



CANADA

BUDGET SPEECH

DELIVERED BY

HONOURABLE WALTER L. GORDON

MINISTER OF FINANCE

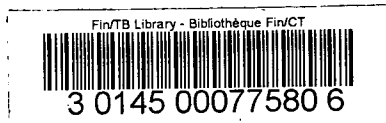
MEMBER FOR DAVENPORT

IN THE

HOUSE OF COMMONS

JUNE 13, 1963

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1963



INDEX

	PAGE
Introduction	3
Meaning of the Budget	3
General Economic Review	3
Unemployment	4
Measures to Combat Unemployment	4
Balance of International Payments	5
Budgetary Deficits	6
Monetary Policy	7
Exchange Rate Policy	7
Federal-Provincial Relations	7
Non-Resident Ownership and Control of Canadian Industry	7
Government Accounts 1962-63	8
Government Accounts 1963-64 before Tax Changes	9
Budgetary and Old Age Security Fund Revenues—Table	10
Income Tax and Excise Tax Changes	11
Customs Tariff Changes	12
Non-Resident Tax Changes	13
Further Excise Tax Changes	14
Amendments to the National Housing Act	14
Further Income Tax Change	15
Estimated Changes in Budgetary and Old Age Security Tax Revenues that would result from the proposed tax changes—Table	15
Estimated Surplus (Deficit) in Budgetary Accounts and Old Age Security Fund 1963-64 Fiscal Year—Table	15
Overall Cash Requirements 1963-64	15
Summary and Conclusion	16
Resolutions—Income Tax Act	16
Excise Tax Act	19
Customs Tariff	24
Budget Papers	
Part I—Economic Review of 1962	42
Part II—Review of Government Accounts 1962-63	91
Appendix “A”—Statement by the Minister of Finance, June 19, 1963..	169
Appendix “B”—Statement by the Minister of Finance, July 8, 1963..	171

BUDGET SPEECH

DELIVERED BY...

HON. WALTER L. GORDON

MINISTER OF FINANCE

HOUSE OF COMMONS, THURSDAY, JUNE 13, 1963

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE

Hon. Walter L. Gordon (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, somebody was kind enough this afternoon to give me my horoscope for today, which reads: "Don't worry over money matters". I do not think that is an appropriate horoscope for tonight, because in delivering tonight the first budget of this new government I am aware that it is my duty to present the facts as we found them on taking office. It is also my duty to ask hon. members and the Canadian public to face up to these facts and, having done this, it is my further duty to indicate the kind of measures which are needed to put our national affairs in order once again.

This then will be a "face the facts" budget. If we face the facts, and if we conduct ourselves accordingly, we in Canada can look forward to an exciting and prosperous future. If we are afraid to face reality, if we are afraid to take the actions and the decisions that are called for, then the consequences cannot be long delayed.

MEANING OF THE BUDGET

I shall begin my remarks this evening with a few words about the importance of the annual budget presentation and then go on to discuss the condition of our national economy.

We on this side of the house take the budget very seriously. We look upon it as an annual occasion of great national importance. It is an occasion when the government is expected to give to parliament and to the people a clear appraisal of the nation's

financial and economic condition. It is an occasion when the government must outline the short and long term economic and financial policies it proposes to pursue to overcome the problems and to convert the prospects into realities. Above all, it is an occasion initiating a grand scrutiny by parliament of the financial affairs of the nation. It is an occasion which should not and must not be avoided or delayed.

It is now almost exactly two years since there was a budget debate in this house. I remind hon. members that in the fiscal year which ended last March 31, the estimates for only six departments were called in this chamber, and even they were not approved. We have been financing for far too long a period on interim supply and Governor General's warrants. In a period of 14 months over \$5 billion has been spent by the government of Canada with no parliamentary authorization other than warrants and interim supply votes.

In the last parliament, no one was more critical of this state of affairs than we who are now on this side of the house. We protested vigorously in that parliament, and when it was dissolved we took the question to the people. The results indicated their conviction that an accounting before parliament for the nation's financial and economic affairs was due, and indeed long overdue. It is that accounting which will be presented tonight.

GENERAL ECONOMIC REVIEW

The year 1962 was a remarkable one in Canada's economic history. It was marked by an exchange crisis which followed upon five years of economic stagnation. It was also marked by the adoption of a fixed rate of exchange for the Canadian dollar, an action which was taken three weeks after the government of the day had indicated that it was not its policy to do so.

Despite the exchange crisis, and perhaps partly as a result of the devaluation which had been resisted for so long, the year 1962 was for Canada an improvement over 1961. This was evident in the industrial part of our economy, while in agriculture, too, incomes were up and acreage under cultivation increased. Details are to be found in the budget papers tabled last Tuesday.

It is encouraging to record that the prospects for the current year are also favourable both in agriculture and in industry.

An hon. Member: What about prices?

UNEMPLOYMENT

Mr. Gordon: I will come to that. But the improvement we are now experiencing leaves no room for complacency. Our rate of growth over the past six years as a whole has been quite inadequate. We have had a falling rate of new investment. We have had chronic deficits in our international balance of payments. And most important, we have had chronic unemployment.

All of these problems are interrelated; if we can cure one, we shall relieve the others. For example, our international balance of payments deficit on current account has averaged almost \$1.2 billion annually in the past six years. This has meant that we have been importing goods and services which we should have produced at home, and that we have failed to find export markets for goods which we should have sold abroad. If this situation had been corrected, the increased production in Canada might well have meant not less than 150,000 more jobs and our unemployment problem would have been reduced accordingly.

The added investment needed to provide this increased production and employment, and the increased production and employment itself, would all have produced higher government revenues. This would have been reflected in reduced budgetary deficits.

I could go on to describe our difficulties and what we propose to do about them strictly in terms of economics. But perhaps hon. members will forgive me if I speak in more human terms tonight, and about the human tragedies that inevitably result when economic conditions are unsatisfactory and our national affairs mismanaged.

The grim experiences of continuing unemployment are to be found in nearly every part of Canada, in nearly every constituency. Most members of this house know of men and women and of whole families whose lives have been warped and whose futures impaired by long periods when they were looking for non-existent jobs.

My own riding of Toronto-Davenport is a high unemployment area. Many of the people

who live there came to Canada quite recently, and they are not fully familiar with either the language or the customs of their new community. They face frustrating disadvantages in their battle for a decent life. Similar conditions I suggest prevail in most other constituencies across the country.

The prevalence of unemployment is a wrong that must be righted. Any Canadian, young or old, who wants a job must be able to find one. Any Canadian must be able by his work and his savings to make his own direct contribution to the well-being of his family, his community and his country. This is a basic tenet of Liberal philosophy. It is an aim which we are dedicated to achieve.

It is the view of this government that unemployment is the most serious domestic problem facing Canada today. I shall review briefly the steps which we are taking to combat it.

MEASURES TO COMBAT UNEMPLOYMENT

A measure has been placed before the house providing for the creation of a department of industry. This new department will contribute to the long term solution of our national economic problems by actively promoting more employment opportunities in our manufacturing industries. Its aim will be to see that we produce more manufactured goods for export and for our own domestic needs, and that we process more of our natural resources in this country.

The minister-designate of the proposed department has already held preliminary discussions with officers of the automobile industry, both the car assemblers and the parts manufacturers. These discussions have been designed to ensure that we produce in Canada a larger volume of automobile parts and components for incorporation in Canadian cars or for export. The value of our net imports of automobile parts and components this year will probably exceed \$400 million. The objective in the years ahead is to reduce very greatly these net imports. The government is counting on the full co-operation of the industry in realizing this objective.

These discussions with the automobile industry will be followed by discussions with the officers of other Canadian industries designed to achieve similar results. In the search for new employment and increased economic strength we shall not be satisfied with half measures. Wherever major changes in our industrial structure are found to be necessary, we shall energetically promote them.

It is important that the new employment we are seeking to achieve in the Canadian economy, and the new investment required to produce it, be directed wherever practicable

to areas of slower growth and surplus manpower. To this end the special area development agency within the department of industry will seek to encourage new investment in areas where it will do the most good.

The Atlantic provinces are an area of slower growth which for many years has not shared adequately in our economic progress. The house will be asked to strengthen the Atlantic development board through the provision of a substantial capital fund. This fund will enable the board to promote capital investment on its own initiative.

The full effect on the economy of the important measures I have been discussing will not be felt for a few years. Loans made by the proposed municipal development and loan board are intended to have a more intermediate effect. Their impact should begin to make an impression within six months to a year from the time when parliament approves the legislation contemplated. These loans should result in a marked increase in social investment and in the employment it involves.

As a further means of combating unemployment, I shall propose later this evening a number of measures to promote new capital investment by providing special financial incentives in the private sector of the economy.

In addition to these long term and intermediate term measures, I should refer to the various proposals the government is making for providing more jobs this coming winter.

We have advanced a proposal to increase the percentage of winter works assistance in designated areas. This measure is also designed to reduce unemployment by promoting investment in social capital, and to do it in areas where and at times when unemployment is most severe.

Earlier this week my colleague the Minister of Labour announced that he would propose a program designed to reduce winter unemployment by encouraging house construction in the months when activity in the construction industry reaches its seasonal low. This program will apply to rural as well as to urban housing.

The minister also announced that he would propose the expansion of the existing program for retraining the unemployed in co-operation with the provinces. And he announced that a new program would be proposed to encourage basic training, increased apprenticeship training, and the retraining of those presently employed but whose jobs are threatened by industrial change.

There is one aspect of the unemployment problem that is of particular concern to the government. That is the persistent difficulties encountered by older workers in securing

steady employment after they have been out of work for some time. An improvement in general employment levels and the correction of regional unemployment problems do not seem to be enough to overcome these difficulties. Something more is needed to look after the problem of this hard core of our unemployed.

The house will therefore be asked to provide by way of supplementary estimate for the payment of a special allowance to all employers, other than governments or municipalities, who increase the number of their employees this winter in a specified manner over a base level. The allowance will be paid on employment of workers aged 45 or older who have been out of work for six of the previous nine months and who are not in current receipt of unemployment insurance benefits or pensions. The allowance will be conditional on the employer providing the worker with a significant amount of approved training. It will be paid at the rate of 50 per cent of wages or \$75 a month, whichever is less, for each month of employment and will continue for up to 12 months. It is proposed that this program apply to workers hired between November 1 this year and January 31 next year.

Hon. members are only too well aware of the costs to this country of allowing people to remain unemployed, particularly for extended periods. These costs include substantial welfare payments. They also include far more important costs in terms of production forgone in our economy and in terms of misery and frustration for the individual concerned.

The proposal I have just advanced to deal with prolonged hard core unemployment is a novel one, and it is not without difficulties and risks. It will require careful administration, and adequate safeguards against its abuse will be provided. It is directed specifically to assist that group of men and women in our society most in need of a chance to earn a living for themselves and their families. These people deserve their chance.

While our major domestic problem in Canada today is unemployment, we must not overlook the problems which accompany it. The most serious of these is the continuing deficit in our current balance of international payments. The budgetary deficits of the federal government are also a matter of concern.

BALANCE OF INTERNATIONAL PAYMENTS

In dealing with our balance of payments, let me summarize first our current international transactions for the past ten years.

During that period our imports of goods, including both capital goods and consumer

goods, were \$2 billion more than our exports of goods in the period. In the case of travel we spent \$1.4 billion more abroad than visitors spent here. Steeply rising capital imports in the form of foreign direct and indirect investment led to interest and dividend payments abroad, that were \$4.2 billion greater than our receipts of this type. Other transactions further increased our deficit by \$2.5 billion.

The result in the aggregate was that our sales of goods and services abroad and our foreign investment income were \$10 billion less than our purchases and payments.

The implications of this deficit have been a matter of grave concern in Canada. They have been extensively discussed in the press, by economists, by businessmen and by the general public. There is a clearly recognized danger that if deficits continue at this rate, they will lead to a growing measure of control of our economy passing abroad. There is a danger that in allowing these deficits to continue we are sacrificing our birthright, the birthright which our forefathers laboured so hard to hand on to us.

An analysis of the problem shows clearly that if we are to overcome it we must centre our attention on our merchandise trade. Historically we have had a continuous and substantial deficit balance in our trade with the United States, both in merchandise and in invisible items. This has been to a greater or less extent offset by a surplus in our trade with the rest of the world. In the past two years we have had small over-all trade surpluses.

Some hon. Members: Hear, hear.

Mr. Gordon: I am not quite clear why hon. gentlemen opposite are so pleased about this; we should have had far greater trade surpluses.

Some hon. Members: Hear, hear.

Mr. Gordon: Over-all trade surpluses must not only continue; they must be increased substantially by increasing exports and efficiently replacing imports. Such an increase will not only help to solve our balance of payments problem but will also help to solve the unemployment problem that goes with it.

BUDGETARY DEFICITS

We must now consider the growing series of budgetary deficits of the federal government. In nine of the eleven immediate post-war years there were annual budget surpluses, and the net debt of the federal government was reduced by \$2.4 billion. In more recent years, however, under conditions of slowed economic growth and high unemployment, our revenues have been insufficient to meet expenditures. In the past six years

there have been large deficits and our net debt has increased by \$2.9 billion, almost \$3 billion.

I do not propose, Mr. Speaker, to enter into a detailed discussion of the pros and cons of deficit financing. Government deficits can be justified in periods of depression or recession when the resources of the nation are underemployed, provided the expenditures and revenues are so designed as to stimulate the economy and provide more jobs. Unfortunately the budgetary deficits of recent years were not planned in this way. Because of this, and because it seemed as if the government of that day was unable to cope with our financial and economic problems, confidence in the Canadian economy was damaged both at home and abroad.

There has been a resurgence of confidence since the election.

Some hon. Members: Hear, hear.

Some hon. Members: Oh, oh.

Mr. Graffey: He said it with a straight face too.

Mr. Gordon: But if this is to be justified and maintained it is important that we begin to put our national house in order: that we begin to move toward balancing our federal budget under conditions of high employment. We must take the first step in this direction now.

I have discussed in frank terms, Mr. Speaker, our unemployment problem, the problem of the deficits in our balance of international payments, and the problem of our federal budgetary deficits.

In seeking solutions to these problems our salvation does not lie in isolationism; it does not lie in withdrawing unto ourselves and ignoring the currents of progress and change around us. Let us remember that we are a great trading nation dependent on our relationships with our friends throughout the world. We must not at the first storm signals of economic danger simply throw up a ramshackle tariff against imported goods and imported ideas and imported obligations and seek to bury our heads in the sand. That way lies stagnation.

The way of the future, the way of prosperity, the way of national pride, involves the fullest participation in the world around us in an economic sense as in every other sense. It involves expanding our trade in conjunction with our friends. It does not involve isolating ourselves from the trend toward international co-operation and freer interchange of goods and services. Rather it involves participating to the fullest in these new movements and moulding them to our best advantage.

"These are the views, the broad economic philosophy if you will, of this Liberal government. It is our purpose to see these views are translated into action."

I shall have something to say in a few minutes about efficiency and economy in government.

An hon. Member: We have not had any yet.

Mr. Gordon: Be patient. But the need for increasing efficiency and productivity is equally great in the private sector. To increase our employment and decrease our dependence on foreign capital we must compete successfully for markets, both at home and abroad. If markets are to be retained and captured, both business and government and labour must know where we are heading, not merely from month to month or from year to year, but over the years ahead. For this reason the proposed economic council of Canada will be of benefit not only to Canadian governments but also to Canadian labour and to Canadian business.

Following the review of our major problems which I have just concluded, I should like to state briefly what the policy of the government will be in a number of important fields. I shall begin with a word regarding monetary policy.

MONETARY POLICY

This government favours the kind of credit conditions which will encourage economic expansion. In saying this I am aware, of course, that our balance of payments situation must at all times be kept in mind. The governor of the Bank of Canada has made it clear in his public statements that he shares these views. Close and continuous consultation has been going on between the governor and myself since I became Minister of Finance. I am looking forward to a continuance of this consultation in the future.

I wish to say a further word about the relationship between the government and the Bank of Canada. In the last analysis it is the government that must take responsibility for monetary policy, as for all aspects on economic policy. There can be no misunderstanding on this score. At the same time the government recognizes that this does not relieve the bank of its own responsibilities in these matters.

I am in substantial accord with the views expressed on this subject by the present governor of the bank shortly after his appointment to that post. The royal commission on banking and finance will no doubt be considering whether the Bank of Canada Act should be amended to clarify these matters. The government will give careful consideration to any recommendations it may make. But for my part, I do not think any statutory

arrangement will work satisfactorily unless there is close and continuous consultation between the government and the bank. I have already made it clear that such conditions exist at the present time.

EXCHANGE RATE POLICY

Just over a year ago the government of the day decided on a fixed exchange rate for the Canadian dollar. I shall not discuss the causes of the exchange crisis which led to this decision, or rather I should say I shall not discuss them tonight. I do want to make it clear, however, that this government intends to maintain the fixed exchange rate at its present level.

FEDERAL-PROVINCIAL RELATIONS

I should now like to say a few words about federal-provincial fiscal relations. This is not a subject to be treated in detail at this time, since the Prime Minister has indicated the government's intention to propose a conference with the provinces in order that there may be a full review of it.

The summary of our financial position which I shall give shortly will make clear that the federal government is no less pressed for sources of revenue than are the provincial governments. This government assumes no rigid position on the sharing of joint tax fields. It is clear from the record of the past that readjustments of revenues and responsibilities are possible. But naturally no federal government can ignore the problems of federal finance in seeking to lighten the burdens upon provincial treasuries.

There is a further consideration that has a bearing on this subject. The federal government has a special responsibility in the matter of ensuring adequate production and employment throughout our country. Fiscal policy is an important means of achieving this objective. Most people will agree, I am sure, that if the federal government were to give up a major part of its present revenue sources, even in exchange for compensating expenditure adjustments, its ability to exert an influence through fiscal policy over the level of economic activity in Canada would be weakened.

However, despite the inherent difficulties in federal-provincial fiscal relations I believe the present arrangements can be improved upon, but always within the letter and spirit of our constitution. We shall endeavour to bring about such improvement.

NON-RESIDENT OWNERSHIP AND CONTROL OF CANADIAN INDUSTRY

I should now like to discuss the question of non-resident ownership and control of Canadian industry. The latest figures prepared by the dominion bureau of statistics

show, that in 1959, 57 per cent of our manufacturing industry, 75 per cent of our petroleum and natural gas industry and 61 per cent of other mining and smelting in this country were controlled by non-residents. Anyone familiar with the financial pages of our newspapers can hardly be unaware of the extent to which these figures have undoubtedly increased since that date, that is, since 1959. The Canadian Oil, Atlas Steel, Royalite and Bailey Selburn takeovers in the last twelve months alone will have had a significant effect.

Canada derives material advantages from the associations of our industry abroad. Foreign direct investment in Canada has enabled us to achieve a relatively high standard of living much more quickly than we could otherwise have done. We must never forget this. But we must recognize that the extent of non-resident ownership and control which it has produced in Canada goes far beyond anything found in other countries is a comparable stage of industrial maturity.

In view of this situation we are entitled to take pride in the harmonious relations which have been maintained with the holders of foreign capital in Canada. These relations are based on fair treatment of those who have invested their capital here in good faith. These people must, and they will, continue to be treated fairly.

We shall continue to need substantial net inflows of foreign capital for quite a few years to come if we are to avoid further exchange rate difficulties and if a reasonable increase in our standard of living is to be achieved. This is a fact of life in Canada. It would be the height of folly to ignore it. Having said that, I should add that nevertheless there has been considerable public discussion of, and public concern about, the increasing extent of foreign control of Canadian industry. Writing about Canadian-American relations in the *Washington Post* of May 16 this year, Walter Lippmann had this to say:

I have an impression from talking to certain Americans with interests in Canada that they are beginning to realize how undesirable and potentially dangerous is the excessive United States control of Canadian industry. I hope nobody will fly off the handle at that remark. But the fact that more than half the capital of Canadian industry is controlled in the United States is a perpetual irritant.

The solution of the problem is not one for legislation or treaty but for voluntary action by the United States interests in co-operation with their Canadian associates. Canada is the kind of country in which this kind of problem can be handled unexcitedly in a spirit of mutually enlightened self-interest.

In these circumstances it may be useful for me to outline the views of this government as to how harmonious relations with foreign investors here can best be preserved.

We believe that industry in Canada, wherever it is controlled, should operate with due regard to the over-all interest of Canadians and the Canadian economy. This means that Canadian raw materials should be processed to the greatest possible extent in Canada, in order to provide employment to Canadians and contribute to prosperity in this country. It means that export markets should be sought actively wherever they may be found, and should not be limited out of regard for the interests of parent or associated companies abroad. It means that industry here should make a conscious effort to purchase its raw materials, components and supplies from Canadian sources whenever these sources are competitive.

It means that industry should employ Canadian service firms wherever possible. I am thinking of Canadian engineers, architects and other professional people, Canadian insurance and advertising firms, and Canadian consultants of all types.

It means that industry should exert itself to expand in Canada all the industrial functions which can efficiently be carried on here; and I am thinking particularly of increased basic industrial research and design. It means that industry should seek to provide the fullest opportunity for Canadian employees at all levels, including managerial, scientific and technical personnel.

Above all, I am convinced that a growing partnership between Canadians and investors abroad is the best way of strengthening the harmonious relations with foreign capital which it is our object to preserve. Foreign investors can further the growth of this partnership by selling minority interests in their enterprises to Canadians; and by electing a number of independent Canadian directors to represent these interests.

I suggest that a 25 per cent equity interest is in most cases appropriate to ensure that a Canadian point of view is always available when company policy decisions are arrived at. A smaller percentage would probably not be sufficient for this purpose. A larger percentage would be neither necessary nor in many cases practicable. In fact even a 25 per cent interest in most new or existing enterprises is not something that could be realized overnight. It is an objective to be worked toward over a period of years, although I hope this period can be a relatively short one.

GOVERNMENT ACCOUNTS 1962-63

And now we come to the heart of the budget, which I suspect some hon. gentlemen may not like quite so well. The heart of the budget is the condition of our expenditures and revenues. We shall first review the balance for the year just closed. Then we shall look at the outlook for the current

year, with some regard to the following year, on the basis of the present tax structure and tax rates.

First, then, there is the balance for the fiscal year that ended last March 31. I shall only indicate the main items; detailed figures, still preliminary and subject to change, are to be found in the budget papers.

My predecessor, in his revised budget appraisal delivered last October, forecast a deficit of \$570 million. This forecast was optimistic. Revenues turned out to be \$54 million lower than estimated, and expenditures \$85 million higher. It now appears that the actual deficit for last year was \$709 million, which together with the deficit of \$43 million in the old age security fund makes a grand total of \$752 million.

I should point out that this large deficit was incurred after taking credit for some \$75 million of non-recurring revenue from tariff surcharges, the legality of which has been challenged. I shall have more to say about this later.

