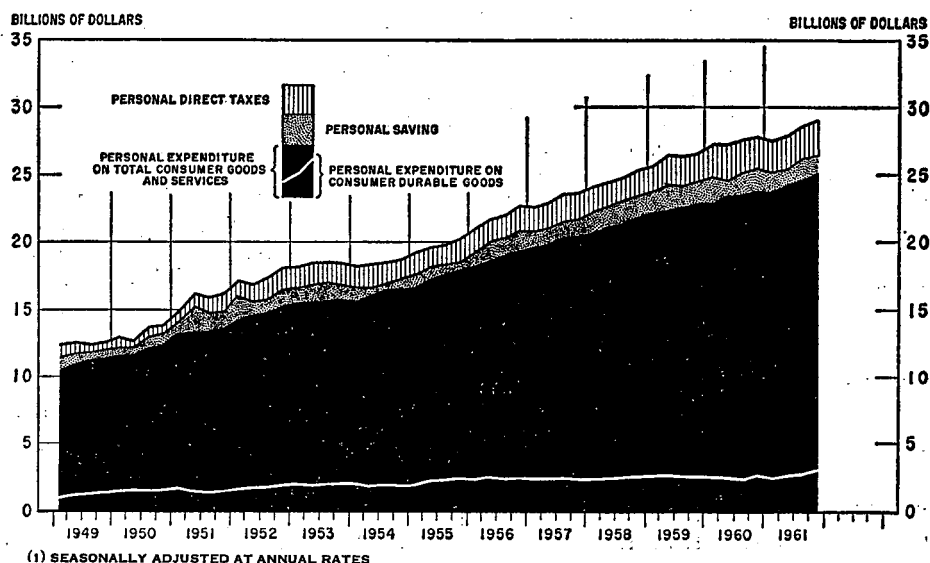
Personal disposable income followed somewhat the same pattern as personal income and increased by about 3 per cent over 1960. Personal direct taxes (including, in addition to personal income taxes, succession duties, motor vehicle licence fees, hospital insurance premiums, etc.) rose from the first to the third quarter but moderated during the rest of the year. Total payments increased by 6.2 per cent over 1960 to a total of \$2,504 million. Personal income tax payments rose by 8.7 per cent from the first to the fourth quarter of 1961.

The trend of personal saving, i.e., personal disposable income less personal spending, was generally upward during the year.

TABLE 9  
PERSONAL SAVING

	1956	1957	1958	1959	1960	1961
Personal saving as per cent of personal disposable income.....	6.5	5.7	7.1	5.8	5.9	5.1
Personal saving, excluding change in farm inventories as per cent of personal disposable income.....	5.4	6.2	7.5	6.1	5.8	6.3
(Millions of dollars)						
(1) Personal disposable income.....	20,153	21,274	22,880	23,885	24,821	25,545
(2) Personal saving.....	1,320	1,202	1,635	1,390	1,454	1,292
(3) Change in farm inventories.....	+241	-125	- 92	- 76	+ 15	-314
(4) Personal saving excluding change in farm inventories.....	1,079	1,327	1,727	1,466	1,439	1,606

### DISPOSITION OF PERSONAL INCOME<sup>(1)</sup>



For 1961 as a whole, personal saving amounted to 5.1 per cent of personal disposable income. Excluding change in farm inventories the percentage was 6.3 per cent, slightly higher than in four of the preceding five years.

### SOURCE AND DISPOSITION OF SAVING

Total saving declined in the first quarter of 1961 but rose steadily during the remainder of the year. As noted in last year's Budget White Paper and as illustrated in the accompanying chart, total national saving tends to follow closely the movements of general business activity.

TABLE 10  
SOURCES OF SAVING

	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
Personal net saving <sup>(1)</sup> .....	1,635	1,390	1,454	1,292
Business gross saving—total.....	4,774	5,143	5,092	5,156
(a) Undistributed corporation profits <sup>(2)</sup> .....	876	989	793	779
(b) Capital consumption allowances and miscellaneous valuation adjustments.....	3,899	4,159	4,293	4,349
(c) Adjustment on grain transactions <sup>(3)</sup> .....	— 1	— 5	6	28
Inventory valuation adjustment.....	— 35	—130	—55	— 86
Government surplus (+) or deficit (—) <sup>(4)</sup> .....	—1,007	—520	—648	—893
Residual error of estimate <sup>(5)</sup> .....	102	— 43	35	—61
<b>Total</b> .....	<b>5,469</b>	<b>5,840</b>	<b>5,878</b>	<b>5,408</b>

(1) See Table 7.

(2) See Table 12.

(3) Accrued earnings arising out of operations of the Canadian Wheat Board.

(4) See Table 16.

(5) See Tables 1 and 3.

Despite the increase during the year, total saving for 1961 as a whole was below the average for 1960 as a whole. Most of this decline was due to the smaller grain crop which had the effect of reducing both personal saving (by lowering farm net income) and inventories. Apart from this, business saving rebounded from the first quarter decline as profits rose sharply in the remainder of the year. After payment of dividends, undistributed corporation profits by the fourth quarter of 1961 reached the highest level in three years. The total of capital consumption allowances rose slightly in 1961. The combination of rising capital consumption allowances and the increase in undistributed profits raised the rate of gross business saving in the fourth quarter of 1961 to a new dollar peak. The significance of this along with the rates of business investment in fixed capital and inventories is analyzed in the section on financial developments.

TABLE 11  
DISPOSITION OF SAVING

	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
Business gross fixed capital formation.....	6,975	6,894	6,692	6,493
Value of physical change in inventories.....	—322	350	359	—238
Surplus (+) or deficit (—) on current account with non-residents <sup>(1)</sup> .....	—1,083	—1,448	—1,138	—909
Residual error <sup>(2)</sup> .....	—101	44	— 35	62
<b>Total</b> .....	<b>5,469</b>	<b>5,840</b>	<b>5,878</b>	<b>5,408</b>

(1) Minor adjustments have been made to the figures appearing in Table 31.

(2) See Tables 1 and 3.

The deficit on combined government account (national accounts basis) for 1961 as a whole was \$245 million higher than in 1960, but the quarterly series suggest that the level of the deficit remained relatively unchanged from the

third quarter of 1960 through to the second quarter of 1961, and then declined. The government deficit at the federal level rose for the year as a whole from \$251 million to \$446 million, while the provincial and municipal deficits combined rose from \$397 million to \$447 million. The deficit, on a national accounts basis, at the federal and provincial and municipal levels was somewhat reduced in the second half of 1961.

TABLE 12  
CORPORATION PROFITS, TAXES AND DIVIDENDS

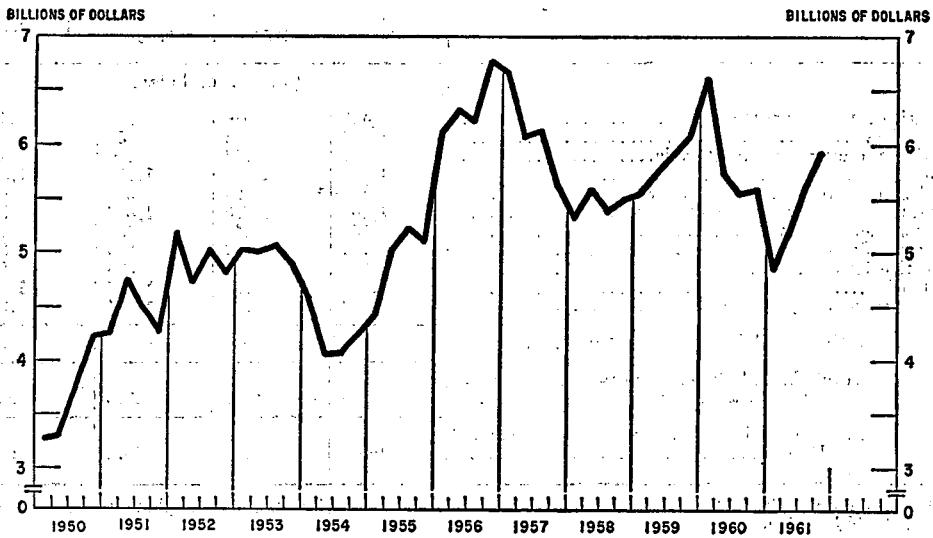
	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
Corporation profits before taxes including dividends paid to non-residents <sup>(1)</sup> .....	3,075	3,498	3,277	3,438
Deduct: Corporation income tax liabilities.....	1,315	1,580	1,562	1,610
Excess of tax liabilities over collections.....	- 24	143	-125	36
Tax collections.....	1,339	1,437	1,687	1,574
Corporation profits after taxes.....	1,760	1,918	1,715	1,828
Deduct: Dividends paid out <sup>(2)</sup> .....	884	929	922	1,049
Undistributed corporation profits <sup>(3)</sup> .....	876	989	793	779

<sup>(1)</sup> Includes depletion charges and is adjusted for losses, and for conversion to a calendar year basis.

<sup>(2)</sup> Includes charitable contributions made by corporations (See Table 7).

<sup>(3)</sup> See Table 10.

NATIONAL SAVING, BY QUARTERS, 1950-1961<sup>(1)</sup>



<sup>(1)</sup> SEASONALLY ADJUSTED AT ANNUAL RATES

#### INVESTMENT AND CAPITAL EXPENDITURE

Private and public capital expenditure totalled \$8,109 million in 1961, about 2% below the level of 1960. The entire decline was accounted for by private investment, which for the full year was below 1960, but which rose in the last half of 1961 and contributed to the upswing in the economy. By the fourth quarter seasonally adjusted business investment was 4% above the level of the first quarter of 1961, which marked the end of the previous downswing in general economic activity.

In Canada capital expenditures in 1961 constituted 22.0% of Gross National Expenditure, a figure which is high by international comparison but below the levels and proportions of the period of the mid-1950's.

In the first decade after World War II there was an unusual conjuncture of factors which led to very large "bunching" of investments. This phenomenon of "bunching" has been typical of Canadian development, but each period has been marked by different circumstances. At the end of the War there existed a vast accumulation of unsatisfied demand for consumer, social and industrial capital which had been running down ever since the end of the 1920's through the depression and war years. On top of these needs were the obvious requirements of European reconstruction and the related absence of foreign competition, which provided an additional stimulus to investment in Canadian facilities. While these factors were at work a number of other developments were taking place which gave additional emphasis to investments in Canada. For example, world political developments at that time made Canada a safe source of essential raw materials for U.S. defence needs. At the same time the associated boom in world commodity prices, along with large scale stockpiling programmes, led to sharp increases in capital outlays, especially in resource industries. At this time too, there was a general view that demands in the United States for certain industrial materials would soon exceed their domestic supplies. This added an air of urgency to the normal pace of exploration and development of sources of raw materials.

TABLE 13  
PRIVATE AND PUBLIC CAPITAL EXPENDITURE

	1958	1959	1960	Prelim. 1961
(Millions of dollars)				
Agriculture and fishing .....	465	539	550	521
Forestry .....	33	48	54	49
Mining, quarrying and oil wells .....	342	342	400	451
Manufacturing .....	1,095	1,144	1,178	1,024
Electric power, gas and water works .....	845	766	686	677
Transportation, storage and communications .....	1,308	1,076	1,086	987
Construction industry .....	157	145	130	132
Trade, finance and commercial services .....	705	833	875	857
Institutions .....	514	536	573	615
Housing .....	1,782	1,752	1,456	1,467
Government departments .....	1,118	1,236	1,274	1,320
<b>Total Capital Expenditure<sup>(1)</sup> .....</b>	<b>8,364</b>	<b>8,417</b>	<b>8,262</b>	<b>8,109</b>
Total Capital Expenditure as a percentage of Gross National Expenditure .....	25.4	24.2	23.0	22.0
Index of total Capital Expenditure in Constant Dollars .....	100.0	97.8	94.6	93.0

<sup>(1)</sup> For reconciliation with Business Gross Fixed Capital Formation in housing, plant and equipment in Table 3, see below.

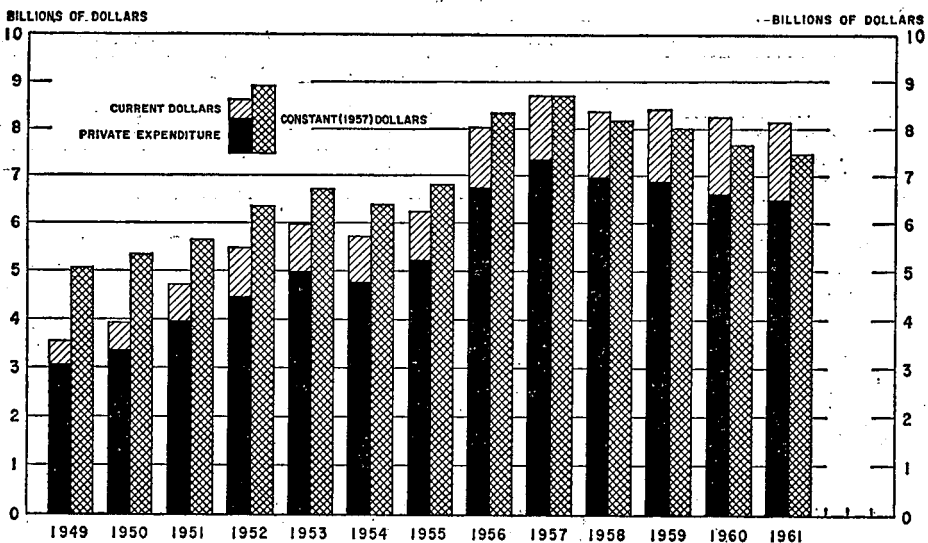
	1958	1959	1960	Prelim. 1961
Private and Public Capital Expenditure—Table 13 .....	8,364	8,417	8,262	8,109
<b>Deduct:</b>				
Provincial hospitals and schools, and municipal schools .....	-247	-264	-278	-270
Government housing excl. C.M.H.C. rental housing .....	-19	-18	-13	-9
Direct government department outlays .....	-1,118	-1,236	-1,274	-1,329
Other .....	-5	-5	-5	-8
<b>Business Gross Fixed Capital Formation in Housing, Plant and Equipment—Table 3 .....</b>	<b>-6,975</b>	<b>6,894</b>	<b>6,692</b>	<b>6,493</b>

Since investments by modern large-scale enterprise are often made with a very long time horizon, because of the "lumpy" nature of many investments and the financial capabilities of large corporations, it is not surprising that, over short periods of time, some major classes of investment should tend to outstrip demand. In part, this was due to the over-optimism of some investors, at least in the short run. Historically, too, Canada has tended to "grow up" to its facilities so that from time to time some excess capacity exists temporarily. This has been the case over the past few years. Expectations have not been completely fulfilled as prices of primary products have receded and alternative sources of supply have been developed by other countries. At the same time, during recent years, a shift occurred in the strategic concepts underlying western defence, which brought about a virtual end to military stockpiling and a reduction in the materials content of military hardware. In these altered circumstances, the stimulus to develop Canadian sources of supply in the resource industries decreased. At the same time, in manufacturing, the rate of expansion in facilities was adversely affected by strong international competition and by slower growth in total domestic demand.

The result of all of these trends was a falling off in certain types of investment and, thus, a decline in the proportion of G.N.P. devoted to investment. This is a situation, of course, which calls for a shifting of resources, both human and material, either into other areas of investment, where demands are more immediately pressing, or into other sectors of the economy. These transfers of resources require high degrees of flexibility and mobility in the economy generally, especially of the labour force, if the slack in the economy is to be taken up.

Turning to 1961, total private and public investment was down about 2% from 1960 although there was increased investment in such sectors as mining, chemicals, oil and gas pipelines, universities, hospitals, and government departments. Increases in the above sectors were slightly more than offset by decreased fixed investment in agriculture, primary metals, petroleum refining, telephone utilities, and other industries. Capital expenditures by private business enterprises, apart from institutional investment, declined by 4 per cent in 1961 compared with 1960.

#### PUBLIC AND PRIVATE CAPITAL EXPENDITURE



Of the sectors where investment rose significantly, one of the larger gains was the 13% or \$51 million increase for mining, quarrying and oil wells. This reflected additional iron ore development in the Quebec-Labrador boundary area. A sharp gain was registered in oil and gas pipeline construction in western Canada. The higher level of capital spending in institutional services includes a \$25 million rise in hospital construction and equipment and a \$15 million rise in construction in universities, which have started to accommodate the larger number of teenagers born in the mid-forties and seeking higher education. The increase in investment by government departments largely reflects a \$42 million increase in federal capital expenditures.

In the manufacturing sector, investment in the chemical and chemical products industry rose \$17 million. There were no marked changes in capital spending in such industries as food and beverages, leather, clothing and primary textiles, wood and paper, printing, machinery, and electrical equipment. The only noticeable declines occurred in transportation equipment, non-metallic minerals (asbestos, abrasives, cement, etc.), oil refining, and primary metals. The latter reflected the completion in the preceding year of the large nickel refinery in Thompson, Manitoba.

Capital expenditures in the transportation, storage and communications sector fell sharply. Increases in pipeline construction were more than offset by a \$29 million decline in telephone utilities and a \$115 million drop in railroad construction. The latter reflected the completion of railroads serving new iron ore mines in the Quebec-Labrador region.

#### REVENUE AND EXPENDITURE OF ALL GOVERNMENTS

Computed on the basis of the National Accounts definitions, expenditures in 1961 by all levels of government increased by approximately 8% over comparable expenditures in 1960. Since revenues for the year as a whole did not rise by the same proportion, the deficit for all levels of government increased by rather more than a third to an amount of \$893 million.<sup>(1)</sup>

TABLE 14  
REVENUE AND EXPENDITURE OF ALL GOVERNMENTS  
(National Accounts Basis)

	1960			1961		
	Revenue	Expenditure	Deficit	Revenue	Expenditure	Deficit
	(Millions of dollars)					
Federal.....	6,416	6,667	251	6,664	7,110	446
Provincial-Municipal.....	5,048	5,445	397	5,468	5,915	447
<b>Total</b> .....	<b>11,464</b>	<b>12,112</b>	<b>648</b>	<b>12,132</b>	<b>13,025</b>	<b>893</b>

In 1961, government expenditures on goods and services (excluding transfer expenditures) represented 19.5% of Gross National Expenditure. By way of comparison, expenditures of this type by all levels of government in 1952 after the rearmament programme stemming from the Korean conflict amounted to 17.8% of G.N.E. Over the past nine years, therefore, goods and services outlays by government have grown at a rate which is only slightly above that of the increase in Gross National Expenditure.

<sup>(1)</sup> The following section discusses only those government transactions relevant to the National Accounts. As a result the statistics differ from those shown in Public Accounts. Table 16 indicates the reconciliation between federal deficit or surplus for purposes of the National Accounts and the comparable figures appearing in the Public Accounts. In particular, federal corporate income taxes have been adjusted to an accrual basis. On a National Accounts basis, this adjustment decreased revenues in 1960 by \$100 million and increased revenues in 1961 by \$31 million.

TABLE 15

## GOVERNMENT OUTLAYS ON GOODS AND SERVICES AS A PROPORTION OF G.N.E.

	1952	1961
Expenditures by:		
Federal—Defence.....	7.5	4.4
Non-defence.....	2.9	3.7
Total Federal.....	(10.4)	(8.1)
Provincial and Municipal.....	7.4	11.4
<b>All levels of Government.....</b>	<b>17.8</b>	<b>19.5</b>

Within the overall total, there have been divergent movements at the various levels of government. Expenditures on goods and services by the federal government in 1961 represented a smaller share of Gross National Expenditure than in 1952, while the proportion at the combined provincial and municipal levels was appreciably higher.

While the term "goods and services" bears the connotation of expenditures for consumable goods and for current administrative services, it should be noted that the definition of goods and services in the government sector of Gross

TABLE 16

## GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1960	Prelim. 1961	Change
	(Millions of dollars)		
<b>GOVERNMENT REVENUE—</b>			
Direct Taxes—Persons.....	2,357	2,504	+147
Federal.....	2,016	2,132	+116
Provincial and Municipal.....	341	372	+ 31
Direct Taxes—Corporations.....	1,562	1,610	+ 48
Income—			
Federal.....	1,284	1,320	+ 36
Provincial.....	278	290	+ 12
Other Direct Taxes—			
Withholding taxes—Federal.....	77	109	+ 32
Indirect Taxes.....	4,681	4,893	+212
Federal.....	2,181	2,190	+ 9
Provincial and Municipal.....	2,500	2,703	+203
Investment Income.....	1,058	1,112	+ 54
Federal.....	384	406	+ 22
Provincial and Municipal.....	674	706	+ 32
Employer and Employee Contributions to Social Insurance and Government Pension Funds.....	735	781	+ 46
Federal.....	474	507	+ 33
Provincial and Municipal.....	261	274	+ 13
Transfers from Other Governments—			
Provincial and Municipal.....	994	1,123	+129
<b>Total Revenue.....</b>	<b>11,464</b>	<b>12,132</b>	<b>+668</b>
Federal.....	6,416	6,664	+248
Provincial and Municipal.....	5,048	5,468	+420

TABLE 16—Concluded

## GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1960	Prelim. 1961	Change
	(Millions of dollars)		
<b>GOVERNMENT EXPENDITURE—</b>			
Goods and Services.....	<b>6,683</b>	<b>7,183</b>	<b>+500</b>
Federal—			
Defence.....	1,548	1,617	+ 69
Non-defence.....	1,180	1,353	+173
Provincial and Municipal.....	3,955	4,213	+258
Transfer Payments to Persons.....	<b>3,121</b>	<b>3,343</b>	<b>+222</b>
Federal.....	1,980	2,014	+ 34
Provincial and Municipal.....	1,141	1,329	+188
Interest on Public Debt.....	<b>1,079</b>	<b>1,126</b>	<b>+ 47</b>
Federal.....	756	783	+ 27
Provincial and Municipal.....	323	343	+ 20
Subsidies.....	<b>235</b>	<b>250</b>	<b>+ 15</b>
Federal.....	209	220	+ 11
Provincial and Municipal.....	26	30	+ 4
Transfers to Other Governments—			
Federal.....	<b>994</b>	<b>1,123</b>	<b>+129</b>
<b>Total Expenditure</b> .....	<b>12,112</b>	<b>13,025</b>	<b>+913</b>
Federal.....	6,667	7,110	+443
Provincial and Municipal.....	5,445	5,915	+470
<b>Deficit (–) or Surplus (+)</b> .....	<b>–648</b>	<b>–893</b>	<b>+245</b>
Federal <sup>(1)</sup> .....	–251	–446	+195
Provincial and Municipal.....	–397	–447	+ 50
<b>Total Expenditure minus deficit (or plus surplus)</b> .....	<b>11,464</b>	<b>12,132</b>	<b>+668</b>
Federal.....	6,416	6,664	+248
Provincial and Municipal.....	5,048	5,468	+420

<sup>(1)</sup> Reconciliation with Public Accounts Surplus or Deficit shown below.

	1960	Prelim. 1961
	(Millions of dollars)	
<b>Federal Government calendar year surplus for national accounts purposes</b> .....	<b>–251</b>	<b>–446</b>
Adjustments:		
Difference between calendar and fiscal year.....	–75	+247
Difference between corporation tax accruals and government receipts.....	+100	–31
Revenue items omitted.....	+17	+22
Reserves, write-offs and similar items omitted from expenditure.....	–62	–49
Shipment of military equipment to NATO countries less replacement.....	—	—
Extra-budgetary funds for pensions and social insurance (net).....	–41	–48
Adjustment to place debt interest on a "due date" basis.....	+3	–3
Other adjustments.....	–104	–32
<b>Federal surplus for fiscal year as per public accounts</b> .....	<b>–413</b>	<b>–340</b>

National Expenditure includes outlays by all levels of government on construction and capital equipment. Items of this type, which are of the nature of capital investment, include a wide variety of projects: housing, hospitals, schools, marine engineering projects, highways, transportation facilities and others. Over the past several years expenditures by government on construction, machinery and equipment have represented a relatively constant share, approaching one-quarter, of all government outlays on goods and services.

Turning to the revenue side, it has already been indicated that the year-to-year increase in government revenues in 1961 was less than the corresponding increase in expenditures. In 1961 revenues of all levels of government (excluding inter-governmental transfers) amounted to \$11,009 million, an increase of 5% over revenues in 1960. However, the year-to-year comparison masks the significant change in government revenues, calculated on the National Accounts basis, which occurred between the first and last quarters of 1961. The table below indicates the nature of such changes and compares them with the record of earlier recovery periods.

TABLE 17  
PERCENTAGE CHANGES IN REVENUES OF ALL GOVERNMENTS ON A  
NATIONAL ACCOUNTS BASIS

(Seasonally Adjusted at Annual Rates)

	1960 to 1961	1Q 1961 to 4Q 1961	1Q 1958 to 4Q 1958	2Q 1954 to 1Q 1955
Direct Taxes—Persons.....	6.2	7.5	2.1	6.1
Direct Taxes—Corporations.....	3.1	19.0	10.9	8.5
Indirect Taxes.....	4.5	7.3	2.1	4.5
Investment Income.....	5.1	5.7	11.9	4.1
Other.....	9.6	3.7	10.2	8.3
<b>Total Revenue</b> (Excluding inter-governmental transfers).....	<b>5.1</b>	<b>8.5</b>	<b>5.0</b>	<b>5.7</b>

Revenues of all levels of government reached an annual rate by the fourth quarter of 1961, 9% above that of the first quarter, the low point in business activity. The gain in revenues was largely due to the increases in indirect tax receipts and accruals of corporation income taxes as the pace of economic activity quickened. By comparison, there were smaller proportionate increases in accrued government revenues in the first nine months of the upswings in economic activity in 1954 and in 1958.

TABLE 18  
OUTLAYS ON NEW CAPITAL GOODS BY ALL LEVELS OF GOVERNMENT

	Construction	Machinery and Equipment	Total <sup>(1)</sup>	% of Capital Outlays to Total Government Expenditures on Goods and Services
	(Millions of dollars)			
1959.....	1,386	137	1,523	24
1960.....	1,433	137	1,570	24
1961 <sup>(2)</sup> .....	1,469	147	1,616	23

(1) These figures exclude investment expenditure by government business enterprises which is included in the national accounts item for business capital formation.

(2) Preliminary.

Total expenditure at all levels of government includes not only expenditures on goods and services, but also outlays for transfer payments to persons, interest on the public debt and subsidies. Calculated in this manner, total expenditures by all levels of government (excluding inter-governmental transfers) in 1961 were \$11,902 million, an increase of 7% over expenditures in 1960. This figure indicates the gross effect of government operations on the economy, since it

includes transfer payments to individuals which in turn may be used for expenditures on goods and services. The proportion of total government outlays represented by the categories of expenditure cited above is indicated in the table below.

TABLE 19  
PERCENTAGE DISTRIBUTION OF TOTAL EXPENDITURES  
ALL LEVELS OF GOVERNMENT  
(Excluding inter-governmental transfers)

	1952	1957	1960	1961
Goods and services.....	67.7	66.1	60.1	60.3
Transfers to persons.....	21.5	24.0	28.1	28.1
Interest on public debt.....	9.2	8.5	9.7	9.5
Subsidies.....	1.6	1.4	2.1	2.1
	100.0	100.0	100.0	100.0

Outlays on goods and services have declined from 68% of total government expenditures in 1952 to 60% in 1961, while payments to persons increased during the same period from 22% to 28%. This change has been particularly marked since 1957.

Expenditures by government on goods and services and on transfers to individuals increased in 1961 by almost identical proportions. Expenditures on goods and services by the federal government and by the combined provincial and municipal levels contributed about equally to the increase in this item. For transfer payments to persons, however, higher provincial and municipal outlays on grants to hospitals under federal-provincial hospitalization insurance arrangements contributed the bulk of the increase in 1961. Federal transfer payments to persons for the year as a whole increased by only a small proportion due to the effect in the last half of the year of lower outlays on unemployment insurance benefits. Interest on the public debt was somewhat higher in 1961 than in 1960 at the federal and provincial and municipal government levels. Government expenditure on subsidies increased by \$15 million as interim subsidies by the federal government under the Freight Rates Reduction Act more than offset a reduction in payments under the Agricultural Stabilization Act while provincial government outlays of this type in 1961 were almost unchanged from the amounts recorded in 1960.

Federal transfers to other levels of government amounted to \$1,123 million in 1961, an increase of 13% over 1960. By far the largest factor contributing to this increase was the rise in the federal government share of hospital insurance expenditures. The entry of Quebec into the federal-provincial hospital insurance arrangements on January 1, 1961, accounted for about two-thirds of this increase, but total grants to other provinces increased substantially as well. Increased payments to the provinces for unemployment assistance and higher federal expenditures under the Winter Works Program also contributed to the increase in federal transfers in 1961.

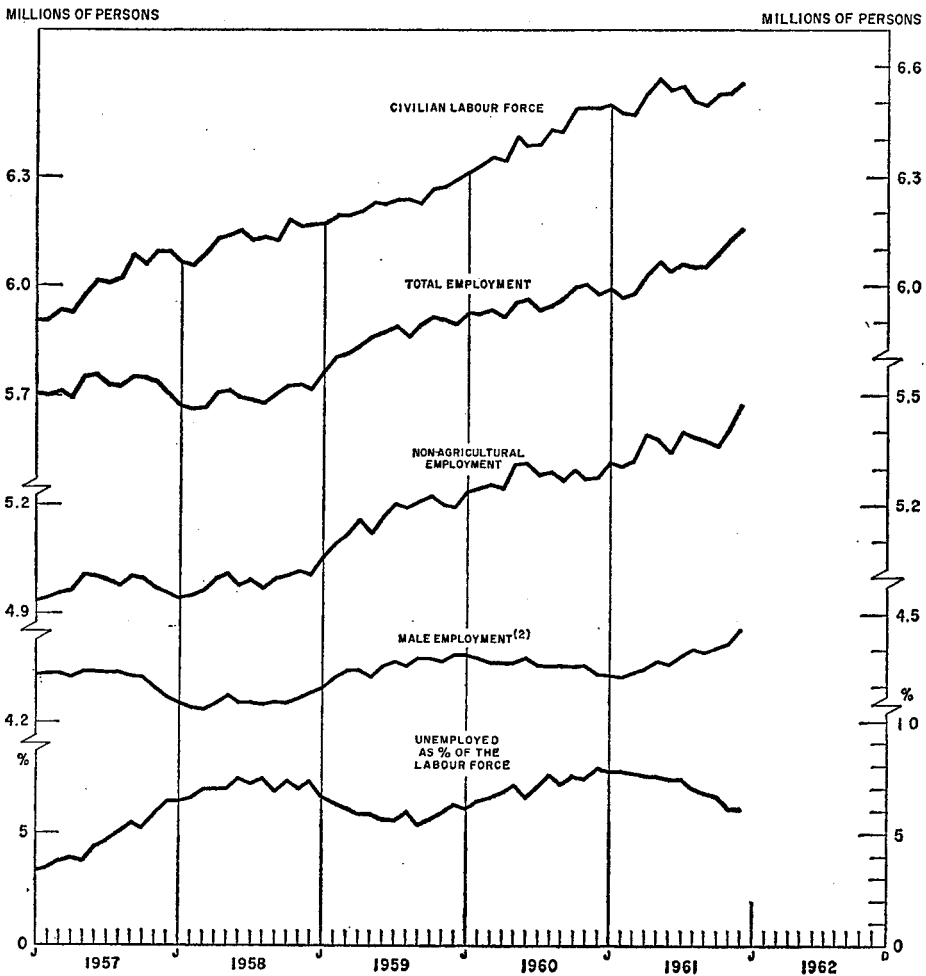
## EMPLOYMENT AND EARNINGS

During the course of 1961 there was a significant increase in employment in Canada in both goods and service producing industries, which was spread throughout the main regions of the country. Concurrently, the very rapid increases in the labour force which had occurred in recent years slowed down. As a result of these two main developments, unemployment fell throughout 1961, so that by the year end the rate of unemployment was appreciably below that

at the beginning of 1961, seasonal factors apart. The greater share of the increase in employment during 1961 occurred among male wage earners, in marked contrast with the experience of the recent past, and reflected the upswing in production in the commodity-producing industries which took place during this period.