There are a number of other items that should be mentioned in any recapitulation of the financial situation inherited by the new government. These include the condition of the old age security fund and the unemployment insurance fund, the railway subsidies, and the deficiencies in the superannuation accounts.

The old age security fund, which was solvent on April 1, 1962, incurred a deficit of \$43 million during the last fiscal year and was forced to borrow from the consolidated revenue fund. On the basis of the present outlook and tax structure the old age security fund would incur a further deficit of \$25 million this year, and would have to borrow this additional amount.

The unemployment insurance fund contained over \$900 million in 1956. When this government took office last April the fund was bankrupt and in debt to the consolidated revenue fund.

To avert a freight rate increase or a railway strike resulting from a 1958 wage award, the previous government began the payment of special railway subsidies. The initial series of payments has continued since, and we have been forced to provide \$20 million for this purpose in the present fiscal year.

In light of the continuing confusion in railway matters, the previous government appointed a royal commission on transportation in 1959. The reports of the commission were tabled in this house in April 1961 and January 1962, but no action was taken. Instead, a further \$50 million annually has since been provided as an "interim" measure to forestall a new change in freight rates.

The failure of the previous government to deal effectively with the railway question thus means that we are faced with special railway subsidies this year aggregating \$70 million.

The previous government throughout its six years in office failed to provide for any amortization of the mounting actuarial deficiency in the superannuation accounts. As of March 31, 1957 the unamortized deficiency in these accounts had been reduced to \$139 million. In his 1957 budget speech the then minister of finance, Mr. Harris, undertook to reduce the deficiency still further, to \$89 million. His successor refused to do this or to take any subsequent amortization action. Consequently, and as a result of pay increases in the interim, the deficiency in the superannuation accounts has now mounted to \$880 million.

Other matters could also be mentioned. There is the shipbuilding subsidy, which was reduced, effective last April 1, in such a way as to lead to a sudden irrational surge of expenditure and activity in that industry which is unlikely to be sustained. This surge of activity places a substantial burden on this year's budget without producing any continuing benefit. And then there is the Dawson city festival fiasco mentioned by my colleague the minister of northern affairs the other day. The previous government made no provision to meet its guarantees to the Dawson city festival foundation. The baby was left on the doorstep of the new administration.

The problems posed by the condition of the old age fund and the unemployment insurance fund, by the railway subsidies and the deficiencies in the superannuation accounts, can no longer be neglected. This government intends to deal with these matters and with any other skeletons that may still remain to be uncovered in our national financial closet. Nothing will be gained by delay or by trying to sweep these problems under some convenient rug. They must be faced up to and disposed of.

An hon. Member: Another book.

Mr. Gordon: No, not another book. Unfortunately it is the Canadian taxpayer who will have to bear the cost of six years of mismanagement of our affairs.

GOVERNMENT ACCOUNTS 1963-64 BEFORE TAX CHANGES

I should now like to discuss the revenue and expenditure estimates for the current fiscal year. We have built our present estimates of revenues on the assumption that our gross national product will be about 5 per cent greater in 1963 than it was in the pre-

vious year. For this purpose we have assumed a normal crop, a relatively stable price level from now on, and no external trouble. About one third of this 5 per cent represents price increases which have already taken place mainly as a result of last year's exchange devaluation and import surcharges. On this basis, and if there were no change in the tax structure, our revenues would amount to about \$6,880 million including \$730 million into the old age security fund. I should like, with consent, to insert a table in *Hansard* at this point showing our estimated revenues before tax changes and comparing them with revenues in 1962-63.

As there are one or two other tables to be presented, perhaps the house would give consent for leave to table them at the same time.

Mr. Speaker: Does the house give consent?

Some hon. Members: Agreed.

Budgetary and Old Age Security Fund Revenues (millions)

	1962-63 October Forecast	1962-63 Prelim-inary Forecast	1963-64 Forecast before tax changes
Personal income tax	\$1,750	\$1,745	\$1,875 ⁽¹⁾
Corporation income tax	1,180	1,183	1,300
Non-resident withholding tax	125	129	135
Estate tax	90	87	85
Customs duties	680	645	585 ⁽²⁾
Sales tax	825	806	840
Other duties and taxes	640	642	675
Total taxes	5,290	5,237	5,495
Non-tax revenues	640	639	655
Budgetary revenues	5,930	5,876	6,150
Old age security fund revenues	670	691	730
Total revenues	\$6,600	\$6,567	\$6,880

Footnotes:

⁽¹⁾ After abatements already enacted for provincial personal income tax collections of about \$45 million in excess of the previous year.

⁽²⁾ The lower forecast of customs revenues is due to the cessation of the import surcharges which were imposed in June 1962.

Mr. Gordon: It is more difficult to estimate the budgetary expenditures for this year than to estimate the revenues.

The main and supplementary estimates for 1963-64 tabled on May 29, plus the estimated disbursements of the old age security fund, total \$7,300 million.

I indicated when I tabled these estimates that we have been forced to bring forward for this budget the expenditure estimates prepared by the previous government. We are not satisfied that these estimates reflect the most efficient and economical way in which our national affairs can be run. A thorough

reappraisal of government expenditures has been initiated, in the course of which all existing spending programs will be reviewed, and some will be reduced or eliminated. While the initial results of this reappraisal will be apparent in the next budget, its full effect will take some time to make itself felt.

The government is also pressing forward with a review of the recommendations made by the Glassco commission. Those recommendations that may be expected to result in greater efficiency in the public service or in useful reductions in expenditure will be implemented as quickly as possible.

As in other years, there will be some further supplementary estimates before the end of the fiscal year. They will include among others the new programs this government will be introducing, programs that will add \$70 million to government requirements this year and will add considerably more next year when they are in full operation. The cost of several of these programs should fall again a year or two later when they have run their course.

Hon. members will appreciate that there are too many imponderables involved for me to make an exact estimate of what the total expenditure for this year may amount to. Subject to these cautionary remarks and qualifications I am prepared to set the total figure at about \$7,600 million, including \$755 million for the old age security fund.

On the basis of the revenue estimates mentioned a few minutes ago this means, if there were no major tax changes, a deficit this year of some \$720 million. The deficit next year might be even greater.

It would be irresponsible for us not to face up to this situation. As I said earlier, Canada is beginning to recover from the loss of confidence resulting from the financial and economic mismanagement of the previous administration.

Some hon. Members: Hear, hear.

Mr. Diefenbaker: Tell a big lie often enough.

Mr. Lambert: You are smiling now.

Mr. Gordon: No, I do not smile when I say that. I mean every word of it. And a restoration of confidence in ourselves and in our country, a restoration of confidence both at home and abroad, is a necessary prerequisite to business expansion and the creation of more jobs.

I would like to say to the hon. member opposite that confidence is not something one can count on or measure in any concrete way. It is a state of mind. It is psychological in character. And its recovery might well be

shattered if we failed to take clear and positive steps toward some reduction in present budgetary deficits.

Hon. members will appreciate from the outline I have given of the problems that confront us and of the state of our finances that our opportunities for manoeuvre are severely limited. This means, Mr. Speaker, that we have no alternative but to look to our tax structure not only with a view to providing incentives for increased employment and industrial growth, but also in a search for additional sources of revenue.

An examination of the tax structure shows clearly that taxes are already very high, but that the revenue they produce continues to fall short of necessary expenditures. It shows also that, as all of us know, our tax system is outdated, is too complex and has a disturbing number of loopholes.

A thorough review of it, which I am sure will be most valuable, is being made by the royal commission on taxation. The commission had not planned to submit its report to the government until some time in 1965. I have discussed this with the chairman, and in view of the pressing nature of the problem he has promised to revise the commission's schedule and to submit its report by the end of 1964. However, we cannot wait even that long before beginning to make changes in our tax system. I shall propose some of those changes tonight, and I hope to propose a good many others when the next budget is presented.

May I now proceed to summarize certain proposals which I shall put before the house tonight.

INCOME TAX AND EXCISE TAX CHANGES

In order to encourage employment by reviving private capital expenditures, which have lagged so conspicuously for the past six years, I shall propose important new tax concessions. Effective on the date of enactment new manufacturing and processing enterprises located in designated areas of slower growth will be given an exemption from income taxes for three years from their inception. I shall also propose that such enterprises be entitled to write off new machinery and equipment which would otherwise fall in class 8 in as little as two years thereafter. And I shall propose that any taxpayer be entitled also to write off the cost of new buildings located in designated areas of slower growth at the rate of 20 per cent per annum straight line, or in as little as five years.

If these proposals do not stimulate very marked activity in the Atlantic provinces and in other areas of slowed economic

progress I do not know what will. These are major incentives to new industry locating in those areas.

I am also proposing that, effective tonight, manufacturing and processing enterprises anywhere in Canada be allowed to deduct depreciation for tax purposes on new assets which would otherwise fall within class 8 at the rate of 50 per cent per annum on a straight line basis. To encourage Canadian participation, this privilege will be restricted to Canadian residents and to companies having a minimum of 25 per cent beneficial Canadian ownership. It means in effect, Mr. Speaker, that manufacturing and processing enterprises anywhere in Canada having a fair minimum Canadian participation will be able to write off new machinery and equipment for tax purposes in as little as two years.

It is intended that the measures I have mentioned so far should provide an immediate impetus to increased activity. Accordingly, new assets must be purchased and new businesses must be certified to have come into existence in the period of 24 months following the initial date of these measures if they are to qualify.

The incentives I have just described will supersede and replace three other tax incentives which have been adopted in the past two and a half years. They are contained in section 40A of the Income Tax Act pertaining to increased sales, about which there was quite a debate in the house last fall, and in income tax regulations 1108 and 1109 concerning new products and re-equipment and modernization programs.

I shall propose that section 40A be repealed in so far as it applies to 1964 and subsequent taxation years. And the measures contained in the two regulations I have quoted, both of which expire by their terms within the next 12 months, will not be renewed.

I should now like to refer to further tax proposals of two types. One is designed to plug loopholes or otherwise improve the existing structure of taxes; the other is designed to eliminate certain anomalies.

First there are the measures designed to fill in gaps, plug loopholes and prevent avoidance of the intent of our tax law. There is a double purpose here. One is to increase our revenues and the other is to reduce the justifiable sense of inequity and frustration of those taxpayers who are unable or unwilling to engage in prolonged and often expensive efforts at tax avoidance.

We are particularly concerned about the way in which certain taxpayers seem to be able to eat, drink and entertain on a lavish scale on the basis of what is called a business expense but which is actually financed in

large part at the expense of the public revenue. The government is directing the Department of National Revenue to tighten up its administration of the law and to pursue a policy of vigorous enforcement. We intend to give continuing support to this objective. I am sure that hon. members will agree that any excesses of expense account living are unfair to those who do not indulge in such practices. They should be stopped.

I shall propose one specific change in the Income Tax Act relative to a general tightening up of its administration in regard to business expenses. Hitherto a few taxpayers have been able to buy expensive cars and then recoup a large part of the cost out of the public revenue. I shall propose a measure to disallow in full capital cost allowances in respect of a passenger automobile acquired after tonight at a cost in excess of \$5,000. I expect that this measure will produce some increased demand for less expensive cars, most of which are made in Canada and whose manufacture provides jobs for Canadian workmen.

Another type of tax avoidance about which the government is particularly concerned is the proliferation of methods of moving undistributed income from a corporation into the hands of its shareholders without the payment of tax. This abuse, and it is an expensive abuse to the public treasury, has become increasingly prevalent in recent years. It is time something was done about it.

I shall therefore propose that, effective tonight, the Income Tax Act be amended to give the Minister of National Revenue power to look through so-called dividend stripping transactions and to deem shareholders to have received dividends in these cases.

To eliminate another method of tax avoidance I shall also propose that effective tonight section 18 of the Income Tax Act be repealed. This section, dealing with lease option arrangements, has given rise to repeated abuses by allowing rental agreements to be cast in a grossly distorted form in order to avoid tax. Action in connection with this section has been urged by the joint committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants.

As a further measure to close loopholes, I shall propose an amendment to stop the device whereby a company that has experienced losses is purchased for the purpose of applying those losses against income from another business.

I shall also propose that the practice concerning certain annuity contracts which are converted into cash, or have settlement options other than an annuity for life, be changed and that all the interest earned on the funds invested in such contracts made after tonight shall be subject to tax.

I want to make it clear that this will not be retroactive.

Turning to the elimination of anomalies and anachronisms, the government is putting forward a number of proposals.

The excise duty on exports of electrical energy should have disappeared long ago. We propose that it be abolished at the end of this month.

The base of the sales tax on gasoline is to be altered. Wholesalers have almost entirely disappeared from this field; therefore the wholesale discount of some 25 per cent which has existed for tax purposes for many years is no longer appropriate. Its elimination will bring increased revenues of perhaps \$25 million in a full year, of which \$7 million will accrue to the old age security fund and the balance to general revenue.

It is also proposed that a change be made in the taxation of rebuilt or remanufactured goods. Recently there has been a considerable increase in the production of goods using old parts or materials, with or without new components. These goods compete with similar goods manufactured from new materials, and they should be equally subject to sales tax. On behalf of my colleague the Minister of National Revenue I am therefore giving notice that his department proposes to examine carefully the operations of persons engaged in such work, and, where necessary, it will license them as manufacturers under the Excise Tax Act.

I am also proposing that companies whose business is the transmission of oil or gas through pipe lines be allowed to deduct from their income the expenses they incur in exploring or drilling for oil, gas or minerals. This concession will be a useful incentive to increased exploration activity in this essential industry and should increase Canadian participation in an industry now principally owned abroad.

CUSTOMS TARIFF CHANGES

I shall now propose a number of changes in the Customs Tariff. There are some increases and some decreases but on balance they represent a reduction.

I shall make several proposals relating to textiles, the two more important of which give effect to the recommendations of the tariff board in its last three reports on this subject. These proposals will involve both increases and decreases in duties, and will lead to a modernized and simplified tariff schedule in this area. They will therefore be of assistance to Canadian textile producers.

The proposals I have just referred to also include certain compensatory concessions on products other than textiles which have arisen

from renegotiations under the general agreement on tariffs and trade.

I shall propose further a miscellaneous group of other tariff changes providing for reductions in rates or representing merely technical alterations. I shall also propose that the level of customs exemptions given to returning Canadian tourists which was introduced on an emergency basis last June be continued by statute.

Before leaving the tariff field, I have a further word to say about the surcharges imposed last June. As I stated in the house on May 21, the legality of the surcharge on imports order has been challenged, and the matter is before the courts. This poses a difficult problem. In many cases those who paid the surcharges, and who might now be entitled to claim refunds should the order be found to have been invalid, passed the amount of the surcharges on to their customers. These customers in turn may have passed the amount on to their customers, and so on. As I said in my statement, it would not be possible to unscramble a situation of this kind. Accordingly I shall propose legislation on the surcharge order whose principal effect will be to prevent any massive attempt at obtaining refund of moneys in fact paid by people who are not now identifiable.

NON-RESIDENT TAX CHANGES

I should now like to propose a number of measures connected with foreign investment in Canada.

I referred earlier this evening to the need for a continuing inflow of foreign capital. To facilitate the sale of Canadian bonds and debentures to certain investors abroad, I shall propose that the Minister of National Revenue be given power to issue to any non-resident bank, company or trust which is free of income tax in its country of residence, a certificate of exemption from withholding tax on interest payable on Canadian bonds and debentures issued after tonight.

With a view to promoting a growing partnership between Canadians and non-resident investors in Canadian corporations, I am proposing some amendments in our withholding taxes on dividends paid abroad. These amendments will not become fully effective for a period of three and a half years. This will give ample time for us to revise a number of our tax treaties with other countries, some of which revisions are overdue. It will also give ample opportunity for those concerned to assess the situation and to make decisions in their own time and under no form of pressure to act quickly.

As hon. members will recall, our withholding taxes have, since 1960, stood at 15

per cent on dividends paid to all non-residents except in so far as modified by tax treaties. Prior to 1960 the rate of the withholding taxes on dividends depended on the degree of foreign ownership of the companies in question.

I am proposing two changes, one upward and the other downward, in the withholding taxes on dividends paid to non-residents. Effective from tonight a new and reduced rate of 10 per cent will apply when the paying company is beneficially owned by Canadian residents to the extent of 25 per cent or more. Effective from January 1, 1965, an increased rate of 20 per cent will apply to dividends paid by other companies including those which are the wholly owned subsidiaries of foreign parents.

If before January 1967 a company is able to bring its percentage of Canadian ownership from below 25 per cent to above 25 per cent, certain refunds of the non-resident withholding tax will be made. Any non-resident who can show that he has borne the tax will receive a refund, without interest, to the extent of the difference between the 15 or 20 per cent rates and the 10 per cent rate.

In order to avoid advantage being taken of this advance notice, a tax of 5 per cent—the difference between the present 15 per cent and the proposed 20 per cent rate—will be levied on the amount of any increase in dividends paid after tonight and prior to January 1, 1965, by companies with less than a 25 per cent Canadian participation. This will be a special tax payable by the company and not by the recipient of the dividend. It is proposed, as of tonight, to extend the 15 per cent withholding tax to management fees paid to non-residents.

As I indicated earlier, it is the policy of this government to encourage direct foreign investment in new enterprises in this country on the basis of partnership with Canadian residents. While this type of investment is of great value to Canada, it is our view that non-resident takeovers of established Canadian companies rarely confer any benefit on the Canadian economy. We shall therefore propose a measure of taxation of certain sales which might contribute to such takeovers. We shall propose that effective tonight a 30 per cent tax be levied on certain sales by Canadian residents to non-residents and non-resident controlled companies, of shares in Canadian companies listed on Canadian stock exchanges. There is to be no liability for the tax when such sales are made on the floor of a Canadian exchange in the normal trading manner and do not form part of sales exceeding \$50,000 per day by any single seller. Effective tonight also, we are proposing a similar 30 per cent sales tax on the sale by

a listed Canadian corporation of the whole or substantially the whole of its property to a non-resident, or a non-resident controlled company.

It will be noted that this measure applies only to the shares of listed public companies. Measures are under consideration, and may be discussed with the provinces at an appropriate time, which will apply to all Canadian companies including private companies. I trust that no flood of sales of established Canadian concerns to non-residents will develop in an attempt to anticipate the further measures to which I have referred, in light of the declared view of the government that such sales are generally undesirable.

FURTHER EXCISE TAX CHANGES

The major tax proposals which, on behalf of the government, I shall now put before the house are based on a number of guiding principles. To begin with, they must provide revenue sufficient to allow an important step toward budgetary balance. And since the increased outlays under certain new programs will be tapered off or stopped in two or three years time, provision can also be made for some revenue of a non-recurring nature.

To obtain the additional revenue that is required, there are good reasons for using the manufacturers sales tax rather than increased income taxes. While it would not be correct to describe any tax as being popular anywhere, it is the case that indirect taxes such as the sales tax are now regarded with more favour in quite a number of countries than in the past. In this connection, I would just like to say to hon. members that I made a very careful examination of the income tax schedules. I did not think that it would be appropriate, in view of the increases that have occurred in the cost of living in the last few years, to increase the income taxes in the lower brackets, but if an increase were made in all the taxable rates brackets over \$4,000 of even 10 per cent, the amount would not produce a sufficient revenue for the purposes under consideration. Apart from that I was impressed by the arguments that lend themselves to this approach rather than to increase further income tax rates.

The manufacturers sales tax is not imposed on exports, and it is levied on imported goods as well as on those made here. It therefore does not have the same adverse effect on our international trade position that some other taxes do. There is, however, widespread dissatisfaction about the inequity of a situation in which many areas of industry are subject to this tax while others are exempt.

Accordingly we are asking the house to make certain changes in the tax. These changes will not alter the rate of tax and will

leave, untouched, the exemptions covering staple food products. It is by virtue of these continuing exemptions that the tax is prevented from imposing an unfair burden on lower income groups.

We are, however, asking the house to withdraw, effective tonight, the exemptions for building materials and also for production machinery and equipment other than that employed in fishing and agriculture. This measure will produce increased revenues of some \$170 million in this fiscal year and some \$360 million in 1964-65. These amounts include increases in the income of the old age security fund of some \$45 million this year and \$100 million next year. The old age security fund is now considerably in debt to the consolidated revenue fund and would otherwise be faced with continuing deficits in years to come.

AMENDMENTS TO NATIONAL HOUSING ACT

The government is anxious to ensure that the withdrawal of the sales tax exemption on building materials will not work hardship on those who purchase houses under the provisions of the National Housing Act. Accordingly my colleague the Minister of National Revenue (Mr. Garland), has authorized me to announce that he will propose to the house that the National Housing Act be amended in such a way as to reduce the down payment required in connection with mortgage loans made under it. N.H.A. loans will be extended so as to cover 95 per cent of the first \$13,000 instead of the first \$12,000 of the value of a house, and the maximum loan amount will be raised from \$14,900 to \$15,600. Further, the N.H.A. lending rate will be reduced immediately from 6½ per cent to 6¼ per cent, a move that is, I am glad to say, in line with recent movements in other rates of interest.

I have mentioned tonight four measures affecting low priced housing. They include the removal of the sales tax exemption on building products, the reduction in N.H.A. down payments, the lowering of the mortgage rate, and the program to encourage house building in the winter months. The result of all of these measures will be that the down payment in connection with low-priced housing will fall significantly while the monthly payments required to carry a purchase will rise only slightly. The over-all effect will be to provide encouragement to house construction and to house ownership.

The government has considered the possible effects of the removal of sales tax exemptions on firms working under fixed price contracts. Fixed price contracts are common in the construction industry, and the amounts involved are frequently substantial. Relief will be pro-

vided in cases where a manufacturer or contractor is prevented by a contract from including the new tax in his selling price.

FURTHER INCOME TAX CHANGE

The source of revenue which we shall seek on a non-recurring basis relates to the income tax on corporations. It is desirable that corporations should pay their income tax as their income is earned to a greater extent than they do at present.

Individuals are required to pay their income tax on a current basis through deductions by their employers or by payment of quarterly instalments starting in March. Moreover they are required to file final tax returns and make final payments within four months of the end of each year.

Corporate taxpayers, on the other hand, do not start payment until the seventh month of their fiscal year and do not have to file their return until six months after their fiscal year is ended. There is no need for this disparity. It is therefore proposed that corporations be required to move their tax payment period forward two months. This means that the final filing time for corporate tax returns will be the same as for individuals. This change will take place over two years and special rules will apply for the transitional period.

This measure will provide some \$220 million in non-recurring revenue, of which about \$20 million will go to the old age security fund. This will be received in the fiscal years 1964-65 and 1965-66. It will have the continuing advantage that revenue from the corporation income tax, which will now be payable sooner after earnings are realized, will reflect changes in economic conditions more promptly in the future.

I should like to insert at this point a table summarizing the revenue changes I have proposed. Estimates are given of the net increase expected for the remaining portion of this fiscal year, and for the full fiscal year following it. These estimates show a net revenue increase of \$155 million this year and \$455 million in 1964-65.

Estimated Changes in Budgetary and Old Age Security Tax Revenues that would result from the proposed tax changes
(millions)

	1963-64 fiscal year	1964-65 fiscal year
Increases:		
Acceleration of corporate tax payments	\$ —	\$165
Changes in withholding tax rates (net)	—	5
Sales tax changes	185	385
	<u>185</u>	<u>555</u>
Decreases:		
Incentives for manufacturing and processing	30	100
Net Increase in Revenues:	<u>\$155</u>	<u>\$455</u>

I should also like to insert a table summarizing the revised revenues, expenditures and deficit for the current fiscal year after giving effect to all of my proposals.

It will be noted from the table that the revised deficit figure, which includes both budgetary and old age security fund figures, stands at \$565 million compared with \$752 million last year, a reduction of nearly \$200 million. I am sure that hon. members will agree that this is a substantial move in the right direction. To do more this year would not be wise having regard to the present state of the economy. To do less would be irresponsible.

Estimated Surplus (Deficit) in Budgetary Accounts and Old Age Security Fund 1963-64 fiscal year
(millions)

	Before Tax Changes	Tax In- creases	Revised Esti- mates
Budgetary Accounts:			
Expenditures	\$6,845		\$6,845
Revenues	6,150	\$110	6,260
Estimated (deficit)	(695)		(585)
Old Age Security Fund:			
Expenditures	755		755
Revenues	730	45	775
Estimated surplus (deficit)	(25)		20
Total estimated (deficit)	<u>\$ (720)</u>		<u>\$ (565)</u>

OVERALL CASH REQUIREMENTS 1963-64

Over and above the deficit of \$565 million to which I have just referred, there are other cash requirements which must be provided for. These include cash outlays by way of loans, investments or advances to Central Mortgage and Housing Corporation to the Farm Credit Corporation, to the Export Credits Insurance Corporation, to the Canadian National Railways and Trans-Canada Air Lines for capital purposes, to the unemployment insurance fund and in connection with the proposed municipal development and loan board.

They also include cash advances to date to the exchange fund, slightly in excess of \$100 million, but do not include any estimate of future changes in the exchange fund which are unpredictable.

There will, of course, be non-budgetary receipts offsetting in part the non-budgetary cash outlays. This year these receipts include one very large non-recurrent item of \$109 million from the sale of its assets by Northern Ontario Pipeline Crown Corporation. Taking these receipts into account, our net non-budgetary cash requirements for the current fiscal year are likely to amount to about \$285 million. Our net cash requirements for

1963-64, both budgetary and non-budgetary, are thus estimated to be about \$850 million. Throughout this budget address, Mr. Speaker, I have referred repeatedly to unemployment as being the most serious domestic problem before us. Before I conclude I should like to mention again some of the measures which are designed to deal with this problem.

The most effective long term method of dealing with unemployment is to expand industry and industrial production in Canada. I have referred to the proposed department of industry with its associated area development agency. I have referred to the work this department will do in seeing that more goods are produced in Canada.

I have referred to the strengthening of the Atlantic development board and to the proposed municipal development and loan board. I have referred to a series of measures to encourage industrial expansion and growth by the provision of very substantial tax incentives. I have referred to the expansion of the municipal winter works program. I have referred to measures to stimulate employment in the building industry through reducing the down payment on N.H.A. housing and encouraging the construction of houses in the winter months. I have referred to the expansion of the program of vocational training, and to a new program for training those whose jobs are threatened by industrial change. And I have referred to a new plan to encourage the employment and training of those over 45 who have not had jobs for some time.

I have no doubt that this manifold attack on the unemployment problem will be effective. As I said before, our economy is expanding and this expansion should continue into next year. The prospects look good for a substantial increase in business investment. This is due in part, as I have said, to an increase in confidence as a result of the election and to the prospect of decisive and far sighted government in Canada once again.

In conclusion may I say that I have not tried to minimize or conceal the various problems we are faced with. But in discussing them, I have been conscious of the strength of our country and of its great potential for the future. I have discussed our problems knowing that if we are to surmount them we must face them, and face them with boldness and resolution.

Our financial program has not been conceived in complacency. In bringing forward our financial proposals we have looked squarely at the realities before us. We have presented a fiscally responsible program designed to reduce unemployment and regain prosperity.

In the recent election campaign my colleagues and I undertook to give the public the facts. We said, and the Prime Minister in particular said repeatedly, that when we were faced with difficult and unpleasant decisions we would not be afraid to make them. Some of those decisions have been announced tonight. They have been made in confidence that the members of this house will support them. They have been made in confidence that the people of Canada will support them. And they have been made in confidence that all of us together, by facing the future with resolution and courage, can restore prosperity and security to ourselves, our children and our country.

I shall now table, Mr. Speaker, all the budget resolutions to which I have referred together with certain other proposals not mentioned specifically in this speech.

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 with respect to new depreciable property of a prescribed class acquired in the period of 24 months commencing June 14, 1963 capital cost allowances be computed on a straight line basis at a prescribed rate not exceeding 50 per cent per annum if the property has been acquired by a taxpayer in a taxation year for a manufacturing or processing business in Canada and the said taxpayer is

(a) an individual who was resident in Canada during a period of not less than 183 days in the year, or

(b) a corporation that on the last day of the year was a corporation with a degree of Canadian ownership and control and for the purposes of this paragraph;

(c) a corporation has a degree of Canadian ownership and control at a particular time if the corporation throughout the 60 day period immediately preceding that time complied with the following conditions:

(i) the corporation was resident in Canada,

(ii) not less than 25 per cent of its voting shares were beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada or a combination thereof, and

(iii) unless at least 51 per cent of its voting shares were beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada or a combination thereof, the number of directors of the corporation who were resident in Canada and not employed by the corporation

otherwise than as directors, was not less than that proportion of the total number of directors on the board of the corporation that the aggregate number of voting shares of the corporation beneficially owned by individuals resident in Canada and corporations controlled in Canada is of the aggregate number of outstanding voting shares of the corporation; and

(d) a corporation is controlled in Canada at a particular time if at that time it complies with the following conditions:

(i) the corporation is resident in Canada, and

(ii) not less than 51 per cent of its voting shares are beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada or a combination thereof.

2. That a taxpayer whose business in a prescribed area of Canada has been certified to be a new manufacturing or processing business that commenced commercial operations in the period of 24 months commencing with the date on which any enactment based on this paragraph is assented to be exempt from tax on the income from that business for a period of 36 months from the date certified to be the date of commencement of operations, and that the rate of capital cost allowances for new depreciable property of a prescribed class acquired by the said taxpayer in the said 24 months period for such business be computed on a straight line basis at a prescribed rate not exceeding 50 per cent per annum.

3. That with effect for 1964 and subsequent taxation years section 40A of the act, which provides for a deduction from the tax otherwise payable by a manufacturing and processing corporation, be repealed.

4. That with respect to, expenses incurred after April 10, 1962 a corporation whose principal business is operating a pipeline for the transmission of oil or natural gas 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 for petroleum or natural gas in Canada and the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada.

5. That for the 1963 and subsequent taxation years a dividend received by a person resident in Canada from a corporation that throughout its taxation year in which the dividend is paid or credited

(a) is taxable as a non-resident corporation carrying on business in Canada,

(b) derives substantially all of its income from sources in Canada, and

(c) has its shares listed on a recognized stock exchange in Canada be deemed to be a dividend from sources in Canada paid or credited by a taxable corporation within the meaning of section 38 of the act.

6. That the 15 per cent rate of tax payable by a non-resident person on dividends paid or credited to him by a person resident in Canada be reduced to 10 per cent with respect to dividends paid or credited after June 13, 1963 by a corporation that at the time the dividend is paid or credited has a degree of Canadian ownership or control within the meaning of paragraph 1.

7. That the 15 per cent rate of tax payable by a non-resident person on dividends paid or credited to him by a person resident in Canada be increased to 20 per cent with respect to dividends paid or credited after December 31, 1964 by a corporation that at the time the dividend is paid or credited does not have a degree of Canadian ownership or control within the meaning of paragraph 1.

8. That where a corporation resident in Canada that on June 13, 1963 was not a corporation that had a degree of Canadian ownership and control, within the meaning of paragraph 1, becomes a corporation that throughout a subsequent taxation year ending before January 1, 1967 has such a degree of Canadian ownership and control, a non-resident person shall be entitled to a refund equal to

(a) 5 per cent of any dividends paid or credited by the corporation to him after June 13, 1963 and before January 1, 1965, in respect of which he has paid a tax of 15 per cent to Canada, and

(b) 10 per cent of any dividends paid or credited by the corporation to him after December 31, 1964 and before January 1, 1967, in respect of which he has paid a tax of 20 per cent to Canada.

9. That where a corporation (other than a non-resident-owned investment corporation)

(a) during the period commencing on June 14, 1963 and ending on December 31, 1964 did not have a degree of Canadian ownership and control within the meaning of paragraph 1; and

(b) in the period commencing on June 14, 1963 and ending on December 31, 1964 paid or credited dividends in an amount in excess of the amount of dividends paid or credited by the corporation in the period of five hundred and sixty-seven days that ended on June 13, 1963, the corporation shall, on or before January 31, 1965, pay a special tax equal to 5 per cent of the amount of the excess described in subparagraph (b).

10. That with respect to income earned after December 31, 1964 the 15 per cent tax imposed by Part IIIA of the act on a non-resident corporation carrying on business in Canada be 20 per cent.

11. That with respect to income of a non-resident-owned investment corporation earned after December 31, 1964 the present 15 per cent rate of tax be 20 per cent.

12. That any amount paid or credited after June 13, 1963, by a person resident in Canada to a non-resident person, as or on account of a management or administration fee or charge, be subject to the 15 per cent tax on income from Canada of non-resident persons.

13. That with respect to interest paid by a person resident in Canada to a non-resident person on any obligation issued after June 13, 1963, if the non-resident person

(a) is exempt from income tax in the country in which that person is resident; and

(b) has obtained a certificate of exemption from the minister,
the non-resident person be exempt from the 15 per cent rate of tax imposed in respect of such payment.

14. That for the taxation years ending after November, 1965 a corporation shall during the 12 months period ending 4 months after the close of each taxation year, pay to the Receiver General of Canada

(a) on or before the last day of each of the first 10 months in that period, an amount equal to one-twelfth of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,

(b) on or before the last day of the eleventh month in the period, an amount equal to one-half of the remainder of the tax payable as estimated by it on its taxable income for the year at the rate for the year, and

(c) on or before the last day of the period, the remainder of the tax

and that for the taxation years ending after November, 1963 and before December, 1964 a corporation shall, during the 11 months period ending 5 months after the close of its taxation year, pay to the Receiver General of Canada

(d) on or before the last day of each of the first 9 months in that period, an amount equal to one-twelfth of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,

(e) on or before the last day of the tenth month in the period, an amount equal to one-half of the remainder of the tax payable as estimated by it on its taxable income for the year at the rate for the year, and

(f) on or before the last day of the period, the remainder of the tax,

and that for taxation years ending after November, 1964 and before December, 1965 a corporation shall, during the 11 months period ending 4 months after the close of its taxation year, pay to the Receiver General of Canada

(g) on or before the last day of each of the first 9 months in that period, an amount equal to one-eleventh of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,

(h) on or before the last day of the tenth month in the period, an amount equal to one-half of the remainder of the tax payable as estimated by it on its taxable income for the year at the rate for the year, and

(i) on or before the last day of the period, the remainder of the tax.

15. That the return of income for a taxation year that is to be filed with the minister in prescribed form and containing prescribed information by or on behalf of a corporation be filed

(a) for taxation years ending after November, 1963 and before December, 1964 within 5 months from the end of the year, and

(b) for taxation years ending after November, 1964 within 4 months from the end of the year.

16. That with respect to amounts received after June 13, 1963, where a taxpayer has received an amount in a taxation year,

(a) as consideration for the sale or other disposition of any shares of a corporation or of any interest in such shares,

(b) in consequence of a corporation having

(i) redeemed or acquired any of its shares or reduced its capital stock, or

(ii) converted any of its shares into shares of another class or into an obligation of the corporation, or

(c) otherwise, as a payment that would, but for this provision, be exempt income, which amount, in the opinion of the minister, was received by the taxpayer as part of a transaction or series of transactions whenever effected or to be effected, one of the purposes of which was or is to effect a substantial reduction of, or disappearance of, the assets of a corporation in such a manner that the whole or any part of any tax that

might otherwise have been or become payable under the Act in consequence of any distribution of income of a corporation has been or will be avoided, the amount so received by the taxpayer or such part thereof as may be specified by the minister shall, if the minister so directs,

(d) be included in computing the income of the taxpayer for that taxation year, and

(e) in the case of a taxpayer who is an individual, be deemed to have been received by him as a dividend from a taxable corporation within the meaning of section 38 of the act.

17. That for the 1963 and subsequent taxation years where, in the case of two or more corporations, the minister is satisfied

(a) that the separate existence of those corporations is not solely for the purpose of carrying out the business of those corporations in the most effective manner, and

(b) that one of the main reasons for such separate existence is to reduce the amount of taxes that would otherwise be payable under the act

the two or more corporations shall, if the minister so directs, be deemed to be associated with each other.

18. That for the 1963 and subsequent taxation years

(a) a business loss incurred in a previous year by a corporation may not be deducted in a taxation year if

(i) the business in which the loss was sustained by the corporation was not carried on by it in the taxation year, and

(ii) in the period between the end of the year in which the loss was sustained and the end of the taxation year control of the corporation has changed hands, and

(b) a business loss incurred by a corporation in a taxation year may not be deducted in computing the income of the corporation for that taxation year if the business in which the loss was sustained by the corporation was wound up or discontinued, and after such winding up or discontinuance control of the corporation passed to a person or persons who did not control the corporation in the year at any time when the business in which the loss was sustained was carried on;

but this paragraph is not applicable where the change of the control of the corporation occurred prior to June 14, 1963.

19. That for the 1963 and subsequent taxation years section 18 of the act, which provides rules in the case of any lease option agreement, hire purchase agreement or other contract or arrangement for the leasing or hiring of property, be repealed, and appropriate transitional provisions be enacted in respect of any such contract or arrangement.

20. That for the 1963 and subsequent taxation years the benefits received by an employee from his employer's contribution to a group life insurance plan that are at present excluded from income be excluded only if such contribution is, in respect of group term life insurance.

21. That, with respect to any annuity contract entered into after June 13, 1963, that part of the proceeds of the contract that consists of interest accumulated prior to the date on which the annuity commences be included in computing income of the recipient unless such proceeds are received as a life annuity or as a refund of premiums upon the death of the holder of the annuity contract.

22. That for the 1962 and subsequent taxation years the manner of taxing a bankrupt corporation, a bankrupt individual and a trustee in bankruptcy be revised and in particular

(a) that the trustee be deemed to be the agent of the bankrupt person for all purposes of the act;

(b) that section 63 of the act not apply in the case of any income of the trustee from dealing in the property of the bankrupt person or from carrying on the business of the bankrupt person;

(c) that the income of the bankrupt person be computed as if upon the occurrence of the bankruptcy the property of the bankrupt person did not pass to and vest in the trustee; and

(d) that the trustee be liable for payment of any tax payable by the bankrupt person to the extent of the property of the bankrupt person in the possession of the trustee.

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 certain building materials be withdrawn by repealing the exemption for all goods mentioned under the heading "Building Materials" in Schedule III of the said act and by repealing the exemptions for

(a) "Fire brick, plastic refractories, high temperature cement, fire clay and other refractory materials and materials to be used or consumed exclusively in the manufacture of such fire brick or refractory materials;"

(b) "Creosote oil and other wood preservatives when for use exclusively in the treatment of timber, poles or lumber;"

(c) "Seventy-five per cent of the sale price if manufactured in Canada, or seventy-five per cent of the duty-paid value if imported, of trailers for use as homes;"

(d) "Railway ties;"

(e) "Goods for use as part of sewerage and drainage systems, and articles and materials to be used exclusively in the manufacture thereof;"

2. That any enactment based on paragraph 1 of this resolution provide that

(a) goods for use as part of sewerage and drainage systems be exempt from sales tax when sold to or imported by a municipality for its own use and not for resale,

(b) any transfer of a sewerage or drainage system to a municipality by any person within two years after the completion thereof, pursuant to a by-law of or agreement with that municipality under which that person is required to install such system and transfer it without charge to that municipality after the completion thereof be deemed, for the purpose of section 46 of the said act, to be a sale to the municipality for its own use and not for resale of goods for use as part of a sewerage or drainage system, and that any agency operating a sewerage or drainage system for or on behalf of a municipality may be declared by the minister to be a municipality for the purposes of this paragraph.

3. That any enactment based on paragraph 1 of this resolution provide that drain tile for agricultural purposes and materials to be used exclusively in the manufacture thereof be exempt from sales tax.

4. That the present exemption for certain machinery and apparatus to be used in manufacture or production be withdrawn by repealing the exemption for all goods mentioned under the headings "Machinery and Apparatus to be Used in Manufacture or Production" and "Engines" in Schedule III of the said act and by repealing the exemptions for

(a) "Seismic shot-hole casing and materials used in the manufacture thereof;"

(b) "Materials (not including grease, lubricating oils or fuel for use in internal combustion engines) consumed or expended directly in the process of manufacture or production of goods."

(c) "Diesel fuel oil when used in internal combustion engines used in logging operations and in the manufacture of rough lumber."

(d) "Diesel fuel oil when used in internal combustion engines at mines to generate electricity for use in mining operations and other purposes connected therewith."

(e) "Tires and tubes for use exclusively on the machinery enumerated in Customs Tariff item 411a."

(f) Goods enumerated in Customs Tariff items 364, 399a, 399b, 399c, 411a, 417, 431h, 439c, 666, 667, 848, 848a and 848b.

5. That any enactment based on paragraph

4 of this resolution provide that traction engines for farm purposes and accessories therefor (not including machines and tools for operation by such engines) and complete parts of all the foregoing, and materials to be used exclusively in the manufacture of the said engines, accessories or parts be exempt from sales tax.

6. That any enactment based on paragraph 4 of this resolution provide that farm wagons, including four-wheeled farm wagons equipped to be tractor drawn and farm sleds, and materials to be used exclusively in the manufacture thereof be exempt from sales tax.

7. That feeds for fish, supplements for addition to such feeds, and materials to be used exclusively in the manufacture of such feeds or supplements be exempt from sales tax,

8. That the exemption from sales tax for materials for use in the equipment and repair of ships over ten tons net register tonnage be restricted to materials for use in the equipment and repair of ships to be used exclusively for commercial purposes.

9. That the present exemption from sales tax for "Bakers' cakes and pies including biscuits, cookies or other similar articles;" be changed to read "Bakers' cakes and pies including biscuits, cookies and similar articles but not including simulated chocolate bars or candy bars;"

10. That the export duty of three one-hundredths of one cent per kilowatt hour on electrical power exported from Canada be repealed.

11. That the said act be further amended by adding thereto the following part:

PART III

Securities Sales Tax

11. (1) In this Part,

(a) "designated corporation" means a corporation that was at the relevant time resident in Canada, any of the shares of which of any class were, within a period of two years immediately before that time, listed on a stock exchange;

(b) "eligible purchaser" means any purchaser of shares of a designated corporation who was at the relevant time

(i) an individual resident in Canada who had been resident in Canada for a period of not less than two years immediately before that time,

(ii) a corporation resident in Canada having a share capital, in any case where the number of votes attaching to the shares of the corporation that were owned by one or more individuals or corporations described in any of subparagraphs (i), (iii), or (iv) or this subparagraph, exceeded 50 per cent of the total number of votes attaching to all of the shares of the corporation, and where, by reason of the beneficial ownership of any shares or other

securities of the corporation or any agreement in writing; one or more individuals or corporations so described were in a position to or were entitled to elect or cause to be elected a majority of the directors of the corporation,

(iii) a corporation resident in Canada having no share capital, a majority of the directors and of the other members of which were individuals described in subparagraph (i), or

(iv) and individual or corporation wherever resident who purchased the shares of the designated corporation as a trustee under an employees' pension plan or under any trust constituted exclusively for charitable purposes, the right of appointment or removal of whom was exercisable by one or more individuals or corporations described in any of subparagraphs (i), (ii) or (iii);

(c) "resident vendor" means a vendor of shares of a designated corporation who was at the relevant time resident in Canada;

(d) "share" as applied to any corporation means a share of that corporation of any class, other than a share

(i) the owner of which is entitled only to a fixed cumulative preferred dividend, and

(ii) to which no vote is attached under any circumstances, or to which a vote is attached only in the event that any dividend described in subparagraph (i) is in arrears for a period of not less than two years; and

(e) "stock exchange" means

- (i) the Canadian Stock Exchange,
- (ii) the Montreal Stock Exchange,
- (iii) the Toronto Stock Exchange,
- (iv) the Winnipeg Stock Exchange,
- (v) the Calgary Stock Exchange, and
- (vi) the Vancouver Stock Exchange;

and such other stock exchange or exchanges in Canada as may from time to time be designated by the governor in council for the purposes of this part.

(2) For the purposes of this part, the votes attaching to any share of a corporation are the votes that under any voting rights annexed to that share may, either upon the happening of a particular event or otherwise, be exercised by the owner thereof.

(3) A reference in this part to a person resident in Canada includes a person who was at the relevant time ordinarily resident in Canada, and in determining the residence of a person for the purposes of this part the provisions of the Income Tax Act applicable to any such determination for the purposes of that act apply *mutatis mutandis*.

12. (1) There shall be imposed, levied and collected a securities sales tax of 30% on the sale price of all shares of a designated corporation sold by a resident vendor to a person other than an eligible purchaser, payable by the vendor within thirty days of such sale.

(2) No tax is payable under this part in respect of shares of a designated corporation sold by a resident vendor to a person other than an eligible purchaser through a stock exchange in any day where the total sale price of all shares of that corporation so sold by the vendor to all persons in that day does not exceed \$50,000.

13. The issue by a designated corporation to any person of any shares of that corporation pursuant to a warrant, option, right or conversion privilege entitling the owner or holder thereof to purchase or otherwise acquire those shares shall, except where the warrant, option, right or conversion privilege was outstanding on or before the 13th day of June, 1963, be deemed for the purposes of this part to be a sale by the corporation to that person of those shares, and in relation thereto the sale price of those shares shall be deemed to be the consideration paid or agreed to be paid for those shares plus the fair market value, immediately before the issue of the shares, of the warrant, option or right, or of the security carrying the conversion, privilege, pursuant to which the shares were issued.