The increase in employment began about April, after allowing for normal seasonal movements, and from then until year end there was an increase in total employment of more than 3 per cent. By December 1961 there were 180,000 more people employed in Canada than a year earlier of which 125,000 were men and 55,000 women. The gain in female employment marked a continuation of the upward trend observed over the past decade when increasing numbers of women were finding employment in a wide variety of industries, notably the service industries. The gains in male employment, however, marked a change from the relative stability prevailing since 1956.

### THE LABOUR FORCE<sup>(1)</sup>



The increases in employment were all accounted for in the non-agricultural sectors. More than half of the gains were in Quebec and Ontario, but employment in the Prairies, Atlantic provinces and British Columbia also rose significantly and the percentage increases in all regions were of the order of 2 to 4 per cent from the end of 1960 to the end of 1961. Employment in the goods-producing industries rose somewhat more than in the service-producing industries. The gain in the latter sector constituted a continuation of the post-war increases, whereas the rise in employment in the former sector was the first in about two years. The manufacturing and construction industries accounted for almost all of the gain in the goods-producing industries.

The rate of increase in the labour force slowed down in 1961, compared with very rapid rates of growth in recent years. As noted in last year's Budget White Paper, rates of increase in Canada's labour force over the past decade or so had been two or three times those of other industrialized countries. The phenomenon of deceleration in the rate of growth of the labour force occurs from time to time and is the result of a variety of factors. There was a particularly sharp drop in the labour force participation rates (which measure the percentage of any group working or seeking work) in the male age groups 14-19 and 20-24, reflecting the larger number of males in these age groups remaining in school and receiving fuller training. It will be recalled that the unemployment rate of young males is very much higher than that of the rest of the labour force and the average level of skills and education among these unemployed is quite low. There was very little change in the participation rate of the group of prime working age, 25-64.

The participation rate of females continued its long-term rise, although the increase moderated. This was the net result of two conflicting movements; the youngest female age group, 14-19, showed a decline, though not as large as in the corresponding male age group. On the other hand, participation rates of women in the 20-64 age bracket continued to increase. Much of this rise was accounted for by employment of married women. In December 1961, almost one-half of employed females were married, compared with one-third only eight years ago.

During 1961 the rate of unemployment declined from 7.8 per cent of the labour force in January to 6.1 per cent in December, after allowing for seasonal elements. Almost all of the decline was in the male unemployed and took place mainly in Quebec, Ontario and British Columbia.

The improvement in the unemployment rate during 1961 contrasts with the experience of the past two upswings in business activity. The following table shows the unemployment rates (seasonally adjusted) at the low point in activity and the rates after three quarters of upswing.

Trough	Unemployment Rate	Three Quarters after trough	Unemployment Rate	Change
1Q 1961.....	7.8	4Q 1961	6.3	-1.5
1Q 1958.....	6.7	4Q 1958	7.2	+0.5
2Q 1954.....	4.6	1Q 1955	4.8	+0.2

Labour income responded to the increased pace of employment during 1961. The increase in labour income began to accelerate after April, and between the eight months of April and December 1961 the increase in labour income was as large as in the preceding 15 months. In the last three quarters of 1961 there were substantial gains in labour income in the goods-producing industries, in contrast to declines in the immediately preceding period, and continued increases in labour income in the service-producing industries.

Total labour income rose by more than 5 per cent from the first to the fourth quarter of 1961. During this period average hours worked per week in manufacturing increased about 1 per cent and average hourly earnings between 2 per cent and 3 per cent. The rise in employment was about  $2\frac{1}{2}$  per cent. With consumer prices rising by less than 1 per cent during 1961 there was an increase in per capita real earnings in the order of 2 to 3 per cent.

### PRICE TRENDS

Prices of goods and services produced in Canada rose only fractionally in the aggregate in 1961 compared with 1960. This is in contrast to the experience of many industrialized countries in Europe where prices rose more rapidly than in North America. While world prices of commodities generally have not increased in the recent past, pressures of other costs in Europe have been upward. Price increases in Canada in almost every major sector were smaller in 1961 than in the previous year, which in itself was a period of relative price stability. The one exception was in international trade, where prices of both imports and, to a lesser extent, exports rose in response to the lower level of the Canadian exchange rate.

The smaller rise in 1961 in the price of capital goods relative to 1960 was the result of very little increase in residential and non-residential building costs offset to some extent by a larger increase for new machinery and equipment which has a substantial import content. Residential construction costs in the fourth quarter of 1961 were at about the same level as in the final quarter of 1960.

TABLE 20  
PERCENTAGE PRICE CHANGES  
(Implicit Price Indexes of GNE and Components)

	1959/1958	1960/1959	1961/1960
Consumer expenditure.....	+1.4	+1.2	+0.9
Goods.....	+0.6	+0.5	+0.2
Services.....	+2.6	+2.2	+1.8
Government expenditure.....	+3.4	+2.2	+1.8
Business gross fixed capital formation.....	+2.8	+2.2	+0.9
New Residential construction <sup>(1)</sup> .....	+3.7	+2.7	+0.5
New Non-residential construction <sup>(1)</sup> .....	+3.1	+2.4	+0.4
New machinery and equipment.....	+1.8	+1.9	+1.7
Exports of goods and services.....	+1.5	+0.9	+1.2
Imports of goods and services.....	-0.6	+1.4	+2.8
<b>Gross National Expenditure.....</b>	<b>+2.6</b>	<b>+1.4</b>	<b>+0.7</b>

<sup>(1)</sup> Price indexes of these sectors are measured mainly by elements entering into costs (materials and labour purchased) rather than final selling prices, and generally it has not been possible to allow for changes in productivity. Over short periods of time, these cost indexes are not likely to vary to any extent from indexes of actual selling prices. Over longer periods, it may be that these cost deflators overstate price increases.

The consumer price index for 1961 averaged 129.2 compared with 128.0 for 1960, an increase of just under one per cent. This fractional increase in 1961 marks the second successive year in which over-all consumer prices demonstrated comparative stability in contrast to average annual increases of more than 2 per cent in the previous five years.

TABLE 21  
PERCENTAGE INCREASE IN CONSUMER PRICES

PERIOD	Total Percentage Change over the Period
1955-1957.....	+4.7
1957-1959.....	+3.8
1959-1961.....	+2.1

The consumer price index declined from 129.2 in January, 1961 to 129.0 in March where it remained until August. In August and September, the index was 129.1. Successive monthly increases in the final quarter of the year, associated mainly with seasonal movements in food prices and to some extent reflecting the introduction of the Ontario Sales Tax, raised the index to 129.8 in December, 1961, fractionally above the level of 129.6 in December, 1960.

The following table shows that the increase in consumer prices in the last quarter of 1961 over the last quarter of the preceding year was due to higher costs in the services component. The index for total services rose 1.2 per cent while the index for total goods was virtually unchanged. The stability in the total goods component was the result of an increase of about one-half of one per cent in non-durable prices and a decline of nearly two per cent in durable prices, the latter reflecting lower prices for electrical household appliances and new automobiles. The federal excise tax of  $7\frac{1}{2}$  per cent on new automobiles was removed on June 21, 1961.

TABLE 22  
PERCENTAGE CHANGES IN CONSUMER PRICE INDEXES

	4Q 1959	4Q 1960	4Q 1961
	4Q 1958	4Q 1959	4Q 1960
Total Goods and Services.....	+1.5	+1.1	+0.4 <sup>(1)</sup>
Commodities.....	+1.0	+0.8	+0.1
Commodities excluding Food.....	+1.6	—	+0.1
Food.....	+0.5	+1.6	+0.1 <sup>(1)</sup>
Durable Goods.....	+0.8	-1.3	-1.6
Household Equipment.....	+0.2	-0.9	-1.5
Transportation Equipment.....	+2.7	-2.3	-1.8
Non-Durable Goods.....	+1.2	+1.1	+0.5
Non-Durable Goods excluding Food.....	+1.9	+0.3	+0.7
Textiles.....	-0.3	+0.5	+1.4
Other Non-Durable Goods.....	+2.7	—	+0.3
Services.....	+2.2	+1.8	+1.2
Services excluding Shelter.....	+3.0	+2.6	+1.9

<sup>(1)</sup> Changes based on 1957 weighted index.

The much smaller increase in the price of services is of some significance. In part, this is due to lesser increases in shelter costs. In the last five years or so, as housing construction has filled the pressing backlogs of housing needs, the pressure on shelter costs, particularly rent, has been eased. General increases throughout all other components have been more responsible for recent increases in the services index. The largest increases have occurred in health care, public transportation and vehicle operating costs.

The wholesale price index, which is heavily weighted with export and import goods, prices of which are generally affected by changes in the value of foreign currency, rose on average in 1961 by 1 per cent, with somewhat larger increases taking place in the second half of the year as the exchange rate declined. The largest increases appeared in prices of raw and partly manufactured goods, industrial materials and iron and non-ferrous metals and products. The building materials price index, both residential and non-residential, declined during the course of the year and were lower on average in 1961 than in 1960.

TABLE 23  
INDEXES OF SELECTED WHOLESALE PRICES  
(1935-1939=100)

	1959	1960	1961
Raw and partly manufactured goods.....	210.9	209.6	212.6
Fully and chiefly manufactured goods.....	241.6	242.2	244.4
Industrial materials.....	240.2	240.4	243.2
Iron and non-ferrous metals and products.....	248.3	250.6	253.3
<b>General Index of Wholesale prices.....</b>	<b>230.6</b>	<b>230.9</b>	<b>233.3</b>

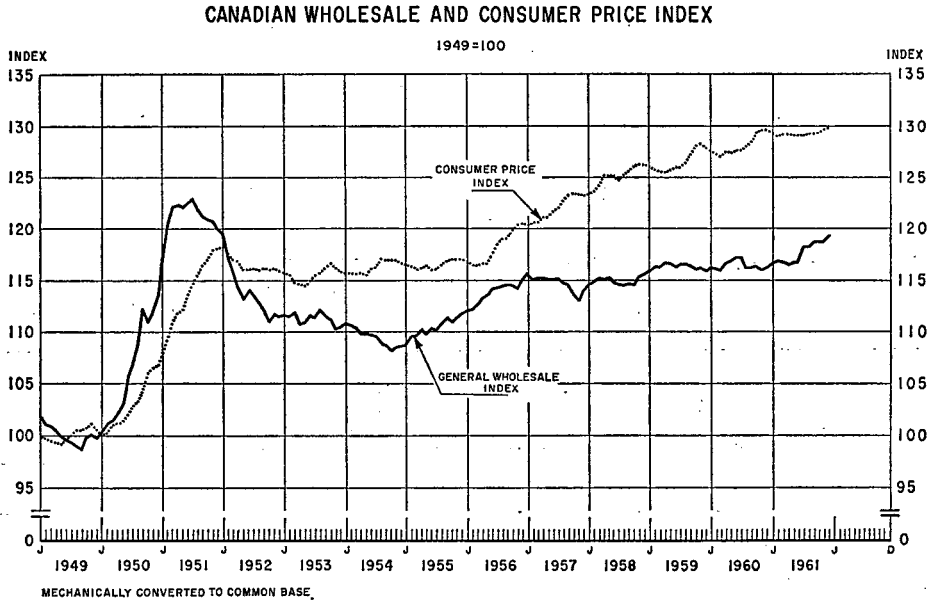
It is of interest to compare the behaviour of prices over the course of the business upswing in 1961 with that of 1958. The following table shows changes in price levels from the low point in activity in the first quarter of 1961 and from the previous peak in the first quarter of 1960 to the fourth quarter of 1961. It makes similar comparisons with the preceding upswing in 1958.

TABLE 24  
PERCENTAGE CHANGES IN PRICE LEVELS

	3 quarters after trough	3 quarters after trough from previous peak	3 quarters after trough	3 quarters after trough from previous peak
	4Q 1958	4Q 1958	4Q 1961	4Q 1961
	1Q 1958	1Q 1957	1Q 1961	1Q 1960
Consumer Price Index.....	+1.9	+4.8	+0.4	+1.2
Commodities.....	+0.8	+3.1	+0.2	+0.7
Services.....	+2.8	+7.0	+1.2	+2.7
General Index of Wholesale Prices.....	+0.3	-0.1	+1.9	+2.4
Gross National Expenditure Implicit Price Index.....	+1.9	+3.5	+0.2	+1.4

The table shows clearly that price movements in the current upswing have been much less than in the one preceding. This is particularly apparent in the case of the consumer price index and the overall price deflator of Gross National Expenditure. In the 1958 upswing, while commodity prices in general did not increase, as seen by the movement of the Wholesale Price Index, the other indexes which measure a wider range of final goods and services continued to move up. In part, this was due to significant increases in service and other

costs which are added to the cost of materials. These cost increases had their roots in the inflationary conditions of the mid-1950's and reflected a delayed reaction to events at that time.



During the current upswing, while wholesale prices have risen somewhat, as explained previously, because of exchange rate movements, their effect on final prices of goods and services has been very slight. The smaller increases in service prices reflect a much different environment, including less intense pressure on and greater availability of resources.

### BALANCE OF INTERNATIONAL PAYMENTS

There was a significant improvement in Canada's balance of payments in 1961 as the deficit on current account was reduced to \$989 million from \$1,217 million in 1960 and \$1,504 million in 1959. This improvement was made possible by a surplus on merchandise trade account which (aside from a minor amount in 1954) was the first such surplus since 1952. The improvement arising from merchandise trade more than offset a further increase in the deficit on non-merchandise account, which did not, however, rise as rapidly as in most years of the past decade. At the same time, there was a substantial reduction in the inflow of long-term capital to the lowest level since 1955, and an increase in the inflow of other forms of capital.

Important changes occurred in the capital account over the past few years. In 1961, the inward net capital movement was reduced substantially and was at the lowest level since 1955.

A summary of capital movements for the past four years is given in table 25.

The amount of inflow for direct investment was lower in 1961 than in 1960 or 1959 and was at the same level as 1958. In part, the decline reflected a reduction in transactions related to take-overs of existing enterprises, which had

been more important in 1960. In part, the decline was related to the phasing-out of some major projects. As in 1960, a substantial proportion of direct investment was related to the petroleum, natural gas and mining industries. In 1961, direct investment abroad totalled \$110 million, an increase of \$25 million above 1960.

Net inflows from security transactions were somewhat higher in 1961 than in 1960, but well below the levels of the preceding four years.

In 1961 the composition of inflows from security transactions changed substantially from earlier years. Provincial government net new issues acquired by non-residents declined sharply from 1959 to 1960 and declined further in 1961. Municipal government net new issues acquired by non-residents declined moderately from 1959 to 1960. In 1961 there was a small net retirement of municipal bonds held by non-residents. Thus, net new issues of provincial and municipal governments held by non-residents fell very sharply over the period 1959 to 1961. On the other hand, net new issues of corporate securities rose sharply in 1961, following two years of relatively small amounts of financing from abroad. Important among the corporate securities purchased by non-residents in 1961 were securities of petroleum and natural gas corporations, real estate investment corporations, some financial institutions and the pulp and paper industry. In some cases it would appear that sales of corporate securities to non-residents are arranged for apart from considerations of interest rates or exchange rates and may take into account other factors including, for example, special relationships between borrower and lender and relative ease of placement of large issues.

While the data show a considerable decline in total capital inflow in 1961, a more detailed analysis by quarters is of considerable interest.

TABLE 25  
INTERNATIONAL PAYMENTS  
CAPITAL ACCOUNT

	1960				1961			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
Direct investment: in Canada.....	+196	+144	+168	+137	+120	+140	+ 75	+ 85
abroad.....	- 15	- 25	- 29	- 16	- 40	- 35	- 15	- 20
Canadian securities								
Trade in outstanding bonds and debentures.....	+ 19	+ 15	- 19	- 12	+ 31	+ 34	- 12	+ 10
Trade in outstanding common and preference stocks.....	+ 13	+ 24	+ 10	+ 2	+ 13	+ 32	.....	- 5
New issues.....	+209	+146	+ 52	+ 40	+ 90	+171	+127	+104
Retirements.....	- 50	- 78	- 32	- 93	- 69	- 93	- 29	-101
Foreign securities								
Trade in outstanding issues.....	+ 7	- 5	+ 2	- 24	+ 3	.....	+ 2	- 10
New issues.....	- 2	- 3	- 2	- 11	- 5	- 18	- 6	- 5
Retirements.....	+ 6	+ 3	+ 7	+ 2	+ 2	+ 2	+ 3	+ 2
Loans by Government of Canada								
Drawings.....	.....	.....	.....	.....	.....	.....	.....	.....
Repayments.....	.....	+ 7	.....	+ 25	+ 3	+ 8	.....	+ 27
Subscriptions in Gold and U.S. dollars to International Financial Agencies.....	.....	.....	- 1	- 2	.....	.....	.....	.....
Change in Canadian dollar holdings of foreigners.....	- 2	- 2	+ 45	+ 79	- 5	- 72	- 1	+ 44
Change in official holdings of gold and foreign exchange (increase, -).....	+ 11	+ 82	- 40	- 14	-105	- 51	+ 62	-135
Other capital movements.....	- 71	+162	- 39	+191	+305	+196	-140	+270
<b>Net Capital Movement.....</b>	<b>+321</b>	<b>+470</b>	<b>+122</b>	<b>+304</b>	<b>+343</b>	<b>+314</b>	<b>+ 66</b>	<b>+266</b>

During the course of 1961 while actual deliveries of Canadian securities to non-residents (which measure the capital inflow) did not decline, there was a significant decline in contracts in the latter half of the year.

TABLE 26  
NEW ISSUES OF CANADIAN BONDS SOLD TO UNITED STATES RESIDENTS

Quarter		Contracts	Deliveries
		(Millions of dollars)	
1960	1.....	182	185
	2.....	100	125
	3.....	53	33
	4.....	103	26
1961	1.....	122	80
	2.....	87	141
	3.....	52	103
	4.....	64	84

The decline in net capital inflow from security transactions of provincial and municipal governments in 1961, as a whole, and the decline throughout 1961 in new issues contracted for sale to non-residents were undoubtedly related in part to the narrowing of the differential between Canadian and U.S. interest rates, to the reduction in the level of Canadian interest rates and the greater availability of long-term funds in the Canadian capital market, and to amendments in the withholding tax in December, 1960.

TABLE 27  
NET NEW ISSUES OF BONDS AND STOCKS—FOREIGN CURRENCY  
(Including Net Disinvestment of Government accounts)

	1960	1961				
	Annual	Annual	1Q	2Q	3Q	4Q
		(Millions of Canadian dollars)				
Federal.....	-1	-55	-51	-3	.....	.....
Net New Issues.....	.....	-56	-51	.....	.....	-5
Net Disinvestment (+).....	-1	2	.....	-3	.....	5
Provincial.....	18	7	15	-18	.....	10
Municipal.....	85	-12	-7	15	-4	-16
Corporate (including corporate stocks).....	4	114	-7	61	59	1
Total.....	106	55	-49	55	55	-5

NOTE: Figures may not add due to rounding.

Turning to short-term capital flows, these reflect a variety of elements moving in both directions and responding to diverse factors including seasonal elements associated with the financing of trade, short-term interest rate differentials, both hedged and unhedged, the views of Canadian residents regarding holdings of foreign assets and non-residents regarding holdings of Canadian assets.

During 1961, non-resident holdings of Canadian treasury bills, which had been increasing for three consecutive quarters until the middle of 1961, were reduced in June and in the third quarter by more than \$100 million, following a significant narrowing of the hedged differential between Canadian and United States treasury bill rates. This outflow was offset to some extent in

the third quarter by an increase in non-resident holdings of Canadian dollar deposits, some of which were interest-bearing, in chartered banks amounting to \$33 million. In the fourth quarter of 1961 there was some increase in non-resident holdings of treasury bills as well as some further accumulation of Canadian dollar deposits.

Another component of short-term capital which showed sharp movements in 1961 was private and banking holdings of foreign exchange. In the first half of 1961 these holdings, some of which originate from commercial transactions, were reduced by \$182 million, but in the third quarter there was an increase of \$140 million. In the final quarter of 1961, most of this increase was repatriated. All other components of short-term capital in total showed an inward movement throughout the four quarters of 1961.

TABLE 28  
INTERNATIONAL PAYMENTS: CAPITAL MOVEMENTS

	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
Direct investment in Canada.....	+420	+550	+645	+420
Direct investment abroad.....	- 48	- 80	- 85	-110
Canadian securities—				
Trade in outstanding bonds and debentures.....		+ 91	+ 3	+ 63
Trade in outstanding common and preference stocks.....	+ 88	+110	+ 49	+ 40
New issues.....	+677	+707	+447	+492
Retirements.....	-158	-258	-253	-292
Foreign securities.....	+ 3	- 33	- 20	- 30
Loans by Gov't of Canada—Drawings.....	- 34	- 1		
Repayments.....	+ 64	+ 34	+ 32	+ 38
Subscriptions to IMF, IFC and IBRD in gold and US dollars.....		- 59	- 3	
Change in Canadian dollar holdings of foreigners.....	+106	+ 13	+120	- 34
Change in official holdings of gold and foreign exchange (increase, -).....	-109	+ 70	+ 39	-229
Other capital movements.....	+122	+360	+243	+631
<b>Net capital movement.....</b>	<b>+1,131</b>	<b>+1,504</b>	<b>+1,217</b>	<b>+989</b>

Another factor which is assuming a more important role in the capital account is the extension of export credit facilities. The provision of export credits does not, of course, in itself always imply a net extension of credit from Canadian sources. Many of the claims are receivable in United States funds and may, in effect, be discounted outside Canada. However, aside from this, there have been net extensions of export credit of various kinds. Canada's Export Credits Insurance Corporation has long made available insurance to Canadian exporters of goods and services to protect them against non-payment by foreign buyers due to the various risks involved in foreign trade. In the spring of 1960 the Chartered Banks of Canada joined in setting up the Export Finance Corporation of Canada Ltd. to finance insured exports of capital goods through the provision of medium-term credit ranging up to five years.

Complementing these medium-term arrangements, the guarantee facilities of the Export Credits Insurance Act were extended to longer-term credit and the Government Agency, the Export Credits Insurance Corporation, was authorized

to buy guaranteed instruments for direct financing of export sales. Commitments to extend credit to foreign purchasers of capital equipment in Canada have already begun to be made, but the resultant capital outflows will only arise as and when disbursements take place. For the year 1961, such outflows were negligible.

Apart from these facilities the Government has guaranteed substantial credits for the Canadian Wheat Board to conclude sales of wheat and barley to Communist China on a short-term credit basis.

In August, 1961, arrangements were made for the drawing by the United Kingdom of U.S. \$1,500 million from the International Monetary Fund. Canadian participation in this drawing had the net effect of reducing both Canadian liabilities to the International Monetary Fund by \$52 million and gold and foreign exchange holdings by about the same amount during the third quarter of 1961.

During 1961, total Canadian merchandise exports rose by 9.2 per cent compared with a 5 per cent increase in 1960. Imports rose by 3.1 per cent during this same period. As a result, trade data for 1961, adjusted for balance of payments, showed a surplus of \$179 million in contrast to a deficit of \$145 million for 1960.

TABLE 29  
INTERNATIONAL PAYMENTS: BALANCE ON MERCHANDISE TRADE

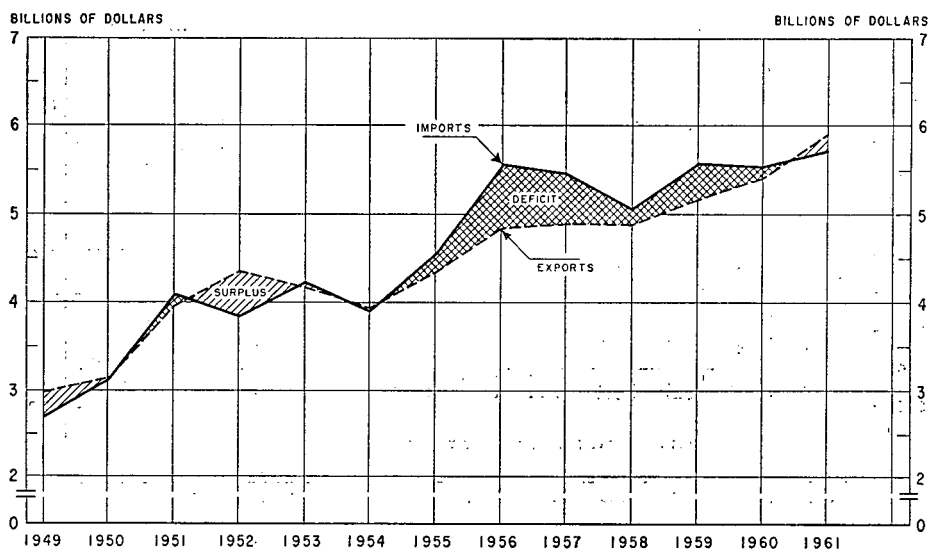
	1960	1961	Percentage Change 1960/1961
	(Millions of dollars)		
Merchandise exports.....	5,400	5,896	+9.2
Merchandise imports.....	5,545	5,717	+3.1
<b>Trade balance.....</b>	<b>-145</b>	<b>+179</b>	

Within 1961 itself, exports of goods moved generally upwards while imports, which had moved downward irregularly from the beginning of 1960, increased in the latter half of the year. In the fourth quarter of 1961, the volume of imports, seasonally adjusted, was at about the same level as in the first quarter of 1960, although the value was higher. Movements of both exports and imports in 1961 were strongly affected by the business upturn in North America.

The value of merchandise exports amounted to \$5,896 million for 1961, a new record, compared with \$5,400 million during the previous year; increases in exports of agricultural products represented the largest share of the increase from the 1960 level. Exports of grain, forest products, nickel and petroleum increased substantially and there was some decline in exports of iron ore, copper and uranium. Larger export credit facilities and a more favourable exchange rate explain some of these increases. At the same time, the increase in economic activity in the United States and the maintenance of high levels of activity abroad helped provide a more expansionary environment for exports.

The value of merchandise imports for 1961 was \$5,717 million; this was somewhat higher than in 1960. The growth in imports in 1961 was widely distributed among various items although there were somewhat larger than average increases in imports of machinery and equipment from the United States.

## IMPORTS AND EXPORTS OF MERCHANDISE



The improvement in the trade balance was widespread on a geographical basis. The trading deficit with the United States was reduced, while the surplus with the United Kingdom rose slightly. The sharpest improvement took place with all other countries.

TABLE 30

## GEOGRAPHICAL DISTRIBUTION OF MERCHANDISE TRADE BALANCE

	Exports		Imports		Trade Balance		Percentage change	
	1960	1961	1960	1961	1960	1961	1960/1961	
	(Millions of dollars)						Exports	Imports
United States.....	3,039	3,215	3,715	3,831	-676	-616	+ 5.8	+3.1
United Kingdom.....	924	923	611	588	+313	+335	- 0.1	-3.8
Other Countries.....	1,437	1,758	1,219	1,298	+218	+460	+22.3	+6.5
<b>Total.....</b>	<b>5,400</b>	<b>5,896</b>	<b>5,545</b>	<b>5,717</b>	<b>-145</b>	<b>+179</b>	<b>+ 9.2</b>	<b>+3.1</b>

The deficit in non-merchandise transactions increased by \$96 million in 1961 over 1960, compared with relative stability for 1960 over 1959, but the rate of increase was well below the average annual increase of the last decade.

There were a number of interesting developments on the non-merchandise account. The travel account showed a significant improvement, with receipts in 1961 rising by \$53 million while payments rose by only \$6 million. At the same time there was a gain of \$18 million from receipts of dividends, in contrast to a \$4 million decline in the preceding year. Payments of interest and dividends rose by \$102 million in comparison with the \$2 million decrease in 1960, but this rise masks a very unusual shift between the fourth quarter of 1960 and the first quarter of 1961, as some payments of dividends were made in the first quarter of 1961, rather than in the last quarter of 1960, in contrast to past experience. The result of this shift was that the figures for 1960 were somewhat lower than usual and those for 1961 were correspondingly higher.

## BALANCE ON NON-MERCHANDISE TRANSACTIONS

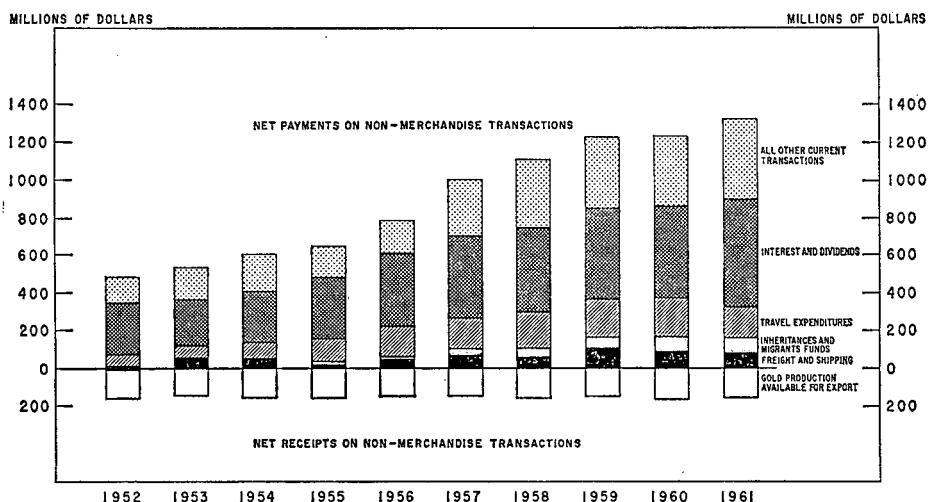


TABLE 31  
INTERNATIONAL PAYMENTS: CURRENT ACCOUNT

	1958	1959	1960	Prelim. 1961
	(Millions of dollars)			
<b>Current Receipts—</b>				
Merchandise exports (adjusted) <sup>(1)</sup> .....	4,887	5,150	5,400	5,896
Gold available for export.....	160	148	162	158
Travel expenditures.....	349	391	420	473
Interest and dividends.....	168	182	178	196
Freight and shipping.....	401	420	442	467
Inheritances and immigrants' funds.....	97	109	102	103
Other current receipts.....	375	392	420	388
<b>Total Current Receipts.....</b>	<b>6,437</b>	<b>6,792</b>	<b>7,124</b>	<b>7,681</b>
<b>Current Payments—</b>				
Merchandise imports (adjusted).....	5,066	5,572	5,545	5,717
Travel expenditures.....	542	598	627	633
Interest and dividends.....	612	671	669	771
Freight and shipping.....	460	525	533	554
Inheritances and emigrants' funds.....	145	165	181	183
Other current payments.....	743	765	786	812
<b>Total Current Payments.....</b>	<b>7,568</b>	<b>8,296</b>	<b>8,341</b>	<b>8,670</b>
<b>Balance on Merchandise Trade.....</b>	<b>-179</b>	<b>-422</b>	<b>-145</b>	<b>+179</b>
<b>Balance on other Transactions.....</b>	<b>-952</b>	<b>-1,082</b>	<b>-1,072</b>	<b>-1,168</b>
<b>Current Account Balance.....</b>	<b>-1,131</b>	<b>-1,584</b>	<b>-1,217</b>	<b>-989</b>

<sup>(1)</sup> Aid to NATO countries under Defence Appropriation Act has been excluded.

Official Canadian holdings of gold and foreign exchange varied somewhat in the course of 1961. Holdings at December 31, 1960 were \$1,829 million and at the end of May, 1961, the last month end prior to the June budget, were \$1,949 million. After moving both up and down throughout the remaining months of 1961, official holdings at February 28, 1962 (the latest available month) were \$1,747 million. Apart from an advance of U.S. \$50 million in connection

with the United Kingdom drawing from the International Monetary Fund, there was thus a reduction of \$32 million between the beginning of 1961 and the end of February, 1962.