14. A sale by a designated corporation to any person of all or substantially all of the property used by the corporation in carrying on its business in Canada shall, for the purposes of this part, be deemed to be a sale by the corporation to that person of shares of the corporation, and in relation to such shares the sale price thereof shall be deemed to be

(a) the consideration paid or agreed to be paid for the property so sold, in any case where that property was sold to a person with whom the corporation was dealing at arm's length; and

(b) the fair market value of the property so sold, in any other case.

15. Where, by reason of the reorganization of, or the merger or amalgamation with another corporation of, a designated corporation (which reorganization, merger or amalgamation is hereinafter referred to as a "substitution" and which designated corporation is hereinafter referred to as the "old corporation"),

(a) the total number of votes attaching immediately before the substitution to all shares of the old corporation owned by individuals or corporations described in any of subparagraphs (i) to (iv) of paragraph (b) of subsection (1) of section 11 (which individuals or corporations are hereinafter referred to as "eligible shareholders"), expressed as a percentage of the total number of votes attaching at that time to all of the shares of the old corporation, is greater than

(b) the total number of votes; attaching immediately after the substitution to all shares of the reorganized corporation or of any corporation formed as a result of the merger or amalgamation (which reorganized corporation or corporation so formed is hereinafter referred to as the "new corporation") owned by eligible shareholders, expressed as a percentage of the total number of votes attaching at that time to all of the shares of the new corporation; the substitution shall, for the purposes of this part, be deemed to be a sale to the new corporation of the shares of the old corporation by each of the persons who immediately before the substitution owned any shares thereof, and in relation to the shares thereof owned by any such person at that time, the sale price of those shares shall be deemed to be the fair market value at that time of shares of the old corporation, equal in number to

(c) the number of shares of the old corporation owned at that time by such person, multiplied by

(d) the quotient obtained by dividing

(i) the percentage number by which the percentage obtained under paragraph (a) exceeds the percentage obtained under paragraph (b)

by

(ii) the percentage number obtained under paragraph (a).

16. (1) Subject to subsection (2), every person who, being a resident vendor, sells any shares of a designated corporation other than shares of a designated corporation in respect of which no tax is payable under this part by virtue of subsection (2) of section 12 shall, within one month of such sale, file a return with the minister stating, with respect to the sale,

(a) the name of each of the parties to the sale;

(b) the address of each of the parties to the sale including, in the case of a corporation, the address of the head office of the corporation and of its principal place of business, if any, in Canada; and

(c) particulars of the sale including the date of the sale, the sale price of the shares of each class so sold and, where applicable, the number of shares of each class so sold; together with such further or other information or particulars as may be required by the regulations.

(2) The return required by this section to be filed by the minister may, in the case of a sale of shares deemed by section 15 to have been made to any corporation referred to in that section as a new corporation, be filed with the minister by that cor-

poration on behalf of each of the persons resident in Canada by whom the sale was deemed so to have been made, and where any return is so filed by that corporation no return is required by this section to be filed by such persons with respect thereto.

17. There may be attached to any return filed with the minister as required by section 16 relating to the sale of any shares a certificate of identification as to the purchaser thereof,

(a) signed,

(i) where the purchaser thereof is an individual, by that individual, and

(ii) where the purchaser thereof is a corporation, by a responsible officer of that corporation; and

(b) stating that, at the time of the sale, such individual was, or to the best of such officer's knowledge, information and belief such corporation was, as the case may be, an eligible purchaser within the meaning of this part.

18. Where, in any month the number of sales of shares of a particular designated corporation made by a resident vendor with respect to which a return would otherwise be required by section 16 to be filed with the minister exceeds fifty, the vendor may, in lieu of filing a return under section 16 with respect to each such sale made in that month, file with the minister, within thirty days after the end of that month, a return setting forth with respect to all such sales made in that month,

(a) particulars as described in paragraphs (a) and (b) of subsection (1) of section 16 as to the vendor;

(b) the total number of shares of the corporation of each class so sold, for which the vendor holds certificates under section 17 indicating respectively that the purchaser or, in the case of a sale made to a number of purchasers jointly, that each such purchaser was an eligible purchaser within the meaning of this part, and the total sale price of those shares; and

(c) the total number of shares of the corporation of each class so sold, for which the vendor does not hold certificates as described in paragraph (b), and the total sale price of those shares; together with such further or other information or particulars as may be required by the regulations.

(2) Subsection (1) does not apply in respect of any sale of shares in the case of which a return may be filed as provided in subsection (2) of section 16.

19. Where,

(a) in the case of any return filed with the minister as required by section 16, no certificate of identification under section 17 as to the purchaser of the shares to which the return relates is attached thereto or, in the case of a return under section 18 filed with the minister, no certificate of identification under section 17 as to the purchaser of any particular shares to which the return relates is held by the vendor, or

(b) the certificate attached to the return or held by the vendor, as the case may be, does not indicate that the purchaser or, in the case of a sale made to a number of purchasers jointly, that each such purchaser was an eligible purchaser within the meaning of this part,

the purchaser or each such purchaser, as the case may be, shall, unless the contrary is established, be presumed to be a person other than an eligible purchaser.

20. A document signed by an officer of the Department of National Revenue, stating that to the best of his knowledge information and belief after examining the appropriate records of the department a particular corporation was at any stated time a designated corporation, is admissible in evidence and in the absence of any evidence to the contrary is proof that such corporation was at that time a designated corporation.

21. (1) Subsection (1) of section 43 does not apply in respect of this part.

(2) Subsection (2) of section 54 applies in respect of a certificate attached to a return filed with the minister as required by section 16, or a certificate as to the purchaser of any particular shares to which a return under section 18 filed with the minister relates, as though such certificate were a return filed as required by this part.

(3) Section 55 applies in respect of a person required by section 16 to file any return or by whom any return under section 18 is filed with the minister, as though such person were a person described in subsection (1) of section 55."

12. That any enactment founded on paragraphs 1 to 9 of this resolution be deemed to have come into force on June 14, 1963, any enactment founded on paragraph 10 of this resolution be applicable in respect of electrical power exported from Canada after

June, 1963, and any enactment founded on paragraph 11 of this resolution be deemed to have come into force on June 14, 1963 and to have been applicable in respect of any sales described therein made on or after that day.

13. That the said measure further provide

(a) that where any tax under part VI of the said act has become payable by any person in respect of any goods for which exemption from tax under that part was withdrawn by any enactment founded on paragraphs 1 to 9 of this resolution, which goods were, before June 14, 1964, sold and delivered by that person, or applied by that person to a use resulting in the property in the goods passing from that person, pursuant to a bona fide contract in writing signed by the parties thereto before June 14, 1963 that provided for the sale of those goods or their application to that use for a fixed amount stated in the contract and that did not permit the adding of the tax to the amount payable to that person under the contract, a refund, or deduction from any of the taxes imposed by the said act, of the tax or such part thereof as could not under the contract be added to the amount payable to that person thereunder may be granted to that person; and

(b) that where any goods for which exemption from tax under part VI of the said act was withdrawn by any enactment founded on paragraphs 1 to 9 of this resolution were, after June 13, 1963 and before June 14, 1964, sold and delivered by any person, or applied by any person to a use resulting in the property in the goods passing from that person, pursuant to a bona fide contract in writing signed by the parties thereto before June 14, 1963 that provided for the sale of those goods or their application to that use for a fixed amount stated in the contract and that did not permit the adding of any tax under that part that became payable after June 13, 1963 in respect of those goods to the amount payable to that person under the contract, an amount equal to the tax or such part thereof as could not under the contract be added to the amount payable to that person thereunder may, where application therefor is made to the Minister of National Revenue by that person before June 14, 1966 in such form as the minister prescribes and the minister is satisfied that such tax has been paid, be paid by the minister to that person.

CUSTOMS TARIFF

1. Resolved, that schedule A to the Customs Tariff be amended by striking out tariff items 24, 25, 179, 187c, 409f, 538h(1), 521(1), 521(3) (a), 521(3) (b), 522(6), 532g, 533, 536, 537, 537a, 537b, 537c, 537d, 537e, 538a, 538d, 538i(1), 538i(2), 540(a), 540(b), 540(c), 540(d), 541, 541a, 541b, 541c, 541d,

542, 542a, 543, 546, 546a, 547, 547a, 548, 548a, 548c, 549c, 549d, 549e, 549f, 569, 569a(1), 569a(2), 569a(3), 569a(4), 569a(5), 569a(6), 569b, 569c(1), 569c(2), 569d(1), 569d(2), 572a, 610, 798, 812, 812a and 812b, 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
24	Chicory, raw or green.....per pound	Free	Free	3 cts.	2½ cts.	2½ cts.	3 cts.
25	Chicory, kiln dried, roasted or ground.....per pound	2 cts.	2 cts.	5 cts.	3 cts.	3 cts.	5 cts.
179	Labels for cigar boxes, fruits, vegetables, meats, fish, confectionery or other goods or wares; shipping, price or other tags, tickets or labels, and railroad or other tickets, whether lithographed or printed, or partly printed, n.o.p.; <i>the foregoing not including labels of textile fibres or filaments</i>	17½ p.c.	22½ p.c.	35 p.c.	17½ p.c.	22½ p.c.	35 p.c.
	Tickets issued by railway systems in the British Commonwealth (not including railway systems operating in Canada), shall be exempt from customs duty, when produced in countries entitled to the benefits of the British Preferential Tariff.						
187c	Photographic dry plates.....	7½ p.c.	12½ p.c.	30 p.c.	10 p.c.	15 p.c.	30 p.c.
312d	Woven fabrics, wholly or in part of asbestos, for use in the manufacture of clutch facings and brake linings..	12½ p.c.	12½ p.c.	30 p.c.	12½ p.c.	12½ p.c.	30 p.c.
409f	Aluminum sluice-type devices for controlling water in irrigation ditches; 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; Heaters for orchards; Hitches and couplings; Hydraulic hoists for unloading vehicles; Land levellers;						

Tariff Item		Rates in Effect Prior to Rates Proposed in this Budget					
		British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
409f (Con.)	Machines and tools for use on tractors, including blades, loaders, rippers, rakes and related operating and controlling gear; Milk coolers; Sodium metabisulphite; Sprinkler irrigation systems; Steel stanchions for confining livestock either in pens or individually, and complete equipment for milking parlours; 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 15 p.c.	Free 22½ p.c.	Free 30 p.c.
438h	(1) Motor cycles having an engine capacity of 250 c.c. or less, engines or side cars therefor; parts of the foregoing.	Free	12½ p.c.	30 p.c.	Free	17½ p.c.	30 p.c.
521	Yarns and rovings, including threads, cords and twines, wholly of cotton: (1) Singles, n.o.p. (2) Undyed and unbleached, for use in the manufacture of cotton sewing thread: (a) Singles (b) Plied (3) For use in the manufacture of crochet, knitting, darning or embroidery cottons to be packaged for sale at retail for household use: (a) Singles (b) Plied (6) Mercerized yarns of count seventy-five and finer.	12½ p.c. Free 5 p.c. Free 5 p.c. Free	17½ p.c. 10 p.c. 10 p.c. 10 p.c. 10 p.c. 17½ p.c.	22½ p.c. 15 p.c. 20 p.c. 15 p.c. 20 p.c. 30 p.c.	12½ p.c. Free 5 p.c. Free 5 p.c. 12½ p.c. 15 p.c.	17½ p.c. 10 p.c. 10 p.c. 10 p.c. 10 p.c. 17½ p.c. 20 p.c.	22½ p.c. 15 p.c. 20 p.c. 15 p.c. 20 p.c. 22½ p.c. 30 p.c.

532g	Haircloth composed of horsehair in combination with any vegetable fibre.....	17½ p.c.	27½ p.c.	30 p.c.	17½ p.c.	27½ p.c.	30 p.c.
541a	Yarns and rovings, including threads, cords and twines, wholly or in part of vegetable fibres, n.o.p., not containing silk, wool or hair, man-made fibres or filaments nor glass fibres or filaments;						
	(1) Linen thread for hand or machine sewing.....	Free	17½ p.c.	25 p.c.	Free	17½ p.c.	25 p.c.
	(2) Linen yarns for weaving or braiding into fabrics..	Free	Free	25 p.c.	Free	Free	15 p.c.
	(3) Singles, n.o.p.....	12½ p.c.	17½ p.c.	25 p.c.	12½ p.c.	17½ p.c.	25 p.c.
	(4) Other, n.o.p.....	15 p.c.	20 p.c.	25 p.c.	15 p.c.	20 p.c.	25 p.c.
541b	Yarns and rovings, including threads, cords or twines, wholly of jute;				Various	Various	Various
	(1) Singles.....	10 p.c.	17½ p.c.	25 p.c.	Free	17½ p.c.	25 p.c.
	(2) Other.....	15 p.c.	20 p.c.	25 p.c.	Free	10 p.c.	15 p.c.
					20 p.c.	25 p.c.	32½ p.c.
					Free	10 p.c.	15 p.c.
542a	Woven fabrics, wholly or in part of vegetable fibres, and all such fabrics with cut pile, n.o.p., not containing silk, wool or hair, man-made fibres or filaments nor glass fibres or filaments.....	17½ p.c.	22½ p.c.	30 p.c.	17½ p.c.	20 p.c.	30 p.c.
					20 p.c.	25 p.c.	40 p.c.
542b	Woven fabrics, wholly of jute.....	Free	5 cts. per 100 lineal yards	15 p.c.	Free	Various	Various
					15 p.c.	5 cts. per 100 lineal yards	15 p.c.
					Various	22½ p.c.	30 p.c.
542c	Woven fabrics, in the web, wholly of flax or hemp:						
	(1) Towelling and glass-cloth of crash or huck; table-cloth and napkin fabrics of crash.....	17½ p.c.	22½ p.c.	35 p.c.	15 p.c. and 3 cts. per pound	20 p.c. and 3½ cts. per pound	35 p.c. and 4 cts. per pound
					Free	22½ p.c.	35 p.c.
	(2) Other.....	Free	22½ p.c.	35 p.c.	Free	22½ p.c.	35 p.c.
					25 p.c.	25 p.c.	35 p.c.
							and 4 cts. per pound
543a	(1) Clothing, wearing apparel and articles, made from woven fabrics, and all textile manufactures, wholly or partially manufactured, composed wholly or in part of vegetable fibres, n.o.p., when the textile component is not more than fifty per cent, by weight, of silk nor fifty per cent or more, by weight, of man-made fibres or filaments or glass fibres or filaments, not containing wool or hair.....	25 p.c.	25 p.c.	35 p.c.	25 p.c.	25 p.c.	35 p.c. and 4 cts. per pound
					22½ p.c.	22½ p.c.	35 p.c. and 4 cts. per pound
					Various	Various	Various

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
543a (Con.)	(2) Towels and glass-cloths of crash or huck, table-cloths and napkins of crash, wholly or in part of flax or hemp, <i>not containing more than fifty per cent, by weight, of silk nor fifty per cent or more, by weight, of man-made fibres or filaments or glass fibres or filaments nor wool or hair</i>	17½ p.c.	22½ p.c.	35 p.c.	15 p.c. and 3 cts. per pound	20 p.c. and 3½ cts. per pound	35 p.c. and 4 cts. per pound
543b	Articles made from woven fabrics wholly of jute and all textile manufactures, <i>wholly or partially manufactured, the textile component of which is wholly of jute, n.o.p.; jute fabric backed with paper</i>	12½ p.c.	22½ p.c.	30 p.c.	12½ p.c. 25 p.c.	22½ p.c. 25 p.c.	30 p.c. 35 p.c. and 4 cts. per pound
543c	Sheets, pillow-cases, bed-spreads, dresser-scarves, doilies, tray-cloths, table-cloths, napkins, towels, glass-cloths and handkerchiefs, wholly of flax or hemp, but not to include towels or glass-cloths of crash or huck, nor table-cloths and napkins of crash.....	Free	22½ p.c.	35 p.c.	Free	20 p.c. and 3 cts. per pound	35 p.c. and 4 cts. per pound
	<i>Hemming, hemstitching or embroidering with cotton thread of the foregoing articles, or the weaving of cotton thread in the borders of the handkerchiefs, will not remove such goods from this item.</i>						
543d	Bags or sacks of jute, hemp, linen or sisal.....	12½ p.c.	15 p.c.	20 p.c.	12½ p.c. 17½ p.c.	15 p.c. 17½ p.c.	20 p.c. 35 p.c. and 4 cts. per pound
559g	Batts, batting and wadding of wool, cotton or other textile fibre, n.o.p.....	10 p.c.	17½ p.c.	25 p.c.	12½ p.c.	20 p.c.	25 p.c.
567	Sails for boats and ships; textile fabrics, in the web or with fused edges, for use in the manufacture of such sails.....	15 p.c.	22½ p.c.	25 p.c.	15 p.c. Various	22½ p.c. Various	25 p.c. Various
569a	Hats, hoods and shapes of fur felt or of wool-and-fur felt	17½ p.c.	22½ p.c.	35 p.c.	17½ p.c.	22½ p.c.	35 p.c.

569b	(1) Hoods and shapes, caps, bonnets and berets, n.o.p.	22½ p.c.	30 p.c.	45 p.c.	22½ p.c. Various	27½ p.c. Various	35 p.c. Various
	(2) Hats, n.o.p.	20 p.c.	25 p.c.	35 p.c.	20 p.c.	25 p.c.	35 p.c.
	and, per dozen	75 cts.	\$1.00	\$1.50	75 cts.	\$1.00	\$1.50
569c	Hoods and shapes, knitted, crocheted, plaited or woven, in a single piece; hoods and shapes of braid, not sewn; all the foregoing for use in the manufacture of hats.	Free	7½ p.c.	10 p.c.	Free	7½ p.c.	10 p.c.
569d	Hat sweats, cap peaks, stiffening bands for the inside of hats and caps, tips and sides when cut to shape, and materials for use in the manufacture of such articles; all the foregoing for use in the manufacture of hats and caps.	Free	Free	Free	Free	Free	Free
569e	Hat braids, of a class of kind not made in Canada, whether woven, knitted or plaited, not exceeding six inches in width, for use in the manufacture of hat bodies or shapes, but not for use in the ornamentation or trimming of such bodies or shapes.	Free	Free	Free	Free	Free	Free
569f	Materials, of a class or kind not made in Canada, for use in the manufacture of woven, knitted or plaited hat braids.	Free	Free	Free	Free	Free	Free
572a	Carpets of sisal, palm straw or cane straw.	17½ p.c.	17½ p.c.	40 p.c.	20 p.c.	20 p.c.	40 p.c.
574	Coated or impregnated fabrics, containing textile fabric, produced by any method, including lamination, if the weight of the textile fabric is less than two-thirds of the weight of the coated or impregnated fabric:						
	(1) The textile fabric being wholly or in part of man-made fibres or filaments or of glass fibres or filaments.	27½ p.c.	32½ p.c.	50 p.c.	30 p.c.	35 p.c.	50 p.c.
	(2) The textile fabric not being wholly or in part of man-made fibres or filaments or of glass fibres or filaments.	20 p.c.	25 p.c.	40 p.c.	20 p.c.	25 p.c.	35 p.c. and 4 cts. per pound
					25 p.c.	25 p.c.	35 p.c. and 4 cts. per pound
					Various	Various	Various
574a	Woven fabrics of vegetable fibres, coated or impregnated, imported for use as "brattice cloth" in underground mining operations.	Free	10 p.c.	12½ p.c.	Free	10 p.c.	12½ 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
574b	Canvas in the web, wholly of flax or hemp, or both, plain woven, coloured or not, treated with weather-proofing or preservative materials, weighing more than six ounces per square yard, when the weight of the untreated fabric is two-thirds or more of the weight of the treated fabric.....	17½ p.c.	22½ p.c.	40 p.c.	15 p.c. 25 p.c.	25 p.c. and 3½ cts. per pound 25 p.c.	35 p.c. and 4 cts. per pound 35 p.c. and 4 cts. per pound
597a	(5) Accordions.....	2½ p.c.	2½ p.c.	30 p.c.	5 p.c.	5 p.c.	30 p.c.
610	Belting, n.o.p., not including single-ply belting wholly of textile fibres.....	7½ p.c.	20 p.c.	27½ p.c.	7½ p.c.	20 p.c.	27½ p.c.

2. Resolved, that Schedule B to the *Customs Tariff* be amended by striking out item 1012, and the enumeration of goods and the rate of drawback of duty set opposite that item, and by inserting therein the following items, enumerations of goods and rates of drawback of duty:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
1008	Materials, woven, knitted, bonded, braided or felted, whether or not pleated, folded or sewn.	When used by manufacturers of hats in making bands for, or in binding the edges of, men's hats.....	99 p.c.
1009	Woven fabrics in the web.	When used in the manufacture of linings for men's or boys' hats or caps, or in the manufacture of buckram shapes for women's or children's headgear.....	99 p.c.

8. Resolved, that Schedule A to the *Customs Tariff* be amended by striking out tariff items 535, 535a, 535e, 535g, 538c, 539, 569e and 575, 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
540a Grasses, seaweed, mosses and vegetable fibres other than cotton, not coloured, nor further manufactured than dried, cleaned, cut to size, ground and sifted; oakum of flax, hemp, or jute; coir and coir yarn.....	Free	Free	Free	Free	Free	Free
540b Grasses, seaweed, mosses and vegetable fibres other than cotton, n.o.p.; bagasse of sugar cane, whether or not dried, cleaned, cut to size, ground or sifted.....	Free	10 p.c.	17½ p.c.	Free	10 p.c.	17½ p.c.
540c Vegetable fibres, horse hair, and mixtures of vegetable fibres and horse hair, for use in the manufacture of brooms and brushes.....	Free	Free	7½ p.c.	Free	Free	7½ p.c.
540d Piassava fibre, not coloured, nor further manufactured than dried, cleaned, cut to size, ground and sifted....	Free	Free	Free	Free	Free	Free
541c Cordage, exceeding one inch in circumference, wholly of vegetable fibres, n.o.p.....	17½ p.c.	22½ p.c.	25 p.c.	17½ p.c.	22½ p.c.	25 p.c.
541d Cordage, exceeding one inch in circumference, n.o.p.....	20 p.c.	22½ p.c.	25 p.c.	20 p.c.	22½ p.c.	25 p.c.
568 (5) Knitted fabric wholly of cotton, in the web, for use in the manufacture of rubber boots and shoes.....	10 p.c.	20 p.c.	25 p.c.	10 p.c.	20 p.c.	25 p.c.
569g Firemen's helmets; safety helmets for industrial purposes; parts of such helmets.....	Free	Free	Free	Free	Free	Free
4. Resolved, that Schedule A to the <i>Customs Tariff</i> be amended by striking out tariff items 180e, 180f, 188, 206b, 208x, 237a, 296g, 399a, 431h, 440nl., 440nl., 462d, 462i, 469, 478(2), 570a(2), 597d, 696(1) and 703b, 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:						
9i Feeds for use exclusively in the feeding of trout.....	Free	Free	25 p.c.	15 p.c.	20 p.c.	25 p.c.
On and after July 1, 1984	15 p.c.	20 p.c.	25 p.c.			
180e Plans and drawings, related specifications, any substitute therefor, reproductions of the foregoing except reproductions of Canadian originals, for the manufacture, assembly, erection, installation, operation or maintenance of machines, test sets, engines, apparatus, appliances, plant equipment, and parts thereof.....	Free	Free	Free	Free 12½ p.c.	Free 20 p.c.	Free 22½ p.c.

Tariff Item	Rates in Effect Prior to Rates Proposed in this Budget					
	British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
180f <i>Plans and drawings, related specifications, any substitute therefor, reproductions of the foregoing, n.o.p.; maps and charts, n.o.p.</i>	12½ p.c.	20 p.c.	27½ p.c.	12½ p.c. Free	20 p.c. Free	22½ p.c. Free
188 <i>Plain photographic base paper, prepared for and to be coated with a silver haloid emulsion, for use in the manufacture of photographic paper</i>	Free	Free	25 p.c.	Free Free	Free Free	25 p.c. 10 p.c.
206b <i>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</i>	Free	Free	Free	Free 17½ p.c.	Free 20 p.c.	Free 04 p.c.
208x <i>Materials and parts, entering into the cost of cyanide of calcium, cyanide of potassium and cyanide of sodium, for use in the manufacture of cyanide of calcium, cyanide of potassium and cyanide of sodium</i>	Free	Free	Free	Free	Free	Free
220b <i>Phenylalanine deficient dietary preparations specially compounded for use in the treatment of phenylketonuria</i>	Free	Free	25 p.c.	15 p.c.	20 p.c.	25 p.c.
237a <i>Deuterium oxide or heavy water; uranium in the form of pigs, ingots, billets or bars</i> On and after July 1, 1964	Free Free	Free 15 p.c.	25 p.c. 25 p.c.	Free Free	Free 15 p.c. (On and after July 1, 1963)	25 p.c. 25 p.c.
296g <i>Sodium calcium borate ore for use as a fire retardant</i> ... On and after July 1, 1964	Free 15 p.c.	Free 20 p.c.	25 p.c. 25 p.c.	Free 15 p.c.	Free 20 p.c. (On and after July 1, 1963)	25 p.c. 25 p.c.
399a <i>Pipes or tubes of iron or steel, commonly known as "oil-country goods", being casing or tubing, fittings, couplings, thread protectors and nipples therefor; sucker rods, pony rods, polished rods and couplings therefor; seismograph drilling bits, in sizes three and one-half inches to four and three-quarter inches inclusive; all of the foregoing for use in connection with natural gas or oil wells</i>	5 p.c.	10 p.c.	20 p.c.	5 p.c. 10 p.c.	10 p.c. 22½ p.c.	20 p.c. 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	Free	27½ p.c.	Free	Free	27½ p.c.
	On and after July 1, 1964	Free	15 p.c.	27½ p.c.	Free	15 p.c. (On and after July 1, 1963)	27½ p.c.
440n	Aircraft engines, when imported for use in the equipment of aircraft:						
	1. When of types or sizes not made in Canada.....	Free	Free	27½ p.c.	Free	Free	27½ p.c.
	On and after July 1, 1964	Free	15 p.c.	27½ p.c.	Free	15 p.c. (On and after July 1, 1963)	27½ p.c.
455	Locks for use in the manufacture of portfolios, luggage and tackle boxes; frames and fittings therefor, wholly of metal for use in the manufacture of gladstone bags	5 p.c.	5 p.c.	35 p.c.	5 p.c.	5 p.c.	35 p.c.
462d	Cinematograph and motion picture cameras and camera blimps for use by professional motion picture producers having studios in Canada equipped for motion picture production; parts of the foregoing.....	Free	Free	15 p.c.	Free	Free	15 p.c.

Rates in Effect Prior to
Rates Proposed in this Budget

Tariff Item	British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
462i Optical and magnetic sound equipment; Dollies, or other mobile mounting units for motion picture cameras; Booms, without wiring, for use with microphones; Motion picture editing equipment, namely: film editing machines, film splicers, film synchronizers, film viewers, rewinds; Parts of the foregoing; All the foregoing when for use in the production of motion pictures by professional producers having studios in Canada equipped for motion picture production.....	Free	Free	15 p.c.	Free	Free	15 p.c.
469 Machine card clothing: (1) For use on roller clearer cards.....	10 p.c.	20 p.c.	25 p.c.	10 p.c.	20 p.c.	25 p.c.
(2) Other.....	Free	10 p.c.	25 p.c.	10 p.c.	20 p.c.	25 p.c.
478 (2) Aural, nasal, mastectomy and other medical or surgical prostheses; materials for use in reconstructive surgery; ileostomy, colostomy and urinary appliances designed to be worn by an individual; materials and articles required therewith for proper application and maintenance.....	Free	Free	Free	Free 15 p.c. Various	Free 20 p.c. Various	Free 27½ p.c. Various
570a (2) Carpeting, rugs, mats and matting of paper; stair pads.....	15 p.c.	22½ p.c.	30 p.c.	15 p.c.	22½ p.c.	25 p.c.
597d Musical instruments, namely: Autoharps, clavichords, harpsichords, harps; Bass viols, violas, violins, violoncellos; Strings for the foregoing; Recorders, xylophones; Bassoons, clarinets, English horns, fifes, flutes, oboes, picolos, saxophones, practice chanters; Parts of the foregoing.....	Free	Free	30 p.c.	Free 15 p.c.	Free 17½ p.c.	30 p.c. 30 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; *video tape recordings; stencils and cards, specially designed for the preparation of library index cards;* 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	Free	Free
			15 p.c.	20 p.c.	30 p.c.
			15 p.c.	22½ p.c.	25 p.c.
			10 p.c.	22½ p.c.	35 p.c.

- 703b (1) Goods valued at not more than *twenty-five* dollars included in the baggage accompanying residents of Canada returning from abroad after an absence from Canada of not less than forty-eight hours and acquired by them for personal or household use or as souvenirs or gifts, but not bought on commission or as an accommodation for other persons or for sale, under such regulations as the Minister may prescribe.....

Free	Free	Free	Free	Free	Free
------	------	------	------	------	------

A resident of Canada shall not be entitled to the exemption herein granted within a period of four months from the date of the last exemption allowed, nor shall the exemption be allowed on alcoholic beverages in excess of one quart, or on tobacco in excess of fifty cigars, two hundred cigarettes and two pounds of manufactured tobacco.

- (2) In addition to the exemption provided for in part (1) of this item, a resident of Canada returning from a point beyond the continental limits of North America after an absence from Canada of not less than fourteen days may elect to avail himself of the following special exemption:

Tariff Item		Rates in Effect Prior to Rates Proposed in this Budget					
		British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
703b (Cont.)	Goods valued at not more than <i>seventy-five</i> dollars (not including alcoholic beverages, cigars, cigarettes or manufactured tobacco), acquired in overseas countries by residents of Canada during an absence from Canada of not less than fourteen days and acquired by them for personal or household use or as souvenirs or gifts, but not bought on commission or as an accommodation for other persons or for sale, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free	Free	Free
	All goods admitted under the foregoing special exemption shall be declared by the resident at the time of his return to Canada, and any person who has availed himself of the special exemption is not entitled to any further exemption under item 703b within a period of twelve months from the date the last special exemption was allowed.						
	Goods entitled to entry under this tariff item shall be exempt from all imposts, notwithstanding the provisions of this Act or any other Act.						

5. Resolved, that Schedule B to the *Customs Tariff* be amended by striking out item 1004 and the enumeration of goods and the rate of drawback of duty set opposite that item, and by inserting therein the following item, enumeration of goods and rate of drawback of duty:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
1004	Steel.	When used in the manufacture of files.....	99 p.c.

6. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the fourteenth day of June, 1963, and to have applied to all goods mentioned in the said resolutions imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

Resolved that it is expedient to introduce a measure in the following terms:

1. The Order of His Excellency the Governor in Council of the 24th day of June, 1962, expressed to be made pursuant to subsection (1) of section 4 of the *Customs Tariff* and pursuant to section 22 of the *Financial Administration Act*, shall be deemed for all purposes to have had the same force and effect as if it had been validly made on that day pursuant to an Act of the Parliament of Canada that authorized the making of that Order.

2. All rates of Customs duties more favourable than those of the General Tariff, and the benefit of any tariff more favourable than the General Tariff, expressed to be withdrawn by the Order mentioned in section 1, shall be deemed to have been restored on the 1st day of April, 1963, and from and after the 1st day of April, 1963 the rates so restored and any tariff the benefit of which is so restored shall, subject to the provisions of the *Customs Tariff*, apply as they applied immediately before the 25th day of June, 1962.

BUDGET PAPERS

presented by
the Honourable Walter L. Gordon, M.P.,
for the information of Parliament
in connection with the Budget of 1963-1964

FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1962, 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, 1963.

PART I

ECONOMIC REVIEW OF 1962

TABLE OF CONTENTS

	PAGE
1. General.....	43
2. National Accounts—	
National Income and Product.....	43
National Expenditure.....	49
Personal Income and Its Disposition.....	52
Source and Disposition of Saving.....	54
Investment and Capital Expenditure.....	56
Revenue and Expenditure of all Governments.....	59
3. Employment and Earnings.....	63
4. Price Trends.....	67
5. Balance of International Payments.....	72
6. Financial Developments.....	84

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 1962 estimates are preliminary and subject to revision.

PART I

ECONOMIC REVIEW OF 1963

GENERAL

The normal cyclical recovery which had begun in the early months of 1961 slowed appreciably in the course of 1962. The western grain crop was better than average, in contrast to the 1961 crop which was not much more than half the recent average and this improvement helped to offset the effects of the slowdown in the non-agricultural sector. The Gross National Product in 1962 was about 8 per cent above that of 1961, but prices rose about 1.7 per cent and consequently the increase of G.N.P. in real terms was about 6.2 per cent on a year-to-year basis. From the fourth quarter of 1961 to the fourth quarter of 1962 (which covers the course of 1962), real non-agricultural output increased by about 4 per cent.

In the seven calendar quarters since the recovery began, and for which latest data are available, expenditures on goods and services both by persons and by provincial and municipal governments rose less rapidly than in comparable periods of the two preceding upswings. Investment, while stronger than in the rather weak recovery of 1958-1959, failed to provide the continuing stimulus to the economy which had characterized the 1954-1956 upswing. Two factors contributing to the current recovery were an improvement in the current account of the balance of payments and the already-noted increase in farm output, which was reflected in an accumulation of farm inventories.

Non-agricultural employment in both goods-producing and service industries increased until about mid-1962, and then showed no clear trend to the end of the year. For the year as a whole, non-agricultural employment was 3.5 per cent higher than in 1961. Agricultural employment continued to decline. The increases in employment took place throughout the various regions of the country, but were smallest (both in absolute and relative terms) in the Atlantic Provinces. For rather special reasons, the labour force grew at a much slower pace than in recent years. As a consequence, unemployment declined from over 7 per cent in 1960 and 1961 to just under 6 per cent in 1962.

Prices and costs rose slightly more in 1962 than they had in 1961. The decline in value of the Canadian dollar and the imposition of tariff surcharges at the time of the mid-year exchange crisis were contributing factors. At the same time prices and costs in other industrialized countries increased more rapidly than did Canadian prices and costs. As a result of this and the new exchange rate the Canadian competitive position improved.

The exchange crisis which developed during the spring of 1962 was accompanied by instability in financial markets. On June 24th drastic measures were taken to deal with the situation including the introduction of a fixed Bank Rate at 6 per cent, a major reduction in the money supply, and the imposition of tariff surcharges. Massive financial assistance was received from abroad. The flight of capital was halted and, after an interval, it was induced to return. As capital began to flow back, interest rates were reduced from their summer peak and by the end of the year were not much above the rates in January.

The following sections discuss the above developments in more detail.

THE NATIONAL ACCOUNTS

NATIONAL INCOME AND PRODUCT

The Gross National Product rose from the first quarter of 1961 through to the fourth quarter of 1962. The expansion during 1961 was fairly rapid, as is typical in the early months of a cyclical upswing. By the end of 1961 the expansion

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

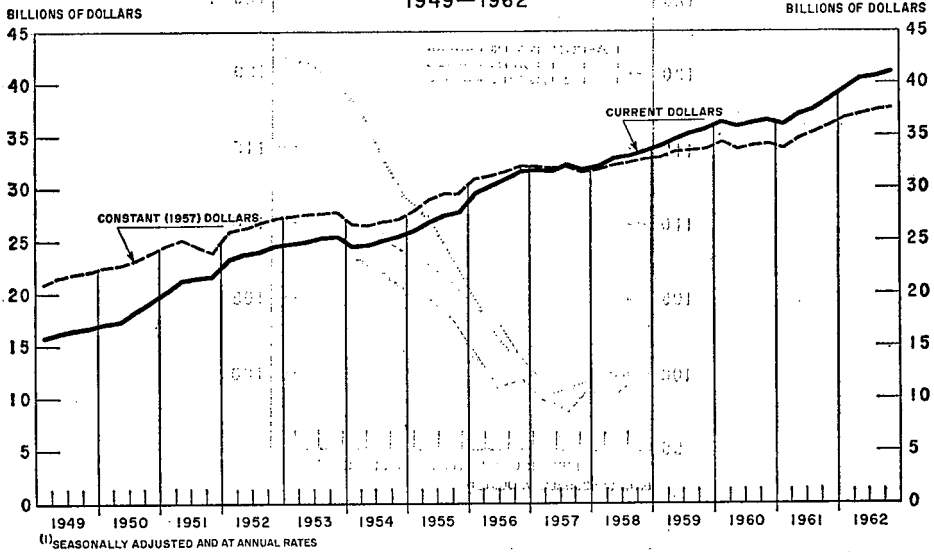
	1961				Preliminary 1962			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Wages, salaries, and supplementary labour income.....	18,588	18,908	19,244	19,532	19,940	20,268	20,500	20,728
2. Military pay and allowances.....	532	544	560	564	600	588	600	556
3. Corporation profits before taxes and before dividends paid to non-residents.....	2,972	3,424	3,612	3,832	3,720	3,836	3,772	3,968
4. Deduct: Dividends paid to non-residents ⁽¹⁾	-736	-532	-548	-532	-576	-636	-512	-556
5. Rent, interest, and miscellaneous investment income.....	2,560	2,512	2,728	2,712	2,692	2,732	2,720	2,928
6. Accrued net income of farm operators from farm production ⁽²⁾	1,040	952	992	916	1,416	1,420	1,452	1,276
7. Net income of non-farm unincorporated business.....	2,184	2,224	2,400	2,348	2,432	2,360	2,344	2,384
8. Inventory valuation adjustment ⁽³⁾	56	-52	-144	-128	-108	-176	-196	-48
9. National Income (1+2+3+4+5+6+7+8).....	27,196	27,980	28,844	29,244	30,116	30,392	30,680	31,236
10. Indirect taxes less subsidies.....	4,596	4,656	4,592	5,020	5,152	5,192	5,424	5,276
11. Capital consumption allowances and miscellaneous valuation adjustments.....	4,492	4,472	4,564	4,628	4,660	4,704	4,756	4,900
12. Residual error of estimate.....	-48	40	-296	-296	-380	-240	-104	-160
13. Gross National Product at Market Prices (8+9+10+11+12).....	36,236	37,148	37,704	38,596	39,548	40,048	40,756	41,252
14. (Gross National Product at Market Prices excluding Accrued Net Income of Farm Operators).....	(35,196)	(36,196)	(36,712)	(37,680)	(38,132)	(38,628)	(39,304)	(39,976)

⁽¹⁾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.

⁽²⁾Includes accrued earnings arising out of the operations of the Canadian Wheat Board.

⁽³⁾See footnote 2, Table 2.

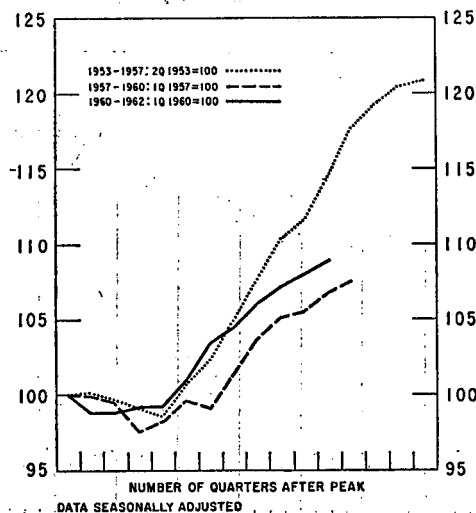
**GROSS NATIONAL EXPENDITURE
IN CURRENT AND CONSTANT (1957) DOLLARS⁽¹⁾
1949—1962**



began to moderate and throughout 1962 was less than during the preceding year. (See Table 1 and the accompanying chart.) In 1962, there was an improved agricultural output. As a result of drought conditions in the Prairies the grain crop in 1961 was far below normal, while in 1962 the western wheat crop amounted to 540 million bushels, about double that of the preceding year. Agricultural prices in 1962 were higher, and the combination of better crops and higher prices added about \$400 million to the Gross National Product, which rose by 8 per cent. Prices were 1.7 per cent above 1961, while the volume of economic activity rose by 6.2 per cent. The accompanying chart and Table 5 show that since the beginning of 1961 the gains in the value and volume of output exceeded that of the immediately preceding upswing in 1958-1959 but were below those of 1954-1955. By the fourth quarter of 1962, the volume of non-farm real output was almost 10 per cent above the low point of activity in the first quarter of 1961 and had exceeded the previous cyclical peak by 9 per cent.

In 1962, output in the goods-producing industries was about 8 per cent above 1961. The increases in output during 1962 were considerably smaller than those which took place during the initial period of the upswing in 1961. Apart from agriculture, output in 1962 in other goods industries was between 6 and 7 per cent above 1961. This gain was distributed among all major industries. Manufacturing production rose by 8 per cent with durable goods production showing an increase of 11 per cent. Part of the explanation of this is the more volatile nature of durable goods production; with this group declining more rapidly in downswings and increasing more rapidly in upswings. Nevertheless, by the fourth quarter of 1962 output in durable goods industries was 12 per cent above the previous cyclical peak in the first quarter of 1960, while, as previously noted, non-agricultural output increased by 9 per cent during this thirty-three month period.

VOLUME OF NON-AGRICULTURAL OUTPUT
(COMPARISON OF YEARS 1953-1957, 1957-1960,
1960-1962 WITH PRECEDING PEAK OF ACTIVITY=100)



Output in the non-durable goods sector was about 5 per cent higher in 1962 than in 1961. There was almost no change in non-durable goods output in the course of 1962. In the year-over-year comparison, the largest gains were made in rubber products, clothing, textile, paper products, petroleum products and chemical industries. Other non-durable goods industries showed more moderate gains in the same comparison.

The forestry, fishing and trapping industries also showed year-over-year increases. The output and distribution of electric power and gas utilities rose by more than 6 per cent, or about in line with total real output, in the year-over-year comparison. In the construction industry, output was about $1\frac{1}{2}$ per cent higher in 1962, due mainly to increased activity in housing.

Mining output in 1962 was 8 per cent above 1961. The gains were somewhat uneven. Production of metals did not increase as much as other sections of the industry: there was some gain in copper output, while nickel output was very much higher in the first half of 1962 than in 1961, but fell below year-earlier levels in the second half in the light of inventory adjustments. Output of non-metallic minerals, especially asbestos, increased, as did output of fuels, notably natural gas and petroleum, where exports to the United States increased, along with domestic consumption. Iron ore output also increased, reflecting increasing foreign as well as domestic demand and the opening up of new facilities. Output of zinc showed some gain, while that of lead and uranium declined.

Output in the service industries rose by about 4 per cent in 1962, about in line with the average rate of increase in the past decade.

Turning to the flow of incomes in 1962, all major groups showed increases over 1961.

Corporation profits typically drop sharply during cyclical downturns and rise very sharply in the early stages of an upswing. Profits increased by 29 per cent from the first to the fourth quarter of 1961 and then maintained a fairly level rate of about \$3.8 billion throughout 1962, which was 11 per cent above the average of 1961. In the fourth quarter of 1962 profits were close to \$4 billion. The increases in profits may be attributed to expansion of output, relative stability of costs and the reduction in the exchange rate of the Canadian dollar.

TABLE 2
GROSS NATIONAL EXPENDITURE
(Seasonally Adjusted at Annual Rates)

	1961				Preliminary 1962			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	23,920	24,372	24,732	24,920	25,540	25,592	25,696	26,168
2. Government expenditure on goods and services.....	7,088	7,076	7,268	7,388	7,384	7,900	7,824	7,776
3. Business gross fixed capital formation ⁽¹⁾	6,564	6,500	6,692	6,784	6,888	6,860	7,016	7,052
New residential construction.....	1,412	1,448	1,496	1,476	1,536	1,564	1,616	1,592
New non-residential construction.....	2,604	2,632	2,704	2,792	2,756	2,676	2,588	2,652
New machinery and equipment.....	2,548	2,420	2,492	2,516	2,596	2,620	2,812	2,808
4. Value of physical change in inventories—total ⁽²⁾	—268	—56	—484	232	384	360	1,016	500
Non-farm business inventories.....	—	372	—44	776	200	328	800	172
Farm inventories and grain in commercial channels.....	—268	—428	—440	—544	184	32	216	328
5. Exports of goods and services ⁽³⁾	7,264	7,492	7,856	7,912	7,940	8,272	8,248	8,436
6. Imports of goods and services ⁽³⁾	—8,380	—8,196	—8,660	—8,932	—8,972	—9,176	—9,144	—8,840
7. Residual error of estimate.....	48	—40	300	292	384	240	100	160
8. Gross National Expenditure at Market Prices (1+2+3+4+5+6+7).....	36,236	37,148	37,704	38,596	39,548	40,048	40,756	41,252

⁽¹⁾Includes private businesses and institutions, and publicly owned business enterprises.

⁽²⁾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 8, Table 1).

⁽³⁾Minor adjustments have been made to the figures of current receipts and payments shown in Table 29 to achieve consistency with the other component series.