TABLE 32

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

	1958	1959	1960	1961
	(Millions of U.S. dollars)			
Exchange Fund Account and Bank of Canada—				
Gold.....	1,078.1	959.6	885.3	946.2
U.S. Dollars.....	800.0	879.4	914.9	1,087.5
Other Government of Canada Accounts.....	61.0	30.2	29.0	22.1
<b>Total Gold and U.S. Dollars.....</b>	<b>1,939.1</b>	<b>1,869.2</b>	<b>1,829.2</b>	<b>2,055.8</b>

The exchange value of the Canadian dollar declined during 1961. The average noon rate for the United States dollar, in terms of the Canadian dollar, was 99.29 in January; it moved from a low of 98.66 for June to 103.50 at June 30, to 104.31 at the end of December, 1961 and was 104.97 at the end of February, 1962.

## FINANCIAL DEVELOPMENTS

### CREDIT CONDITIONS

Monetary conditions in 1961 were relatively easy. Interest rates were appreciably below the peaks reached in the last upswing in the economy and the spread between interest rates in Canada and the United States narrowed. The spread between average long-term yields on United States and Canadian Government bonds was 1.40 per cent at the end of May 1961, 0.87 per cent at the end of October, and 0.84 per cent at the end of February, 1962. After following a fairly flat trend from January to May, security yields in Canada fell sharply in June and resumed a relatively stable trend from that point. The decline in interest rates in 1961 during the first year of the recovery is in contrast to an increase in interest rates in the corresponding phase of the 1958-59 upswing.

TABLE 33

COMPARISON OF YIELDS ON FEDERAL GOVERNMENT BONDS IN CANADA AND THE UNITED STATES

End of <sup>(1)</sup>	Medium Bonds <sup>(2)</sup>			Long Bonds <sup>(3)</sup>			91-day Treas. Bills		
	Canada	U.S.	Spread	Canada	U.S.	Spread	Canada	U.S.	Spread
1960									
March.....	5.17	4.22	.95	5.32	4.13	1.19	3.01	2.79	.22
June.....	4.50	4.03	.47	5.08	3.83	1.25	3.07	2.40	.67
September.....	4.09	3.55	.54	4.84	3.76	1.08	1.70	2.29	-.59
December.....	4.74	3.72	1.02	5.41	3.80	1.61	3.25	2.15	1.10
1961									
March.....	4.68	3.72	.96	5.18	3.80	1.38	3.21	2.39	.82
June.....	4.49	3.94	.55	4.99	3.97	1.02	2.57	2.22	.35
September.....	4.41	3.91	.50	5.02	4.03	.99	2.59	2.23	.36
December.....	4.17	4.10	.07	4.96	4.11	.85	2.99	2.59	.40
1962									
January.....	4.17	4.14	.03	4.98	4.14	.84	3.07	2.71	.36

<sup>(1)</sup> Last Wednesday of the month.

<sup>(2)</sup> Government of Canada 2½% bonds due June 15, 1967-68 and United States Government 2½% bonds due December 15, 1963-68.

<sup>(3)</sup> Government of Canada 3½% bonds due January 15, 1975-78 and United States Government 3½% bonds due June 15, 1978-83.

The demand for new funds rose in 1961. New money raised by Canadian borrowers in 1961 from the securities markets and chartered bank loans increased by some 25% above the level of 1960. The increase stemmed entirely from federal and provincial government financing since, for the year as a whole, municipal and non-governmental borrowing was slightly below the levels of 1960. However, after the first quarter of 1961, corporate and other private financing rose in response to the upswing in the economy.

TABLE 34  
NET FUNDS RAISED BY CANADIAN BORROWERS

	1960		1961				
	4Q	Annual	Annual	1Q	2Q	3Q	4Q
	(Millions of dollars)						
Raised by:							
Government of Canada.....	678	669	1,110	145	2	238	725
Net New Issues of Securities							
Canada Savings Bonds.....	592	382	486	-32	-89	-75	682
Treasury Bills.....	20	-92	-100	-50	-50	0	0
Other Bonds.....	25	322	504	90	147	310	-44
Sub-total.....	697	619	890	8	8	255	638
Net Disinvestments (+) in Govern- ment Accounts.....	41	57	221	139	-6	3	86
Provincial Governments.....	114	566	849	177	114	333	225
Municipal Governments.....	74	305	283	147	14	8	114
Private Borrowers <sup>(1)</sup> .....	300	899	816	-125	492	203	247
Total.....	1,166	2,439	3,058	344	622	782	1,310
Raised from:							
Securities Markets.....	871	2,047	2,636	578	434	607	1,017
Bank Loans.....	295	392	422	-234	188	175	293

NOTE: Figures may not add due to rounding.

<sup>(1)</sup> Excludes chartered bank stock issues.

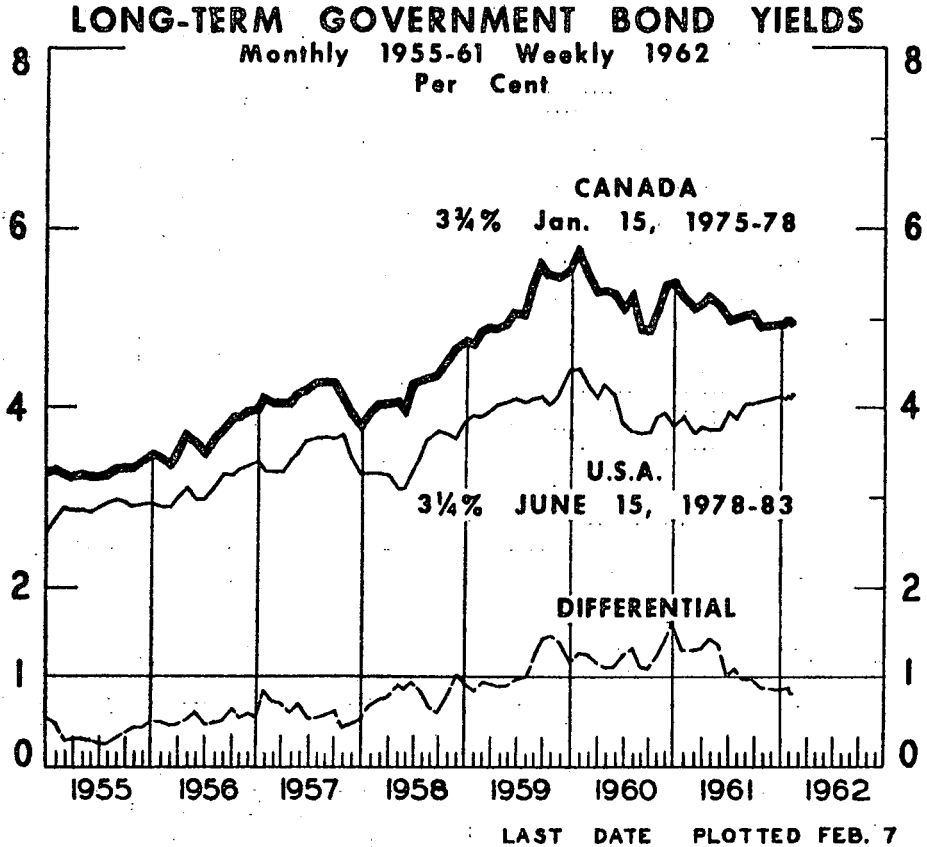
Despite the increasing demand for funds, and the resumption of economic expansion during the last three quarters of 1961, the trend of interest rates was downward for the better part of the year. As the following table indicates, this decline is in contrast to the increases in interest rates which occurred in 1958 during the first three quarters of the economic upswing which was also taking place at that time.

TABLE 35  
CHANGES IN INTEREST RATES IN THE FIRST THREE QUARTERS OF UPSWING  
AFTER THE TROUGH IN ECONOMIC ACTIVITY IN 1958 AND 1961

At end of <sup>(1)</sup>	91-day Treas. Bills Avg. tender rate		Canada 2½% due June 15, 1967-68		Canada 3½% due Jan. 15, 1975-78	
	1958	1961	1958	1961	1958	1961
1Q.....	2.27	3.21	3.59	4.68	4.01	5.18
4Q.....	3.49	2.99	4.48	4.17	4.76	4.96
Change....	+1.22	-.22	+.89	-.51	+.75	-.22

<sup>(1)</sup> Nearest Thursday to the end of the quarter for treasury bills, nearest Wednesday for Canada bonds.

Bank loans seasonally adjusted resumed their upward trend in the second half of 1960 and continued to increase during 1961. Most of the increase occurred in personal and business loans of less than \$1 million. The rate of growth in these two categories accelerated after May. Farm loans continued to rise steadily in 1961.



Total assets of the banking system expanded by 9.8% during 1961, compared with 5.9% during the previous year, a slight decline in 1959, and a 10.8% climb during 1958. At the same time, the liquidity of the banking system also increased. The proportion of total bank assets held in the form of government securities, day-to-day loans, cash, and other liquid assets rose fairly steadily from 32% in September 1959 to 37% in early 1962. This is below the peak ratios in recent years of 43% in 1958 and 49% in 1955.

Although complete data are not yet available, total assets of some major non-banking financial institutions (instalment finance companies, credit unions, trust companies, mortgage loan companies) probably rose by a substantial percentage during 1961. Assets in these institutions have been growing at an annual rate of 10% and more in recent years.

The public's holdings of financial assets rose in 1961 and a greater share of the increased holdings was in liquid forms. During 1961 currency and deposits in the hands of the public rose 8.7%.

TABLE 36

**NET CHANGE IN HOLDINGS OF CERTAIN FINANCIAL ASSETS  
BY THE GENERAL PUBLIC**

	1960		1961				
	4Q	Annual	Annual	1Q	2Q	3Q	4Q
	(Millions of dollars)						
<b>Money and Other Liquid Assets</b>							
Currency and Bank Deposits							
Corporate Notice Deposits.....	10	18	353	168	112	93	-20
Currency and Other Deposits.....	72	597	818	-22	199	345	296
<i>Sub-total</i> .....	82	615	1,171	146	311	438	276
Treasury Bills.....	61	-206	-144	-45	-46	-126	72
Other Gov't of Can. Issues 2 yrs. and under.....	100	-463	356	108	282	-1	-33
Canada Savings Bonds.....	592	382	486	-32	-89	-75	682
Finance Companies Short Paper.....	1	10	-67	53	-9	-84	-27
<b>Total</b> .....	836	338	1,802	230	449	152	970
<b>Less Liquid Assets</b>							
Government of Canada Bonds over 2 yrs	-139	642	-455	-56	-268	-5	-125
Provincial Bonds.....	17	499	903	241	138	349	176
Municipal Bonds.....	68	315	229	50	65	9	106
Corporate and Other Bonds.....	-19	343	285	13	166	86	20
Corporate Stocks.....	34	235	181	65	156	16	-56
<b>Total</b> .....	-39	2,034	1,143	313	257	455	121
<b>Grand Total</b> .....	797	2,372	2,945	543	706	607	1,091

NOTE: Figures may not add due to rounding.

TABLE 37

**NET NEW ISSUES OF SECURITIES (INCLUDING NET DISINVESTMENT OF  
GOVERNMENT ACCOUNTS)—CANADIAN CURRENCY**

	1960	1961				
		Annual	1Q	2Q	3Q	4Q
	(Millions of dollars)					
<b>Market Issues—</b>						
Government of Canada (Direct and Guaranteed):						
Net Disinvestment (+) in Government Accounts.....	57	165	88	-6	3	81
Treasury Bills.....	-92	-100	-50	-50		
Other Market Issues.....	323	558	141	151	310	-44
<i>Sub-total</i> .....	288	623	179	95	313	37
Provincial Governments.....	459	924	233	156	355	180
Municipal Governments.....	234	265	62	44	15	143
Corporations and "Other".....	311	205	17	113	38	38
<i>Sub-total</i> .....	1,005	1,394	312	313	408	361
Finance Co. Short Paper.....	10	-67	53	-9	-84	-27
Corporate Stocks.....	230	178	62	156	16	-56
<b>Total Market Issues</b> .....	1,533	2,127	605	553	653	316
<b>Non-Market Issues—</b>						
Canada Savings Bonds.....	382	486	-32	-89	-75	682
<b>Grand Total</b> .....	1,915	2,613	573	464	578	998

NOTE: Figures may not add due to rounding.

Among the more liquid assets, there was a sharp gain in corporate notice deposits at the banks. This appears to have been associated with the practice adopted by the banks at the beginning of 1961 of paying interest rates on these deposits higher than the comparable treasury bill yields. The public's holdings of Canada Savings Bonds were \$4,075 million on February 28, 1962, \$491 million higher than a year ago; by a wide margin the largest annual increase in the past decade. The general increase in the supply of liquid assets responded to an increase in the liquidity preference of the public.

#### FEDERAL DEBT MANAGEMENT

Policies concerning the management of the public debt by the federal government are influenced by a number of objectives and considerations including: the interest of the government in minimizing its costs of borrowing; the preferences of potential investors for particular types of securities; the desirability of maintaining levels of interest rates and liquidity appropriate to the general state of business activity. Another objective in debt management has been to narrow the spread in interest rates between Canadian and U.S. securities and lessen the incentive to obtain certain types of capital from abroad so as to lessen upward pressure on the exchange rate.

Following an announcement in the June Budget, the government has been reducing the so-called "overhang" of long-term Canada bonds in order to foster confidence in the capital market and to allow more room in the capital market for other long-term borrowers. The government has reduced this "overhang" in three ways. It has confined new bond issues to the "short end" of the market leaving the long-term financing market available to the provinces, municipalities and private business. It has converted the bond holdings of the Unemployment Insurance Fund totalling \$237 million into non-marketable bonds redeemable on 30 days' notice. The federal government also established a Purchase Fund to assist in the orderly management of the public debt.

During 1961 the federal government continued the practice of advance refunding with the Bank of Canada. This means of reducing the weight of nearby maturities contributed to orderly debt management.

From late 1959 through 1960 the average term to maturity of Government of Canada and C.N.R. market securities remained almost unchanged at about  $9\frac{1}{2}$  years. It was shortened to 9 years by the end of June, 1961 and just under  $8\frac{1}{2}$  years by the end of the year.

#### FEDERAL GOVERNMENT FINANCING

In calendar year 1961 the Government of Canada raised \$1.1 billion from net new security issues in the capital market and from net sales of securities held by the Unemployment Insurance Commission and other Government accounts. This total exceeded the \$0.7 billion raised from direct and guaranteed securities in 1960, approximated that raised in 1959 and was less than the \$1.4 billion obtained in 1958.

Of the \$1.1 billion in new funds in 1961, \$674 million came from issues of marketable bonds. Retirement of treasury bills held outside government accounts exceeded new issues by about \$50 million. Net new issues of Canada Savings Bonds in the fourth quarter and for the year as a whole (at \$486 million), were about \$100 million higher than in the previous year.

### PROVINCIAL AND MUNICIPAL FINANCING

Net new funds raised by provincial governments from security issues and chartered bank loans, which had been between \$500 million and \$600 million annually since 1956, exceeded \$800 million last year. However \$205 million represented issues of guaranteed bonds by one of the provinces to finance the expropriation of a privately-owned utility company.

Since 1956 net new municipal financing has ranged between \$270 million and \$350 million annually. In 1961 it fell to \$283 million as compared with \$305 million in 1960.

In the fourth quarter of 1961 net new provincial and municipal financing was at its heaviest for that quarter since 1957.

### NON-FARM BUSINESS FINANCING

The rapid upswing since early 1961 in industrial production, employment and corporate profits was accompanied in the third quarter by higher outlays on plant and equipment and in the fourth quarter by a significant rise in non-farm business inventories. As economic activity expanded, the funds obtained by non-farm business from the security markets, banks, retained corporate earnings, and other sources began to exceed those raised in the corresponding quarters of 1960, despite the drop in net direct foreign investment in Canada.

Corporate earnings retained after payment of taxes and dividends, which had declined in the preceding year and a half, turned above the levels of the previous year in the second quarter of 1961. Depreciation allowances moved slightly above year-earlier levels in the third quarter.

Corporate bond and stock issues, net of retirements, totalled \$460 million in 1961 compared to \$523 million in 1960. Bank loans to non-farm business moved above the levels of a year earlier in the second and third quarters of 1961 and for the year as a whole to \$303 million compared to \$137 million in 1960.

Net new corporate financing from securities issues and bank loans moved above the level of a year earlier in the second and third quarters. During 1961, as has been the case for several years now, the high level of common stock prices, in relation to earnings and dividends, continued to make financing through the sale of stock attractive to corporations. The net retirement of corporate stocks in the last half of 1961 reflects the distribution of \$86 million to the shareholders of a utility taken over by a provincial government and the exchange of \$104 million of preferred stock for bonds guaranteed by that province.

### HOUSING FINANCE

Total expenditures on new housing declined from \$1,825 million in 1958 to \$1,472 million in 1960 and were \$1,485 million in 1961.

In late 1960 the government amended the terms under which it would guarantee N.H.A. housing loans by financial institutions. Amongst other things the amendments provided for higher mortgage loans and lower down payments. The supply of mortgage funds in the hands of lending institutions appeared to be quite substantial at that time.

In 1961 the mortgage loans made under N.H.A.-guarantee by financial institutions rose to \$388 million as compared with \$177 million in 1960, the highest amount since 1958. This type of housing finance came almost completely from life insurance companies and trust and loan companies. The proportion of all housing funds supplied by N.H.A.-approved lending institutions rose from 12% in 1960 to 26% in 1961.

TABLE 38

## EXPENDITURES ON NEW HOUSING BY SOURCE OF FUNDS

	1958	1959	1960	1961
	(Millions of dollars)			
<b>Public funds</b>				
CMHC limited-dividend loan.....	30	45	27	27
Other CMHC loans.....	304	264	245	248
Other Public funds.....	50	40	36	25
<i>Sub-total</i> .....	<i>384</i>	<i>349</i>	<i>308</i>	<i>300</i>
<b>Institutional funds—NHA</b>				
Chartered banks.....	259	235	42	1
Life Insurance Companies.....	129	137	112	227
Loan and Trust Companies, etc.....	35	28	23	160
<i>Sub-total</i> .....	<i>423</i>	<i>400</i>	<i>177</i>	<i>388</i>
<b>Institutional funds—Conventional</b>				
Life Insurance Companies.....	159	228	201	171
Loan and Trust Companies, etc.....	102	97	93	79
<i>Sub-total</i> .....	<i>261</i>	<i>325</i>	<i>294</i>	<i>250</i>
<b>Equities of owners in addition to the above Mortgages and other funds<sup>(1)</sup></b>	<b>758</b>	<b>720</b>	<b>692</b>	<b>547</b>
<b>Total<sup>(2)</sup></b> .....	<b>1,825</b>	<b>1,794</b>	<b>1,472</b>	<b>1,485</b>

NOTE: Figures may not add due to rounding.

(1) These include equities of owners or builders on dwellings being financed with mortgages from public funds or from institutional lenders. Also includes equities on dwellings financed with mortgage loans from non-institutional lenders or by loans other than mortgages, or equities on dwellings fully financed by their owners.

(2) Differs slightly from public and private expenditures on housing in Table 13, which includes major alterations to buildings but not the cost of land. Table 38 includes the cost of land but not major alterations to buildings.

Conventional mortgage loans by lending institutions declined from \$294 million in 1960 to \$250 million in 1961. Financing in the form of equity and other non-mortgage payments by home owners fell from \$692 million in 1960 to \$547 million in 1961. This decline reflected the 8% decline in housing completions and the lower down payments permitted under the National Housing Act.

New housing financed directly by C.M.H.C. and other public funds fell from \$384 million in 1958 to \$308 million in 1960 and to \$300 million in 1961, and from a 21% share of all new housing finance in 1958 to one of 20% in 1961. In June, 1961 Central Mortgage and Housing Corporation inaugurated a series of auctions of insured mortgages from its portfolio to promote a secondary market in mortgages. Sale from three auctions in 1961 totalled \$41 million.

In line with the lower level of long-term interest rates the government reduced the interest rate on N.H.A. mortgages from 6½% to 6¼% in November, 1961.

## CONSUMER CREDIT

The rate of growth in short-term consumer debt slowed somewhat further last year. Credit extended to consumers from finance companies, retail stores, and unsecured personal loans from banks, increased by about 6% or \$185 million compared to \$270 million or 9% in 1960 and \$341 million or 14% in 1959.

TABLE 39

## NET CHANGE IN CONSUMER CREDIT AND OTHER LOANS TO INDIVIDUALS

	1958	1959	1960	1961
<b>CONSUMER CREDIT</b>	<b>(Millions of dollars)</b>			
Chartered bank unsecured personal loans <sup>(1)</sup> .....	133	166	138	173
Instalment finance companies.....	-12	38	22	-68
Small loan companies.....	39	83	65	34
Department stores.....	20	32	50	33
Other retail dealers.....	15	22	-5	13
<b>Total.....</b>	<b>195</b>	<b>341</b>	<b>270</b>	<b>185</b>
<b>OTHER LOANS</b>				
Chartered bank secured personal loans.....	30	-5	4	50
Chartered bank government-guaranteed home improvement loans.....	10	2	-4	10
Life insurance Co. policy loans.....	10	18	21	16
Quebec savings banks.....	-1	1	1	3
Credit unions.....	62	77	28	n.a.

<sup>(1)</sup> Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans. n.a., not available.

The bulk of the increase in consumer credit continued to be in unsecured personal loans from banks which rose \$173 million in 1961 compared to \$138 million in 1960. Consumer credit extended by retail stores rose \$46 million in 1961 compared to \$45 million in 1960 and that provided by instalment finance and small loan companies fell \$34 million in 1961 compared to a rise of \$87 million in 1960.

PART II

REVIEW OF GOVERNMENT ACCOUNTS 1961-1962

TABLE OF CONTENTS

	PAGE
1. Introduction.....	87
2. Highlights of governmental financial operations during 1961-62.....	87
3. Budgetary accounts.....	90
A. Revenues.....	91
B. Expenditures.....	97
4. Summary of assets and liabilities as at March 31, 1962.....	120
A. Changes in principal liability classifications during 1961-62	120
B. Changes in principal asset classifications during 1961-62..	127
C. Increase in net debt.....	135
5. The cash position.....	136
6. The public debt.....	139
7. Supplementary detailed tables.....	145

## PART II

### REVIEW OF GOVERNMENT ACCOUNTS

1961-62

#### 1. INTRODUCTION

The figures presented in this Part for the fiscal year ended March 31, 1962 are preliminary and subject to revision. The fiscal year of the government ended on March 31 but the books must remain open for several weeks after that date 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 1961-62. The figures used in this White Paper are based on eleven months actual and one month estimated. The final figures when they become available next July or August will vary to some extent from those given in the following pages.

#### 2. HIGHLIGHTS OF GOVERNMENTAL FINANCIAL OPERATIONS DURING 1961-62

The following table summarizes the budgetary and non-budgetary transactions for the fiscal year and indicates how the budgetary and non-budgetary transactions, including changes in unmatured debt, affected the government's cash balances. More detailed explanations of these transactions are given in subsequent sections of this Part.

TABLE 1  
(in millions of dollars)

SUMMARY OF BUDGETARY AND NON-BUDGETARY TRANSACTIONS AND CHANGES IN CASH POSITION	Fiscal year ended March 31	
	1962 (estimated)	1961
<b>Budgetary transactions—</b>		
Revenues—		
Tax.....	5,157	5,016
Non-tax.....	615	602
	<u>5,772</u>	<u>5,618</u>
Expenditures—		
Defence.....	-1,647	-1,538
Non-defence.....	-4,916	-4,420
	<u>-6,563</u>	<u>-5,958</u>
Deficit (—).....	<u>-791</u>	<u>-340</u>
<b>Non-budgetary transactions—</b>		
Receipts and credits (excluding unmatured debt transactions)—		
Repayment of temporary loans to old age security fund.....	17	11
Repayments of other loans, investments and working capital advances.....	367	201
Net government annuities account receipts.....	37	42
Net insurance and pension accounts receipts.....	267	353
Other non-budgetary receipts.....	116	92
	<u>804</u>	<u>699</u>
Disbursements and charges (excluding unmatured debt transactions)—		
Other loans, investments and working capital advances.....	-478	-484
Other non-budgetary disbursements.....	-14	-169
	<u>-492</u>	<u>-653</u>
Net amount received from non-budgetary transactions.....	<u>312</u>	<u>46</u>
<b>Overall cash requirements (—) to be financed by increase in debt or decrease in cash balances.....</b>	<b>-479</b>	<b>-294</b>
<b>Net increase in unmatured debt outstanding in the hands of the public.....</b>	<b>880</b>	<b>223</b>
<b>Net increase or decrease (—) in Receiver General bank balances....</b>	<b>401</b>	<b>-71</b>

## Budgetary transactions

The revenues and expenditures as forecast in the budget speech of June 20, 1961 and the actual figures as now estimated are shown in the following table:

TABLE 2  
(in millions of dollars)

BUDGETARY TRANSACTIONS FOR FISCAL YEAR 1961-62	Budget forecast June 20, 1961	Actual (estimated)	Increase or decrease (—) compared with forecast of June 20, 1961	
			Amount	Per cent
Revenues.....	5,765.0	5,772.0	7.0	0.12
Expenditures.....	—6,415.0	—6,563.4	148.4	2.31
Surplus or deficit (—).....	—650.0	—791.4	141.4	

### Revenues

The revenues of the government for the fiscal year ended March 31, 1962 amounted to \$5,772 million. This is \$7 million or approximately one-tenth of one per cent more than the total of \$5,765 million forecast in the budget speech of June 20, 1961, and approximately \$154 million or about 3 per cent more than the total of \$5,618 million collected in the fiscal year 1960-61.

Of the increase of \$154 million over 1960-61 revenues, \$141 million was due to tax revenues and \$13 million to non-tax revenues. Personal income tax receipts accounted for most of the increase in tax revenues and were \$89 million more than in the preceding year, reflecting the higher level of incomes during the year. Corporation income tax collections were \$72 million less than the preceding year due to lower corporate profits in 1960.

The increase of \$13 million in non-tax revenues was due to increases of \$21 million in return on investments, \$6 million in net post office revenue and a reduction of \$14 million in other non-tax revenues.

### Expenditures

Government expenditures at \$6,563 million were \$148 million or approximately 2.3 per cent more than forecast on June 20, 1961, and \$605 million or 10 per cent more than total expenditures in 1960-61. Almost all of the increase of \$148 million has been due to events that were not foreseen last June. An increase of approximately \$40 million in defence expenditures has resulted from certain changes in policy made last August, and the abnormally low crop yields in the prairie provinces have produced an unexpected increase of about \$40 million in statutory payments under the Prairie Farm Assistance Act and also resulted in the recent decision to make further payments of \$42 million to western grain producers.

Expenditures for defence again constituted the largest item and amounted to \$1,647 million or 25 per cent of total expenditures, compared with \$1,538 million or 26 per cent in 1960-61.

Civil or non-defence expenditures were \$4,916 million, an increase of \$496 million over the corresponding total for the previous fiscal year. The main items were increases of \$150 million in expenditures of the Department of National Health and Welfare (including increases of \$95 million in the government's contribution under the Hospital Insurance and Diagnostic Services Act, \$37 million in unemployment assistance and \$15 million in family allowances), \$80

million in expenditures of the Department of Transport (including \$50 million in interim payments related to the recommendations of the Royal Commission on Railway Problems), \$67 million in the expenditures of the Department of Labour (including increases of \$46 million in payments to provinces authorized by the Technical and Vocational Training Assistance Act and \$15 million under the municipal winter works incentive program), \$52 million in expenditures of the Department of Finance (including \$42 million for higher public debt charges) and \$42 million in expenditures of the Department of Veterans Affairs (including increases of \$27 million for pensions for disability or death and \$16 million in war veterans allowances and other benefits).

More detailed explanations of budgetary revenues by source and expenditures by classification and department are given in Section 3 of this Part.

### *Deficit*

On the basis of these figures the deficit for the fiscal year 1961-62 was \$791 million compared with the deficit of \$650 million as forecast on June 20, 1961, and the deficit of \$340 million in 1960-61.

### **Non-budgetary transactions**

A net amount of \$312 million was available during the fiscal year from non-budgetary transactions (excluding unmatured debt transactions). Non-budgetary disbursements and charges totalled \$492 million and receipts and credits, \$804 million. Sums totalling \$478 million were required for loans, investments and working capital advances, and \$14 million for other non-budgetary purposes. On the other hand, of the total of \$804 million available from various non-budgetary receipts and credits, \$384 million was available from the repayment of loans, investments and working capital advances, \$304 million from the net receipts from various government annuity, insurance and pension accounts, and \$116 million from other non-budgetary sources.

### **Old age security fund**

During 1961-62 pension payments from the old age security fund were \$625 million compared with \$592 million in the previous fiscal year. Accounting for approximately \$20 million of the increase was the increased rate of payment (from \$55 to \$65 per month) effective February 1, 1962. Tax receipts credited to the fund were \$649 million for the year. The excess of \$24 million in receipts over payments was applied to repay the temporary loans made by the Minister of Finance to the fund. These loans amounted to \$17 million at March 31, 1961. The fund reflected a credit balance of \$7 million as at March 31, 1962.

The transactions in the account during 1961-62 compared with those for the previous fiscal year are as follows:

	Fiscal year ended March 31	
	1962 (estimated)	1961
	(in millions of dollars)	
Pension payments.....	625	592
Tax receipts.....	649	603
Excess of receipts over payments applied in part to the repayment of temporary loans from the Minister of Finance	24	11
Temporary loans outstanding at fiscal year-end.....		17
Balance in fund at fiscal year-end.....	7	

## Debt transactions

During 1961-62 the government issued securities amounting to \$3,451 million (excluding the refunding of treasury bills which mature weekly) and redeemed or converted issues in the amount of \$2,594 million, resulting in an increase of \$857 million in unmatured debt. However, as other liabilities increased by \$407 million the government's gross public debt increased by \$1,264 million to \$22,867 million at March 31, 1962. During the same period the government's net assets increased by \$473 million to \$9,638 million. As a result, the government's net debt was \$13,229 million at March 31, 1962, the increase of \$791 million being equivalent to the budgetary deficit for the fiscal year.

## Cash position

Receiver General balances were \$401 million more at March 31, 1962, than they were at March 31, 1961. This is the amount by which the increase of \$880 million in unmatured debt outstanding in the hands of the public, plus the net amount of \$312 million available from non-budgetary transactions, exceeded the budgetary deficit of \$791 million.

## 3. THE BUDGETARY ACCOUNTS

Total revenues were \$5,772 million for 1961-62, \$154 million more than the total for the previous year. Total expenditures were \$6,563 million, an increase of \$605 million over the total for 1960-61. The deficit for the fiscal year 1961-62 was \$791 million compared with \$340 million for the previous year.