TABLE 3
GROSS NATIONAL EXPENDITURE IN CONSTANT (1957) DOLLARS
(Seasonally Adjusted at Annual Rates)

	1961				Preliminary 1962			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	22,580	23,008	23,276	23,416	23,912	23,828	23,784	24,136
2. Government expenditure on goods and services.....	6,472	6,464	6,604	6,636	6,544	6,948	6,836	6,716
3. Business gross fixed capital formation.....	6,072	6,012	6,176	6,228	6,268	6,192	6,284	6,284
New residential construction.....	1,288	1,320	1,364	1,340	1,376	1,392	1,424	1,396
New non-residential construction.....	2,424	2,444	2,520	2,584	2,532	2,440	2,352	2,396
New machinery and equipment.....	2,360	2,248	2,292	2,304	2,360	2,360	2,508	2,492
4. Value of physical changes in inventories—total.....	-292	-56	-480	256	416	396	960	424
Non-farm business inventories.....	8	388	-52	744	204	316	760	156
Farm inventories and grain in commercial channels.....	-300	-444	-428	-488	212	80	200	268
5. Exports of goods and services.....	7,116	7,340	7,584	7,568	7,536	7,776	7,724	7,880
6. Imports of goods and services.....	-8,084	-7,908	-8,148	-8,308	-8,248	-8,332	-8,288	-8,008
7. Residual error of estimate.....	44	-36	280	272	356	220	92	144
8. Gross National Expenditure in Constant (1957) Dollars (1+2+3+4+5+6+7).....	33,908	34,824	35,292	36,068	36,784	37,028	37,392	37,576

Labour income rose to an annual rate of \$20.7 billion in the fourth quarter of 1962, almost 12 per cent above the first quarter of 1961. During this period, average hourly earnings in manufacturing rose by about 5½ per cent while the length of the work week increased by one per cent. The number of non-farm employees was 5.5 per cent higher in the fourth quarter of 1962 than in the first quarter of 1961.

Rent, interest and miscellaneous investment income and net income of non-farm unincorporated business all increased in 1962.

Net farm income, which includes changes in farm inventories, showed a very large increase over 1961, due mainly to the big increase in the western grain crop. Net farm income averaged \$1.4 billion, about 43 per cent above the low level of 1961. Farm cash income was maintained in 1961 by a substantial drawing down of farm stocks. In 1962 farm inventories increased moderately. Farm cash income in 1962 was 4.3 per cent above that of 1961.

NATIONAL EXPENDITURE

Since the beginning of the upswing in the early months of 1961, all of the major components of demand have shown some increase. Accompanying Tables 4 and 5 provide analytical detail of the components of Gross National Expenditure for the first seven quarters of upswing following the low points of activity in 1954, 1958 and 1961. These tables supplement and fill out the broad picture outlined in the chart on page 7. Table 4 shows how much the absolute change in the various G.N.E. components contributed to the total change in G.N.E. (and output). Table 5 shows the percentage change in the G.N.E. components for the relevant seven quarter periods.

As may be seen from Table 4, the most important contributors to the current upswing in demand have been consumer demand, exports, and outlays by provincial and municipal governments for goods and services (including large sums for capital outlays financed by the federal government). Business investment has played only a modest role so far, as the relative increase in non-farm business inventories has been smaller than in preceding upswings. Imports have supplied a much smaller amount of increase in total demand in the upswing so far, compared to earlier upswings, and domestic output has consequently been that much larger.

TABLE 4
PER CENT CONTRIBUTION OF GNE COMPONENTS TO TOTAL CHANGE IN
GNE SEVEN QUARTERS AFTER TROUGH

	1954-1956	1958-1959	1961-1962
Personal expenditure on consumer goods and services.....	43.0	60.1	45.8
<i>Non-Durable goods</i>	18.0	23.0	21.4
<i>Durable goods</i>	7.5	5.3	9.6
<i>Services</i>	17.5	31.8	14.8
Government expenditures on goods and services.....	12.8	16.7	14.0
<i>Federal</i>	1.9	-1.3	-0.4
<i>Provincial and Municipal</i>	10.9	18.0	14.4
New residential construction.....	8.2	2.6	3.7
New non-residential construction.....	11.4	-6.7	1.0
New machinery and equipment.....	7.6	3.5	5.3
Non-farm business inventories.....	25.7	27.6	3.5
Farm inventories and grain in commercial channels.....	7.3	2.3	12.2
Exports of goods and services.....	20.8	20.3	23.9
Imports of goods and services (-).....	-36.8	-26.4	-9.4
GNE (ex. error).....	100.0	100.0	100.0

Trough periods are 2Q 1954, 1Q 1958 and 1Q 1961.

For the seven quarters since the upturn of early 1961, the increase in exports of goods and services has exceeded the increase in imports of goods and services. Because of this the economy has received a net stimulus from international trade since the beginning of the upturn. By contrast, in the first seven quarters of the two preceding upswings, the balance of international trade acted in the opposite direction.

Table 5 shows that the expansionary effect of the balance of payments in the current upswing has come about both from the export side as well as the import side. The increase in exports of goods and services currently has exceeded that of 1958-1959, although below that of 1954-1955. By contrast, imports of goods and services have risen less than exports in the current period, and by substantially less than imports in the two preceding periods. Some further analysis of this appears in the section on Balance of International Payments.

TABLE 5
CHANGES IN COMPONENTS OF GROSS NATIONAL EXPENDITURE OVER
THREE POST-WAR EXPANSIONS
(Seven Quarters after Trough)

	1954-1956	1958-1959	1961-1962
	Per cent change 7 Quarters after 2Q 1954 trough	Per cent change 7 Quarters after 1Q 1958 trough	Per cent change 7 Quarters after 1Q 1958 trough
Personal expenditure on consumer goods and services.....	+13.7	+10.5	+9.4
<i>Non-Durable goods</i>	+10.7	+7.8	+8.7
<i>Durable goods</i>	+19.7	+7.9	+18.6
<i>Services</i>	+16.1	+15.3	+7.8
Government expenditure on goods and services.....	+14.6	+10.3	+9.7
<i>Federal</i>	+3.9	-1.7	-0.7
<i>Provincial and Municipal</i>	+27.3	+21.0	+16.8
New residential construction.....	+36.0	+5.9	+12.7
New non-residential construction.....	+35.4	-8.5	+1.8
New machinery and equipment.....	+19.4	+5.2	+10.2
Non-farm business inventories.....	(+\$1308m.)	(+\$1008m.)	(+\$172m.)
Farm inventories and grain in commercial channels.....	(+\$372m.)	(+\$84m.)	(+\$596m.)
Exports of goods and services.....	+20.7	+11.7	+16.1
Imports of goods and services.....	+33.5	+13.2	+5.5
Gross National Expenditure at Market Prices.....	+20.0	+11.0	+13.8
Final Demand (ex. inventories).....	+17.4	+8.8	+10.3
GNE in Constant (1957) Dollars.....	+16.8	+6.3	+10.8
Real Non-agricultural Gross Domestic Product.....	+16.0	+8.7	+9.7

The role of fixed investment has varied in the first seven quarters of the three business upswings. In the current period, the increases in both housing and business investment have been greater than in the 1958-1959 period. This partly reflects the fact that, in this earlier period, adjustments were taking place following the high levels reached in the investment boom of the mid-1950's. Compared to the 1954-1955 period, investment in the current upswing has been a less dynamic force. That is to say, investment has increased at somewhat less than the rate of total output, whereas in 1954-1955, the increase in investment was substantially above that of total output.

Government spending on goods and services increased somewhat less rapidly during the current expansion than in the two preceding. The entire increase has been accounted for by provincial and municipal governments (although it should be noted that a substantial part of the capital outlays by these governments has been financed by the federal government).

The smaller relative increase in non-farm inventories in the current upswing has already been noted and is related, in part at least, to the ready availability of supplies, greater consciousness of costs of carrying excessive inventories, improved methods of inventory control and to the adaptation of business decisions to a non-inflationary environment. The larger increase in farm inventories during 1962 reflects the far below average grain crop in 1961 and the larger than average crop in 1962.

Consumer spending rose less rapidly in the current upswing than in the two preceding periods (Table 5) and accounted for a considerably smaller share of the total increase in G.N.E. than in 1958-1959 and about the same as in 1954-1956 (Table 4). In the seven quarters beginning early in 1961, consumer spending on both non-durable goods and, in particular, on durable goods (reflecting the latest upsurge in new car buying) increased more rapidly than in the 1958-1959 period, although less rapidly than in 1954-1955. In the current period increases in spending on consumer services were below those of the two preceding upswings. The slower rise in services is partly attributable to smaller price increases in the current period than in the preceding upswings.

Turning briefly to developments in 1962 alone, the same broad picture obtains as that described for the entire expansion beginning early in 1961.

Consumer spending rose moderately throughout 1962, with some variation by components. Expenditures on non-durables and services increased generally throughout the year, and following an increase in the first half of the year there was a decline in durable goods spending in the third quarter, due to a shortage of new model cars. For the year 1962 as a whole, new passenger car sales rose about 15 per cent to an estimated 504,000 vehicles. Sales of North American models rose about 28 per cent, while sales of European models declined by about 26 per cent.

Government expenditure on goods and services increased in the first half of 1962 and then subsequently declined, due entirely to lower expenditures at the federal level, as provincial and municipal expenditures rose in the final half of the year.

Housing outlays were higher throughout 1962, at an annual rate of about \$1,580 million, 8 per cent above the 1961 average. Housing starts rose in the first half of the year and then following some decline remained relatively stable. For 1962 as a whole, housing starts were about 130,000, compared with 126,000 in 1961. Housing completions moved irregularly within 1962, and totalled about 127,000, compared with 116,000 units in 1961. The number of single dwellings started in 1962 showed some decline within the year, while multi-unit dwellings (e.g., apartments) showed some increase. Further comments on housing are contained in the section on financial developments.

Quarterly data on business fixed investment indicate that new non-residential construction declined slightly to the third quarter and then rose to about the annual rate of \$2.7 billion in the fourth quarter, approximately the same as the 1961 annual figure. Investment in new machinery and equipment increased steadily to a rate of \$2.8 billion in the last half of the year and for 1962 as a whole it was about 9 per cent above the 1961 annual average.

Non-farm inventories showed a small accumulation in the first half of 1962 and then were built up rapidly at an annual rate of \$800 million in the third quarter. The following table shows that the accumulation took place at the manufacturing and retail levels.

TABLE 6
CHANGES IN NON-FARM BUSINESS INVENTORIES
(Seasonally Adjusted at Annual Rates)

	1962				
	1Q	2Q	3Q	4Q	Year
	(Millions of dollars)				
Manufacturing.....	128	-12	396	156	167
Durables.....	-52	80	204	144	94
Non-Durables.....	180	-92	192	12	73
Wholesale.....	-48	-96	72	132	15
Retail.....	-40	232	388	-16	141
Other Industries.....	160	204	-56	-100	52
Total.....	200	328	800	172	375

Some of the increase in inventory holdings, which affected a number of industries, took place against a rising level of production in manufacturing, although the ratio of stocks to shipments increased somewhat. However, the rate of increase was too rapid to be accounted for by production needs alone, and some of the increase was undoubtedly related to the effects of the exchange emergency, which might have resulted in some anticipatory buying. By the early months of the fourth quarter, the rapid increase in manufacturing inventories came to an end, and for the fourth quarter as a whole, non-farm business inventories were being accumulated at a more moderate rate.

Exports rose in the first half of 1962, were steady in the third quarter, then rose again in the fourth. Imports, on the other hand, rose in the first half, were steady in the third quarter, then declined in the fourth quarter. The result of these movements was that the current account deficit (on the National Accounts basis) declined throughout the year from an annual rate of \$1.0 billion in the first quarter to \$0.9 billion in the second and third quarters, and to \$0.4 billion in the fourth. A more complete analysis of the balance of payments is given in a subsequent section.

PERSONAL INCOME AND ITS DISPOSITION

Personal income for 1962 was 8.0 per cent above 1961, in line with the increase in Gross National Product. During the course of 1962, the expansion of personal income was slower than during the earlier part of the upswing in 1961. All of the major components showed year-to-year increases.

TABLE 7
SOURCES OF PERSONAL INCOME

	1959	1960	1961	Prelim. 1962
	(Millions of dollars)			
1. Wages, salaries and supplementary labour income..	17,459	18,251	19,068	20,359
Deduct: Employer and employee contributions to social insurance and government pension funds.....	-652	-745	-787	-816
2. Military pay and allowances.....	496	509	550	586
3. Net income received by farm operators from farm production.....	1,126	1,178	949	1,402
4. Net income of non-farm unincorporated business.....	2,210	2,213	2,289	2,380
5. Interest, dividends and net rental income of persons.....	2,599	2,836	2,985	3,186
6. Transfer payments to persons—				
(a) from government (excluding interest).....	2,755	3,129	3,408	3,652
(b) charitable contributions made by corporations.....	43	40	44	45
7. Personal Income (1+2+3+4+5+6).....	26,036	27,411	28,506	30,794

Among the components, wages, salaries and supplementary labour income rose throughout the year although at a diminishing rate. Farm income was very much higher in 1962 due mainly to a large grain crop following upon the small crop in the preceding year. Substantial payments by the Canadian Wheat Board-raised farm income considerably in the second quarter of 1962. Income of unincorporated business in 1962 was 4.0 per cent above the 1961 annual average due to increases in net income from retail trade, construction, community services. Interest and dividend payments to persons fell slightly from the fourth quarter of 1961 to the first quarter of 1962 and then increased to the fourth quarter of the year. The increase during 1962 in transfer payments from government (excluding interest) reflected in part the increase in payments from the Old Age Security Fund, which more than offset the lower unemployment insurance benefit payments.

TABLE 8
DISPOSITION OF PERSONAL INCOME

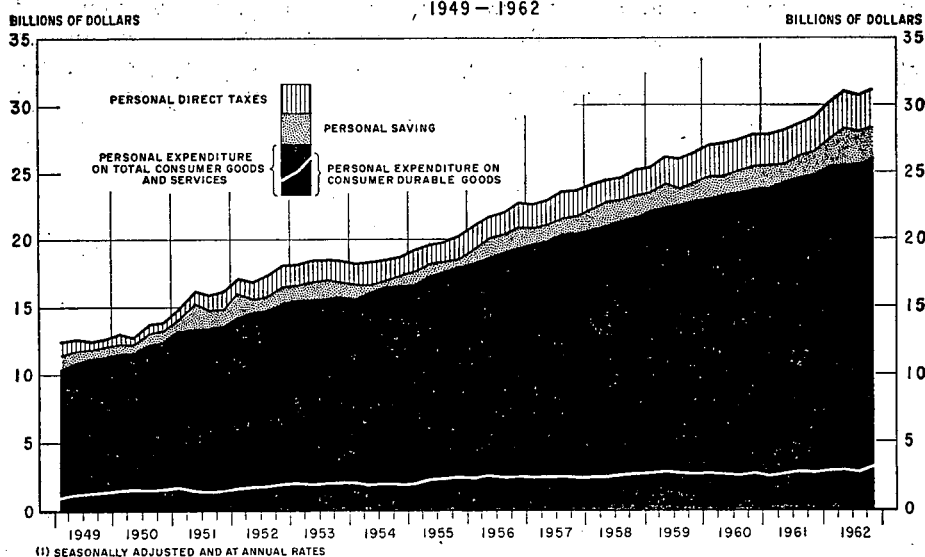
	1959	1960	1961	Prelim. 1962
	(Millions of dollars)			
1. Personal direct taxes—				
(a) income taxes.....	1,744	1,978	2,131	2,311
(b) succession duties and estate taxes.....	130	153	144	166
(c) miscellaneous duties.....	214	224	236	237
Total direct taxes.....	2,088	2,360	2,511	2,714
2. Personal expenditure on goods and services—				
Goods—				
(a) non-durable.....	11,373	11,785	12,257	12,877
(b) durable.....	2,678	2,669	2,697	2,913
Services.....	8,540	9,058	9,532	9,959
Total consumer expenditures.....	22,591	23,512	24,486	25,749
3. Personal saving—				
Total personal saving.....	1,357	1,539	1,509	2,331
4. Personal Income (1+2+3).....	26,036	27,411	28,506	30,794
5. Personal Disposable Income (4-1).....	23,948	25,051	25,995	28,080

Personal disposable income followed somewhat the same pattern as personal income during 1962 and was 8.0 per cent higher than in 1961. Personal direct taxes at all levels of government (including, in addition to personal income taxes, succession duties, and miscellaneous taxes) were about 8 per cent higher than in 1961, while personal income tax payments rose 8.3 per cent from the first to the fourth quarter. Personal saving, i.e., personal disposable income less personal spending, increased from the first to the second quarter, and then declined to the end of the year.

TABLE 9
PERSONAL SAVING

	1956	1957	1958	1959	1960	1961	1962
Personal saving as per cent of personal disposable income.	6.5	5.7	7.1	5.7	6.1	5.8	8.3

DISPOSITION OF PERSONAL INCOME⁽¹⁾ 1949-1962



For 1962 as a whole, personal saving, which includes changes in farm inventories, averaged 8.3 per cent of personal disposable income. Excluding the change in farm inventories, personal saving in 1962 was 7.8 per cent of disposable income, compared with 6.9 per cent in 1961.

SOURCE AND DISPOSITION OF SAVING

Total saving, which comprises the savings of the personal, business and government sectors of the economy, rose from \$5.7 billion in 1961 to \$6.9 billion in 1962. As noted in the previous section, personal saving rose by about \$800 million, and a substantial part of this increase reflected the higher levels of personal income which, in turn, was affected by the sharp increase in farm net income arising out of the performance of agricultural output in the two years. The counterpart to this element in personal saving is included in the accumulation of inventories in the table on Disposition of Saving.

TABLE 10.
SOURCES OF SAVING

	1959	1960	1961	Prelim. 1962
	(Millions of dollars)			
Personal net saving.....	1,357	1,539	1,509	2,331
Business gross saving—total.....	5,185	5,338	5,343	5,723
(a) Undistributed corporation profits.....	986	873	778	979
(b) Capital consumption allowances and miscellaneous valuation adjustments.....	4,204	4,459	4,539	4,755
(c) Adjustment on grain transactions.....	-5	6	26	-11
Inventory valuation adjustment.....	-122	-80	-67	-132
Government surplus (+) or deficit (-).....	-556	-711	-905	-770
Residual error of estimate.....	-30	-99	-150	-221
Total.....	5,834	5,987	5,730	6,931

Another part of the increase in total saving in 1962 was accounted for by business gross saving in the form of larger undistributed corporation profits and capital consumption allowances. Table 12 shows the year-to-year change in corporation profits. As noted earlier, they showed a cyclical expansion, while dividend payments were moderately higher. As a result undistributed profits were higher. Business gross saving in 1962 rose 7.1 per cent over 1961. After payments of dividends, undistributed profits increased by \$201 million and capital consumption allowances increased by \$216 million. The deficit on combined Government Account was lower by \$135 million on a year-to-year basis.

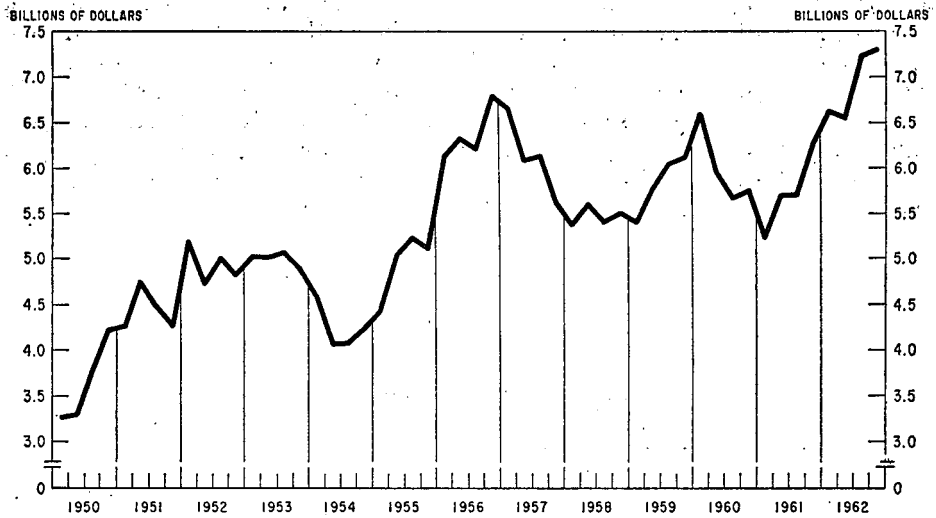
TABLE 11
DISPOSITION OF SAVING

	1959	1960	1961	1962
	(Millions of dollars)			
Business gross fixed capital formation.....	6,894	6,692	6,635	6,954
Value of physical change in inventories.....	357	361	-144	565
Surplus (+) or deficit (-) in current account with non-residents.....	-1,448	-1,164	-911	-809
Residual error.....	31	98	150	221
Total.....	5,834	5,987	5,730	6,931

As between 1961 and 1962, the additional savings were matched by larger outlays for housing, business fixed investment and inventories, and by a smaller deficit on current international account. In 1961, as previously noted, the low value of the grain crop reduced both personal saving and farm inventories. In 1962, the accumulation of inventories, both farm and non-farm, provided the largest single increase in the disposition of saving. Most of the increase in non-farm business inventories occurred in the manufacturing and retail trade sectors. More detailed comments on fixed investment and the current international account appear in other sections of this White Paper.

TABLE 12
CORPORATION PROFITS, TAXES AND DIVIDENDS

	1959	1960	1961	1962
	(Millions of dollars)			
Corporation profits before taxes including dividends paid to non-residents.....	3,504	3,359	3,460	3,824
Deduct: Corporation income tax liabilities.....	1,581	1,562	1,612	1,750
Excess of tax liabilities over tax collections.....	156	-104	61	95
Tax collections.....	1,425	1,666	1,551	1,655
Corporation profits after taxes.....	1,923	1,797	1,848	2,074
Deduct: Dividends paid out.....	937	924	1,070	1,095
Undistributed corporation profits.....	986	873	778	979

NATIONAL SAVING, BY QUARTERS, 1950-1962⁽¹⁾

(1) SEASONALLY ADJUSTED AND AT ANNUAL RATES

INVESTMENT AND CAPITAL EXPENDITURE

In the past few years, capital expenditures in Canada have amounted to about 22.0 per cent of Gross National Expenditure, a figure about in line with the earlier postwar years but below the levels and proportions of the period of the mid-1950's. The reasons for this changing level of capital expenditures are complex.

Canada entered the postwar era with an economy unimpaired by war damage, vastly extended in scope and depth, and capable of satisfying the needs arising from a conjuncture of factors, which led to high levels of investment. There were new industries and new skills to meet the accumulation of unsatisfied demand for consumer, social and industrial capital, as well as the needs of Europe and the rest of the world. The Korean War and the period immediately following brought with them new developments which gave additional emphasis to investment in Canada, particularly in resource areas. For example, world political developments, the increase in world commodity prices, the large scale stockpiling programmes and the high level of demand in the United States for industrial materials, all led to rapid increases in capital outlays and to the development of sources of raw materials in Canada.

The demands made on the Canadian economy led to sharp increases in imports of goods, services and know-how, and large numbers of trained immigrants entered the country to meet these greatly expanded manpower needs.

However, some investments by large scale enterprises, with strong financial positions, are often made with a very long time horizon and, because of this, some major classes of investment, over short periods of time, often tend to out-strip demand. In part this may be due to the over-optimism of some investors, at least in the short-run, and also to the excess capacity which results, from time to time, in a country growing up to its facilities. This has been the case in Canada over the past few years. Expectations have not been completely fulfilled as prices of primary products receded and alternative sources of supply

were developed by other countries. Capacity was being added at a rate in excess of the current growth of markets, both domestic and foreign; as a result of all these factors, private business investment declined, both absolutely and as a proportion of G.N.E.

Adaptation to a different ratio of business investment in a country of vast spread and scattered resources requires a high degree of flexibility. The resources industries themselves were less affected, since they are by nature highly productive and, in any event, were favoured by strong market conditions. The manufacturing industries experienced greater difficulties. Their costs had risen as a result of the pull of wages and costs in the booming resource industries. Canadian manufacturing has always faced problems arising from the limited size of the domestic market. It can prosper only when it can capture larger markets by being competitive both at home and abroad. Rising costs compounded by a high exchange value for the Canadian dollar soon began to manifest themselves when the rest of the world restored its productive capacity.

Subsequent to 1957, business fixed investment declined, for reasons just described, about 15 per cent, and total investment moved downward to about 22 per cent of Gross National Expenditure. By 1962, the volume of total investment was still 7 per cent below that of 1957. On the other hand, investment in housing and social capital absorbed a fairly steady proportion of total Gross National Expenditure. (See Table 13.). Investment in housing and social capital represents between one-third and one-half of all capital expenditure and includes, in addition to housing, outlays by government departments, institutions (e.g. hospitals and schools) and municipal waterworks. Investment in housing and social capital responds to population growth and migration, urbanization, increases in educational standards, and new policies, among others.

TABLE 13

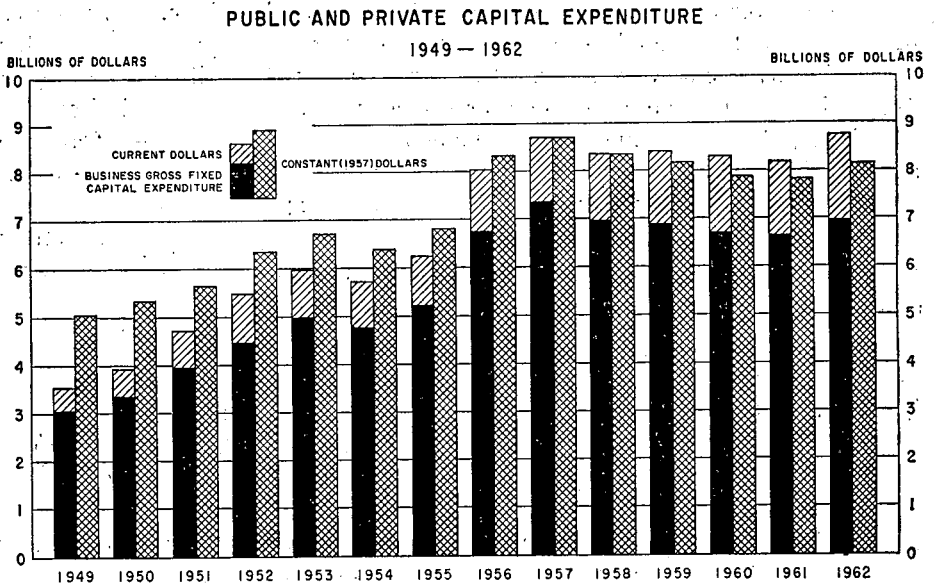
INVESTMENT AS A PERCENTAGE OF GROSS NATIONAL EXPENDITURE 1948-1962

	Total Private and Public Investment	Housing and Social Capital ⁽¹⁾	Business Invest- ment, Private and Public ⁽²⁾
1948.....	20.4	7.8	12.6
1949.....	21.7	8.7	13.0
1950.....	21.9	8.9	13.0
1951.....	22.4	8.6	13.8
1952.....	22.9	9.0	13.9
1953.....	23.9	9.4	14.5
1954.....	23.0	9.6	13.4
1955.....	23.0	9.8	13.2
1956.....	26.3	9.9	16.4
1957.....	27.3	9.6	17.7
1958.....	25.4	10.6	14.8
1959.....	24.1	10.4	13.7
1960.....	22.8	9.4	13.4
1961.....	21.8	9.1	12.7
1962.....	21.6	9.4	12.2

(1) Includes housing, outlays by government departments, institutions and municipal waterworks.

(2) Includes government business enterprises.

Turning to 1962, total private and public investment amounted to \$8,738 million, 6.9 per cent above the level of 1961. Increased fixed investment in agriculture, manufacturing, institutions and government accounted for most of the increase. Capital expenditures by private business enterprises rose by 4.9 per cent in 1962.



Capital investment in agriculture increased 12.6 per cent, largely reflecting additional spending from higher farm incomes. In mining, an increase in demand for durable equipment more than accounted for increased investment in that sector of 6.5 per cent. In the manufacturing sector, increases in primary metals, metal fabricating, petroleum and coal products more than offset lower investment in food and beverages, wood, chemical and chemical products.

Capital expenditures in transportation, storage and communication declined in 1962, reflecting divergent movements. Investment by telephone utilities increased by \$48 million while air transport, warehousing, oil and gas pipelines were down by approximately \$135 million, due, in large part, to the completion of some major projects in 1961. Railroad investment also declined somewhat in 1962.

The increased investment in institutional services was entirely accounted for by larger capital investment in educational institutions which rose by \$193 million compared with 1961. Outlays for technical and vocational schools accounted for a large part of this increase. Capital expenditures on housing were up 8.2 per cent in 1962 reflecting the completions during the year of housing starts that had been made in increased numbers in late 1961, and supplemented by an increase of 4.5 thousands of units of housing starts.

Capital expenditures in government departments rose 5.1 per cent in 1962. Increases in departmental outlays of provincial and municipal governments more than offset reduced investment outlays at the federal level.

TABLE 14
PRIVATE AND PUBLIC CAPITAL EXPENDITURE

	1959	1960	1961	Prelim. 1962
	(Millions of dollars)			
Agriculture and fishing.....	539	550	576	648
Forestry.....	48	54	50	53
Mining, quarrying and oil wells.....	342	400	449	478
Manufacturing.....	1,144	1,178	1,085	1,231
Electric power, gas and water works.....	766	688	710	748
Transportation, storage and communications.....	1,076	1,084	988	885
Construction industry.....	145	130	136	143
Trade, finance and commercial services.....	833	875	847	847
Institutions.....	536	573	617	808
Housing.....	1,752	1,456	1,467	1,587
Government departments.....	1,236	1,274	1,247	1,310
Total Capital Expenditure.....	8,417	8,262	8,172	8,738
Total Capital Expenditure as a percentage of Gross National Expenditure.....	24.1	22.8	21.8	21.6
Index of total Capital Expenditure in Constant Dollars (1957=100).....	93.5	90.2	89.6	93.1

For reconciliation with Business Gross Fixed Capital Formation in housing, plant and equipment as per National Accounts, see below.

	1959	1960	1961	Prelim. 1962
Private and Public Capital Expenditure—Table 14....	8,417	8,262	8,172	8,738
Deduct:				
New residential construction by governments....	-18	-13	-9	-10
New non-residential construction by governments....	-1,368	-1,420	-1,368	-1,587
New machinery and equipment outlays by governments.....	-137	-137	-160	-187
Business Gross Fixed Capital Formation in Housing, Plant and Equipment—National Accounts Definition.....	4,894	6,692	6,635	6,954

REVENUE AND EXPENDITURE OF ALL GOVERNMENTS*

Computed on the basis of the National Accounts definitions, expenditures in 1962 by all levels of government rose 7.0 per cent over 1961. Since revenues increased by 8.6 per cent during the same period, the deficit for all levels of government declined from \$905 million in 1961 to \$770 million in 1962. In the third and fourth quarters of 1962, the total deficit was running at an annual rate of \$694 million, consisting of a federal deficit of \$250 million and a deficit at provincial and municipal levels of \$444 million.

In analyzing developments in 1962, it is necessary to keep in mind the new federal-provincial tax collection arrangements, which affected the levels of revenue and expenditure of the Federal Government and the revenues of provincial governments. As a consequence of the introduction of the new tax collection arrangements in the first quarter of 1962 and the continuation in that quarter of transfer payments to the provinces under the former tax rental agreements, the federal deficit in that quarter was irregularly high and the position of provincial-municipal governments was correspondingly affected.

* The following section discusses those government transactions relevant to the National Accounts. As a result the Statistics differ from those shown in Public Accounts. Table 18 indicates the reconciliation between federal deficit or surplus for purposes of the National Accounts and the comparable figures appearing in the Public Accounts.

TABLE 15
REVENUE AND EXPENDITURE OF ALL GOVERNMENTS
(National Accounts Basis)

	1961			Preliminary 1962		
	Revenue	Expenditure	Deficit	Revenue	Expenditure	Deficit
	(Millions of dollars)					
Federal.....	6,668	7,121	-453	6,907	7,381	-474
Provincial—Municipal.....	5,586	6,038	-452	6,397	6,693	-296
Total.....	12,254	13,159	-905	13,304	14,074	-770

To compare on a national accounts basis government expenditure with Gross National Expenditure (which measures the expenditures on goods and services), it is necessary to limit the comparison to government outlays on goods and services (as distinct from outlays for transfer payments, etc.), since the former are the government outlays directly included in the Gross National Expenditure account. Transfer payments by government are reflected, of course, in the income of the personal sector.

In 1962, expenditures on goods and services by the three levels of government represented 19.1 per cent of the Gross National Expenditure, virtually unchanged from the proportion of 19.3 per cent in 1961, and slightly above the proportions of 18.6 per cent in 1960 and 1959. The slight increase since 1960 has been attributable to provincial and municipal governments. Since 1952, when the buildup in defence expenditures raised the proportion of government expenditures to Gross National Expenditure to approximately 18 per cent, the rise in government expenditures on goods and services has been very slightly in excess of the growth in Gross National Expenditure.

TABLE 16
GOVERNMENT OUTLAYS ON GOODS AND SERVICES AS A PROPORTION OF G.N.E.

	1952	1960	1961	Prelim. 1962
Expenditures by:				
Federal—Defence.....	7.5	4.3	4.3	4.1
Non-defence.....	2.9	3.2	3.6	3.3
Total Federal.....	(10.4)	(7.5)	(7.9)	(7.4)
Provincial and Municipal.....	7.4	11.1	11.3	11.7
All levels of Government.....	17.8	18.6	19.2	19.1

Within the total, expenditures on goods and services by the Federal Government in 1962 represented a smaller share of total expenditures than in 1961. Defence and non-defence expenditures of the Federal Government were fractionally reduced while the proportion at the combined provincial and municipal levels was somewhat higher.

TABLE 17
OUTLAYS ON NEW CAPITAL GOODS BY ALL LEVELS OF GOVERNMENT

	Construction	Machinery and Equipment	Total ⁽¹⁾	% of Capital Outlays to Total Government Expenditures on Goods and Services
	(Millions of dollars)			
1960.....	1,433	137	1,570	23.2
1961.....	1,377	160	1,537	21.3
1962 ⁽²⁾	1,597	187	1,784	23.1

⁽¹⁾ These figures exclude investment expenditure by government business enterprises which is included in the National Accounts item for business capital formation. Outlays for defence equipment are also excluded from these figures.

⁽²⁾ Preliminary.

These expenditures on goods and services in the government sector of Gross National Expenditure include outlays by all levels of government on construction and capital equipment which, over the past several years, have represented a relative constant share, approaching one quarter of all government outlays on goods and services. In 1962 capital outlays by the provincial and municipal governments (partly financed by federal assistance) increased and accounted for some of the increase in total provincial and municipal expenditures on goods and services.

TABLE 18
GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1961	Prelim. 1962	Change
	(Millions of dollars)		
Government Revenue—			
Direct Taxes—Persons	2,511	2,714	+203
Federal.....	2,132	2,088	-44
Provincial and Municipal.....	379	626	+247
Direct Taxes—Corporations	1,612	1,750	+138
Income—			
Federal.....	1,311	1,328	+17
Provincial.....	301	422	+121
Other Direct Taxes—			
Withholding taxes—Federal.....	116	125	+9
Indirect Taxes	4,970	5,552	+582
Federal.....	2,190	2,400	+210
Provincial and Municipal.....	2,780	3,152	+372
Investment Income	1,130	1,211	+81
Federal.....	409	448	+39
Provincial and Municipal.....	721	763	+42
Employer and Employee Contributions to Social Insurance and Government Pension Funds	787	816	+29
Federal.....	510	518	+8
Provincial and Municipal.....	277	298	+21
Transfers from Federal Government—			
Provincial and Municipal.....	1,128	1,136	+8
Total Revenue	12,254	13,304	+1,050
Federal.....	6,668	6,907	+239
Provincial and Municipal.....	5,586	6,397	+811

TABLE 18—Concluded
GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1961	Prelim. 1962	Change
	(Millions of dollars)		
Government Expenditure—			
Goods and Services.....	7,205	7,721	+516
Federal—			
Defence.....	1,613	1,680	+ 67
Non-defence.....	1,361	1,328	- 33
Provincial and Municipal.....	4,231	4,713	+482
Transfer Payments to Persons.....	3,408	3,652	+244
Federal.....	2,015	2,122	+107
Provincial and Municipal.....	1,393	1,530	+137
Interest on Public Debt.....	1,164	1,274	+110
Federal.....	783	855	+ 72
Provincial and Municipal.....	381	419	+ 38
Subsidies.....	254	291	+ 37
Federal.....	221	260	+ 39
Provincial and Municipal.....	33	31	- 2
Transfer to Other Governments—			
Federal.....	1,128	1,136	+ 8
Total Expenditure.....	13,159	14,074	+915
Federal.....	7,121	7,381	+260
Provincial and Municipal.....	6,038	6,693	+655
Deficit (-) or Surplus (+).....	-905	-770	+135
Federal (1).....	-453	-474	- 21
Provincial and Municipal.....	-452	-296	+156
Total Expenditure minus deficit (or plus surplus).....	12,254	13,304	+1,050
Federal.....	6,668	6,907	+239
Provincial and Municipal.....	5,586	6,397	+811

(1) Reconciliation with Public Accounts Surplus or Deficit shown below:

	1961	Prelim. 1962
	(Millions of dollars)	
Federal Government calendar year surplus for national accounts purposes.....	-453	-474
Difference between calendar and fiscal year.....	+247	-158
Difference between corporation tax accruals and government receipts.....	- 24	- 13
Revenue items omitted.....	+ 22	+ 23
Reserves, write-offs and similar items omitted from expenditure.....	- 50	- 79
Extra-budgetary funds for pensions and social insurance (net).....	- 56	- 96
Other adjustments.....	- 26	+ 6
Federal surplus for fiscal year as per public accounts.....	-340	-791

At the federal level, revenues increased during 1962, following a decline in the first quarter which reflected the new tax collection arrangements. Revenues from direct taxation on persons were generally up, in line with increases in labour income and other personal income. Tax accruals on corporations were generally level throughout 1962, in line with the movement in corporation profits following a first quarter decline which was again attributable to the tax collection arrangement. Withholding tax revenue was somewhat higher in 1962. Federal

Government investment income moved irregularly during 1962, and was higher on a year-to-year comparison. Indirect taxes increased moderately in the first half of 1962 and then rose sharply in the third quarter, mainly due to increased custom duties, following the imposition of import surcharges on June 24, 1962, and subsequently levelled off in the fourth quarter.

Turning to federal expenditures in 1962, there was a decline in total outlays from the second to the fourth quarter. The decline was the result of a number of different movements. Outlays on goods and services increased from the first to the second quarter due to irregularly high defence outlays. In the third and fourth quarters federal outlays on goods and services declined, reflecting in part the reduction to more typical levels of defence spending and in part the reduction in budgetary expenditures, as part of the emergency measures announced in June.

Federal transfer payments to persons rose 5.3 per cent in 1962 mainly as a result of acreage payments to western grain producers, and an increased rate of Old Age Security payments.

Transfers to provincial and municipal governments declined from the first quarter to the second, then increased again in the third and fourth quarters. As previously noted, the last payments under the former tax rental agreements were made in the first quarter of 1962. In the third and fourth quarters, increases were related to payments under the Hospital Insurance and Diagnostic Services Act and the Technical Assistance and Vocational Training Act. (These latter transfer payments are reflected as outlays on goods and services by provincial and municipal governments.)

Turning to provincial and municipal government revenues, these increased in 1962. The new tax collection agreement resulted in higher direct taxes received by these governments. Revenues were also higher from retail sales taxes and real property taxes.

Provincial-municipal outlays on goods and services rose substantially from the first to the second quarter of 1962, and then more moderately in the third and fourth quarters. From the first quarter of 1961 to the fourth quarter of 1962, provincial-municipal outlays on goods and services increased by \$708 million, about 17 per cent. As noted in Table 5, this rate of increase was below that of the two preceding upswings. In the current period, some of the increase in outlays has been in the form of outlays on technical and vocational schools, with federal financial assistance.

Transfers to persons by provincial-municipal governments rose throughout 1962, owing to larger payments to hospitals, educational institutions, as well as for social assistance.

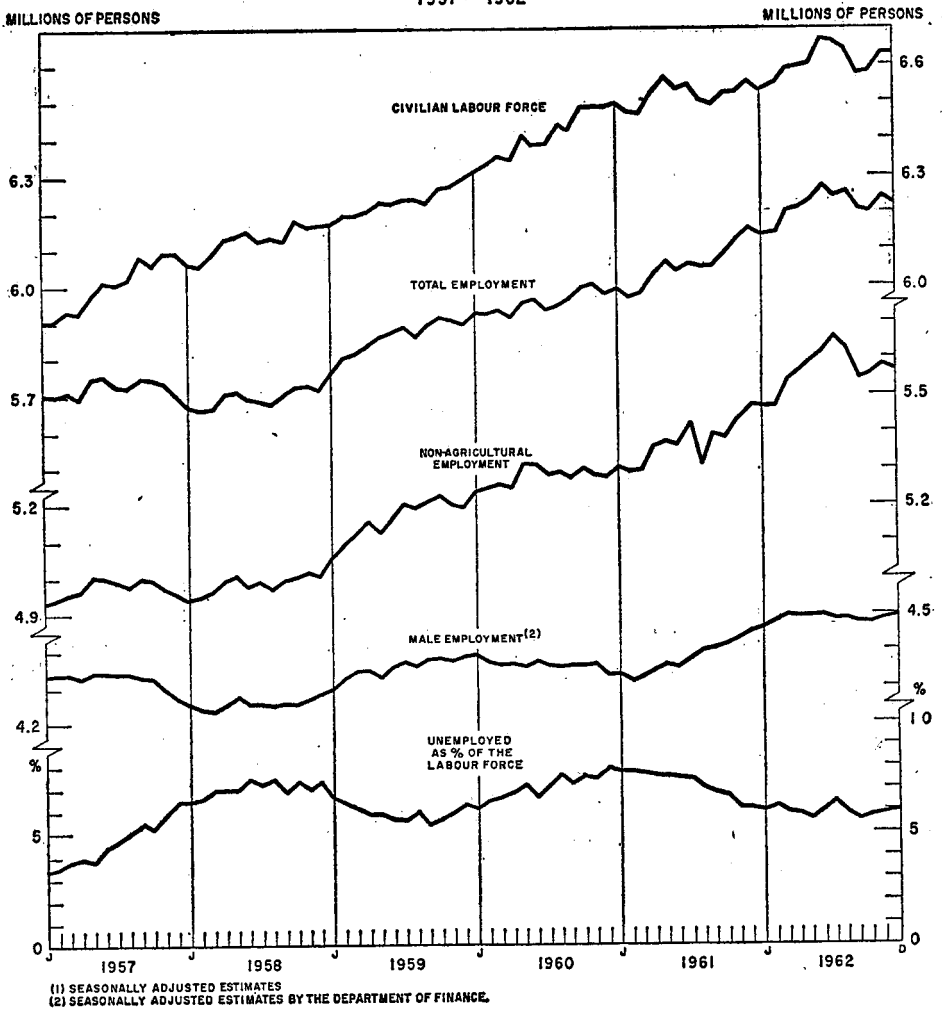
EMPLOYMENT AND EARNINGS

Developments in the labour market for 1962 followed a pattern somewhat similar to that of economic activity. Based on comparisons of yearly averages, there was an increase in employment in both goods- and service-producing industries. On a year-to-year basis, total employment increased by 168,000 persons, about 2.8 per cent. The increase during 1962 itself was much smaller and, as measured by the change between the fourth quarter of 1961 and the fourth quarter of 1962, amounted to 100,000 persons, about 1.6 per cent. This

slowdown in employment gains after mid-year is evident from the accompanying labour force chart. At the same time, the total civilian labour force grew at a much slower rate than in recent years as many would-be entrants remained out of the labour force. As a result of these developments the rate of unemployment in 1962 averaged below that of 1961, 5.9 per cent compared with 7.0 per cent. The unemployment rate moved between $5\frac{1}{2}$ and $6\frac{1}{2}$ per cent during 1962, and ended the year at about the annual average. This high rate of unemployment was considerably above that of the earlier postwar Canadian period, and well above that of most other industrialized countries.

THE LABOUR FORCE⁽¹⁾

1957 - 1962



As in 1961, the year-to-year increase in employment was more than accounted for in the non-agricultural sectors and there was some further decline in agricultural employment. Ontario and Quebec accounted for more than half the total increase while employment in the Atlantic provinces, the Prairies and British Columbia also rose.

REGIONAL CHANGES IN EMPLOYMENT

	1960	1961	1962
	1959	1960	1961
	(Thousands of persons)		
Total.....	100	94	168
Atlantic.....	14	19	10
Québec.....	19	12	59
Ontario.....	52	22	47
Prairies.....	17	30	28
British Columbia.....	-2	12	22

NOTE: Figures may not add due to rounding.

The Service industry and Manufacturing accounted for most of the increase in employment in the year-over-year comparison.

TABLE 19
CHANGES IN LABOUR FORCE AND EMPLOYMENT
ANNUAL AVERAGES

	1960	1961	1962
	1959	1960	1961
	(Thousands of persons)		
Labour Force.....	175	115	90
Agriculture.....	-14	2	-23
Non-Agriculture.....	189	113	114
Employment.....	100	94	168
Agriculture.....	-17	-1	-21
Non-Agriculture.....	117	95	189
Primary.....	10	-24	-5
Manufacturing.....	-24	45	52
Construction.....	-24	-12	23
Transportation.....	-3	-10	14
Public Utilities.....	-2	4	5
Trade.....	35	2	19
Finance.....	10	13	9
Service.....	115	78	74
Goods producing industries ⁽¹⁾	-38	9	70
Service producing industries.....	155	87	121

(1) Excluding agriculture.

NOTE: Figures may not add due to rounding.