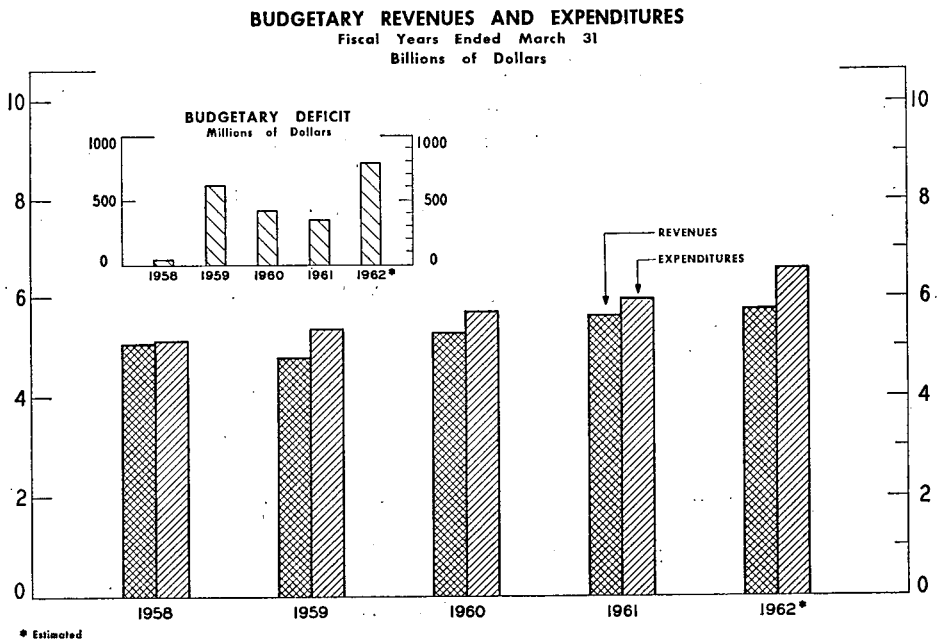


TABLE 3  
BUDGETARY REVENUES, EXPENDITURES AND DEFICIT  
(in millions of dollars)

Fiscal year ended March 31	Budgetary revenues	Budgetary expenditures	Deficit (-)
1958.....	5,048.8	5,087.4	-38.6
1959.....	4,754.7	5,364.0	-609.3
1960.....	5,289.8	5,702.9	-413.1
1961.....	5,617.7	5,958.1	-340.4
1962 (estimated).....	5,772.0	6,563.4	-791.4

### A. REVENUES

Budgetary revenues totalled \$5,772 million in 1961-62 compared with \$5,618 million in 1960-61, an increase of \$154 million or 3 per cent. Tax revenues of \$5,157 million accounted for 89 per cent of the total for the current fiscal year and non-tax revenues of \$615 million accounted for 11 per cent.

**BUDGETARY REVENUES BY SOURCE**  
Fiscal Years Ended March 31  
Billions of Dollars

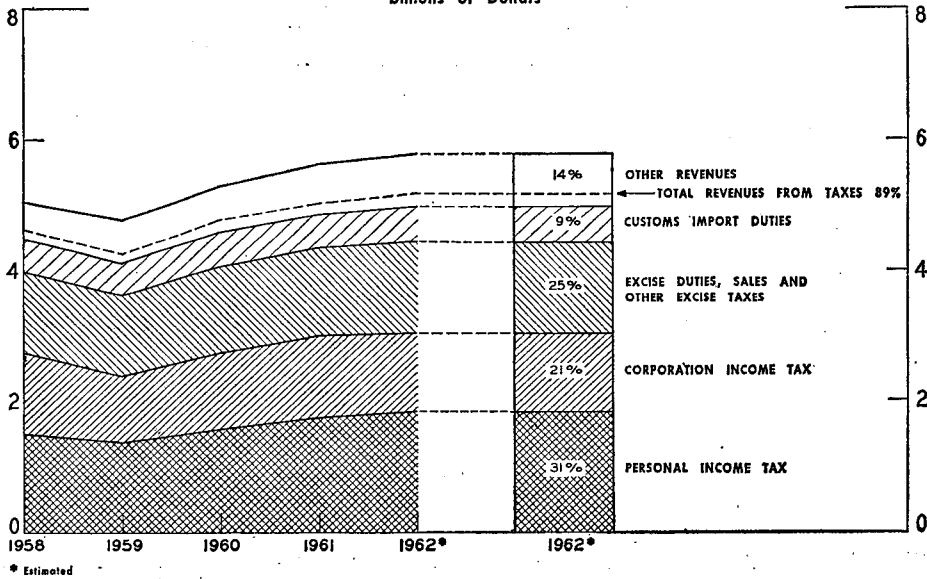


TABLE 4  
BUDGETARY REVENUES BY MAJOR SOURCES  
(in millions of dollars)

SOURCE	Fiscal year ended March 31				Increase or decrease (—)	
	1962 (estimated)		1961		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
<b>Tax revenues—</b>						
Income tax—						
Personal <sup>(1)</sup> .....	1,800.0	31.2	1,711.2	30.5	88.8	5.2
Corporation <sup>(1)</sup> .....	1,205.0	20.8	1,276.6	22.7	—71.6	—5.6
On dividends, interest, etc., going abroad.....	115.0	2.0	88.2	1.6	26.8	30.4
Excise taxes—						
Sales <sup>(1)</sup> .....	774.0	13.4	720.6	12.8	53.4	7.4
Other.....	276.0	4.8	290.7	5.2	—14.7	—5.1
Customs import duties.....	539.0	9.3	498.7	8.9	40.3	8.1
Excise duties.....	363.0	6.3	344.9	6.1	18.1	5.2
Estate tax <sup>(2)</sup> .....	85.0	1.5	84.9	1.5	0.1	0.1
Other taxes.....	(3)		(3)		(3)	
	5,157.0	89.3	5,015.8	89.3	141.2	2.8
<b>Non-tax revenues—</b>						
Return on investments.....	305.0	5.3	283.8	5.0	21.2	7.5
Post office revenue.....	180.0	3.1	173.6	3.1	6.4	3.7
Other non-tax revenues.....	130.0	2.3	144.5	2.6	—14.5	—10.7
	615.0	10.7	601.9	10.7	13.1	2.2
<b>Total budgetary revenues...</b>	<b>5,772.0</b>	<b>100.0</b>	<b>5,617.7</b>	<b>100.0</b>	<b>154.3</b>	<b>2.7</b>

	1961-62 (estimated)	1960-61
(1) Excluding tax credited to the old age security fund—		
Personal income tax.....	259.0	229.4
Corporation income tax.....	100.0	103.5
Sales tax.....	290.0	270.2
	649.0	603.1

(2) Includes duties levied under the Dominion Succession Duty Act.

(3) Less than \$50,000.

### (1) TAX REVENUES

#### Tax on personal incomes

In 1961-62 the largest source of government revenue was again the personal income tax. The yield (excluding the old age security tax) was \$1,800 million or 31 per cent of all budgetary revenue. The increase of \$89 million or 5 per cent over 1960-61 collections was due principally to the higher level of personal incomes during the fiscal year.

The tax on personal incomes levied under the Old Age Security Act in the amount of \$259 million was credited to the old age security fund.

#### Corporation income tax

The corporation income tax (excluding the old age security tax) was \$1,205 million or 21 per cent of government revenue for 1961-62 and was the second largest source of revenue. Collections under this category were approximately \$72 million or 6 per cent less than the comparable total of \$1,277 million for 1960-61. This decrease was due mainly to lower corporate profits for the calendar year 1960 which in turn were reflected by lower corporation income tax collections during 1961-62.

In addition the tax on incomes of corporations levied under the Old Age Security Act in the amount of \$100 million was credited to the old age security fund.

## Taxes on dividends, interest, etc., going abroad

Revenue included in this category is derived from taxes withheld on payments of dividends, interest, rents, royalties, alimony and income from estates and trusts made to non-residents. Collections in 1961-62 were \$115 million, an increase of \$27 million over the comparable total for 1960-61. This reflects the removal of exemptions and the increased rate on certain interest and dividend payments, to non-residents, introduced in December 1960.

## Excise taxes

Included under this heading are the revenues from the general sales tax and other special excise taxes.

From a revenue standpoint the most important tax levied under the Excise Tax Act is the sales tax. Receipts from this tax (excluding the old age security tax) were \$774 million, \$53 million or 7 per cent higher than in the previous fiscal year.

The tax on sales, levied under the Old Age Security Act, in the amount of \$290 million was credited to the old age security fund.

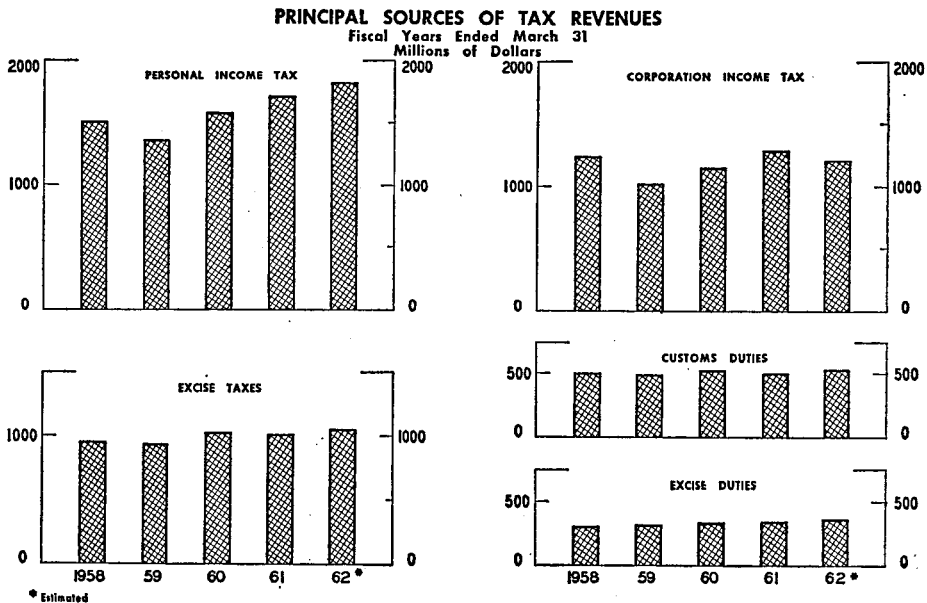
Excise taxes levied under the Excise Tax Act, other than the general sales tax, were \$276 million, a decrease of \$15 million from the 1960-61 total of \$291 million. Receipts from the excise tax levied on the sale of automobiles were \$34 million less than corresponding receipts for 1960-61 due to the repeal of such tax effective June 21, 1961.

## Customs import duties

Customs import duties totalled \$539 million for 1961-62, an increase of \$40 million over the comparable figure for 1960-61.

## Excise duties

Excise duties are levied on alcoholic beverages and tobacco products. (Additional taxes on tobacco products are levied under the Excise Tax Act referred to above.) Gross receipts in 1961-62 from taxes on alcoholic beverages were \$209 million and from taxes on tobacco products were \$158 million, compared with \$200 million and \$150 million respectively in 1960-61.



## Estate tax

Revenue from this source amounted to \$85 million in 1961-62, approximately the same as the total for the previous fiscal year.

## Other taxes

Revenue under this heading was less than \$50 thousand in 1961-62, approximately the same as for 1960-61.

### (2) NON-TAX REVENUES

Non-tax revenues totalled \$615 million in 1961-62, an increase of \$13 million or 2 per cent over the 1960-61 total of \$602 million.

TABLE 5

(in millions of dollars)

NON-TAX REVENUES	Fiscal year ended March 31		Increase or decrease (-)	
	1962 (estimated)	1961	Amount	Per cent
Return on investments.....	305.0	283.8	21.2	7.5
Post office revenue.....	180.0	173.6	6.4	3.7
Refunds of previous years' expenditure.....	26.8	40.5	-13.7	-33.8
Services and service fees.....	42.4	40.4	2.0	5.0
Proceeds from sales.....	23.4	24.0	-0.6	-2.5
Privileges, licences and permits.....	23.4	22.4	1.0	4.5
Bullion and coinage.....	7.0	8.5	-1.5	-17.6
Premium, discount and exchange.....	0.5	0.9	-0.4	-44.4
Other.....	6.5	7.8	-1.3	-16.7
	615.0	601.9	13.1	2.2

## Return on investments

Receipts in this category amounted to \$305 million for the fiscal year 1961-62 compared with the 1960-61 total of \$284 million.

Payments from Crown corporations amounted to \$206 million in 1961-62, an increase of \$12 million over the previous year's total. The main increases of \$18 million in Bank of Canada profits and \$12 million in receipts from Central Mortgage and Housing Corporation were offset partly by a decrease of \$4 million in returns from the Canadian National Railways and by the fact that there was no comparable receipt in the current fiscal year to the \$13 million received from The St. Lawrence Seaway Authority in 1960-61.

It should also be noted that in accordance with Order-in-Council P.C. 1961-1863 dated December 29, 1961, interest of \$14 million payable on December 31, 1961 by The St. Lawrence Seaway Authority, as well as interest payable on December 31, 1962 has been deferred until December 31, 1963. On December 31, 1963 the total amount of interest so deferred together with the interest payable on December 31, 1963, will be computed as a single sum and is to be repaid in equal annual instalments calculated by amortizing the said sum, including interest at rates determined by the Minister of Finance, over a period of forty-six years.

Other loans and investments yielded \$99 million compared with \$89 million in 1960-61. Receipts of \$8 million from the purchase fund which was established during 1961-62 to assist in the management of the public debt in accordance with the announcement by the Minister of Finance in the budget speech of

June 20, 1961, together with increases of \$3 million in receipts from the securities investment account, \$3 million in interest received from the Unemployment Insurance Commission and \$1 million in interest on loans to national governments were offset partly by decreases of \$3 million in interest on Receiver General deposits with the chartered banks and \$2 million in the yield from the sinking fund held for retirement of unmatured debt.

TABLE 6  
(in millions of dollars)

RETURN ON INVESTMENTS	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Loans to, and investments in, Crown corporations—			
Bank of Canada—profits.....	107.7	90.2	17.5
Canadian National Railways.....	1.4	5.0	—3.6
Canadian National (West Indies) Steamships Limited..	1.2	2.9	—1.7
Canadian Overseas Telecommunication Corporation....	1.3	1.2	0.1
Central Mortgage and Housing Corporation.....	71.2	59.6	11.6
Eldorado Mining and Refining Limited.....	5.0	4.9	0.1
Farm Credit Corporation.....	6.0	4.1	1.9
National Capital Commission.....	0.7	1.1	—0.4
National Harbours Board.....	3.9	3.9	
Northern Canada Power Commission.....	0.5	1.1	—0.6
Northern Ontario Pipe Line Crown Corporation.....	4.3	4.3	
Polymer Corporation Limited.....	3.0	3.0	
The St. Lawrence Seaway Authority.....		13.1	—13.1
Miscellaneous.....	0.2	0.2	
	206.4	194.6	11.8
Other loans and investments—			
United Kingdom.....	21.8	22.2	—0.4
Other national governments.....	9.0	8.1	0.9
Provincial governments.....	1.6	1.9	—0.3
Soldier and general land settlement loans and veterans land act advances.....	4.9	5.3	—0.4
Exchange fund account.....	32.6	32.5	0.1
Purchase fund account.....	7.6		7.6
Securities investment account.....	8.2	5.1	3.1
Sinking fund held for retirement of unmatured debt....	1.0	2.7	—1.7
Interest-bearing deposits with chartered banks.....	3.6	6.6	—3.0
Unemployment Insurance Commission.....	2.9	0.4	2.5
Miscellaneous.....	5.4	4.4	1.0
	98.6	89.2	9.4
	305.0	283.8	21.2

### Post office revenue

In 1961–62 gross post office receipts totalled \$210 million but authorized disbursements from revenue 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., in the amount of \$30 million, brought net revenue to \$180 million. In 1960–61 gross receipts were \$202 million, authorized disbursements were \$28 million and net revenue was \$174 million.

As costs of operating the Post Office Department during 1961–62 (excluding the \$30 million charged to revenue) were \$189 million, net expenditure exceeded net revenue by \$9 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.

**TABLE 7**  
(in millions of dollars)

POST OFFICE REVENUE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Postage.....	196.9	189.6	7.3
Commission on money orders.....	7.8	7.7	0.1
Rental of post office boxes.....	2.0	1.9	0.1
Transit credits on foreign correspondence.....	1.4	1.3	0.1
Other.....	1.8	1.4	0.4
	<i>209.9</i>	<i>201.9</i>	<i>8.0</i>
<i>Less—</i>			
Salaries and allowances at semi-staff and revenue offices.....	—25.6	—24.0	—1.6
Transit charges on foreign correspondence.....	—1.7	—1.2	—0.5
Other.....	—2.6	—3.1	0.5
	<i>—29.9</i>	<i>—28.3</i>	<i>—1.6</i>
	180.0	173.6	6.4

### Refunds of previous years' expenditures

Refunds in 1961–62 of expenditures made in prior years totalled \$27 million, a decrease of \$14 million from the comparable total for 1960–61. Included in this category is an amount of \$12 million received by the Department of National Defence, consisting of refunds of \$3 million from the United States Government, \$1 million in respect of advances to Canadian Vickers Limited, \$1 million from the defence production revolving fund and \$7 million from miscellaneous sources. In addition, the unexpended balance of parliamentary grants as at March 31, 1961, amounting to \$3 million was refunded by the Canadian Broadcasting Corporation.

### Services and service fees

Collections in 1961–62 for services and service fees amounted to \$42 million, an increase of \$2 million over the total for 1960–61.

Revenue in this category includes: \$12 million received by the Royal Canadian Mounted Police, mainly for police services to certain provinces and municipalities; \$14 million received by the Department of Transport of which \$7 million was in respect of aircraft landing fees and \$3 million from marine steamers' earnings; \$7 million by the Department of Agriculture including \$5 million for services in connection with the inspection, weighing, storage and elevation of grain, and \$1 million in respect of race track supervision; and \$4 million by the Department of National Health and Welfare due mainly to reimbursement by the provinces for treatment of Indians in federal government hospitals.

### Proceeds from sales

Receipts from this source totalled \$23 million compared with \$24 million in 1960–61.

Included in this category are: \$9 million by the Department of Defence Production of which \$8 million represents amounts from the sale of surplus Crown assets (after deducting certain agency fees and transfers) and \$1 million under agreements of sale of Crown assets; \$5 million by the Department of Public Works representing the proceeds of the sales of properties by Central Mortgage and Housing Corporation; and \$4 million by the Department of National Defence of which \$2 million is in respect of the sales of stores to the United Nations.

### Privileges, licences and permits

Revenue of \$23 million for the fiscal year 1961-62 on account of privileges, licences and permits was \$1 million more than was received in 1960-61.

Included in this revenue are amounts of \$9 million received from the Department of Transport representing rentals, concessions and radio licence fees and \$4 million from the Department of Northern Affairs and National Resources including \$1 million in respect of bonuses, exploratory permits, fees, leases and royalties from oil and gas.

### Bullion and coinage

Revenues in this category were derived from the operations of the Royal Canadian Mint and consist mainly of \$7 million from a net gain on coinage. Small amounts were also obtained from gold refining charges, handling charges and gain on gold refining.

### Premium, discount and exchange

In the current fiscal year premium, discount and exchange transactions resulted in a net credit of \$1 million, approximately the same as for 1960-61.

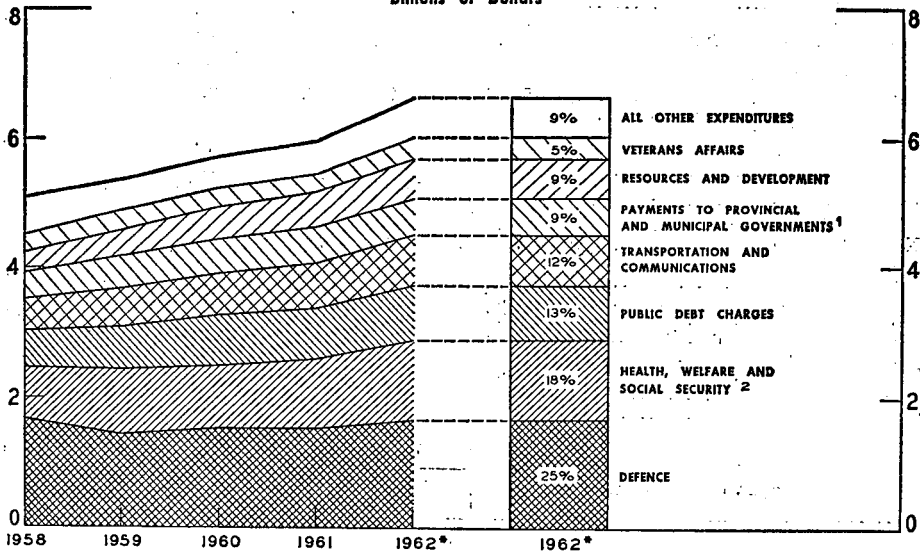
### Other non-tax revenues

Revenues, other than tax revenues, not dealt with in preceding sections totalled \$7 million for 1961-62, a decrease of \$1 million from the 1960-61 total.

## B. EXPENDITURES

Budgetary expenditures for 1961-62 amounted to \$6,563 million, an increase of \$605 million over the 1960-61 total of \$5,958 million.

**BUDGETARY EXPENDITURES, CLASSIFIED BY FUNCTION**  
Fiscal Years Ended March 31  
Billions of Dollars



1. Does not include those payments made to provincial and municipal governments for specified purposes.

2. Does not include pension payments out of the old age security fund not charged to budgetary expenditures in the year in which they were paid.

\* Estimated

TABLE 8

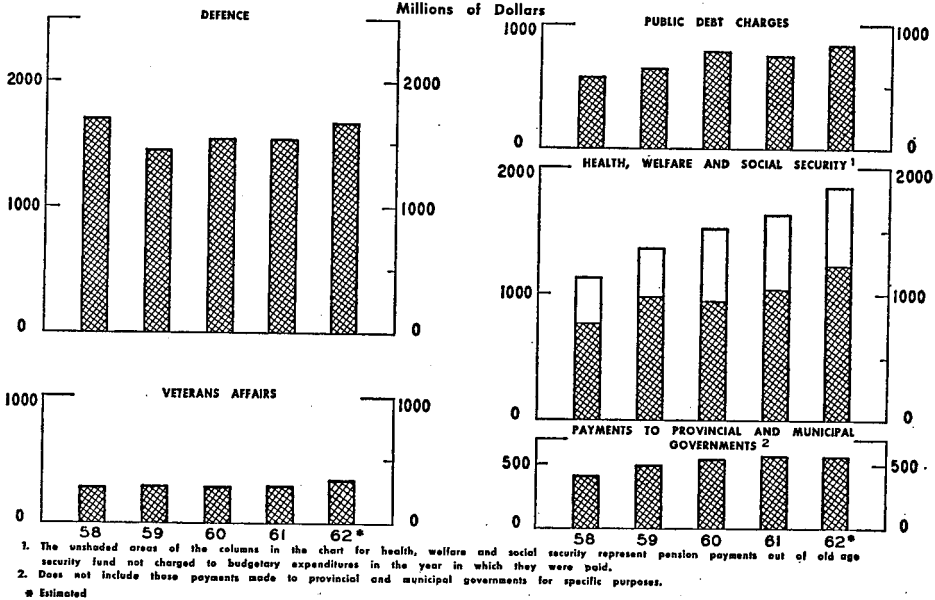
STATEMENT OF BUDGETARY EXPENDITURES BY DEPARTMENTS AND MAJOR CLASSIFICATIONS  
(in millions of dollars)

	Fiscal year ended March 31				Increase or decrease (—)	
	1962 (estimated)		1961		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
<b>Defence expenditures—</b>						
National Defence.....	1,622.0	24.7	1,517.5	25.5	104.5	6.9
Defence Production.....	24.7	0.4	20.4	0.3	4.3	21.1
	1,646.7	25.1	1,537.9	25.8	108.8	7.1
<b>Non-defence expenditures—</b>						
Agriculture.....	289.3	4.4	264.9	4.4	24.4	9.2
Atomic Energy.....	35.3	0.5	38.9	0.7	—3.6	—9.3
Canadian Broadcasting Corporation...	77.0	1.2	66.8	1.1	10.2	15.3
Citizenship and Immigration.....	66.1	1.0	61.1	1.0	5.0	8.2
External Affairs.....	95.0	1.5	103.0	1.7	—8.0	—7.8
<b>Finance—</b>						
Public debt charges.....	839.7	12.8	797.6	13.4	42.1	5.3
Tax-sharing, subsidy and other payments to provinces.....	540.6	8.2	537.8	9.0	2.8	0.5
Government's contribution to the public service superannuation account.....	46.9	0.7	41.4	0.7	5.5	13.3
Other.....	85.2	1.3	83.2	1.4	2.0	2.4
	1,512.4	23.0	1,460.0	24.5	52.4	3.6
Fisheries.....	24.3	0.4	19.2	0.3	5.1	26.6
Forestry.....	15.1	0.2	10.1	0.2	5.0	49.5
<b>Justice.....</b>	9.7	0.1	8.6	0.2	1.1	12.8
Office of the Commissioner of Penitentiaries.....	25.0	0.4	19.1	0.3	5.9	30.9
	34.7	0.5	27.7	0.5	7.0	25.3
<b>Labour.....</b>	85.4	1.3	24.1	0.4	61.3	254.4
Unemployment Insurance Act ad- ministration and government's contribution.....	102.7	1.6	97.2	1.6	5.5	5.7
	188.1	2.9	121.3	2.0	66.8	56.1
<b>Mines and Technical Surveys.....</b>	69.3	1.1	59.1	1.0	10.2	17.3
<b>National Health and Welfare—</b>						
Family allowances.....	520.9	7.9	506.2	8.5	14.7	2.9
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	284.0	4.3	189.4	3.2	94.6	49.9
Other.....	232.5	3.6	191.6	3.2	40.9	21.3
	1,037.4	15.8	887.2	14.9	150.2	16.9
<b>National Research Council, including the Medical Research Council.....</b>	38.7	0.6	34.4	0.6	4.3	12.5
<b>National Revenue.....</b>	75.9	1.2	73.3	1.2	2.6	3.5
<b>Northern Affairs and National Resources.....</b>	86.5	1.3	74.3	1.2	12.2	16.4
Post Office.....	188.6	2.9	178.4	3.0	10.2	5.7
Public Works.....	193.4	2.9	200.9	3.4	—7.5	—3.7
Royal Canadian Mounted Police.....	61.1	0.9	56.0	0.9	5.1	9.1
Trade and Commerce.....	40.0	0.6	21.8	0.4	18.2	83.5
Transport.....	416.4	6.3	336.4	5.7	80.0	23.8
Veterans Affairs.....	334.1	5.1	292.3	4.9	41.8	14.3
Other Departments.....	38.0	0.6	33.1	0.6	4.9	14.8
	4,916.7	74.9	4,420.2	74.2	496.5	11.2
<b>Total budgetary expenditures.....</b>	6,563.4	100.0	5,958.1	100.0	605.3	10.2

# **PRINCIPAL CLASSES OF BUDGETARY EXPENDITURES**

Fiscal Years Ended March 31

Millions of Dollars



## **(1) DEFENCE EXPENDITURES**

Defence expenditures which consist of expenditures of the Departments of National Defence and Defence Production were again the largest category of government budgetary expenditures. The total of \$1,647 million for 1961-62 was approximately 25 per cent of the aggregate budgetary expenditures of the government for the year and was \$109 million more than the total of \$1,538 million for 1960-61.

TABLE 9  
(in millions of dollars)

DEFENCE EXPENDITURES	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Department of National Defence—			
Naval services.....	262.9	245.5	17.4
Army services.....	447.8	402.2	45.6
Air services.....	778.6	751.6	27.0
	1,489.3	1,399.3	90.0
Administration and general.....	23.6	21.2	2.4
Defence research and development.....	42.9	41.9	1.0
Government's contribution to the Canadian forces super-annuation account.....	56.0	40.5	15.5
Mutual aid to NATO countries including contributions towards military costs of NATO.....	10.2	14.6	-4.4
	1,622.0	1,517.5	104.5
Department of Defence Production—			
Administration and general.....	17.9	15.7	2.2
Production capacity and capital assistance.....	2.3	1.8	0.5
Technological capability.....	4.5	2.9	1.6
	24.7	20.4	4.3
	1,646.	1,537.9	108.8

## National Defence

Expenditures of the Department of National Defence were \$1,622 million in 1961-62. In 1960-61 expenditures were \$1,518 million.

Expenditures for naval, army and air services amounted to \$1,489 million, \$90 million more than the 1960-61 total. Of this increase, \$17 million was attributable to naval services, \$46 million to army services and \$27 million to air services.

Direct charges to mutual aid amounted to \$10 million during 1961-62 compared with \$15 million in 1960-61 and consisted of procurement of equipment for mutual aid and Canada's share of NATO military budgets and infra-structure costs.

Expenditures for defence research and development were \$43 million compared with \$42 million in 1960-61.

The government's contribution to the Canadian forces superannuation account of an amount equal to  $1\frac{2}{3}$  times the contributions by permanent services personnel was \$56 million, an increase of \$16 million over the total for the previous year. The increase resulted from a provision of the new act which became effective March 1, 1960 and which authorized the crediting to the superannuation account quarterly, in each fiscal year, such amount, in relation to the total amount paid into the said account during the preceding quarter by way of contributions in respect of current services and past services by contributors, as is specified by the Minister of Finance. The contribution for 1960-61 therefore, was based on a nine-month period from April 1, 1960 to December 31, 1960, inclusive, compared with the contribution for 1961-62 which was based on a twelve-month period from January 1, 1961 to December 31, 1961, inclusive.

Administration and general costs were \$24 million in 1961-62, an increase of \$2 million over the 1960-61 total.

## Defence Production

The total expenditure of \$25 million in 1961-62 for the Department of Defence Production was \$4 million more than in 1960-61.

Outlays of \$5 million in connection with the government program instituted in 1959-60 of supporting selected defence development programs in order to sustain technological capability in Canadian industry were \$2 million more than in 1960-61. Expenditures of \$2 million in respect of the procurement of capital assistance by Canadian Arsenals Limited and the programs under which assistance for the establishment of production capacity and capital assistance is given to private contractors, Crown plants operated on a management-fee basis and Crown corporations undertaking contracts essential to the defence program were approximately \$1 million more than corresponding expenditures in the previous fiscal year.

Administration and general costs amounted to \$18 million in 1961-62 compared with \$16 million in 1960-61.

## Cash outlays for defence

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 program on the economy of Canada.

Section 11 of the National Defence Act provides that materiel, not immediately required for the use of the Canadian defence forces or the Defence Research Board, may be sold to such countries and upon such terms as the Governor in

Council may determine. The proceeds of such sales in 1961-62 amounting to \$3 million were credited to a special account to be used for the procurement of materiel. Cash outlays of \$6 million from this account during 1961-62 resulted in a balance of \$2 million at March 31, 1962.

The Department of Defence Production also 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. As a result of the transactions during 1961-62 purchases exceeded proceeds from sales by \$18 million and the assets of the fund increased by an equivalent amount, leaving a balance of \$33 million in the account at March 31, 1962.

The following table summarizes the cash outlays for defence for the past two fiscal years:

TABLE 10  
(in millions of dollars)

CASH OUTLAYS FOR DEFENCE	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Budgetary expenditures—			
Department of Defence Production.....	24.7	20.4	4.3
Department of National Defence.....	1,622.0	1,517.5	104.5
	1,646.7	1,537.9	108.8
Disbursements for, or receipts from (-)—			
Defence production revolving fund (net).....	17.5	-5.0	22.5
Replacement of materiel account—sec. 11, National Defence Act (net).....	3.0	-1.0	4.0
	20.5	-6.0	26.5
Net cash outlay for defence.....	1,667.2	1,531.9	135.3

## (2) NON-DEFENCE EXPENDITURES

### Agriculture

Expenditures of the Department of Agriculture were \$289 million for 1961-62 compared with \$265 million for 1960-61.

Increases of \$40 million in expenditures to cover the deficit in the prairie farm emergency fund and \$6 million in outlays for rehabilitation and reclamation projects were offset partly by the decrease of \$30 million in the net operating loss of the agricultural stabilization board.

The 1961-62 net operating loss of the agricultural stabilization board was \$23 million compared with \$53 million in 1960-61.

Advances of \$49 million made by the Minister of Finance to the prairie farm emergency fund to cover the year's deficit have been charged to budgetary expenditures. The comparable amount in 1960-61 was \$9 million.

TABLE 11  
(in millions of dollars)

AGRICULTURE	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Administration and general.....	5.2	4.4	0.8
Agricultural products board—net operating loss.....	4.9		4.9
Agricultural stabilization board—net operating loss.....	23.0	53.4	-30.4
Assistance re storage costs of grain.....	49.0	48.2	0.8
Board of Grain Commissioners (Canada Grain Act).....	6.5	6.3	0.2
Prairie farm emergency fund—deficit.....	49.5	9.2	40.3
Production and marketing branch—			
Freight assistance on western feed grains.....	16.7	19.2	-2.5
Health of animals division.....	14.4	13.4	1.0
Payments to western grain producers.....	40.5	40.5	
Premium on hog and lamb carcasses.....	7.2	6.6	0.6
Other.....	19.6	17.3	2.3
	98.4	97.0	1.4
Rehabilitation and reclamation projects.....	26.6	20.2	6.4
Research branch.....	26.2	26.2	
	289.3	264.9	24.4

### Atomic Energy

Expenditures of the Atomic Energy Control Board and payments to Atomic Energy of Canada Limited were \$35 million compared with \$39 million in 1960-61, a decrease of \$4 million.

Administration expenses of the Atomic Energy Control Board and grants for research and investigations with respect to atomic energy totalled \$1 million, approximately the same as for the previous fiscal year.

During the year under review approximately \$34 million was paid to Atomic Energy of Canada Limited for its research program, \$4 million less than in the previous fiscal year. Of the total, \$26 million was for current operations and maintenance and \$8 million for the construction or acquisition of buildings, works, land and equipment.

TABLE 12  
(in millions of dollars)

ATOMIC ENERGY	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Atomic Energy Control Board—			
Administration.....	0.1	0.1	
Grants for research.....	0.7	0.6	0.1
	0.8	0.7	0.1
Atomic Energy of Canada Limited—			
Research program—			
Construction or acquisition of buildings, works, land and equipment.....	8.2	15.1	-6.9
Current operations and maintenance.....	26.3	23.1	3.2
	34.5	38.2	-3.7
	35.3	38.9	-3.6

### Canadian Broadcasting Corporation

Payments of \$77 million have been made by the government to the Canadian Broadcasting Corporation during 1961-62, an increase of \$10 million over the total for 1960-61.

Grants for capital requirements including the replacement of existing capital assets of the radio and television services increased by \$1 million during 1961-62, while grants in respect of the net operating requirements of the radio and television services were \$9 million higher than in the previous fiscal year.

Outlays for the international shortwave broadcasting service were approximately the same as for 1960-61.

TABLE 13  
(in millions of dollars)

CANADIAN BROADCASTING CORPORATION	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Grants in respect of radio and television services—			
Capital requirements.....	6.4	5.6	0.8
Net operating requirements.....	68.9	59.3	9.6
	75.3	64.9	10.4
International shortwave broadcasting service.....	1.7	1.9	—0.2
	77.0	66.8	10.2

### Citizenship and Immigration

Expenditures of the Department of Citizenship and Immigration were \$66 million in 1961-62, an increase of \$5 million over the total for 1960-61.

Outlays for the Indian affairs branch increased by \$5 million during 1961-62 due principally to increases of \$2 million in expenditures for Indian education, \$1 million in outlays for Indian welfare, \$1 million in costs of Indian agencies and \$1 million in expenditures for economic development of Indians.

Expenditures of the immigration branch and the citizenship and citizenship registration branches were approximately the same as for the previous fiscal year.

TABLE 14  
(in millions of dollars)

CITIZENSHIP AND IMMIGRATION	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	1.0	0.9	0.1
Citizenship and citizenship registration.....	1.6	1.5	0.1
Immigration.....	12.5	12.3	0.2
Indian affairs.....	51.0	46.4	4.6
	66.1	61.1	5.0

### External Affairs

Expenditures of the Department of External Affairs totalled \$95 million in 1961-62, a decrease of \$8 million from the previous year's total.

The principal changes in expenditure as compared with 1960-61 were decreases of \$7 million in contributions to international organizations and \$4 million in assistance to other countries and increases of \$2 million in costs of representation abroad and \$1 million in expenditures for administration and general.

Contributions to international organizations decreased by \$7 million during the year due mainly to the fact that 1960-61 expenditures included the following items for which there was no comparable expenditure in 1961-62: (a) \$6 million for the purchase and transfer of wheat flour to assist in the establishment of strategic stock piles of food supplies in member states of NATO; (b) \$2 million for the reimbursement of the agricultural commodities stabilization account for canned pork donated to international relief agencies; and (c) \$2 million to reimburse the agricultural products board account for whole milk powder donated for international relief purposes.

TABLE 15  
(in millions of dollars)

EXTERNAL AFFAIRS	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	8.9	8.1	0.8
Assistance to other countries.....	2.5	6.4	-3.9
Canada's assessment for membership in international (including commonwealth) organizations.....	5.4	4.7	0.7
Contributions to international organizations.....	15.1	22.2	-7.1
Grant to Colombo plan fund.....	50.0	50.0	
Representation abroad.....	13.1	11.6	1.5
	95.0	103.0	-8.0

## Finance

Expenditures of the Department of Finance amounted to \$1,512 million in 1961-62, an increase of \$52 million over the corresponding total of \$1,460 million in 1960-61.

The main changes were increases of \$42 million in public debt charges, \$5 million in the government's contribution to the public service superannuation account, \$3 million in tax-sharing, subsidy and other payments to provinces, \$2 million in administration expenses of the Comptroller of the Treasury, and \$2 million in the government's share of medical-surgical insurance premiums and a decrease of \$2 million in administration and general costs.

TABLE 16  
(in millions of dollars)

FINANCE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	11.0	12.9	-1.9
Government's contribution as an employer to the unemployment insurance fund.....	1.0	1.0	
Government's contribution to the public service superannuation account.....	46.9	41.4	5.5
Government's share of medical-surgical insurance premiums.....	7.6	6.0	1.6
Grants to municipalities in lieu of taxes on federal property.....	24.7	24.5	0.2
Grants to universities— Payments to the Canadian Universities Foundation.....	19.4	19.0	0.4
Office of the Comptroller of the Treasury—administration expenses.....	21.5	19.8	1.7
Public debt charges.....	839.7	797.6	42.1
Tax-sharing, subsidy and other payments to provinces.....	540.6	537.8	2.8
	1,512.4	1,460.0	52.4

*Government's contribution to the public service superannuation account*

In 1961-62 the government's contribution to the public service superannuation account amounted to \$47 million, an increase of \$5 million over the comparable figure for 1960-61.

*Public debt charges*

In 1961-62 public debt charges were again the second largest item of budgetary expenditure. These charges, which consist of interest on public debt, the annual amortization of bond discounts and commissions, the cost of issuing new loans and other costs incurred in servicing the public debt, totalled \$840 million in 1961-62 or 13 per cent of all budgetary expenditure, compared with \$798 million or 13 per cent in 1960-61.

TABLE 17  
(in millions of dollars)

INTEREST AND OTHER PUBLIC DEBT CHARGES	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Interest on public debt—			
Unmatured debt including treasury bills—			
Payable in Canada.....	639.2	607.2	32.0
Payable in London.....	1.0	1.4	-0.4
Payable in New York.....	2.7	4.0	-1.3
	<u>642.9</u>	<u>612.6</u>	<u>30.3</u>
Other liabilities—			
Annuity, insurance and pension accounts.....	157.7	141.0	16.7
Deposit and trust accounts.....	3.4	3.1	0.3
	<u>161.1</u>	<u>144.1</u>	<u>17.0</u>
Total interest on public debt.....	<u>804.0</u>	<u>756.7</u>	<u>47.3</u>
Other public debt charges—			
Annual amortization of bond discounts and commissions.....	33.6	38.9	-5.3
Cost of issuing new loans.....	1.3	1.3	
Servicing of public debt.....	0.8	0.7	0.1
	<u>35.7</u>	<u>40.9</u>	<u>-5.2</u>
	<u>839.7</u>	<u>797.6</u>	<u>42.1</u>

Interest on public debt in 1961-62 amounted to \$804 million, an increase of \$47 million over the 1960-61 total of \$757 million. Interest of \$643 million on unmaturred debt was \$30 million higher than in 1960-61 reflecting the increase in unmaturred debt; interest of \$161 million on other liabilities was \$17 million higher due to the increase of \$17 million in interest on annuity, insurance and pension accounts, including increases of \$10 million in respect of the public service superannuation account and \$5 million in respect of the Canadian forces superannuation account.

Other public debt charges amounted to \$36 million compared with \$41 million in 1960-61. The decrease of \$5 million was due to a reduction in the cost of annual amortization of bond discounts and commissions.

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 1961-62 this income totalled \$305 million as shown in the non-tax revenue section under the heading "Return

on investments". This amount deducted from the gross total of \$804 million for interest as shown in the above table leaves a net amount of \$499 million compared with a net of \$473 million in 1960-61. Measured as a percentage of the net debt the burden of the net annual interest charges was 3.77 per cent in 1961-62 compared with 3.80 per cent in 1960-61.

TABLE 18  
(in millions of dollars)

NET BURDEN OF ANNUAL INTEREST CHARGES	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Total interest on public debt.....	804.0	756.7	47.3
Return on investments.....	—305.0	—283.8	—21.2
Net interest costs.....	499.0	472.9	26.1
Net interest costs as percentage of net debt.....	3.77	3.80	

*Tax-sharing, subsidy and other payments to provinces*

Payments to the provinces during 1961-62 for statutory subsidies, payments under the Federal-Provincial Tax-Sharing Arrangements Act, additional grants to Newfoundland and the transfer of a portion of income tax receipts from certain public utility companies were \$541 million compared with \$538 million in 1960-61.

Charges to budgetary expenditures in 1961-62 under the federal-provincial tax-sharing arrangements, including adjustments made on account of previous years, were \$2 million less than in 1960-61. The decrease was due to an increase in the relative proportion of personal and corporation income tax attributable to provinces other than Ontario and British Columbia which had the effect of reducing the equalization payments payable with respect to 1961-62 as well as substantially lowering the adjusting payments necessitated by the final calculation of the tax-sharing arrangements payments for 1960-61 which were required to be made by December 31, 1961.

Payments of \$503 million to the provinces under the federal-provincial tax-sharing arrangements in 1961-62 were adjusted by deducting a total of \$1 million from the tax-sharing entitlements of Newfoundland, Prince Edward Island, New Brunswick, Manitoba and Saskatchewan, making a net disbursement to the provinces of \$502 million. These deductions represented recovery of one-fifth of the overpayments made to those provinces under the 1952 tax rental agreements on account of an over-estimation of their population as revealed by the 1956 census. By Memoranda of Agreement with the provinces concerned, the 1952 tax rental agreements were amended to authorize the recovery of the overpayments in equal monthly deductions from the tax-sharing payments to those provinces over the five-year life of the new arrangements.

Statutory subsidies at \$24 million for 1961-62 were \$3 million more than in the previous year, on account of adjustments arising out of the results of the decennial census.

Information in regard to the tax collection agreements with the provinces is given under the liability category "Deposit and trust accounts".

TABLE 19  
(in millions of dollars)

TAX-SHARING, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Payments under Federal-Provincial Tax-Sharing Arrangements Act, c. 29, Statutes of 1956, as amended.....	502.7	504.9	—2.2
Statutory subsidies.....	23.5	20.7	2.8
Transfer of certain public utility tax receipts.....	6.4	4.2	2.2
Transitional grant to Newfoundland.....		0.3	—0.3
Additional grant to Newfoundland.....	8.0	7.7	0.3
	540.6	537.8	2.8

A summary of payments, by provinces, during 1961–62 is given in the following table:

TABLE 20  
(in millions of dollars)

TAX-SHARING, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ended March 31, 1962 (estimated)				
	Payments under tax-sharing arrangements	Statutory subsidies	Transfer of certain public utility tax receipts	Additional grant	Total
Newfoundland.....	27.6	1.7	0.1	8.0	37.4
Nova Scotia.....	39.8	2.1	0.4		42.3
Prince Edward Island.....	7.2	0.7	0.1		8.0
New Brunswick.....	33.7	1.7	0.1		35.5
Quebec.....	60.4	4.0	2.1		66.5
Ontario.....	120.7	4.6	0.6		125.9
Manitoba.....	40.4	2.1	0.1		42.6
Saskatchewan.....	40.6	2.1	0.1		42.8
Alberta.....	58.4	2.8	1.9		63.1
British Columbia.....	73.9	1.7	0.9		76.5
	502.7	23.5	6.4	8.0	540.6

The amount of public utility tax receipts for transfer to the provinces in 1961–62 was \$6 million, an increase of \$2 million over the 1960–61 total. The 1961–62 payments represent the transferable portion of the income tax received from corporations whose main business was the distribution to, or the generation for distribution to, the public of electrical energy, gas or steam for the taxation year 1959.

### Fisheries

Expenditures of the Department of Fisheries amounted to \$24 million in 1961–62, \$5 million more than in 1960–61.

Increases of \$2 million in outlays for field services, \$2 million in expenditures of the Fisheries Research Board of Canada and \$1 million in administration and general costs were the main factors contributing to the increase.

TABLE 21  
(in millions of dollars)

FISHERIES	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	4.8	3.7	1.1
Canadian share of the expenses of international commissions.....	1.1	0.8	0.3
Field services.....	12.0	9.9	2.1
Fisheries Research Board of Canada.....	6.4	4.8	1.6
	24.3	19.2	5.1

## Forestry

Expenditures of the Department of Forestry totalled \$15 million for 1961-62, an increase of \$5 million over the 1960-61 total of \$10 million.

Contributions to the provinces for assistance in establishing forest access roads and trails during 1961-62 were \$3 million over the comparable expenditure for 1960-61, while outlays for forest research, and administration and general costs were each \$1 million more.

TABLE 22  
(in millions of dollars)

FORESTRY	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	1.9	1.2	0.7
Contributions to the provinces—			
Assistance in forest inventory, reforestation and forest fire protection.....	2.4	2.3	0.1
Forest access roads and trails.....	4.0	0.6	3.4
Forest research.....	6.8	6.0	0.8
	15.1	10.1	5.0

## Justice

Expenditures of the Department of Justice amounted to \$35 million for 1961-62, an increase of \$7 million over the total for the previous fiscal year.

Administration and general costs accounted for \$1 million and expenditures of the Office of the Commissioner of Penitentiaries for \$6 million of the overall increase.

TABLE 23

(in millions of dollars)

JUSTICE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	4.6	3.6	1.0
Judges' salaries and travelling allowances.....	5.1	5.0	0.1
	9.7	8.6	1.1
Office of the Commissioner of Penitentiaries—			
Administration.....	0.7	0.7	
Construction, improvements and equipment.....	6.6	3.2	3.4
Operation and maintenance of penitentiaries.....	17.7	15.2	2.5
	25.0	19.1	5.9
	34.7	27.7	7.0

## Labour

Expenditures of the Department of Labour totalled \$188 million in 1961-62, an increase of \$67 million over the total for 1960-61.

Payments to provinces under the Technical and Vocational Training Assistance Act of \$54 million for the year were \$46 million more than comparable expenditures in 1960-61. This act, which received Royal Assent on December 20, 1960, superseded the Vocational Training Co-ordination Act. The purpose of the act is to provide financial assistance to vocational and technical schools, and training under youth training projects.

Payments to provinces and in respect of Indian bands by the Government of Canada, of amounts not exceeding one-half of the cost of labour engaged on winter work projects in the amount of \$24 million were \$15 million more than in 1960-61.

TABLE 24

(in millions of dollars)

LABOUR	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	7.4	6.7	0.7
Municipal winter works incentive program.....	24.0	8.9	15.1
Payments to provinces authorized by the Technical and Vocational Training Assistance Act.....	54.0	8.5	45.5
	85.4	24.1	61.3
Unemployment Insurance Commission—			
Administration and general.....	46.1	42.1	4.0
Government's contribution to the fund.....	56.6	55.1	1.5
	102.7	97.2	5.5
	188.1	121.3	66.8

*Unemployment Insurance Act administration and government's contribution*

Expenditures in 1961-62 relating to the act (excluding the government's payment as an employer which is included in the expenditures of the Department of Finance) totalled \$103 million compared with \$97 million in 1960-61.

Unemployment insurance benefit payments are not charged to budgetary expenditures but are paid from the unemployment insurance fund which is financed by equal contributions from employees and employers, by interest earned on investments, and by the government's contribution of an amount equal to one-fifth of the combined employee-employer contributions. Further information in regard to the unemployment insurance fund is given under the liability category "Annuity, insurance and pension accounts".

The government's contribution to the fund for 1961-62 was \$57 million and administrative costs were \$46 million; the corresponding amounts for 1960-61 were \$55 million and \$42 million respectively.

### Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys amounted to \$69 million in 1961-62, an increase of \$10 million over the total for 1960-61.

Increases in expenditures include \$6 million in higher outlays for surveys and mapping, \$1 million in the expenditures of the geological survey of Canada, \$1 million in costs of the Dominion Coal Board and \$1 million for administration and general expenses.

TABLE 25  
(in millions of dollars)

MINES AND TECHNICAL SURVEYS	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Administration and general.....	5.1	3.9	1.2
Dominion Coal Board.....	20.0	19.3	0.7
Emergency gold mining assistance.....	12.5	12.1	0.4
Geological survey of Canada.....	5.5	4.3	1.2
Mines branch.....	4.8	4.5	0.3
Surveys and mapping.....	21.4	15.0	6.4
	69.3	59.1	10.2

### National Health and Welfare

Expenditures of the Department of National Health and Welfare during 1961-62 were \$1,037 million, an increase of \$150 million over the total for 1960-61.

Outlays for the national health branch were \$368 million in 1961-62, an increase of \$98 million over the previous year's total. The increase was due primarily to the increase of \$95 million in the government's contributions under the Hospital Insurance and Diagnostic Services Act.

During 1961-62 expenditures of the welfare branch increased by \$51 million to \$663 million mainly as the result of increases of \$36 million for unemployment assistance and \$15 million for family allowances.

TABLE 26  
(in millions of dollars)

NATIONAL HEALTH AND WELFARE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	6.3	5.1	1.2
National health branch—			
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	284.0	189.4	94.6
General health grants to provinces.....	49.0	48.0	1.0
Indian and northern health services.....	24.5	23.0	1.5
Other.....	10.3	9.4	0.9
	367.8	269.8	98.0
Welfare branch—			
Family allowances.....	520.9	506.2	14.7
Old age assistance.....	30.7	30.7	
Disabled persons allowances.....	16.2	16.4	—0.2
Blind persons allowances.....	4.1	4.2	—0.1
Unemployment assistance.....	88.0	51.5	36.5
Other.....	3.4	3.3	0.1
	668.3	612.3	51.0
	1,037.4	887.2	150.2

*Government's contributions under the Hospital Insurance and Diagnostic Services Act*

The Hospital Insurance and Diagnostic Services Act, Statutes of 1957, authorized contributions by Canada in respect of programs administered by the provinces, providing hospital insurance and laboratory and other services in aid of diagnosis. In 1961–62 payments were \$284 million compared with \$189 million in 1960–61. The increase of \$95 million was due partly to the fact that during 1961–62 all provinces and territories were participating under the agreements for the full fiscal year, whereas during 1960–61 the Province of Quebec and the Yukon Territory participated under the agreements for only three months and nine months respectively.

The effective date of each agreement is as follows:—July 1, 1958 for Newfoundland, Manitoba, Saskatchewan, Alberta and British Columbia; January 1, 1959 for Nova Scotia and Ontario; July 1, 1959 for New Brunswick; October 1, 1959 for Prince Edward Island; April 1, 1960 for the Northwest Territories; July 1, 1960 for the Yukon Territory; and January 1, 1961 for Quebec.

TABLE 27  
(in millions of dollars)

GOVERNMENT'S CONTRIBUTIONS UNDER THE HOSPITAL INSURANCE AND DIAGNOSTIC SERVICES ACT	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Newfoundland.....	6.3	5.1	1.2
Nova Scotia.....	11.5	9.6	1.9
Prince Edward Island.....	1.4	1.0	0.4
New Brunswick.....	9.7	7.9	1.8
Quebec.....	72.0	13.9	58.1
Ontario.....	104.7	84.5	20.2
Manitoba.....	15.3	13.1	2.2
Saskatchewan.....	15.9	14.5	1.4
Alberta.....	21.0	16.9	4.1
British Columbia.....	25.5	22.5	3.0
Northwest and Yukon Territories.....	0.7	0.4	0.3
	284.0	189.4	94.6

*General health grants to provinces*

General health grants to provinces for assistance in hospital construction, general health services and the control of diseases amounted to \$49 million for 1961-62, an increase of \$1 million over the 1960-61 total of \$48 million.

TABLE 28  
(in millions of dollars)

GENERAL HEALTH GRANTS	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Newfoundland.....	1.1	0.8	0.3
Nova Scotia.....	2.6	2.9	—0.3
Prince Edward Island.....	0.3	0.4	—0.1
New Brunswick.....	1.8	1.6	0.2
Quebec.....	13.9	14.0	—0.1
Ontario.....	16.2	15.8	0.4
Manitoba.....	2.7	3.0	—0.3
Saskatchewan.....	2.6	2.5	0.1
Alberta.....	3.7	2.8	0.9
British Columbia.....	4.0	4.1	—0.1
Northwest and Yukon Territories.....	0.1	0.1	—
	49.0	48.0	1.0

*Family allowances*

Family allowances are payable in respect of all children under sixteen years of age, resident in Canada, with minor exceptions such as in the case of children of immigrants who must reside in Canada one year before an allowance is payable. The monthly allowance is \$6 if the child is under 10 years and \$8 in the age group 10 to 15. Children of immigrants receive family assistance of \$5 per month during their first year of residence in Canada from the Department of Citizenship and Immigration if during that period they are under sixteen years of age.

Family allowance payments in 1961-62 totalled \$521 million and represented 8 per cent of total expenditures. The increase of \$15 million over the previous year reflects the increase in the number of children in the eligible age groups.

TABLE 29  
(in millions of dollars)

FAMILY ALLOWANCE PAYMENTS	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Newfoundland.....	16.3	16.0	0.3
Nova Scotia.....	21.6	21.2	0.4
Prince Edward Island.....	3.2	3.1	0.1
New Brunswick.....	19.2	18.9	0.3
Quebec.....	158.2	154.2	4.0
Ontario.....	168.1	162.6	5.5
Manitoba.....	25.1	24.4	0.7
Saskatchewan.....	26.3	25.8	0.5
Alberta.....	38.9	37.4	1.5
British Columbia.....	42.7	41.4	1.3
Northwest and Yukon Territories.....	1.3	1.2	0.1
	520.9	506.2	14.7

*Old age assistance, disabled persons allowances, blind persons allowances and unemployment assistance*

Under the Old Age Assistance Act, the federal government reimburses the provinces by paying 50 per cent of the lesser of \$65 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 \$65 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 of not more than \$65 per month to blind persons in need 18 years of age or over by paying 75 per cent of the total payments, and under the Disabled Persons Act by paying 50 per cent of not more than \$65 per month for allowances to disabled persons in need 18 years of age or over. In 1961-62 payments of \$31 million for old age assistance, \$16 million in respect of disabled persons allowances and \$4 million for blind persons allowances were approximately the same as for 1960-61.

Amendments to the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act raised the maximum pension towards which the federal government would contribute from \$55 to \$65 per month, effective February 1, 1962. As increased payments are dependent on individual action by each province they will not affect expenditures in the 1961-62 fiscal year. A similar increase was authorized in old age security payments, effective on the same date, through an amendment to the Old Age Security Act.

Under the Unemployment Assistance Act the federal government contributes up to 50 per cent of the cost of unemployment assistance paid by the provinces, subject to certain deductions as set out in the act. All provinces have signed agreements with the federal government. There was an increase of \$37 million in contributions for 1961-62 over those for the previous year.

The following table presents a distribution of these payments to provinces for 1961-62:

TABLE 30  
(in millions of dollars)

FEDERAL SHARE OF OLD AGE ASSISTANCE, DISABLED PERSONS ALLOWANCES, BLIND PERSONS ALLOWANCES AND UNEMPLOYMENT ASSISTANCE	Fiscal year ended March 31, 1962 (estimated)			
	Old age assistance	Disabled persons allowances	Blind persons allowances	Unemployment assistance
Newfoundland.....	1.7	0.4	0.2	3.5
Nova Scotia.....	1.6	0.9	0.4	1.5
Prince Edward Island.....	0.2	0.2	(1)	0.2
New Brunswick.....	1.7	0.6	0.3	1.6
Quebec.....	11.0	7.5	1.4	35.8
Ontario.....	6.7	4.4	0.8	17.0
Manitoba.....	1.6	0.4	0.2	3.8
Saskatchewan.....	1.8	0.5	0.2	4.0
Alberta.....	2.0	0.6	0.2	4.5
British Columbia.....	2.3	0.7	0.3	16.0
Northwest and Yukon Territories.....	0.1	(1)	0.1	0.1
	30.7	16.2	4.1	88.0

(1) Less than \$50,000.

### National Research Council, including the Medical Research Council

Expenditures of the National Research Council, including the Medical Research Council amounted to \$39 million for 1961-62, \$4 million higher than for 1960-61. Increases of \$2 million in expenditures for administration and general and \$2 million in outlays for scholarships and grants in aid of research were the main factors contributing to this increase.

TABLE 31  
(in millions of dollars)

NATIONAL RESEARCH COUNCIL, INCLUDING THE MEDICAL RESEARCH COUNCIL	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Administration and general.....	21.7	19.7	2.0
Construction or acquisition of buildings, works, land and equipment.....	5.5	5.3	0.2
Scholarships and grants in aid of research.....	11.5	9.4	2.1
	38.7	34.4	4.3

### National Revenue

Expenditures of the Department of National Revenue totalled \$76 million for 1961-62, \$3 million more than in 1960-61, due mainly to increases of \$2 million in expenditures of the taxation division and \$1 million in outlays of the customs and excise divisions.

TABLE 32  
(in millions of dollars)

NATIONAL REVENUE	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Customs and excise divisions.....	40.1	39.0	1.1
Taxation division.....	35.6	34.1	1.5
Income tax appeal board.....	0.2	0.2	
	75.9	73.3	2.6

### Northern Affairs and National Resources

Expenditures of the Department of Northern Affairs and National Resources in the fiscal year 1961-62 amounted to \$87 million, an increase of \$12 million over the comparable total for 1960-61.

The main changes were increases of \$5 million in expenditures of the national parks branch, \$5 million in outlays of the northern administration branch and \$2 million in the expenses of the water resources branch and a decrease of \$1 million in administration and general costs.

TABLE 33  
(in millions of dollars)

NORTHERN AFFAIRS AND NATIONAL RESOURCES	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	3.9	4.5	—0.6
Canadian government travel bureau.....	3.0	2.7	0.3
Contributions to the provinces to assist in the development of roads leading to resources.....	12.0	12.0	
National parks branch.....	29.2	23.9	5.3
Northern administration branch.....	34.4	29.2	5.2
Water resources branch.....	4.0	2.0	2.0
	86.5	74.3	12.2

### Post Office

Gross expenditures of the Post Office Department for 1961–62 totalled \$219 million, an increase of \$12 million over the 1960–61 outlay of \$207 million.

Remuneration of postmasters and staffs at revenue and semi-staff offices and certain other authorized disbursements are paid from revenue. These payments, included in the total of \$219 million, were \$30 million for 1961–62, an increase of \$2 million over the comparable total for 1960–61.

TABLE 34  
(in millions of dollars)

POST OFFICE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Charged to budgetary expenditure—			
Administration and general.....	2.1	2.1	
Financial services.....	3.3	3.1	0.2
Operations—salaries and other expenses of staff post offices, district offices and railway mail services; and supplies and equipment and other items for revenue post offices.....	120.3	111.0	9.3
Transportation—movement of mail by land, air and water.....	62.9 188.6	62.2 178.4	0.7 10.2
Charged to revenue—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub-offices and other disbursements.....	29.9	28.3	1.6
	218.5	206.7	11.8

### Public Works

Expenditures of the Department of Public Works for 1961–62 amounted to \$193 million, a decrease of \$8 million from the 1960–61 total of \$201 million.

Increases in expenditures of \$3 million for housing, \$3 million in payments to the National Capital Commission, \$2 million for harbours and rivers engineering services and \$1 million in administration and general costs were more than offset by decreases in expenditures of \$9 million in development engineering services and \$6 million in outlays for “Public buildings—construction and services”.

The decrease of \$9 million in expenditures of the development engineering services was due mainly to the reduction of \$7 million in contributions to the provinces under the terms of the Trans-Canada Highway Act and the decrease of \$3 million in costs of construction of the Trans-Canada highway through national parks, offset in part by the increase of \$1 million in outlays for the installation of a water supply system at Churchill, Manitoba.

Expenditures for "Public buildings—construction and services" were approximately \$6 million less than the comparable figure for the previous fiscal year, due to the decrease in costs of acquisition, construction and improvements of public buildings.

TABLE 35  
(in millions of dollars)

PUBLIC WORKS	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	15.3	14.4	0.9
Development engineering services—			
Trans-Canada highway division—			
Construction through national parks.....	6.3	9.2	—2.9
Contributions to the provinces under the terms of the Trans-Canada Highway Act.....	42.0	48.7	—6.7
General.....	5.3	4.5	0.8
	53.6	62.4	—8.8
Harbours and rivers engineering services—			
Acquisition, construction and improvements of harbours and river works.....	31.5	29.9	1.6
Dredging.....	6.1	6.1	
General.....	0.8	0.9	—0.1
	38.4	36.9	1.5
Housing.....	6.2	3.7	2.5
National Capital Commission.....	8.8	6.3	2.5
Public buildings—construction and services—			
Acquisition, construction and improvements of public buildings—			
Ottawa.....	8.3	8.5	—0.2
Other centres in Canada.....	15.8	18.2	—2.4
Outside Canada.....	0.3	4.3	—4.0
Fire prevention.....	0.2	0.2	
Furniture and furnishings.....	2.8	2.6	0.2
Maintenance and operation.....	43.7	43.4	0.3
	71.1	77.2	—6.1
	193.4	200.9	—7.5

### Royal Canadian Mounted Police

Expenditures for the Royal Canadian Mounted Police amounted to \$61 million for 1961–62, an increase of \$5 million over the 1960–61 total of \$56 million.

Payments as shown in the table represent gross expenditures; payments received from the provinces and municipalities for police services at \$11 million have been credited to revenue.

Increases in expenditures of \$5 million for the land, air and training divisions and \$1 million in higher outlays for headquarters administration and national police services were offset partly by the decrease of \$1 million in the government's contribution to the Royal Canadian Mounted Police superannuation account.

The decrease of \$1 million in the government's contribution to the Royal Canadian Mounted Police superannuation account was due to the fact that the government's contribution during 1961–62 was based on the amount paid into the

account by contributors for the twelve-month period ending March 31, 1961, whereas in the previous fiscal year it was based on the twelve-month period ending March 31, 1960 as well as a nine-month period April 1 to December 31, 1960, inclusive, in accordance with the provisions of the new Royal Canadian Mounted Police Superannuation Act, 1960.

TABLE 36  
(in millions of dollars)

ROYAL CANADIAN MOUNTED POLICE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Government's contribution to Royal Canadian Mounted Police superannuation account.....	2.3	2.9	-0.6
Headquarters administration and national police services..	7.7	6.8	0.9
Land, air and training divisions.....	45.9	41.4	4.5
Marine services.....	1.8	1.7	0.1
Pensions and other benefits.....	3.4	3.2	0.2
	61.1	56.0	5.1

### Trade and Commerce

Expenditures of the Department of Trade and Commerce were \$40 million for 1961-62, compared with the 1960-61 total of \$22 million.

The increase of \$18 million in expenditure for 1961-62 was due mainly to increases of \$3 million in administration and general costs and \$15 million in outlays of the Dominion Bureau of Statistics mainly on account of the 1961 Decennial Census of Canada.

TABLE 37  
(in millions of dollars)

TRADE AND COMMERCE	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	6.7	4.0	2.7
Dominion Bureau of Statistics.....	25.1	10.4	14.7
National Energy Board.....	0.5	0.4	0.1
Standards branch.....	2.7	2.5	0.2
Trade commissioner service.....	5.0	4.5	0.5
	40.0	21.8	18.2

### Transport

Expenditures of the Department of Transport totalled \$416 million for 1961-62, compared with the 1960-61 total of \$336 million.

Outlays for air services reflected an increase of \$18 million over the previous year due mainly to increased expenditures of \$8 million by the civil aviation branch, \$6 million by the telecommunications and electronics branch and \$3 million by the meteorological branch.

Expenditures of the Board of Transport Commissioners for Canada increased by \$45 million due in large part to interim payments of \$50 million related to

recommendations of the Royal Commission on Railway Problems, pending its complete report, to companies as defined in the Freight Rates Reduction Act. A decrease of \$5 million in the government's contribution to the railway grade crossing fund occurred during 1961-62.

Increases in expenditures amounting to \$4 million by the Canadian Maritime Commission in 1961-62 were attributable to the increase of \$1 million in steamship subventions for coastal services and to the outlay of \$3 million for capital subsidies for the construction of commercial and fishing vessels for which there was no comparable expenditure in the previous fiscal year.

Marine services expenditures amounting to \$50 million were \$3 million greater than in 1960-61; outlays for railway and steamship services, including charges to expenditures in respect of deficits of government-owned enterprises, were approximately the same as for the previous fiscal year; the deficit of Trans-Canada Air Lines charged to budgetary expenditure in 1961-62 was \$7 million compared with \$3 million in 1960-61; and non-active advances to the National Harbours Board were \$4 million greater than in the previous year.

TABLE 38  
(in millions of dollars)

TRANSPORT	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Administration and general.....	7.2	6.1	1.1
Air services—			
Administration.....	5.5	4.8	0.7
Civil aviation branch.....	91.3	82.9	8.4
Meteorological branch.....	18.9	16.2	2.7
Telecommunications and electronics branch.....	36.3	30.0	6.3
	162.0	133.9	18.1
Board of Transport Commissioners for Canada—			
Administration and general.....	1.3	1.2	0.1
Freight Rates Reduction Act.....	20.0	20.4	—0.4
Interim payments related to the recommendations of the Royal Commission on Railway Problems.....	50.0		50.0
Maintenance of trackage.....	7.0	7.0	
Contribution to the railway grade crossing fund.....	10.0	15.0	—5.0
	88.3	43.6	44.7
Canadian Maritime Commission.....	11.2	6.9	4.3
Marine services—			
Administration and general.....	1.1	1.0	0.1
Aids to navigation.....	10.7	10.1	0.6
Canals.....	4.0	4.1	—0.1
Canadian marine services.....	23.0	23.3	—0.3
Marine regulations.....	4.5	3.5	1.0
Ship channel service—St. Lawrence and Saguenay rivers.....	6.5	4.7	1.8
	49.8	46.7	3.1
Railway and steamship services—			
Auto-ferries, docks and terminals.....	5.1	5.8	—0.7
Maritime Freight Rates Act—difference between tariffs and normal tolls.....	12.3	14.1	—1.8
Deficits—			
Canadian National Railways.....	67.3	67.5	—0.2
Newfoundland ferry and terminals.....	7.1	5.4	1.7
Prince Edward Island car ferry and terminals.....	3.1	2.6	0.5
Yarmouth, N.S.—Bar Harbour, Maine, U.S.A., ferry service.....	0.1	0.1	
Other.....	1.4	0.5	0.9
	96.4	96.0	0.4
Trans-Canada Air Lines—deficit.....	6.5	2.6	3.9
Non-active advances—National Harbours Board.....	5.0	0.6	4.4
	416.4	336.4	80.0

## Veterans Affairs

Expenditures of the Department of Veterans Affairs amounted to \$334 million for 1961-62, an increase of \$42 million over the 1960-61 total of \$292 million.

Pensions for disability or death totalled \$178 million during the current year as compared with \$151 million in 1960-61, and outlays for war veterans allowances and other benefits increased by \$16 million to \$81 million for 1961-62. These increases were mainly the result of increased rates of pensions during the year over those in effect during 1960-61.

TABLE 39  
(in millions of dollars)

VETERANS AFFAIRS	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Administration and general.....	6.9	6.7	0.2
Pensions for disability or death.....	177.6	150.7	26.9
Soldier Settlement and Veterans Land Acts—			
Administration and general.....	4.7	5.2	-0.5
Provision for reserve for conditional benefits, Veterans Land Act.....	3.2	3.4	-0.2
Treatment and welfare services.....	58.5	58.7	-0.2
War service gratuities and re-establishment credits.....	2.2	2.9	-0.7
War veterans allowances and other benefits.....	81.0	64.7	16.3
	334.1	292.3	41.8

## All Other Departments

Expenditures of the departments not dealt with in preceding sections amounted to \$38 million, an increase of \$5 million over the total for 1960-61.

The most significant changes in expenditures for 1961-62 were increases of \$3 million in outlays of the Privy Council Office (of which \$2 million pertained to the expenses of the Royal Commission on Government Organization), \$1 million in the expenditures of the Department of Public Printing and Stationery and \$1 million in higher costs of the Civil Service Commission.

TABLE 40  
(in millions of dollars)

ALL OTHER DEPARTMENTS	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Auditor General.....	1.1	0.9	0.2
Board of Broadcast Governors.....	0.3	0.3	
Chief Electoral Officer.....	0.3	0.6	-0.3
Civil Service Commission.....	4.7	4.2	0.5
Governor General and Lieutenant-Governors.....	0.5	0.4	0.1
Insurance.....	1.4	1.3	0.1
Legislation.....	8.4	8.5	-0.1
National Film Board.....	5.2	4.9	0.3
National Gallery of Canada.....	1.0	0.9	0.1
Privy Council.....	4.9	1.9	3.0
Public Archives and National Library.....	1.0	0.8	0.2
Public Printing and Stationery.....	4.1	3.5	0.6
Secretary of State.....	5.1	4.9	0.2
	38.0	33.1	4.9

#### 4. SUMMARY OF ASSETS AND LIABILITIES OF CANADA AS AT MARCH 31, 1962

The assets and liabilities of the Government of Canada at March 31, 1962, the comparable balances at March 31, 1961, and the changes in each category during 1961-62, are shown in condensed form in the following table.

TABLE 41  
SUMMARY OF ASSETS AND LIABILITIES OF CANADA  
(in millions of dollars)

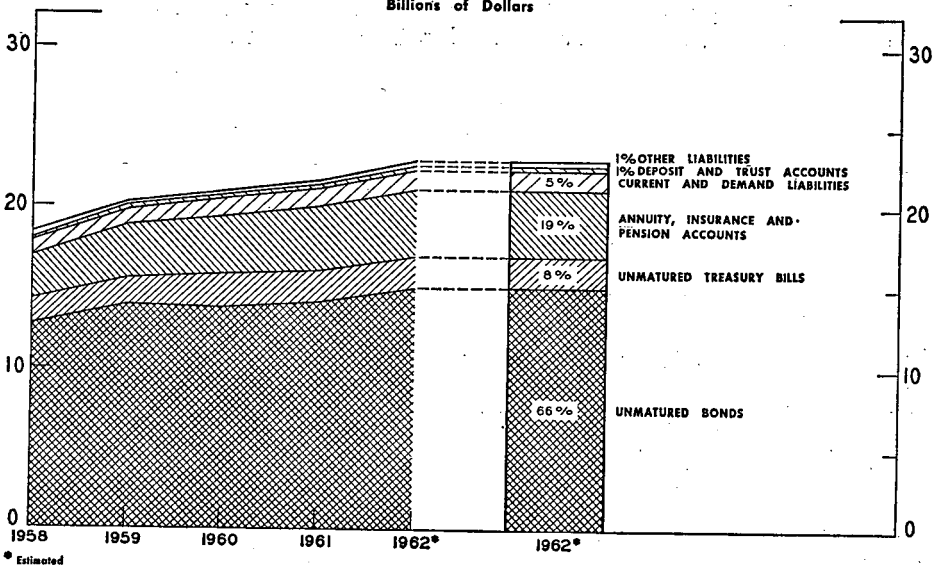
	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
<b>LIABILITIES</b>			
Current and demand liabilities.....	1,220.9	1,147.6	73.3
Deposit and trust accounts.....	267.5	239.7	27.8
Annuity, insurance and pension accounts.....	4,260.5	3,955.5	305.0
Undisbursed balances of appropriations to special accounts.....	108.5	104.5	4.0
Deferred credits.....	78.3	79.0	—0.7
Suspense accounts.....	6.1	8.6	—2.5
Unmatured debt.....	16,025.0	16,067.9	857.1
Total liabilities.....	22,866.8	21,602.8	1,264.0
<b>ASSETS</b>			
Current assets.....	1,220.5	784.4	436.1
Advances to the exchange fund account.....	1,783.0	2,024.0	—241.0
Sinking fund held for retirement of unmaturred debt.....	17.8	17.0	0.8
Loans to, and investments in, Crown corporations.....	3,995.3	3,627.7	367.6
Loans to national governments.....	1,339.8	1,378.2	—38.4
Other loans and investments.....	974.5	1,022.1	—47.6
Securities held in trust.....	31.4	30.1	1.3
Deferred charges—			
Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	326.3	326.3	
Public service superannuation account.....	276.7	276.7	
Royal Canadian Mounted Police superannuation account.....	3.5		3.5
Unamortized loan flotation costs.....	120.9	130.7	—9.8
	727.4	733.7	—6.3
Suspense accounts.....	0.2	0.1	0.1
Capital assets.....	(1)	(1)	
Inactive loans and investments.....	94.8	94.8	
Total assets.....	10,184.7	9,712.1	472.6
Less reserve for losses on realization of assets.....	—546.4	—546.4	
Net assets.....	9,638.3	9,165.7	472.6
Net debt, represented by excess of liabilities over net assets.....	13,228.5	12,437.1	791.4

(1) Shown at nominal value of \$1.

#### A. CHANGES IN PRINCIPAL LIABILITY CLASSIFICATIONS DURING 1961-62

The gross liabilities of the government increased by \$1,264 million during the fiscal year due mainly to increases of \$857 million in unmaturred debt, \$305 million in annuity, insurance and pension accounts, \$73 million in current and demand liabilities, and \$28 million in deposit and trust accounts.

**TOTAL LIABILITIES**  
Fiscal Years Ended March 31  
Billions of Dollars



### Current and demand liabilities

This category consists of obligations of the government payable currently or on demand.

TABLE 42  
(in millions of dollars)

CURRENT AND DEMAND LIABILITIES	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Outstanding treasury cheques.....	266.0	251.7	14.3
Accounts payable.....	240.3	221.4	18.9
Non-interest bearing notes payable to—			
The international development association.....	6.7	6.7	
The international monetary fund.....	356.0	377.0	—21.0
	362.7	383.7	—21.0
Matured debt outstanding.....	46.9	31.9	15.0
Interest due and outstanding.....	95.0	66.8	28.2
Interest accrued.....	182.0	154.0	28.0
International monetary fund—revaluation adjustment of Canadian dollar balance.....		10.1	—10.1
Post office—outstanding money orders.....	23.1	23.1	
Outstanding letter of credit cheques.....	4.5	4.5	
Other current liabilities.....	0.4	0.4	
	1,220.9	1,147.6	73.3

The net increase of \$73 million was due mainly to increases of \$28 million in interest due and outstanding, \$28 million in accrued interest, \$19 million in accounts payable, \$15 million in matured debt outstanding, and \$14 million in outstanding treasury cheques offset partly by decreases of \$21 million in non-interest bearing notes and \$10 million in the revaluation adjustment of the Canadian dollar balance in the international monetary fund.

## Deposit and trust accounts

Sundry funds deposited with, or held in trust by, the Receiver General of Canada for various purposes are recorded in these accounts.

TABLE 43  
(in millions of dollars)

DEPOSIT AND TRUST ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Army benevolent fund.....	6.1	6.5	-0.4
Canadian Arsenals Limited pension fund.....	12.1		12.1
Canadian Pension Commission—administration trust fund..	12.0	11.0	1.0
Contractors holdbacks.....	15.3	15.6	-0.3
Contractors securities—sundry departments—			
Bonds.....	13.2	11.0	2.2
Cash.....	10.4	9.4	1.0
Certified cheques.....	1.4	1.4	
	25.0	21.8	3.2
Crown corporations deposits.....	23.5	19.4	4.1
Emergency gold mining assistance—holdbacks.....	1.5	1.4	0.1
Guarantee deposits—			
Customs and excise.....	4.7	4.6	0.1
Northern Affairs and National Resources.....	8.0	9.1	-1.1
Indian trust funds.....	30.0	28.5	1.5
Instalment purchase of bonds, public service.....	11.5	11.7	-0.2
Korean operations pool.....	16.1	16.1	
National Harbours Board—special accounts.....	4.0	5.7	-1.7
Post office savings bank.....	28.6	28.5	0.1
Provincial tax collection agreements.....	38.0		38.0
Soldier settlement and veterans land acts trust account—			
general.....	2.5	2.5	
United States of America.....	7.7	36.7	-29.0
War claims fund—world war 2.....	1.0	1.1	-0.1
Other.....	19.9	19.5	0.4
	267.5	239.7	27.8

The change during the year was an increase of \$28 million. The main items constituting this increase were \$38 million in the provincial tax collection agreements account and a decrease of \$29 million in the United States of America deposit account.

Under the 1957 tax rental agreements, the obligation on the renting provinces to abstain from the imposition of personal and corporation income taxes was to lapse on December 31, 1961. As the Government of Canada did not offer to renew tax rental agreements, the former renting provinces have all imposed personal and corporation income taxes effective January 1, 1962. The Government of Canada, in place of the tax rental agreements, offered to enter into tax collection agreements with the provinces whereby Canada would undertake to collect without charge the provincial personal and corporation income taxes at rates determined by the provinces provided that the provincial personal income tax was expressed as a percentage of the federal personal income tax payable and the provincial corporation income tax employed a definition of corporate taxable income identical with the federal definition. To make room for the imposition of provincial income taxes, the Income Tax Act was amended in the 1961 session of Parliament to (1) reduce the federal income tax payable by individuals resident

in the provinces by 16 per cent in 1962 and by a further one per cent in each subsequent year until the deduction amounts to 20 per cent in 1966, and (2) reduce the federal tax rate on the taxable income of corporations earned in the provinces by 9 percentage points. Canada will be collecting the personal income tax for nine provinces (Quebec excepted) and the corporation income tax for eight provinces (Quebec and Ontario excepted). With the exception of Saskatchewan and Manitoba, the provinces which have entered into tax collection agreements have imposed personal and corporation income taxes equivalent to the federal withdrawal. The aforementioned provinces have imposed personal income taxes at 22 per cent rather than 16 per cent of the federal tax payable and 10 per cent rather than 9 per cent of the taxable income of corporations.

### **Annuity, insurance and pension accounts**

In this category are recorded the amounts to the credit of the various annuity, insurance and pension accounts.

TABLE 44  
(in millions of dollars)

ANNUITY, INSURANCE AND PENSION ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Unemployment insurance fund.....	71.5	<sup>(1)</sup> 264.6	—193.1
Less investment in bonds and accrued interest.....	—53.5	—247.0	193.5
Uninvested funds on deposit with the government.....	18.0	17.6	0.4
Government annuities.....	1,236.1	1,199.1	37.0
Public service superannuation account.....	1,588.8	1,468.8	120.0
Canadian forces superannuation account.....	1,279.4	1,155.3	124.1
Old age security fund.....	6.7		6.7
Other.....	131.5	114.7	16.8
	4,260.5	3,955.5	305.0

<sup>(1)</sup> Includes loan of \$67 million from the Minister of Finance.

#### *Unemployment insurance fund*

The total benefits paid out of the Unemployment Insurance Fund in the 1961–62 fiscal year were \$466 million, its total revenues \$340 million, and its deficit \$126 million. This compares with 1960–61 figures of benefit payments of \$514 million, revenues of \$333 million and a deficit of \$181 million. In addition the fund has repaid in full its advances from the Minister of Finance in the net amount of \$67 million, resulting in a total reduction in the fund's assets of \$193 million.

#### *Government annuities account*

The government annuities account increased by \$37 million during the year reflecting the amount by which premium receipts of \$45 million and interest of \$46 million credited to the account by the government exceeded payments of \$54 million to annuitants and beneficiaries.

*Public service superannuation account*

The increase of \$120 million in the public service superannuation account was due mainly to the government's contribution of \$47 million (equal to the estimated current and prior service payments of individuals in 1960-61), and interest of \$61 million credited to the account. The remainder of the increase was due to the excess of employees' current and prior service contributions and miscellaneous receipts over benefit payments.

*Canadian forces superannuation account*

The Canadian forces superannuation account increased by \$124 million. The increase reflected the government's contribution of \$56 million which was made at the rate of one and two-thirds times the current and prior service contributions, interest of \$48 million credited to the account, and the amount of \$20 million by which contributions by permanent services personnel for current and prior years' service exceeded benefit payments from the account.

*Old age security fund*

Under the Old Age Security Act pensions at \$55 per month (increased to \$65 per month effective February 1, 1962) are paid, without a means test, from the old age security fund to all eligible persons seventy years of age or over. Credits of \$649 million consisting of \$290 million from the 3 per cent sales tax, \$259 million from the 3 per cent tax on personal incomes (maximum tax \$90) and \$100 million from the 3 per cent tax on corporation profits exceeded payments of \$625 million by \$24 million. Temporary loans of \$17 million as at March 31, 1961 have been repaid resulting in a credit balance in the fund of \$7 million. In 1960-61 receipts of \$603 million exceeded payments of \$592 million by \$11 million and a \$28 million deficit (covered by temporary loans from the Minister of Finance) was brought forward from 1959-60.

TABLE 45

(in millions of dollars)

OLD AGE SECURITY FUND	Fiscal year ended March 31				
	1958	1959	1960	1961	1962 (estimated)
Tax receipts—					
Sales tax.....	175.8	173.6	270.0	270.2	290.0
Personal income tax.....	135.0	146.4	185.6	229.4	259.0
Corporation income tax.....	60.7	55.3	91.3	103.5	100.0
Total tax receipts.....	371.5	375.3	546.9	603.1	649.0
Pension payments.....	-473.9	-559.3	-574.9	-592.4	-625.0
Excess of receipts over payments.....	-102.4	-184.0	-28.0	10.7	24.0
Temporary loans brought forward.....	-1.5			-28.0	-17.3
Appropriation by Parliament—					
Charged to budgetary expenditures.....	103.9	184.0			
Temporary loans from the Minister of Finance to cover deficit in fund.....			28.0	17.3	
Balance in fund.....					6.7

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 46  
(in millions of dollars)

OLD AGE SECURITY PAYMENTS	Fiscal year ended March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Newfoundland.....	12.0	11.4	0.6
Nova Scotia.....	28.9	27.6	1.3
Prince Edward Island.....	5.2	4.9	0.3
New Brunswick.....	21.3	20.4	0.9
Quebec.....	131.4	124.3	7.1
Ontario.....	226.0	214.6	11.4
Manitoba.....	38.1	36.1	2.0
Saskatchewan.....	39.6	37.6	2.0
Alberta.....	42.3	39.7	2.6
British Columbia.....	79.7	75.4	4.3
Northwest and Yukon Territories.....	0.5	0.4	0.1
	625.0	592.4	32.6

### Undisbursed balances of appropriations to special accounts

This category records 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. There was an increase of \$4 million during the fiscal year bringing the balance as at March 31, 1962 to \$109 million.

TABLE 47  
(in millions of dollars)

UNDISBURSED BALANCES OF APPROPRIATIONS TO SPECIAL ACCOUNTS	Balance at March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Colombo plan fund.....	75.4	67.5	7.9
National capital fund.....	2.9	2.8	0.1
Railway grade crossing fund.....	30.1	34.1	-4.0
Other.....	0.1	0.1	
	108.5	104.5	4.0

The increase of \$8 million in the Colombo plan fund resulted from a credit thereto of \$50 million, the offsetting debit being to budgetary expenditures, and charges of \$42 million to cover disbursements.

The railway grade crossing fund showed a decrease of approximately \$4 million during the year representing disbursements of \$14 million from the fund less an amount of \$10 million credited thereto and charged to expenditures.

## Deferred credits

This category records amounts due the government in respect of which payment has been deferred. These are contra accounts to corresponding items under the following asset categories: "Cash in blocked currencies", "Loans to, and investments in, Crown corporations", "Loans to national governments" and "Other loans and investments".

TABLE 48  
(in millions of dollars)

DEFERRED CREDITS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Agreements of sale of Crown assets.....	8.7	9.9	-1.2
Crown Assets Disposal Corporation.....	6.0	4.9	1.1
Deferred interest—			
The St. Lawrence Seaway Authority.....	19.4	19.4	
United Kingdom Financial Agreement Act, 1946.....	44.2	44.2	
Other.....	(1)	0.6	-0.6
	78.3	79.0	-0.7

(1) Less than \$50,000.

Balances receivable under agreements of sale of Crown assets are set up as contra accounts to corresponding items under "Other loans and investments". During the year receipts amounted to \$1 million on outstanding agreements.

The government's equity in the agency account of Crown Assets Disposal Corporation is a contra account to a corresponding item under "Other loans and investments". This equity increased by \$1 million during the year.

There was no change during the year in deferred interest of \$44 million on loans made under the United Kingdom Financial Agreement Act, 1946, and of \$19 million on loans made to The St. Lawrence Seaway Authority. These are contra accounts to corresponding items under "Loans to national governments" and "Loans to, and investments in, Crown corporations" respectively.

## Suspense accounts

These consist of balances where some uncertainty as to disposition exists.

TABLE 49  
(in millions of dollars)

SUSPENSE ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Replacement of materiel, sec. 11, National Defence Act.....	1.6	4.6	-3.0
Unclaimed cheques.....	1.5	1.4	0.1
Other.....	3.0	2.6	0.4
	6.1	8.6	-2.5

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. During 1961-62 disbursements exceeded credits by \$3 million.

The unclaimed cheques account is credited with the amount of treasury cheques (except those drawn on asset and liability accounts) which remain undelivered for certain specified periods subsequent to date of issue, pending claims therefor.

### Unmatured debt

The unmaturred debt of Canada as at March 31, 1962 amounted to \$16,925 million as compared with \$16,068 million at March 31, 1961. The increase of \$857 million applied to debt payable in Canada.

TABLE 50  
(in millions of dollars)

UNMATURED DEBT	Balance at March 31		Increase or decrease (-)
	1962 (estimated)	1961	
Payable in Canada—			
Canada savings bonds.....	4,044.0	3,555.5	488.5
Marketable bonds.....	10,812.8	10,447.2	365.6
Non-marketable bonds (Unemployment Insurance Commission).....	53.0		53.0
Treasury bills.....	14,909.8	14,002.7	907.1
	1,885.0	1,935.0	-50.0
	16,794.8	15,937.7	857.1
Payable in London.....	32.0	32.0	
Payable in New York.....	98.2	98.2	
	16,925.0	16,067.9	857.1

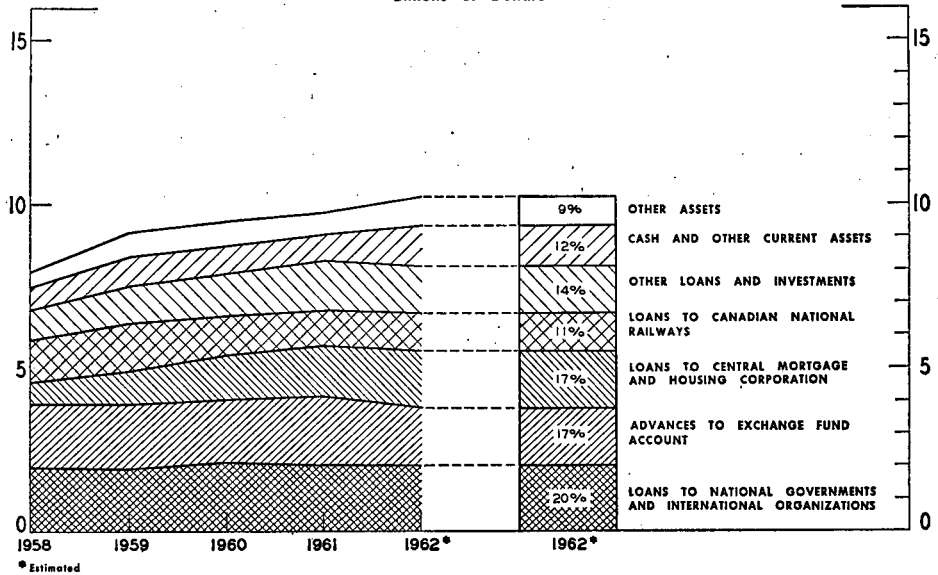
The details of the various loan issues, redemptions and conversions resulting in the net increase are described more fully in section 6, "The Public Debt".

In the year under review, unmaturred debt obligations payable in London are stated in Canadian dollars converted at the rate of \$2.80 for the pound sterling and that payable in New York at par for the U.S. dollar.

### B. CHANGES IN PRINCIPAL ASSET CLASSIFICATIONS DURING 1961-62

The total assets increased by \$473 million during 1961-62. The principal changes were increases of \$436 million in current assets and \$368 million in loans to, and investments in, Crown corporations and decreases of \$241 million in advances to the exchange fund account, \$48 million in other loans and investments, \$38 million in loans to national governments and \$6 million in deferred charges.

**TOTAL ASSETS**  
Fiscal Years Ended March 31  
Billions of Dollars



### Current assets

Total current assets at the close of the 1961-62 fiscal year amounted to \$1,220 million, an increase of \$436 million from the balance of \$784 million at the close of 1960-61. This increase was due mainly to increases of \$401 million in cash in current and special deposits and \$54 million in departmental working capital advances and revolving funds (including increases of \$39 million in the agricultural commodities stabilization account and \$18 million in the defence production revolving fund) offset in part by a decrease of \$24 million in the securities investment account.

TABLE 51  
(in millions of dollars)

CURRENT ASSETS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Cash in current and special deposits.....	762.0	360.7	401.3
Cash in hands of collectors and in transit.....	130.6	126.1	4.5
Departmental working capital advances and revolving funds—			
Agricultural commodities stabilization account.....	128.7	90.2	38.5
Defence production revolving fund.....	33.2	15.7	17.5
Miscellaneous departmental imprest and advance accounts.....	28.0	25.4	2.6
Other.....	34.7	39.8	-5.1
	224.6	171.1	53.5
Securities investment account.....	77.6	101.5	-24.0
Moneys received after March 31 but applicable to the current year.....	15.0	14.0	1.0
Post Office—cash on hand and in transit.....	10.8	11.0	-0.2
	1,220.5	784.4	436.1

The decrease in the securities investment account was due to the cancellation of \$320 million of the holdings therein of the government's own issues, offset in part by the net result of other transactions in the account in the amount of \$296 million.

It should also be noted that in accordance with the announcement by the Minister of Finance in the Budget Speech of June 20, 1961 a Purchase Fund was established to assist in the management of the public debt. During the fiscal year issues totalling \$166 million were purchased and the securities cancelled prior to the fiscal year-end.

### Advances to the exchange fund account

The balance of \$1,783 million in the exchange fund account was \$241 million less than the 1960-61 total of \$2,024 million.

### Sinking fund held for retirement of unmatured debt

The balance of \$18 million in this category at March 31, 1961 was approximately \$1 million higher than the balance at the previous fiscal year-end.

TABLE 52  
(in millions of dollars)

SINKING FUND HELD FOR RETIREMENT OF UNMATURED DEBT	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Sinking fund invested in—			
Newfoundland guaranteed stock, 1933/34-43/63, 3 per cent	12.8	12.8	
United Kingdom conversion stock, 1963, 4½ per cent.....	5.0	4.2	0.8
	17.8	17.0	0.8

### Loans to, and investments in, Crown corporations

An increase of \$368 million in these loans and investments during 1961-62 brought the balance at March 31, 1962 to \$3,995 million.

TABLE 53  
(in millions of dollars)

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Atomic Energy of Canada Limited.....	63.5	60.9	2.6
Bank of Canada.....	5.9	5.9	
Canadian Arsenal Limited.....	7.5	7.5	
Canadian Broadcasting Corporation.....	3.0	3.0	
Canadian Commercial Corporation.....	7.0	7.0	
Canadian National Railways.....	1,164.2	1,087.8	76.4
Canadian National (West Indies) Steamships Limited.....	1.6	1.6	
Canadian Overseas Telecommunication Corporation.....	34.4	31.7	2.7
Central Mortgage and Housing Corporation.....	1,708.7	1,510.7	198.0
Eldorado Mining and Refining Limited.....	8.2	8.2	
Export Credits Insurance Corporation.....	18.0	10.0	8.0
Farm Credit Corporation.....	209.8	155.8	54.0
National Capital Commission.....	34.5	25.2	9.3
National Harbours Board.....	179.4	172.8	6.6
Northern Canada Power Commission.....	45.2	40.0	5.2
Northern Ontario Pipe Line Crown Corporation.....	120.8	123.7	-2.9
Polymer Corporation Limited.....	30.0	30.0	
The St. Lawrence Seaway Authority—			
Loans.....	330.5	320.5	10.0
Deferred interest.....	19.4	19.4	
Trans-Canada Air Lines.....	2.6	4.8	-2.2
Other Crown Corporations.....	1.1	1.2	-0.1
	3,995.3	3,627.7	367.6

Advances to Atomic Energy of Canada Limited, to be covered by obligations or shares of the company, were \$64 million at March 31, 1962, an increase of \$3 million during the year.

During the fiscal year ended March 31, 1962, the government advanced to the Canadian National Railway Company \$68 million for capital purposes and retirement of debt in the hands of the public. Of this amount \$37 million was advanced under the Refunding Act, 1955, for the refunding of various trust certificates, \$28 million for capital purposes and \$3 million for the company's purchase fund which is operated under the terms of Canadian National Railway Company bonds, guaranteed by the Government of Canada, issued on May 15, 1959, December 15, 1959, January 1, 1960 and October 1, 1960. During the fiscal year \$11 million was repaid by the company on current and prior years' advances.

In addition, to assist the company to finance further capital expenditure during the fiscal year, the government purchased \$21 million of four per cent preferred stock of the 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 revenue of the company.

Also in the year ended March 31, 1962, the government provided the company with temporary loans of \$64 million in respect of its 1961 income deficit. This amount plus temporary loans of \$2 million made on the same account in the previous fiscal year brought the total loans on account of the 1961 deficit to \$66 million. It should be noted that the total 1961 deficit of \$67 million, of which \$66 million was covered by temporary loans by the government and the remainder paid from company funds, was charged to budgetary expenditure.

TABLE 54  
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, THE CANADIAN NATIONAL RAILWAYS	Fiscal year ended March 31		Increase or decrease (—)
	1962 (estimated)	1961	
<b>Advances—</b>			
For the refunding of debt.....	37.2	1.0	36.2
For capital expenditures.....	28.4	102.6	—74.2
For purchase fund.....	2.8	4.0	—1.2
For interim financing of income deficits.....	63.8	55.5	8.3
	<b>132.2</b>	<b>163.1</b>	<b>—30.9</b>
<b>Repayments—</b>			
Advances for capital and refunding purposes.....	—11.4	—225.1	213.7
Advances for interim financing of income deficits.....	—65.8	—75.0	9.2
	<b>—77.2</b>	<b>—300.1</b>	<b>222.9</b>
Excess of advances over repayments or repayments over advances (—).....	55.0	—137.0	192.0
Purchase of 4 per cent preferred stock (C.N.R. Capital Revision Act, 1952).....	21.4	20.5	0.9
Net increase or decrease (—) during the fiscal year in the government's advances to, and investments in, the Canadian National Railways.....	<b>76.4</b>	<b>—116.5</b>	<b>192.9</b>

In summary, the total amount made available to the company during the fiscal year was \$153 million and repayments including the charge to budgetary expenditure were \$77 million. The amount of advances to the company outstanding at March 31, 1962 increased by \$76 million.

At March 31, 1961, temporary loans of \$5 million were outstanding to the Trans-Canada Air Lines in respect of its 1961 income deficit. During 1961-62 further advances of \$2 million were made for this purpose. The amount of \$7 million was repaid or credited during the year. However, the government made advances of \$3 million on account of the air lines 1962 income deficit which is still outstanding.

Loans during the year to Central Mortgage and Housing Corporation amounted to \$246 million, of which \$237 million was for direct loans by the corporation and \$9 million in respect of loans for federal-provincial housing projects. Repayments were \$48 million, of which \$43 million was in respect of direct loans, \$2 million in respect of loans for federal-provincial housing projects and \$3 million in respect of loans for housing projects. The net increase of \$198 million for the year brought the total loans to \$1,709 million at March 31, 1962.

Loans to the Farm Credit Corporation amounted to \$56 million and investment in the capital of the corporation to \$1 million during the year. Repayments by the corporation of \$3 million brought the outstanding advances to \$210 million at March 31, 1962.

Advances to The St. Lawrence Seaway Authority during the year amounted to \$10 million bringing the total loans to \$331 million. In addition, deferred interest on these loans was \$19 million at the year-end, unchanged from the total at March 31, 1961. A contra item for this deferred interest is included in the liability category "Deferred credits".

It should also be noted that in accordance with Order-in-Council P.C. 1961-1863 dated December 29, 1961, interest of \$14 million payable on December 31, 1961 by The St. Lawrence Seaway Authority, as well as interest payable on December 31, 1962, has been deferred until December 31, 1963. On December 31, 1963 the total amount of interest so deferred together with the interest payable December 31, 1963, will be computed as a single sum and is to be repaid in equal annual instalments calculated by amortizing the said sum, including interest at rates determined by the Minister of Finance, over a period of forty-six years.

Other changes in this category include increases of \$9 million in loans to the National Capital Commission, \$8 million in loans to the Export Credits Insurance Corporation, \$7 million in loans to the National Harbours Board, \$5 million in loans to the Northern Canada Power Commission, \$3 million in loans to the Canadian Overseas Telecommunication Corporation and a decrease of \$3 million in loans to the Northern Ontario Pipe Line Crown Corporation.

### **Loans to national governments**

These loans decreased by \$38 million during the year leaving a balance of \$1,340 million at March 31, 1962.

The United Kingdom government repaid \$17 million of the \$1,185 million loan made under the \$1,250 million credit authorized by the United Kingdom Financial Agreement Act, 1946, reducing the principal to \$1,030 million at March 31, 1962.

TABLE 55  
(in millions of dollars)

LOANS TO NATIONAL GOVERNMENTS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Loans to United Kingdom—			
The United Kingdom Financial Agreement Act, 1946...	1,030.3	1,047.4	—17.1
Deferred interest.....	44.2	44.2	
	1,074.5	1,091.6	—17.1
Loans under the Export Credits Insurance Act, Part II—			
Belgium.....	34.6	36.9	—2.3
France.....	133.9	142.3	—8.4
The Netherlands.....	68.9	73.4	—4.5
	237.4	252.6	—15.2
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada—			
Ceylon.....	1.7	2.0	—0.3
India.....	24.8	29.5	—4.7
	26.5	31.5	—5.0
Miscellaneous loans and advances—			
France—interim credit—consolidated interest.....	1.3	1.4	—0.1
The Netherlands—military relief and currency credits settlement.....		0.6	—0.6
Other.....	0.1	0.5	—0.4
	1.4	2.5	—1.1
	1,339.8	1,378.2	—38.4

Advances under Part II of the Export Credits Insurance Act to Belgium, France and The Netherlands to assist them in purchasing goods in Canada have been reduced by repayments of \$15 million during the year leaving a balance of \$237 million outstanding.

Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada amounted to \$27 million at March 31, 1962, \$5 million less than at March 31, 1961.

### Other loans and investments

The balance in this category was \$975 million at March 31, 1962, a decrease of \$48 million during the fiscal year 1961–62.

Canada's subscriptions to the capital of international organizations increased by \$29 million during the year due mainly to a further subscription of \$8 million to the international development association and revaluation adjustments of \$19 million in the Canadian dollar balance in the international monetary fund.

Loans to provincial governments decreased by \$8 million. The balance at March 31, 1961 of \$1 million for overpayments to provinces arising out of the 1952 tax rental agreements was settled during the year.

The Veterans Land Act advances account less the reserve for conditional benefits increased by \$12 million.

Miscellaneous loans and investments were \$81 million lower than the total for the previous year, more than accounted for by the repayment of \$67 million by the Unemployment Insurance Commission and the repayment of \$17 million of temporary loans in respect of the old age security fund.

TABLE 56

(in millions of dollars)

OTHER LOANS AND INVESTMENTS	Balance at March 31		Increase or decrease (—)
	1962 (estimated)	1961	
Subscriptions to capital of, working capital advances and loans to, international organizations—			
Canada's subscription to capital of—			
International bank for reconstruction and development.....	76.5	73.7	2.8
International development association.....	16.4	8.5	7.9
International finance corporation.....	3.5	3.5	
International monetary fund.....	562.7	543.7	19.0
Working capital advances and loans to international organizations.....	1.4	1.8	-0.4
	660.5	631.2	29.3
Loans to provincial governments—			
Alberta.....	7.6	8.0	-0.4
British Columbia.....	14.7	15.5	-0.8
Manitoba.....	12.8	13.2	-0.4
New Brunswick.....	19.5	22.9	-3.4
Saskatchewan.....	21.7	24.2	-2.5
	76.3	83.8	-7.5
Overpayments to provinces arising out of 1952 tax rental agreements.....		1.0	-1.0
Veterans Land Act advances.....	209.0	199.6	9.4
Less reserve for conditional benefits—			
Veterans Land Act, 1942.....	-30.6	-33.5	2.9
	178.4	166.1	12.3
Miscellaneous—			
Assisted passage scheme (section 69, Immigration Act, R.S. 1952).....	2.6	3.4	-0.8
Balances receivable under agreements of sale of Crown assets.....	10.6	12.1	-1.5
City of Montreal—			
Atwater tunnel.....	2.0	2.0	
St. Remi tunnel.....	1.1	1.2	-0.1
Construction of dock and rail facilities for Steep Rock Iron Mines Limited.....	1.6	1.8	-0.2
Crown Assets Disposal Corporation—Government equity in agency account.....	6.0	4.9	1.1
Dominion Coal Company Limited.....	5.7	5.7	
Hamilton Harbour Commissioners.....	1.3	0.9	0.4
Housing projects for Canadian forces.....	6.8	4.6	2.2
Land development of the Cornwall Navigation System.....	1.7	1.7	
Municipal Improvements Assistance Act, 1938.....	1.5	1.6	-0.1
New Westminster Harbour Commission.....	2.3	2.3	
Northwest Territories.....	2.1	0.7	1.4
Old age security fund—temporary loans.....		17.3	-17.3
Town of Ormocto, New Brunswick.....	4.0	4.2	-0.2
Town of Ormocto Development Corporation.....	1.0	1.0	
Unemployment Insurance Commission.....		67.0	-67.0
Yukon Territory.....	3.6	2.2	1.4
Other.....	5.4	5.4	
	59.3	140.0	-80.7
	974.5	1,022.1	-47.6

### Securities held in trust

This category records the security holdings of various deposit and trust, and annuity, insurance and pension accounts. Bonds and certified cheques held in connection with contractors' securities included in the deposit and trust category are also recorded under this heading. The balance at March 31, 1962 amounted to \$31 million, \$1 million higher than the previous year-end balance.

## Deferred charges

This category consists of the unamortized portions of actuarial deficiencies in the Canadian forces superannuation account, the public service superannuation account, the Royal Canadian Mounted Police superannuation account, and the outstanding balance of unamortized loan flotation costs. There was a decrease of \$6 million in this category during the year, bringing the balance at March 31, 1962 to \$727 million.

### *Unamortized portions of actuarial deficiencies*

This category records the unamortized portions of the actuarial deficiencies in the public service, the Canadian forces, and the Royal Canadian Mounted Police superannuation accounts which have been set up as deferred charges to be written off to budgetary expenditure upon parliamentary approval.

The deficiencies in the public service superannuation account, the Canadian forces superannuation account and the Royal Canadian Mounted Police superannuation account are based on actuarial valuations made as at December 31, 1957, March 31, 1958 and December 31, 1961, respectively.

### *Unamortized loan flotation costs*

This account records the residual balances of discounts, commissions, redemption bonuses and conversion premiums on loan flotations that have not

TABLE 57  
(in millions of dollars)

UNAMORTIZED LOAN FLOTATION COSTS	Fiscal year ended March 31	
	1962 (estimated)	1961
Balance of account at beginning of fiscal year.....	130.7	151.0
New flotation costs to be amortized—		
5½% loan issued Oct. 1, 1959, maturing Oct. 1, 1975.....	1.4	
4% loan issued Feb. 1, 1961, maturing May 1, 1964.....	2.1	
3½% loan issued March 15, 1961, maturing Dec. 15, 1962.....	2.6	
3% loan issued May 1, 1961, maturing May 1, 1962.....	1.6	
3% loan issued Aug. 1, 1961, maturing Aug. 1, 1962.....	1.2	
4% loan issued Aug. 1, 1961, maturing Dec. 1, 1964.....	2.8	
4½% loan issued Sept. 15, 1961, maturing Dec. 15, 1966.....	1.4	
2½% loan issued Dec. 1, 1961, maturing June 1, 1963.....	2.0	
3½% loan issued Dec. 1, 1961, maturing Oct. 1, 1964.....	3.4	
4½% loan issued Dec. 1, 1961, maturing June 1, 1967.....	0.5	
2½% loan issued Jan. 15, 1962, maturing April 1, 1963.....	2.5	
4½% loan issued Jan. 15, 1962, maturing Jan. 15, 1968.....	0.5	
Treasury bills discount.....	9.5	11.3
Canada savings bonds—adjustment of previous issues.....	0.6	0.7
Canada savings bonds—new issue.....	9.0	7.2
5½% loan issued April 1, 1960, maturing April 1, 1963.....		0.7
5½% loan issued April 1, 1960, maturing April 1, 1969.....		2.3
4½% loan issued June 1, 1960, maturing Dec. 1, 1962.....		0.1
3% loan issued Dec. 15, 1960, maturing June 15, 1962.....		3.4
4% loan issued Dec. 15, 1960, maturing Dec. 15, 1963.....		3.4
4% loan issued Feb. 1, 1961, maturing May 1, 1964.....		3.7
3½% loan issued Mar. 15, 1961, maturing Dec. 15, 1962.....		1.2
	41.1	54.0
Less—		
Amortization applicable to fiscal year—		
Canada savings bonds and general loans.....	-33.6	-38.9
Discount on treasury bills charged to interest on public debt...	-11.3	-15.4
Adjustments re cancellations of securities.....	-6.0	
	-50.9	-54.5
Decrease (-) during the year.....	-9.8	-20.3
Balance of account at end of fiscal year.....	120.9	130.7

been charged to budgetary expenditure. The balance at March 31, 1962 totalled \$121 million, a decrease of \$10 million from the previous year-end balance.

Cost of new loans issued during 1961-62 and charged to the account amounted to \$41 million, of which \$10 was in respect of treasury bill discounts which will be charged to interest on public debt in 1962-63. Credits to the account were \$51 million of which \$34 million was a charge to the budgetary expenditure item "Annual amortization costs", \$11 million, representing discount on treasury bills sold in 1960-61, was a charge to the budgetary item "Interest on public debt" and \$6 million was an adjustment due to cancellation of unmatured loans prior to their maturity date.

### **Suspense accounts**

The only item in this category is the cheque adjustment suspense account which reflects unadjusted balances resulting from the reconciliation of payments for redemption of paid cheques with the amount of those cheques as subsequently determined in adjustment of the outstanding cheque account.

### **Capital assets**

Assets of the government such as land, buildings, works and equipment, etc., that are charged to budgetary expenditure at the time of acquisition or construction, are included in this category and are shown on the statement of assets and liabilities at a nominal value of \$1.

### **Inactive loans and investments**

Loans and investments which are not currently revenue-producing or realizable are recorded in this category. Included are the loan of \$49 million to China under the Export Credits Insurance Act, loans of \$24 million and \$7 million made to Roumania and Greece in 1919-20 and 1920-21 and advances of \$15 million in respect of the implementation of guarantees (Ming Sung Industrial Company Limited).

### **Reserve for losses on realization of assets**

There is no change in this reserve during the year, the balance at March 31, 1962 being \$546 million, unchanged from the end of the previous year.

## **C. INCREASE IN NET DEBT**

The deficit for the fiscal year of \$791 million resulted in a corresponding increase in the net debt of Canada which at March 31, 1962, was \$13,229 million.

## 5. THE CASH POSITION

The government's cash position is affected not only by the budgetary transactions but also by changes in the government's outstanding unmatured debt and by other non-budgetary transactions. In 1961-62 there was an increase of \$401 million in the government's bank balances. This increase is the result of the budgetary deficit of \$791 million, being more than offset by an increase of \$880 million in outstanding unmatured debt (after taking into account transactions in the purchase fund, securities investment and sinking fund accounts) and the net receipts of \$312 million from other non-budgetary transactions. It should be noted that in accordance with the announcement by the Minister of Finance in the Budget Speech of June 20, 1961 a Purchase Fund was established to assist in the management of the public debt. During the fiscal year issues totalling \$166 million were purchased and the securities subsequently cancelled.

Non-budgetary receipts and disbursements relate to transactions which result in increases or decreases in the government's assets and liabilities and do not 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. However, 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 on the economy, non-budgetary as well as budgetary transactions must be taken into account.

TABLE 58  
(in millions of dollars)

CHANGES IN CASH POSITION	Fiscal year ended March 31	
	1962 (estimated)	1961
<b>Budgetary transactions—</b>		
Revenues.....	5,772.0	5,617.7
Expenditures.....	-6,563.4	-5,958.1
Budgetary deficit (—).....	-791.4	-340.4
<b>Non-budgetary transactions (excluding unmatured debt transactions)</b> (net)—		
Receipts and credits.....	804.5	398.5
Disbursements and charges.....	-492.1	-351.9
Net amount received from non-budgetary transactions (excluding unmatured debt transactions).....	312.4	46.6
<b>Overall cash requirement (—) to be financed by increase in debt or decrease in cash balances.....</b>	<b>-479.0</b>	<b>-293.8</b>
<b>Net increase in unmatured debt outstanding in the hands of the public—</b>		
Unmatured debt—		
Bonds.....	907.1	367.8
Treasury bills.....	-50.0	-190.0
Securities investment account.....	24.0	-23.6
Sinking fund.....	-0.8	68.3
	880.3	222.5
<b>Net increase or decrease (—) in Receiver General bank balances...</b>	<b>401.3</b>	<b>-71.3</b>

The increases or decreases in the government's assets and liabilities have been described in detail in the section entitled "Statement of Assets and Liabilities of Canada". 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 they relate mainly to receipts and payments in connection with the many deposit and trust accounts, and annuity, insurance and pension funds held or administered by the government.

The preceding table summarizes both the budgetary and non-budgetary transactions for 1961-62 and indicates how they affected the government's cash position. For purposes of comparison the corresponding figures for 1960-61 are also shown.

As the table shows, non-budgetary receipts and credits for 1961-62 (excluding unmatured debt transactions) totalled \$804 million while non-budgetary disbursements and charges (also excluding unmatured debt transactions) were \$492 million, resulting in a net receipt of \$312 million. As the budgetary deficit was \$791 million, \$479 million required financing by an increase in unmatured debt or a decrease in cash balances. In 1960-61 there was a net receipt of \$46 million from non-budgetary transactions and a budgetary deficit of \$340 million resulting in \$294 million having to be financed by an increase in unmatured debt or a decrease in cash balances.

### Non-budgetary receipts and credits

Non-budgetary receipts and credits, as already indicated, amounted to \$804 million in 1961-62 as shown in the following table:

TABLE 59  
(in millions of dollars)

NON-BUDGETARY RECEIPTS AND CREDITS	Fiscal year ended March 31	
	1962 (estimated)	1961
Repayments of loans, investments and working capital advances (net)—		
Exchange fund account.....	241.0	-64.0
Northern Ontario Pipe Line Crown Corporation.....	2.9	-2.2
United Kingdom (1946 loan).....	17.1	16.7
Special loans to India and Ceylon (re purchase of wheat from Canada).....	5.0	3.5
Other national governments (Export Credits Insurance Act).....	15.2	15.2
Old age security fund.....	17.3	10.7
Provincial governments.....	8.5	5.6
Unemployment insurance fund.....	67.0	-67.0
Other.....	9.9	7.8
	383.9	-73.7
Net government annuities account receipts—		
Premium receipts less payments to beneficiaries.....	-9.0	-2.4
Interest paid by government.....	46.0	44.6
	37.0	42.2
Net insurance and pension accounts receipts—		
Employee contributions less payments to beneficiaries.....	37.8	30.3
Government contributions.....	107.6	88.7
Actuarial deficiency in the public service superannuation account.....		137.7
Actuarial deficiency in the Royal Canadian Mounted Police super- annuation account.....	3.5	
Interest paid by government.....	112.0	96.4
Old age security fund.....	6.7	
	267.6	353.1
Net decrease in unamortized loan flotation costs.....	9.8	20.3
Net increase in current and demand liabilities.....	73.3	48.5
Net increase in uninvested portion of unemployment insurance fund.....	0.4	-5.2
Net increase in deposit and trust accounts.....	27.8	-3.0
Net receipts from sundry other accounts.....	4.7	16.3
	804.5	398.5

## Non-budgetary disbursements and charges

Non-budgetary disbursements and charges totalled \$492 million in 1961-62 as shown in the following table:

TABLE 60  
(in millions of dollars)

Non-BUDGETARY DISBURSEMENTS AND CHARGES	Fiscal year ended March 31	
	1962 (estimated)	1961
Loans, investments and working capital advances (net)—		
Agricultural commodities stabilization account.....	38.5	-30.5
Atomic Energy of Canada Limited.....	2.6	1.5
Canadian Broadcasting Corporation.....		3.0
Canadian National Railways.....	76.4	-116.5
Canadian Overseas Telecommunication Corporation.....	2.7	9.1
Central Mortgage and Housing Corporation.....	198.0	192.0
Defence production revolving fund.....	17.5	-5.0
Export Credits Insurance Act (sec. 21A).....	8.0	
Farm Credit Corporation.....	54.0	40.1
International organizations (subscriptions to capital).....	29.7	26.3
National Capital Commission.....	9.3	7.4
National Harbours Board.....	6.6	11.4
Northern Canada Power Commission.....	5.2	5.4
The St. Lawrence Seaway Authority.....	10.0	24.0
Veterans Land Act advances.....	12.3	14.5
Other.....	7.2	16.2
	478.0	198.9
Net disbursements from special defence account.....	3.0	-1.0
Net increase of cash in hands of collectors and in transit.....	4.5	-7.3
Unamortized portion of actuarial deficiency in the public service superannuation account.....		137.7
Unamortized portion of actuarial deficiency in the Royal Canadian Mounted Police superannuation account.....	3.5	7.5
Adjustment to net debt in respect of C.N.R. 1958 deficit.....	3.1	16.1
Other.....		
	492.1	351.9

## Summary

In summary, as budgetary and non-budgetary transactions required financing in the amount of \$479 million, and unmatured debt outstanding in the hands of the public (after taking into account transactions in the purchase fund, securities investment and sinking fund accounts) increased by \$880 million, cash balances on deposit with the banks increased by \$401 million.

## 6. THE PUBLIC DEBT

**Gross and net debt**

The gross debt of Canada amounted to \$22,867 million as at March 31, 1962. Unmatured debt, including treasury bills, in the amount of \$16,925 million accounted for approximately 74 per cent of the total. The remaining liabilities, consisting of current and demand liabilities, deposit and trust accounts, annuity, insurance and pension accounts, undisbursed balances of appropriations to special accounts, deferred credits and sundry suspense accounts, aggregated \$5,942 million or approximately 26 per cent of the total debt.

The net debt of Canada was \$13,229 million as at March 31, 1962, an increase of \$791 million over the net debt at March 31, 1961. Total liabilities increased by \$1,264 million to \$22,867 million and net assets by \$473 million to \$9,638 million at March 31, 1962.

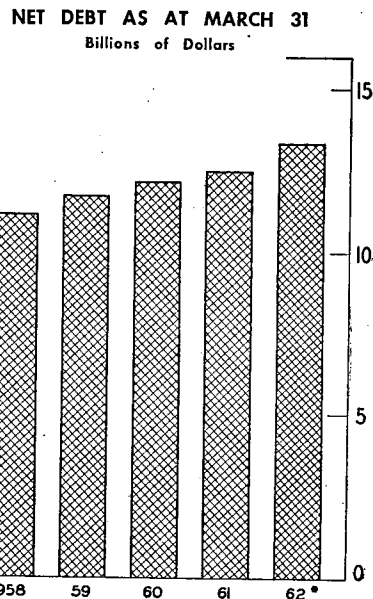
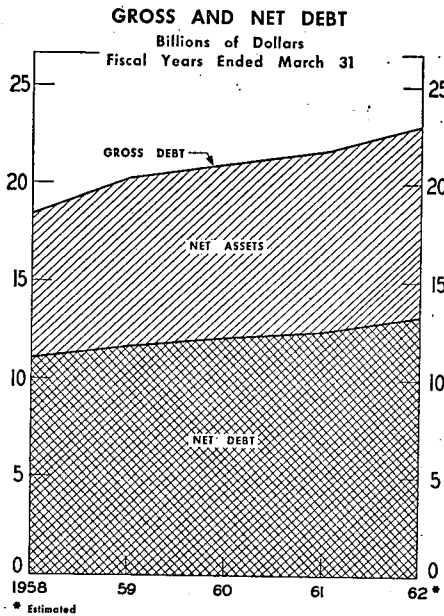


TABLE 61  
STATEMENT OF PUBLIC DEBT, UNMATURED DEBT, RECORDED NET ASSETS AND NET DEBT OF CANADA  
(in millions of dollars)

As at March 31	Gross Public Debt			Less recorded net assets	Net debt	Increase in net debt during fiscal year
	Unmatured debt	Other liabilities	Total			
1958.....	14,245.1	4,173.4	18,418.5	7,372.2	11,046.3	38.6
1959.....	15,574.1	4,675.8	20,249.9	8,571.5	11,678.4	632.1
1960.....	15,890.1	5,096.3	20,986.4	8,897.2	12,089.2	410.8
1961.....	16,067.9	5,534.9	21,602.8	9,165.7	12,437.1	347.9
1962 (estimated).....	16,925.0	5,941.8	22,866.8	9,638.3	13,228.5	791.4

**Unmatured debt**

The total unmatured debt of Canada at March 31, 1962 totalled \$16,925 million, \$857 million more than at the end of the previous fiscal year. The government's holdings of its own securities were \$95 million, comprised of \$77 million in the securities investment account and \$18 million in the sinking fund account. This was a decrease of \$23 million over the comparable figure

at March 31, 1961 when holdings were \$101 million in the securities investment account and \$17 million in the sinking fund account.

The decrease in the securities investment account was due to the cancellation of \$320 million of the holdings therein of the government's own issues, offset in part by the net result of other transactions in the account in the amount of \$296 million.

In accordance with the announcement by the Minister of Finance in the budget speech of June 20, 1961, a purchase fund was established during the fiscal year to assist in the management of the public debt. Purchases of securities were:

\$11 million  $4\frac{1}{4}$  per cent bonds due September 1, 1972;  
 \$53 million  $5\frac{1}{2}$  per cent bonds due October 1, 1975;  
 \$7 million  $3\frac{1}{4}$  per cent bonds due June 1, 1976;  
 \$8 million  $3\frac{3}{4}$  per cent bonds due January 15, 1978;  
 \$15 million  $3\frac{1}{4}$  per cent bonds due October 1, 1979;  
 \$70 million  $4\frac{1}{2}$  per cent bonds due September 1, 1983 and  
 \$2 million  $3\frac{3}{4}$  per cent bonds due March 15, 1998.

Of these securities, \$61 million were cancelled in November, 1961 and the balance of \$105 million cancelled prior to the fiscal year-end and unmatured debt reduced by similar amounts.

Of the total unmatured debt, \$16,795 million or more than 99 per cent was payable in Canada, \$98 million in New York and \$32 million in London.

*Summary of security issues and maturities, redemptions, conversions or cancellations*

During the year ended March 31, 1962 the government issued securities payable in Canada in the principal amount of \$3,451 million (excluding the refunding of treasury bills which mature weekly) and redeemed, converted or cancelled issues payable in Canada in the amount of \$2,594 million.

TABLE 62  
(in millions of dollars)

UNMATURED DEBT TRANSACTIONS	Fiscal year ended March 31	
	1962 (estimated)	1961
Balance at beginning of year.....	16,068	15,890
New issues—		
For cash—		
Canada savings bonds series 14.....		64
Canada savings bonds series 15.....	67	851
Canada savings bonds series 16.....	989	
Marketable bonds.....	1,350	200
Non-marketable bonds (Unemployment Insurance Commission)	162	
	<u>2,568</u>	<u>1,115</u>
By renewals and conversions—		
Marketable bonds.....	883	1,416
	<u>3,451</u>	<u>2,531</u>
Less—		
Matured marketable bonds.....	-498	-998
Redeemed non-marketable bonds (Unemployment Insurance Commission).....	-109	
Conversions.....	-883	-497
Canada savings bonds redeemed or matured.....	-568	-496
Treasury bills (net).....	-50	-190
	<u>-2,108</u>	<u>-2,181</u>
Unmatured marketable bonds (purchased and cancelled).....	-486	-172
	<u>-2,594</u>	<u>-2,353</u>
Increase in unmatured debt.....	857	178
Balance at end of year.....	16,925	16,068

Net sales of Canada savings bonds 1961, series 16, as at March 31, 1962, totalled \$989 million and additional sales of Canada savings bonds 1960, series 15, during the year were \$67 million. Redemptions of Canada savings bonds series 6 to 15 totalled \$568 million. The net increase during the year for all series was \$488 million and the amount outstanding and unmatured for all series at March 31, 1962, \$4,044 million.

The amount of treasury bills outstanding at March 31, 1962 was \$1,885 million, consisting of \$1,235 million in three-month bills and \$650 million in six-month bills. The March 31, 1961 balance was \$1,935 million, consisting of \$1,235 million in three-month bills, \$650 million in six-month bills and \$50 million in special 366-day bills.

TABLE 63

DEBT MATURED, REDEEMED, CONVERTED OR CANCELLED DURING THE FISCAL YEAR ENDED  
MARCH 31, 1962 (estimated)

	Matured	Redeemed	Converted	Cancelled prior to maturity	Total
One-year treasury bills.....	50,000,000				50,000,000
3% 1958/59-61.....	200,000,000		(1) 100,000,000		300,000,000
3% 1958-61.....	245,059,000		(2) 525,000,000	455,000	770,514,000
3% 1944-62.....	53,473,150				53,473,150
3% 1961-62.....			(3) 90,000,000		90,000,000
3% 1960-62.....			(4) 110,000,000		110,000,000
2½% 1950-68.....				41,419,000	41,419,000
3½% 1954-76.....				49,165,500	49,165,500
3½% 1953/58-78.....				33,641,500	33,641,500
3½% 1954-79.....				48,728,500	48,728,500
3½% 1956-98.....				51,870,000	51,870,000
3½% 1958-65.....				832,500	832,500
4½% 1958-72.....				79,505,000	79,505,000
5½% 1959-75.....				56,580,000	56,580,000
4½% 1958-83.....				123,619,500	123,619,500
5½% 1959-62.....			(5) 57,920,000		57,920,000
5½% 1960-63.....			(6) 226,000		226,000
Canada savings bonds S.6-15.....		567,500,000			567,500,000
3½% non-marketable bonds (Unemployment Insurance Commission).....		108,500,000			108,500,000
	548,532,150	676,000,000	883,146,000	485,816,500	2,593,494,650

(1) \$50,000,000 exchanged for 3% loan due May 1, 1962; \$50,000,000 exchanged for 4% loan due May 1, 1964.

(2) \$50,000,000 exchanged for 3½% loan due December 15, 1962; \$100,000,000 exchanged for 3% loan due August 1, 1962; \$100,000,000 exchanged for 4% loan due December 1, 1964; \$75,000,000 exchanged for 4½% loan due December 15, 1966; \$100,000,000 exchanged for 3½% loan due October 1, 1964; \$100,000,000 exchanged for 4½% loan due June 1, 1967.

(3) \$25,000,000 exchanged for 3% loan due August 1, 1962; \$15,000,000 exchanged for 4½% loan due December 15, 1966; and \$50,000,000 exchanged for 4½% loan due January 15, 1968.

(4) \$60,000,000 exchanged for 4½% loan due December 15, 1966; and \$50,000,000 exchanged for 4½% loan due January 15, 1968.

(5) Exchanged for 5½% loan due October 1, 1975.

(6) Exchanged for 5½% loan due April 1, 1976.

TABLE 64

NEW SECURITIES ISSUED DURING YEAR ENDED MARCH 31, 1962 (estimated)

Description	Price to government	Yield at price to government	Total amount issued	Renewals or conversions included in amount issued	Amount issued for cash
			\$	\$	\$
Issued to general public—					
Marketable bonds—					
(1) Loan due Oct. 1, 1975, 5½%.....			57,920,000	57,920,000	
(2) Loan due April 1, 1976, 5½%.....			226,000	226,000	
(3) Loan due May 1, 1964, 4%.....	98.25	4.63	110,000,000	50,000,000	60,000,000
(4) Loan due Dec. 15, 1962, 3½%.....	98.75	4.35	200,000,000	50,000,000	150,000,000
(5) Loan due May 1, 1962, 3%.....	99.25	3.77	190,000,000	50,000,000	140,000,000
(6) Loan due Aug. 1, 1962, 3%.....	99.75	3.29	225,000,000	25,000,000	200,000,000
(7) Loan due Aug. 1, 1962, 3%.....	99.70	3.31	110,000,000	75,000,000	35,000,000
(8) Loan due Dec. 1, 1964, 4%.....	99.00	4.32	240,000,000	100,000,000	140,000,000
(9) Loan due Dec. 15, 1966, 4½%.....	99.25	4.66	175,000,000	175,000,000	
Loan due June 1, 1963, 2½%.....	99.00	3.44	175,000,000		175,000,000
(10) Loan due Oct. 1, 1964, 3½%.....	98.80	3.70	250,000,000	100,000,000	150,000,000
(11) Loan due June 1, 1967, 4½%.....	99.50	4.35	100,000,000	100,000,000	
Loan due April 1, 1963, 2½%.....	99.15	3.47	150,000,000		150,000,000
Loan due April 1, 1963, 2½%.....	99.15	3.56	150,000,000		150,000,000
(12) Loan due Jan. 15, 1968, 4½%.....	99.50	4.35	100,000,000	100,000,000	
Non-marketable bonds—					
Unemployment Insurance Commission, 3½%.....	100.00	3.75	161,500,000		161,500,000
Canada savings bonds—					
Nov. 1, 1960—Nov. 1, 1970, 4-5%, series 15.....	99.00		67,000,000		67,000,000
Nov. 1, 1961—Nov. 1, 1971, 4½-5%, series 16 (net).....	98.75		988,958,000		988,958,000
			3,450,604,000	883,146,000	2,567,458,000

(1) In exchange for 5½% loan due Oct. 1, 1962.

(2) In exchange for 5½% loan due April 1, 1963.

(3) \$50,000,000 in exchange for 3% loan due May 1, 1961.

(4) \$50,000,000 in exchange for 3% loan due Dec. 1, 1961.

(5) \$50,000,000 in exchange for 3% loan due May 1, 1961.

(6) \$100,000,000 in exchange for 3% loan due Dec. 1, 1961.

(7) \$100,000,000 in exchange for 3% loan due Dec. 1, 1961.

(8) \$75,000,000 in exchange for 3% loan due Dec. 1, 1961; \$60,000,000 in exchange for 3% loan due June 15, 1962 and \$40,000,000 in exchange for 3% loan due May 1, 1962.

(9) \$100,000,000 in exchange for 3% loan due Dec. 1, 1961.

(10) In exchange for 3% loan due Dec. 1, 1961.

(11) \$50,000,000 in exchange for 3% loan due June 15, 1962 and \$50,000,000 in exchange for 3% loan due May 1, 1962.

### Interest rates

The average interest rate on the government's unmatured debt at March 31, 1962 was 3.91 per cent the same as at the end of the previous fiscal year.

The yield on three-month treasury bills at tender on March 29, 1961 was 3.21 per cent. It rose to 3.34 per cent on April 13, 1961, was 2.26 per cent on August 31, 1961 and rose to 3.12 per cent on March 29, 1962.

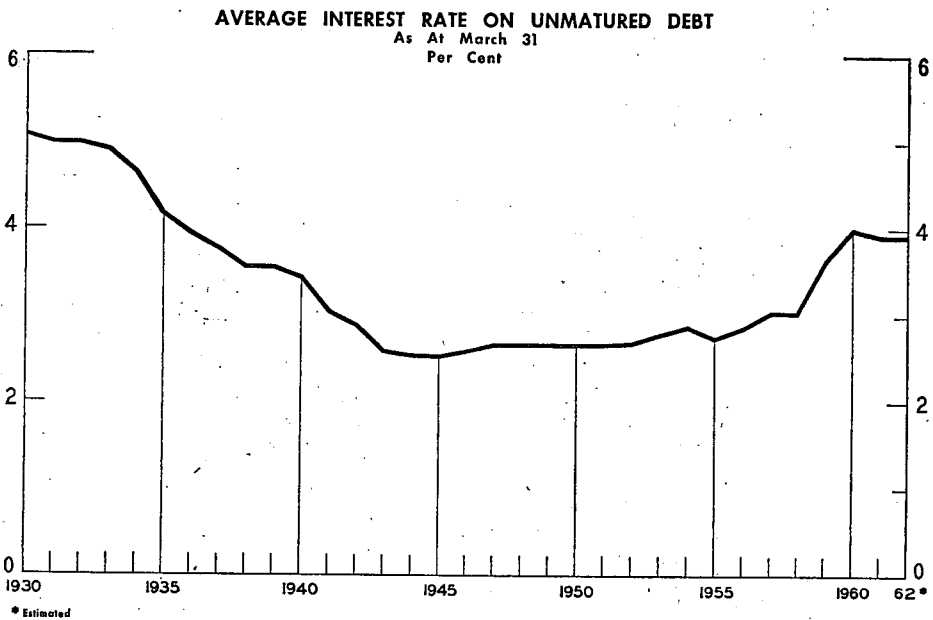
The yield on six-month treasury bills at tender on March 29, 1961 was 3.37 per cent. It rose to 3.49 per cent on April 13, 1961, was 2.53 per cent on November 10, 1961 and rose to 3.29 per cent on March 29, 1962.

The following table shows the high and low yields together with the yield on the latest issue of three-month bills for the fiscal years 1957-58 to 1961-62 inclusive, and for six-month bills for the fiscal years 1959-60 to 1961-62 inclusive.

TABLE 65  
TREASURY BILL YIELDS AT TENDER

Fiscal year ended March 31	High	Low	Last issue
	per cent	per cent	per cent
Three-month bills—			
1958.....	4.08	2.27	2.27
1959.....	4.30	0.87	4.30
1960.....	6.16	3.01	3.01
1961.....	3.95	1.68	3.21
1962.....	3.34	2.26	(1)3.12
Six-month bills—			
1960.....	6.87	3.23	3.23
1961.....	4.07	1.99	3.37
1962.....	3.49	2.53	(1)3.20

(1) At tender on March 29, 1962.



### 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.

The government's liability under its guarantee of loans under the National Housing Act, 1954 was \$3,562 million at December 31, 1961 compared with \$3,025 million at December 31, 1960.

TABLE 66

SUMMARY OF INDIRECT DEBT OR CONTINGENT LIABILITIES AS AT MARCH 31, 1962

	Amount outstanding March 31, 1962 (estimated)
	\$
<b>Bonds and debenture stock guaranteed by the government—</b>	
<b>Railway securities guaranteed as to principal and interest—</b>	
Canadian National 2½% due February 1, 1963.....	250,000,000
Canadian National 5½% due December 15, 1964 <sup>(1)</sup> .....	198,981,000
Canadian National 3% due January 3, 1966.....	35,000,000
Canadian National 2½% due January 2, 1967.....	50,000,000
Canadian National 4½% due April 1, 1967 <sup>(1)</sup> .....	72,750,000
Canadian National 5% due May 15, 1968 <sup>(1)</sup> .....	56,400,000
Canadian National 2½% due September 15, 1969.....	70,000,000
Canadian National 2½% due January 16, 1971.....	40,000,000
Canadian National 5½% due December 15, 1971 <sup>(1)</sup> .....	19,000
Canadian National 3½% due February 1, 1974.....	200,000,000
Canadian National 2½% due June 15, 1975.....	6,000,000
Canadian National 5% due May 15, 1977 <sup>(1)</sup> .....	85,950,000
Canadian National 4% due February 1, 1981.....	300,000,000
Canadian National 5½% due January 1, 1985 <sup>(1)</sup> .....	99,500,000
Canadian National 5% due October 1, 1987 <sup>(1)</sup> .....	171,500,000
	1,636,100,000
<b>Railway securities guaranteed as to interest only—</b>	
Grand Trunk 5% debenture stock, perpetual.....	51,442
	1,636,151,442
<b>Other outstanding guarantees and contingent liabilities—</b>	
Deposits maintained by the chartered banks in the Bank of Canada.....	696,007,777
Loans maintained by approved lending institutions under National Housing Acts prior to 1954 Act.....	Indeterminate
Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements.....	9,131,768
Insured loans made by approved lenders under the National Housing Act, 1954.....	3,553,231,426
Guarantees to owners of returns from moderate rental housing projects.....	Indeterminate
Insurance and guarantees issued or approved under Sections 21 and 21A of the Export Credits Insurance Act.....	352,614,290
Loans made by chartered banks under the Farm Improvement Loans Act.....	44,968,111
Loans made by chartered banks under the Veterans' Business and Professional Loans Act.....	129,045
Loans made by chartered banks and credit unions under the Fisheries Improvement Loans Act.....	127,790
Loans made by chartered banks under the Prairie Grain Producers' Interim Financing Act, 1956.....	32,789
Loans made by chartered banks under the Prairie Grain Loans Act.....	3,127
Loans made by chartered banks under the Small Businesses Loans Act.....	2,558,227
Loans made by chartered banks to the Canadian Wheat Board.....	113,555,146
Loans made by chartered banks to the Canadian Wheat Board pursuant to the Prairie Grain Provisional Payments Act.....	10,572
Loans made by chartered banks under the Prairie Grain Advance Payments Act...	8,672,245

<sup>(1)</sup>The original amounts issued were as follows: 1964 maturity \$200,000,000; 1967 maturity \$75,000,000; 1968 maturity \$60,000,000; 1977 maturity \$90,000,000; 1985 maturity \$100,000,000; 1987 maturity \$175,000,000; these amounts were reduced by \$1,000,000, \$2,250,000, \$3,600,000, \$4,050,000, \$500,000 and \$3,500,000 respectively through the operation of the company's purchase fund and \$19,000 of the 1964 maturity was exchanged for a like amount of 5½% bonds due December 15, 1971.

## 7. SUPPLEMENTARY DETAILED TABLES

REVENUES

EXPENDITURES

ANNUAL CHANGES IN LOANS AND INVESTMENTS

UNMATURED DEBT

## STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
	\$	\$	\$	\$	\$
<b>TAX REVENUES</b>					
Income tax—					
Personal <sup>(1)</sup> .....	1,499.8	1,353.5	1,566.6	1,711.2	1,800.0
Corporation <sup>(1)</sup> .....	1,234.8	1,020.6	1,142.9	1,276.6	1,205.0
On dividends, interest, etc., going abroad.....	64.3	61.2	73.4	88.2	115.0
	<i>2,798.9</i>	<i>2,435.3</i>	<i>2,782.9</i>	<i>3,076.0</i>	<i>3,120.0</i>
Excise taxes—					
Sales tax <sup>(1)</sup> <sup>(2)</sup> .....	703.2	694.5	732.7	720.6	774.0
Other excise taxes—					
Automobiles.....	72.3	59.3	64.3	59.6	25.4
Beverages (soft drinks).....	0.6				
Candy and chewing gum.....	0.7				
Cigarettes, tobacco and cigars.....	142.4	148.0	185.5	193.7	221.7
Electric power export.....	1.4	1.2	1.3	1.6	1.4
Jewellery, watches, ornaments, etc.	5.3	5.6	5.6	5.9	5.7
Matches and lighters.....	0.9	0.9	0.8	0.8	1.1
Television sets, radios, tubes and phonographs.....	16.9	17.8	17.8	15.9	17.6
Toilet preparations.....	6.3	6.8	7.7	8.4	8.9
Wines.....	2.7	3.1	3.0	3.2	3.5
Sundry commodities.....	1.4	1.2	1.2	1.1	1.2
Interest and penalties.....	0.6	0.5	0.6	0.8	0.5
Less refunds.....	-0.7	-2.6	-0.4	-0.3	-11.0
	<i>250.8</i>	<i>241.8</i>	<i>287.4</i>	<i>290.7</i>	<i>276.0</i>
Customs import duties.....	498.1	486.5	525.7	498.7	539.0
Excise duties—					
Spirits.....	83.7	96.5	102.4	108.5	113.7
Beer.....	88.2	83.1	90.7	91.0	95.6
Cigarettes, tobacco and cigars.....	131.7	141.2	146.2	149.6	158.3
Licences.....	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>
Less refunds.....	-3.5	-4.1	-4.1	-4.2	-4.6
	<i>300.1</i>	<i>316.7</i>	<i>335.2</i>	<i>344.9</i>	<i>363.0</i>
Estate tax <sup>(4)</sup> .....	71.6	72.6	88.4	84.9	85.0
Miscellaneous tax revenue.....	0.1	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>
<b>Total tax revenues.....</b>	<b>4,622.8</b>	<b>4,247.4</b>	<b>4,752.3</b>	<b>5,015.8</b>	<b>5,157.0</b>
<b>NON-TAX REVENUES—</b>					
Post office—net postal revenue.....	152.9	157.5	167.6	173.6	180.0
Return on investments.....	169.4	221.2	239.7	283.8	305.0
Other.....	103.7	128.6	130.2	144.5	130.0
<b>Total non-tax revenues.....</b>	<b>426.0</b>	<b>507.3</b>	<b>537.5</b>	<b>601.9</b>	<b>615.0</b>
<b>TOTAL REVENUES.....</b>	<b>5,048.8</b>	<b>4,754.7</b>	<b>5,289.8</b>	<b>5,617.7</b>	<b>5,772.0</b>

<sup>(1)</sup>Excluding tax credited to the old age security fund—

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
Personal income tax.....	135.0	146.4	185.6	229.4	259.0
Corporation income tax.....	60.7	55.3	91.3	103.5	100.0
Sales tax.....	175.8	173.6	270.0	270.2	290.0

<sup>(2)</sup>Net after deduction of refunds and drawbacks as well as transfers to the old age security fund.<sup>(3)</sup>Less than \$50,000.<sup>(4)</sup>Includes duties levied under the Dominion Succession Duty Act.

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

(in millions of dollars)

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
	\$	\$	\$	\$	\$
<b>AGRICULTURE—</b>					
Administration and general .....	2.6	3.6	3.6	4.4	5.2
Agricultural products board—net operating loss .....					4.9
Agricultural stabilization board—net operating loss .....	6.0	15.0	57.7	53.4	23.0
Assistance re storage costs of grain .....	33.3	38.4	42.3	48.2	49.0
Board of Grain Commissioners .....	6.3	6.1	6.1	6.3	6.5
Prairie farm emergency fund—deficit ..	5.9	17.0	12.5	9.2	49.5
Production and marketing branch .....	20.3	23.2	25.4	29.3	34.0
Contributions to Alberta, Saskatchewan and Manitoba—unharvested crops .....			4.7	1.4	
Payments to western grain producers ..		41.3		40.5	40.5
Freight assistance on western feed grains .....	17.5	20.0	23.8	19.2	16.7
Premium on hog and lamb carcasses suitable for export to United Kingdom .....	5.5	6.9	8.2	6.6	7.2
Rehabilitation and reclamation projects .....	12.5	13.5	17.6	20.2	26.6
Research branch .....	22.0	23.6	25.6	26.2	26.2
	151.9	208.6	227.5	284.9	289.3
<b>ATOMIC ENERGY .....</b>	21.6	26.1	30.1	38.9	35.3
<b>AUDITOR GENERAL'S OFFICE .....</b>	0.8	0.8	0.9	0.9	1.1
<b>BOARD OF BROADCAST GOVERNORS .....</b>		0.1	0.2	0.3	0.3
<b>CANADIAN BROADCASTING CORPORATION—</b>					
Grants toward the anticipated operating deficit and capital expenditures of the radio broadcasting and television services .....	24.4	50.3	61.9	64.9	75.3
International service .....	1.8	1.9	2.0	1.9	1.7
Payment from the consolidated revenue fund of amounts equal to taxes collected under the Excise Tax Act in respect of radio and television sets and equipment .....	16.8	9.8			
	43.0	62.0	63.9	66.8	77.0
<b>OFFICE OF THE CHIEF ELECTORAL OFFICER ..</b>	13.6	3.2	0.3	0.6	0.3
<b>CITIZENSHIP AND IMMIGRATION—</b>					
Administration and general .....	1.9	2.1	2.1	2.4	2.6
Immigration branch .....	22.1	14.4	11.7	12.3	12.5
Indian affairs branch .....	27.8	36.4	41.1	46.4	51.0
	51.8	52.9	54.9	61.1	66.1
<b>CIVIL SERVICE COMMISSION .....</b>	3.2	3.5	3.7	4.2	4.7
<b>DEFENCE PRODUCTION—</b>					
Administration and general .....	10.2	12.1	15.0	18.6	22.4
Production capacity and capital assistance to defence industry .....	4.8	1.8	2.6	1.8	2.3
	15.0	13.9	17.6	20.4	24.7
<b>EXTERNAL AFFAIRS .....</b>	15.7	17.0	16.9	19.4	22.0
Contributions to international economic and special aid programs .....	38.0	40.0	57.2	66.8	61.0
Other payments to international organizations and programs .....	6.7	18.8	23.1	16.8	12.0
	60.4	76.8	97.2	103.0	95.0
<b>FINANCE—</b>					
Administration and general .....	7.6	10.2	10.8	19.9	19.6
Office of the Comptroller of the Treasury .....	17.5	17.9	18.2	19.8	21.5
Grants to Canada Council .....	100.0				

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

(in millions of dollars)

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
	\$	\$	\$	\$	\$
<b>FINANCE—concluded—</b>					
Grants to municipalities in lieu of taxes on federal property.....	17.5	21.9	22.5	24.5	24.7
Grants to universities.....	16.6	25.5	26.1	19.0	19.4
Government's contributions, with respect to the superannuation account—					
General.....	33.8	37.7	40.0	41.4	46.9
Special.....	44.3				
Payments to provinces—					
Statutory subsidies.....	20.6	20.6	20.8	20.7	23.5
Tax-sharing arrangements, 1956 act..	353.3	423.1	485.4	504.9	502.7
Transfer of certain public utility tax receipts.....	7.4	8.7	4.8	4.2	6.4
Transitional grant to Newfoundland	1.4	1.0	0.7	0.3	
Additional grants to Newfoundland..		13.6	7.3	7.7	8.0
Premium, discount and exchange.....			0.2		
Public debt charges—					
Interest on public debt.....	539.2	606.6	735.6	756.7	804.0
Cost of issuing new loans and annual amortization of bond discounts and commissions.....	27.7	40.8	47.3	40.2	34.9
Servicing of public debt.....	0.5	0.6	0.5	0.7	0.8
	1,187.4	1,228.2	1,420.2	1,460.0	1,512.4
<b>FISHERIES.....</b>	16.4	17.5	19.9	19.2	24.3
<b>FORESTRY.....</b>	9.6	9.8	9.9	10.1	15.1
<b>GOVERNOR GENERAL AND LIEUTENANT-GOVERNORS.....</b>	0.4	0.4	0.4	0.4	0.5
<b>INSURANCE.....</b>	1.2	1.2	1.2	1.3	1.4
<b>JUSTICE.....</b>	7.2	7.6	8.1	8.6	9.7
Office of the Commissioner of Penitentiaries.....	12.7	16.7	19.7	19.1	25.0
	19.9	24.3	27.8	27.7	34.7
<b>LABOUR.....</b>	10.2	14.2	21.1	24.1	85.4
Government annuities—amount required to maintain reserve.....	1.2	0.2	0.2		
Unemployment Insurance Commission—					
Administration and general.....	32.5	35.3	35.9	42.1	46.1
Government's contribution.....	37.8	37.1	45.7	55.1	56.6
	81.7	86.8	102.9	121.5	183.1
<b>LEGISLATION—</b>					
House of Commons.....	5.0	5.6	5.6	6.3	6.3
Library of Parliament.....	0.3	0.3	0.3	0.3	0.3
Senate.....	1.5	1.7	1.8	1.9	1.8
	6.8	7.6	7.7	8.5	8.4
<b>MINES AND TECHNICAL SURVEYS.....</b>	18.7	22.7	23.7	27.7	36.8
Dominion Coal Board.....	8.8	11.3	17.6	19.3	20.0
Emergency gold mining assistance....	8.6	9.8	13.1	12.1	12.5
	36.1	43.8	54.4	59.1	69.3
<b>NATIONAL DEFENCE—</b>					
Defence forces, army, naval and air services.....	1,415.0	1,222.7	1,397.1	1,406.0	1,496.5
Defence research and development....	78.7	74.4	39.2	41.9	42.9
Government's contributions with respect to Canadian forces superannuation account.....	49.7	49.5	51.8	40.5	56.0
Mutual aid to NATO countries.....	118.5	70.7	18.4	14.6	10.2
Pensions—payments under Defence Services Pension Act.....	5.8	6.0	6.3	6.7	7.3
Other.....	1.8	2.4	3.8	7.8	9.1
	1,669.5	1,485.7	1,516.6	1,517.5	1,622.0

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

(in millions of dollars)

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
	\$	\$	\$	\$	\$
NATIONAL FILM BOARD.....	4.0	4.3	4.6	4.9	5.2
NATIONAL GALLERY OF CANADA.....	0.6	0.6	0.7	0.9	1.0
NATIONAL HEALTH AND WELFARE—					
Administration and general.....	4.5	4.6	4.5	5.1	6.3
National health branch—					
General health grants.....	34.6	45.9	46.0	48.0	49.0
Government's contributions under the Hospital Insurance and Diag- nostic Services Act.....		54.7	150.6	189.4	284.0
Other.....	29.8	31.2	30.6	32.4	34.8
Welfare branch—					
Family allowances.....	437.9	474.8	491.2	506.2	520.9
Old age assistance, blind persons and disabled persons allowances.....	39.7	49.7	50.6	51.3	51.0
Old age security fund—deficit.....	103.9	184.0			
Unemployment assistance.....	8.2	23.9	40.2	51.5	88.0
Other.....	3.1	3.1	3.0	3.3	3.4
	661.7	871.9	816.7	887.2	1,037.4
NATIONAL RESEARCH COUNCIL, including the Medical Research Council.....	21.6	25.4	31.5	34.4	38.7
NATIONAL REVENUE.....	67.7	68.8	68.7	73.3	75.9
NORTHERN AFFAIRS AND NATIONAL RE- SOURCE.....	41.9	58.0	74.3	74.3	86.5
POST OFFICE.....	153.3	157.8	165.8	178.4	188.6
PRIVY COUNCIL, including Prime Min- ister's Office.....	0.6	1.1	1.4	1.9	4.9
PUBLIC ARCHIVES AND NATIONAL LIBRARY	0.7	0.7	0.7	0.8	1.0
PUBLIC PRINTING AND STATIONERY.....	3.3	3.5	3.5	3.5	4.1
PUBLIC WORKS.....	156.6	170.1	158.5	145.9	142.6
National Capital Commission.....	3.3	4.9	6.2	6.3	8.8
Trans-Canada highway contributions..	49.4	51.1	53.2	48.7	42.0
	209.3	226.1	217.9	200.9	195.4
ROYAL CANADIAN MOUNTED POLICE.....	47.4	51.7	52.4	56.0	61.1
SECRETARY OF STATE.....	4.0	4.4	4.7	4.9	5.1
TRADE AND COMMERCE.....	17.1	19.9	17.7	21.4	39.5
National Energy Board.....			0.2	0.4	0.5
	17.1	19.9	17.9	21.8	40.0
TRANSPORT—					
Administration and general.....	3.7	4.0	4.6	5.0	5.8
Air services.....	90.3	115.4	124.1	133.9	152.0
Canadian Maritime Commission.....	5.2	5.9	6.7	6.9	11.2
Canal services.....	8.6	9.7	5.8	6.4	5.3
Marine services.....	32.8	51.8	53.3	42.7	47.2
Non-active assets—					
National Harbours Board.....	4.8	4.3	2.0	0.6	5.0
Railway and steamship services.....	5.7	1.8	3.7	6.2	6.5
Deficits—					
Canadian National Railways.....	22.1	51.6	43.6	67.5	67.3
Canadian National (West Indies) Steamships Ltd.....	0.6	1.2			
North Sydney—Port aux Basques ferry and terminals.....	6.0	5.8	5.8	5.4	7.1
Prince Edward Island car ferry and terminals.....	2.0	2.0	2.6	2.6	3.1
Yarmouth—Bar Harbour ferry service.....	0.3	0.2	0.2	0.1	0.1

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

(in millions of dollars)

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
	\$	\$	\$	\$	\$
<b>TRANSPORT—<i>concluded</i>—</b>					
Freight Rates Reduction Act.....			7.8	20.4	20.0
Interim payments related to the recommendations of the Royal Commission on Railway Problems.....					50.0
Maintenance of trackage.....	7.0	7.0	7.0	7.0	7.0
Maritime Freight Rates Act.....	12.6	13.1	14.3	14.1	12.3
Contribution to the railway grade crossing fund.....	5.0	15.0	15.0	15.0	10.0
Trans-Canada Air Lines—deficit.....				2.6	6.5
	<i>206.7</i>	<i>238.8</i>	<i>296.5</i>	<i>336.4</i>	<i>416.4</i>
<b>VETERANS AFFAIRS—</b>					
Administration and general.....	6.2	6.3	6.4	6.7	6.9
Hospital accommodation, additions, alterations and improvements.....	3.3	3.3	4.5	6.1	5.3
Pensions.....	145.6	150.7	149.7	150.7	177.6
Provision for reserve for conditional benefits.....	5.2	4.4	3.8	3.4	3.2
Soldier settlement and veterans land acts.....	5.6	5.4	5.2	5.2	4.7
Treatment and welfare services.....	56.4	56.1	52.6	52.6	53.2
Veterans allowances, treatment allowances and other benefits.....	53.1	60.4	63.2	64.7	81.0
War service gratuities and re-establishment credits.....	1.8	2.2	2.9	2.9	2.2
	<i>277.2</i>	<i>288.8</i>	<i>288.5</i>	<i>292.3</i>	<i>334.1</i>
<b>TOTAL EXPENDITURES.....</b>	<b>5,087.4</b>	<b>5,364.0</b>	<b>5,702.9</b>	<b>5,958.1</b>	<b>6,563.4</b>

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

(in millions of dollars)

	1957-58	1958-59	1959-60	1960-61	1961-62 (estimated)
	\$	\$	\$	\$	\$
Loans to, and investments in, Crown corporations—					
Atomic Energy of Canada Limited..	3.2	2.7	0.6	1.5	2.6
Canadian Broadcasting Corporation..	-0.3	-27.0		3.0	
Canadian Commercial Corporation..			2.0	1.0	
Canadian National Railways.....	-10.7	199.5	-261.4	-116.5	76.4
Canadian National (West Indies) Steamships Limited.....	-0.2	-0.3	-0.2	-1.0	
Canadian Overseas Telecommunication Corporation.....	0.3	0.3	9.6	9.1	2.7
Central Mortgage and Housing Corporation.....	107.5	335.6	315.1	192.0	198.0
Export Credits Insurance Corporation					8.0
Farm Credit Corporation.....	14.3	22.0	28.5	40.1	54.0
National Capital Commission.....	2.1	5.0	10.7	7.4	9.3
National Harbours Board.....	11.1	20.2	15.8	11.4	6.6
Northern Canada Power Commission.....	6.7	7.3	12.9	5.4	5.2
Northern Ontario Pipe Line Crown Corporation.....	70.5	42.8	8.0	2.2	-2.9
The St. Lawrence Seaway Authority	(1)99.2	(1)106.1	(1)33.1	24.0	10.0
Trans-Canada Air Lines.....		2.5	1.0	1.3	-2.2
Other.....	0.1		-0.1	0.1	-0.1
	303.8	716.7	175.6	181.0	367.6
Loans to national governments—					
United Kingdom—					
The War Appropriation (U.K. Financing) Act, 1942.....	-30.0	-22.5			
The United Kingdom Financial Agreement Act, 1946.....	(1)44.2	-16.1	-16.4	-16.7	-17.1
Export Credits Insurance Act.....	-19.9	-17.9	-17.9	-15.2	-15.2
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada....	16.2	18.3	0.5	-3.5	-5.0
Other.....	-1.1	-0.8	-0.6	-0.9	-1.1
	9.4	-39.0	-34.4	-36.3	-38.4
Other loans and investments—					
Subscriptions to capital of, working capital advances and loans to, international organizations—					
Canada's subscription to capital of—					
International monetary fund.....	5.0	-2.6	235.4	15.0	19.0
International bank for reconstruction and development..				2.8	2.8
International development association.....				8.5	7.9
Working capital advances and loans to international organizations....	-0.2		-0.1	-0.3	-0.4
Loans to provincial governments....	(1)1.0	(1)25.5	-6.0	-5.6	-3.5
Balances receivable under agreements of sale of Crown assets....	-4.4	-2.9	-3.1	-3.9	-1.5
Old age security fund.....	-1.5		28.0	-10.7	-17.3
Unemployment Insurance Commission.....				67.0	-67.0
Veterans land act advances.....	-3.2	-3.0	0.6	14.5	12.3
Other.....	9.4	3.4	-3.4	0.4	5.1
	6.1	20.4	251.4	87.7	-47.6
Net total of changes in loans and investments.....	319.3	698.1	392.6	232.4	281.6

(1) Includes deferred interest.

(2) Deferred interest.

(3) \$4 million in overpayments to provinces arising out of 1952 tax rental agreements offset in part by repayments of \$3 million.

(4) Loan of \$29.5 million to New Brunswick in respect of the Beechwood Power Project offset in part by repayments of \$4 million on other loans.

**UNMATURED DEBT INCLUDING TREASURY BILLS AS AT MARCH 31, 1962  
AND THE ANNUAL INTEREST THEREON**

		Date of maturity	Rate per cent	Amount of loan	Annual interest
				\$	\$
<b>Payable in Canada—</b>					
Loan of 1961.....	AT. 3	1962 May 1	3	100,000,000	3,000,000
Loan of 1960.....	T.41	June 15	3	190,000,000	5,700,000
Loan of 1961.....	AT. 4	Aug. 1	3	335,000,000	10,050,000
Canada savings bonds 1951.....	S. 6	Aug. 1	3½	(1) 24,398,250	853,939
Loan of 1959.....	T.35	Oct. 1	5½	291,821,000	16,050,155
Loan of 1960.....	T.40	Dec. 1	4½	140,000,000	5,950,000
Loan of 1961.....	AT. 2	Dec. 15	3½	375,000,000	13,125,000
Loan of 1959.....	T.33	1963 Jan. 1	4	100,000,000	4,000,000
Loan of 1960.....	T.37	Apr. 1	5½	448,072,000	24,643,960
Loan of 1961 and 1962.....	AT.10	Apr. 1	2½	300,000,000	8,250,000
Loan of 1961.....	AT. 7	June 1	2½	175,000,000	4,812,500
Canada savings bonds 1952.....	S. 7	Aug. 1	3½	(1) 26,539,950	995,248
Eighth victory loan.....	P. 5	Oct. 1	3	223,020,200	6,690,606
Loan of 1960.....	T.42	Dec. 15	4	300,000,000	12,000,000
Loan of 1961.....	AT. 1	1964 May 1	4	360,000,000	14,400,000
Loan of 1961.....	AT. 8	Oct. 1	3½	250,000,000	8,125,000
Loan of 1961.....	AT. 5	Dec. 1	4	240,000,000	9,600,000
Conversion loan of 1958.....	T.27	1965 Sept. 1	3½	1,265,890,600	47,470,898
Canada savings bonds 1953.....	S. 8	Nov. 1	3½	(1) 90,721,250	3,402,045
Ninth victory loan.....	P. 7	1966 Sept. 1	3	245,202,200	7,356,066
Canada savings bonds 1954.....	S. 9	Nov. 1	3½	(1) 53,397,400	1,735,415
Loan of 1961.....	AT. 6	Dec. 15	4½	175,000,000	7,875,000
Loan of 1961.....	AT. 9	1967 June 1	4½	100,000,000	4,250,000
Canada savings bonds 1955.....	S.10	Nov. 1	3½	(1) 51,732,400	1,681,303
Loan of 1961.....	AT.11	1968 Jan. 15	4½	100,000,000	4,250,000
Refunding loan of 1950.....	P. 9	June 15	2½	308,581,000	8,485,978
Canada savings bonds 1959.....	S.14	Nov. 1	4½	(1) 117,117,950	47,477,513
Loan of 1960.....	T.39	1969 Apr. 1	5½	80,000,000	4,400,000
Canada savings bonds 1956.....	S.11	May 1	3½	(1) 89,819,650	3,143,688
Loan of 1958.....	T.24	1970 May 1	3½	200,000,000	7,000,000
Canada savings bonds 1957.....	S.12	Nov. 1	4½	(1) 663,857,100	31,533,212
Canada savings bonds 1960.....	S.15	Nov. 1	4	(1) 685,889,700	27,435,588
Canada savings bonds 1961.....	S.16	1971 Nov. 1	4½	(1) 988,958,000	42,030,715
Conversion loan of 1958.....	T.28	1972 Sept. 1	4½	1,287,228,800	54,707,224
Canada savings bonds 1958.....	S.13	1973 Nov. 1	4½	(1) 251,629,800	10,690,016
Loan of 1959.....	T.36	1975 Oct. 1	5½	122,631,000	6,744,705
Loan of 1960.....	T.38	1976 Apr. 1	5½	928,000	51,040
Loan of 1954.....	T.11	June 1	3½	250,834,500	8,152,121
Loan of 1953 and 1958.....	T. 5	1978 Jan. 15	3½	216,358,500	8,113,444
Loan of 1954.....	T.13	1979 Oct. 1	3½	351,271,500	11,416,324
Conversion loan of 1958.....	T.29	1983 Sept. 1	4½	2,027,929,450	91,256,825
Conversion loan of 1956.....	T.15	1998 Mar. 15	3½	198,130,000	7,429,875
Loan of 1936.....	P. 1	Perpetual	3	55,000,000	1,650,000
Three-month treasury bills.....			(1) 3.12	1,235,000,000	37,791,000
Six-month treasury bills.....			(1) 3.29	650,000,000	21,125,000
Special non-marketable bonds (U.I.C.)			3½	53,000,000	1,987,500
				16,794,860,200	658,888,903
<b>Payable in London—</b>					
Loan of 1933/34.....		1963 July 1	3	(1) 30,010,702	900,321
Loan of 1933.....		July 1	3½	(1) 1,978,362	64,297
				31,989,064	964,618
<b>Payable in New York—</b>					
Loan of 1949.....		1974 Sept. 1	2½	(1) 60,206,000	1,655,665
Loan of 1950.....		1975 Sept. 15	2½	(1) 37,969,000	1,044,148
				98,175,000	2,699,813
				16,925,024,264	662,553,334

NOTE—Where various rates of interest are applicable during the term of a loan the interest rate in effect at March 31, 1962 has been used.

(1) Estimated.

(2) Rate of discount at tender on March 29, 1962.

(3) Conversion rate \$2.80 = £1.

(4) Conversion rate \$1 Can. = \$1 U.S.