The increase in employment in 1962 over 1961 was accounted for by 109,000 males and 59,000 females. The increase in male employment was associated with the manufacturing and construction industries, particularly the former where employment averaged 52,000 higher in 1962 than in 1961.

The increase in manufacturing employment brought employment in the goods-producing industries (excluding agriculture) back to the 1957 level. Average employment in the goods-producing industries, except agriculture, had declined between the peak year 1957 and 1960. Increases in manufacturing employment since 1960 have offset lower levels of employment in forestry and mining. By contrast, the service-producing industry has shown more consistent annual increases since 1957, though the rate has slowed in the past two years.

The growth of the labour force although still larger than in most other industrialized countries has slowed down during the past two years from the rate in immediately preceding years. Two features predominate in this situation. First, the net gain from migration has been significantly smaller and second, there has been a marked increase in prolonged school attendance. From 1956 to 1960, the population of 14 to 19 years olds increased by 276,000, while the labour force in this age group rose by 61,000. In the two years ending December, 1962, when the population growth in this age bracket was 157,000, the labour force in this age group grew by only 14,000. As a result, the participation rate in the labour force (i.e. the percentage of an age group working or seeking work) for these younger people continued to decline. The drop was particularly noticeable in the participation rate for males which fell from 43.0 per cent in 1960 to 39.6 per cent in 1962. For the same reason there was a similar, though less pronounced, decline in the participation rate for males in the 20 to 24 year old group.

There was little change in the male participation rate in the group of prime working age, 25 to 64. The participation rate for females, however, continued to rise, though at a slower rate, with married women accounting for the increase.

To place developments in the labour market in proper perspective it is helpful to compare the current position with the period immediately prior to the business upswing, after removing seasonal influences. Between the first quarter of 1961 and the fourth quarter of 1962, 138,000 persons were added to the labour force, a smaller amount than in preceding periods. Non-farm employment increased by 267,000 persons, which exceeded the growth in total employment because of a decline in farm employment. Consequently, the rate of unemployment dropped from 7.7 per cent of the labour force to 5.9 per cent between these two periods.

Peak	Trough	Unemployment Rate		Comparable Periods after Peak and Trough	Unemployment Rate	Change from	
		Peak	Trough			Peak	Trough
1Q 1960	1Q 1961	6.4	7.7	4Q 1962	5.9	-0.5	-1.8
1Q 1957	1Q 1958	3.6	6.7	4Q 1959	5.9	+2.3	-0.8

The change in the unemployment rate in the last two years is in contrast with the experience of the preceding upswing. As the following table shows, unemployment has fallen more since the beginning of the current business upswing than it did in 1958. After seven quarters of expansion, rates of unemployment are below those at the preceding peak of business activity in the first quarter of 1960. By contrast, after a similar period of time in the preceding upswing rates of unemployment were above those of the previous peak. The difference in behaviour of unemployment is mainly attributable to the much smaller increase in the labour force in the current period. From the first quarter of 1958 to the fourth quarter of 1959, employment increased by 4.3 per cent, and in the current comparable period, it rose by 4.2 per cent. The labour force, on the other hand, grew by 3.4 per cent in the earlier period, but by only 2.1 per cent from early 1961 to the end of 1962. Comparisons with preceding peaks were affected by the slower growth in the labour force in the current period, as well as by a larger increase in employment. An analysis of unemployment behaviour based upon its own specific turning points yields roughly comparable results.

The 1962 rate of unemployment of 5.9 per cent is high compared both with the earlier Canadian postwar period and with other countries.

PERCENTAGE OF LABOUR FORCE UNEMPLOYED
CANADA

1946.....	3.4	1954.....	4.6
1947.....	2.2	1955.....	4.4
1948.....	2.3	1956.....	3.4
1949.....	2.9	1957.....	4.6
1950.....	3.6	1958.....	7.1
1951.....	2.4	1959.....	6.0
1952.....	2.9	1960.....	7.0
1953.....	3.0	1961.....	7.2
		1962.....	5.9

It is difficult to make comparisons of unemployment figures between different countries, since the statistical measurements differ. For example, Canada and the United States take sample household surveys, which cover the entire population. Swedish statistics are based upon those relating to members of unemployment insurance funds, while British data are based almost entirely on a count of registrants at employment exchanges and youth employment offices. Accordingly, meaningful international comparisons have been hard to come by. However, since the publication of last year's White Paper, a United States Presidential Committee* has computed unemployment rates on a roughly comparable basis, according to the U.S. concept. For 1960, the year for which the calculations were made, the rate in Canada was much above that of other countries. The comparative figures before and after adjustment are as follows:

Country	1960 unemployment rate	
	Unadjusted	Adjusted
Canada.....	7.0	7.0
United States.....	5.6	5.6
Italy.....	7.9	4.3
Great Britain.....	1.6	2.4
France.....	1.1	1.9
Sweden (1961).....	1.2	1.5
Japan.....	1.0	1.1
Germany (Federal Republic).....	1.2	1.0

* SOURCE "Measuring Employment and Unemployment", President's Committee to Appraise Employment and Unemployment Statistics 1962, p. 235.

PRICE TRENDS

From the beginning of 1961 to the end of 1962 the price of foreign exchange in Canadian dollars rose by about 9 per cent. In this period, the consumer price index rose by 2.1 per cent, the general index of wholesale prices by 4.5 per cent and the implicit price index of Gross National Expenditure by 2.7 per cent.

As might be expected, the major impact of the price rise has been on goods and services with a high import content, but the domestic price of export commodities whose price is set in world markets has also risen, for example, wheat, nickel, copper, newsprint and petroleum. Apart from the decline in the exchange rate, prices after June, 1962 were affected by the imposition of the temporary surcharges. Approximately three-quarters of the 1.2 per cent increase in consumer prices in 1962 took place in the latter half of the year.

A report recently published by the Organization for Economic Cooperation and Development** shows that the increase in consumer prices in other Western industrialized countries over the past 10 years has generally been higher than in Canada. In the comparison found in Table 20, taken from the Report, Canada is shown amongst the countries having the smallest increase in the industrialized western world.

** "Policies for Price Stability".

TABLE 20

CHANGES IN CONSUMER PRICES OVER SELECTED PERIODS⁽¹⁾
(Annual average percentage change)⁽²⁾

Country	1953-61	1953-58	1958-61	1961-62
France.....	4.1	4.0	4.3	5.4
Sweden.....	3.1	3.5	1.4 ⁽⁵⁾	2.7 ⁽⁵⁾
United Kingdom.....	2.9	3.6	1.6	4.2 ⁽⁵⁾
Norway.....	2.7	3.4	1.7	5.4
Denmark ⁽³⁾	2.7	2.8	2.3	6.6
Netherlands.....	2.6	3.3	1.7	3.6
Austria.....	2.4	2.5	2.3	5.4
Ireland ⁽⁴⁾	2.3	3.2	1.1	4.4
Italy.....	2.1	2.5	1.3	4.1
Germany.....	1.8	1.8	1.7	4.3
United States.....	1.4	1.6	1.2	1.2 ⁽⁵⁾
Canada.....	1.3	1.6	1.1	1.2 ⁽⁵⁾
Belgium.....	1.3	1.6	0.9	1.7
Switzerland.....	1.2	1.4	0.9	4.5

Countries ranked by 1953-61 price rise.

(1) The periods have been selected to illustrate the broad characteristics of price movements in Europe and North America since 1953. Where the experience of an individual country differed from the general experience, the averages shown do not give a full picture of the price movements in that country.

(2) Annual averages of monthly figures for 1953-58, 1958-61 and 1953-61, and first seven months of 1961 to first seven months of 1962.

(3) Excluding rent. 1961-62: averages of January, April and July figures.

(4) 1961-62: average of figures for first two quarters.

(5) Excluding the effect of changes in indirect taxes. It has not been possible to make similar adjustments for the other countries.

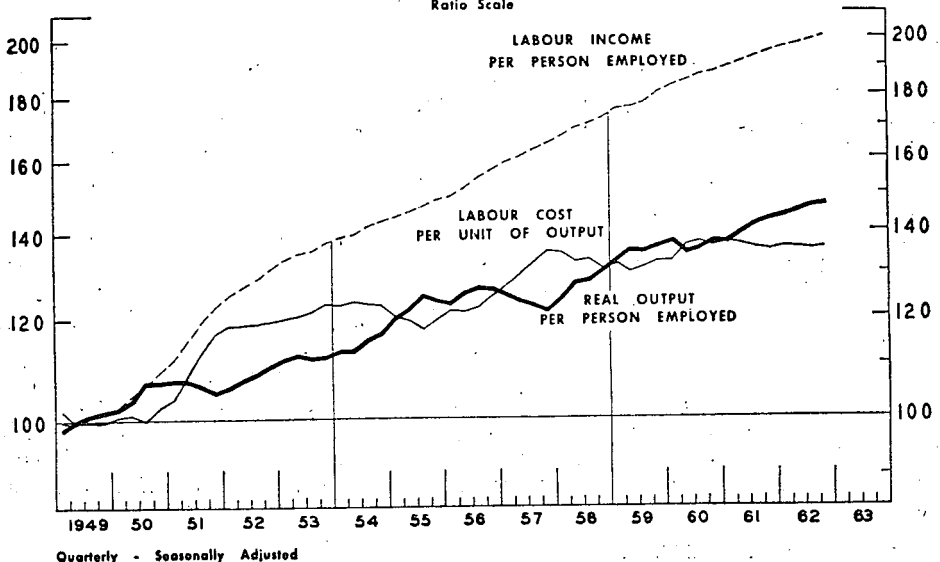
(6) Annual averages of monthly figures for 1961 and 1962.

SOURCE: "Policies for Price Stability", O.E.C.D., November 1962, table 1, page 12.

There has been an improvement in Canada's competitive position over the past decade. The Canadian experience, as indicated in the accompanying chart on manufacturing, has been one in which wage rate increases have been relatively modest while output per man hour has continued to rise about in line with the average rate of increase achieved in the postwar period in Canada. By contrast,

LABOUR INCOME, COST PER UNIT OF OUTPUT
AND REAL OUTPUT IN MANUFACTURING

Index 1949=100
Ratio Scale



wage rates in some of the Western European countries have recently been rising rapidly while productivity gains have slowed as operating rates have approached full capacity. Wage and other costs per unit of output have shown sharp advances in some of these overseas countries. Table 21 presents some of these findings. These statistics reflect only prices valued in domestic currencies. Recent exchange rate adjustments sharpen these trends.

TABLE 21

CHANGES IN INCOMES AND COSTS IN SELECTED COUNTRIES 1953/54-1960/61

(Annual average percentage change per unit of output)

	France	Germany	Netherlands	Sweden	United Kingdom	United States	Canada
Wage and salary incomes.....	6.1	3.1	4.5	3.5	4.0	2.4	2.4
Other incomes.....	4.1	2.7	2.4	1.5	2.2	1.5	1.3
Net indirect taxes.....	5.2	1.8	-0.4	7.5	2.8	3.3	3.0
GDP at market prices.....	5.0	2.7	2.9	3.2	3.2	2.2	2.0
Import prices.....	(3.5)	(-0.7)	(0.2)	(0.2)	(0.4)	(0.1)	(1.5)
Effect of imports on general price level.....	-0.2	-0.7	-1.1	-0.7	-0.6	0	0
Total costs—overall price level.....	4.8	2.0	1.8	2.5	2.6	2.2	2.0

SOURCE: Policies for Price Stability. O.E.C.D.

The combined effects of domestic price movements and exchange rate adjustments over the past few years are shown in Table 22.

TABLE 22

INTERNATIONAL COMPARISON OF CHANGES IN PRICES, 1959-62⁽¹⁾

(Percentage change)

Country	Consumer price index	Wholesale price index
United States.....	4	0
Belgium.....	3	2
Canada.....	-7 ⁽²⁾	-7 ⁽²⁾
France.....	12	7
Germany (Federal Republic).....	13 ⁽²⁾	9 ⁽²⁾
Italy.....	9	4
Japan.....	16	6
Netherlands.....	12 ⁽²⁾	3 ⁽²⁾
Sweden.....	11	7
United Kingdom.....	9	6

⁽¹⁾ Based on incomplete data for 1962.⁽²⁾ Adjusted for changes in exchange rates.

SOURCES: Organization for Economic Cooperation and Development, United Nations and U.S. Council of Economic Advisers, taken from Economic Report of the U.S. President, January 1963, table 17, page 105.

Generally speaking, prices in the current business upswing have so far risen less than they did in the comparable period of the upswing in 1958. The following table shows changes in the 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 1962. It makes similar comparisons with the preceding upswing in 1958. The table shows that, except for the wholesale index, prices have risen to a lesser extent than in the preceding period.

TABLE 23
PERCENTAGE CHANGES IN PRICE LEVELS

	7 quarters after trough	7 quarters after trough from previous peak	7 quarters after trough	7 quarters after trough from previous peak
	4Q 1959	4Q 1959	4Q 1962	4Q 1962
	1Q 1958	1Q 1957	1Q 1961	1Q 1960
Consumer Price Index.....	3.5	6.4	2.1	3.6
Commodities.....	1.8	4.2	1.8	2.9
Services.....	5.1	9.4	2.7	4.3
General Index of Wholesale Prices.....	1.0	0.6	4.5	5.2
Gross National Expenditure Implicit Price Index.....	4.6	6.2	2.7	4.1

Table 24 shows that prices in the aggregate rose somewhat more in 1962 than in the preceding year. However, apart from those categories more directly affected by the lower exchange rate (imports and exports of goods and services and the index for new machinery and equipment where the import content is high), the increases were relatively small and of somewhat the same magnitude as those which have taken place in the past few years.

TABLE 24
PERCENTAGE PRICE CHANGES
(Implicit Price Indexes of GNE and Components)

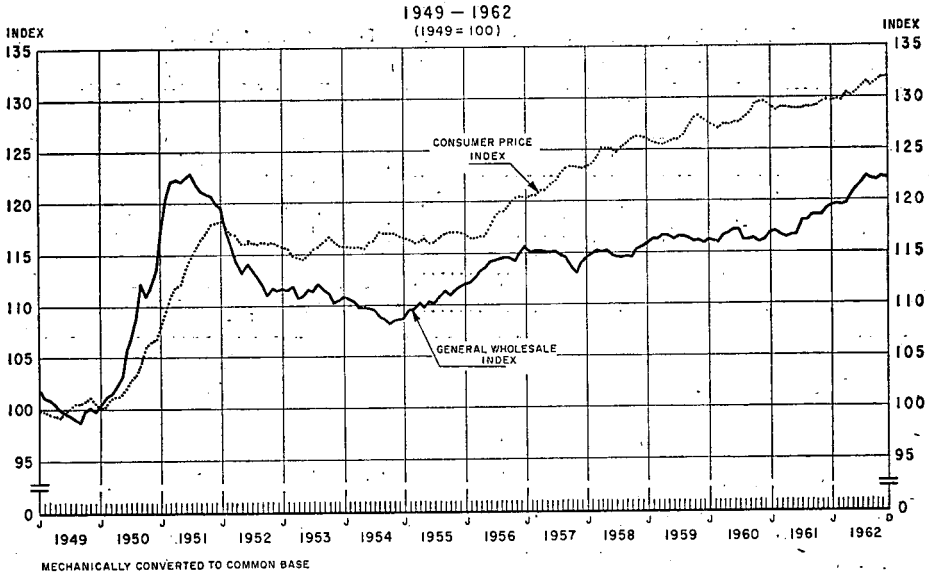
	1960	1961	1962
	1959	1960	1961
Personal Expenditure.....	1.1	0.9	1.5
Non-Durable Goods.....	0.6	0.8	1.2
Durable Goods.....	0.1	-2.0	-0.2
Services.....	2.2	1.9	2.4
Government expenditure.....	3.3	1.9	3.7
Business gross fixed capital formation.....	2.2	0.9	2.5
New Residential construction ⁽¹⁾	2.7	0.6	2.8
New Non-residential construction ⁽¹⁾	2.4	0.4	2.0
New machinery and equipment.....	1.9	1.6	2.9
Exports of goods and services.....	0.7	1.3	3.2
Imports of goods and services.....	1.0	3.3	4.4
Gross National Expenditure.....	1.6	0.6	1.7

⁽¹⁾ 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 1962 averaged 130.7 compared with 129.2 for 1961, an increase of 1.2 per cent. The index moved from 129.7 in January, 1962 to 131.9 in December, with the major portion of the increase occurring between March and August. As Table 25 shows, increases in the food and services indexes were the major factor in the rise of the total index. Like the total index, food prices showed the greatest increase between March and August. Part of this rise was seasonal, particularly in the third quarter, but the lower value of the Canadian dollar and import surcharges were also moderate contributing factors.

Of more significance, however, were special circumstances affecting the price of beef, and to a lesser extent pork. Drought conditions in the western provinces in 1961 reduced the volume of feed which forced the premature sale of feeder cattle and a drop in hog production. At the same time a strong U.S. market for beef developed and, in 1962, a reduced supply and a strong demand forced meat prices up.

CANADIAN WHOLESALE AND CONSUMER PRICE INDEX



The increase in the services index in 1962 was of the same magnitude as the increase last year and much smaller than the increases recorded prior to 1961. As in recent years, the largest increase took place in services other than housing. In turn, higher fees for medical, dental and optical care were important factors and raised the health and personal care index by 2 per cent.

TABLE 25
PERCENTAGE CHANGES IN CONSUMER PRICE INDEXES

	1960 1959	1961 1960	1962 1961
Total Goods and Services.....	+1.2	+0.9	+1.2
Commodities.....	+0.8	+0.5	+0.9
Commodities excluding Food.....	+0.6	+0.1	+0.3
Food.....	+0.9	+1.5	+1.8
Durable Goods.....	-0.3	-1.8	-0.7
Household Equipment.....	-0.5	-1.1	-0.1
Transportation Equipment.....	+0.5	-2.3	-1.5
Non-Durable Goods.....	+0.9	+1.0	+1.2
Non-Durable Goods excluding Food.....	+0.9	+0.6	+0.7
Textiles.....	+0.2	+1.3	+0.9
Other Non-Durable Goods.....	+0.8	+0.2	+0.6
Services.....	+2.2	+1.3	+1.4
Services excluding Shelter.....	+3.0	+1.9	+2.1

The wholesale price index, which is heavily weighted with export and import goods, responded, as was to be expected, to the lower exchange value of the Canadian dollar. The general index in 1962 was 2.9 per cent higher than in 1961 and marks the largest year-to-year increase since 1956. The largest increases occurred in prices of raw and partly manufactured goods with the other selected groupings each rising by about 2 per cent. It appears that wholesale prices reached their peak in the third quarter of 1962 and have subsequently levelled out.

TABLE 26
PERCENTAGE CHANGES IN SELECTED WHOLESALE PRICES
(1935-1939=100)

	1960 1959	1961 1960	1962 1961
Raw and partly manufactured goods.....	-0.6	1.4	5.3
Fully and chiefly manufactured goods.....	0.2	0.9	1.8
Industrial materials.....	0.1	1.2	2.0
Iron and non-ferrous metals and products.....	0.9	1.1	1.9
General Index of Wholesale Prices.....	0.1	1.0	2.9

BALANCE OF INTERNATIONAL PAYMENTS

GENERAL

The year 1962 was one of varied and divergent movements in Canada's balance of international payments. The current account, in the first two quarters, showed deficits of much the same amounts and much the same pattern as in 1961, although, typically during a business upswing, rather larger deficits, particularly on trade account, might have been expected. In the third quarter the trade account was substantially worse than the year before reflecting, at least in part, exceptionally large orders for imports placed in the previous quarter in the expectation of renewed depreciation of the Canadian dollar. In the fourth quarter, the trade balance improved as sharply as it had deteriorated. By this time a lower exchange rate and emergency import surcharges were exercising their effects. The trade balance for the year as a whole was about the same as it had been in 1961.

The non-merchandise account in 1962 was chiefly influenced by a change in the pattern of travel expenditures; especially in the second half of the year. The lower exchange rate, reinforced by a sharp reduction at the time of the exchange crisis in the customs-exemption for returning Canadians, was no doubt the main cause of an improvement of some \$110 million over 1961. Nevertheless, the total current account deficit for 1962, at \$848 million, remained very large.

While these developments were taking place in the current account, there were shifts of very large and disturbing amounts in the capital account. In the first quarter of the year the substantial net capital inflow, which for many years had financed the large current deficits, dried up. Thus the current deficit for that quarter had to be paid for by drawing on reserves. In the second quarter a substantial net outflow of capital developed which, together with the current account deficit for that quarter, had to be paid for by further drawings on reserves. The downward pressure on the Canadian dollar in the exchange market, which had been heavy in January and February but had relaxed in March, was renewed in April after the announcement of a General Election. For the rest of that month the "floating" exchange rate continued to be defended at a level of approximately 95 cents (U.S.). On May 2 a new "par value" of 92.5 cents was declared with the

concurrence of the International Monetary Fund. Despite this, the downward pressure soon re-emerged and gathered strength, reaching a climax following the indecisive results of the Election on June 18. On June 24, the Government announced a series of drastic emergency measures.

Thereafter, net capital inflow started again and the reserves rose. However, in the third quarter the capital inflow was induced largely by the maintenance of stringent financial conditions which were out of keeping with the economic requirements of the country, and much of the capital came on a short-term basis. A renewed inflow of long-term capital began towards the end of the third quarter and was enlarged in the fourth so that, by the end of the year, the reserves (apart from borrowings of \$300 million from the International Monetary Fund), were nearly \$200 million higher than they had been at the beginning. Much of the long-term capital inflow took the form of borrowings, but a substantial part also took the form of "take-over" purchases of Canadian businesses by interests abroad.

Detailed comments on these developments follow.

CURRENT ACCOUNT

The existence of substantial current account deficits, and of appropriate net capital inflows to finance such deficits, is acceptable in a country like Canada at times when the economy is booming, when labour and plant are fully employed, and when substantial additions to the country's stock of productive capital equipment justify some recourse to outside sources to support the general expansion. But such deficits, and such net capital inflows, are clearly incompatible with a condition of high unemployment and lack of vigorous capital investment.

Table 27 shows the main structure of Canada's current account deficits from 1955 to 1962.

TABLE 27

BALANCE OF PAYMENTS ON CURRENT ACCOUNT MERCHANDISE AND NON-MERCHANDISE BALANCE 1955-1962

	Merchandise Trade	Non- Merchandise Trade	Current Account Balance
	(Millions of dollars)		
1955.....	-211	-487	-698
1956.....	-728	-638	-1,366
1957.....	-594	-861	-1,455
1958.....	-179	-952	-1,131
1959.....	-422	-1,082	-1,504
1960.....	-148	-1,095	-1,243
1961.....	+173	-1,155	-982
1962 preliminary.....	+155	-1,003	-848

From the peak deficits of 1957 and 1959, of about \$1.5 billion in each case, there has been a gradual improvement; but the improvement is not yet as large as the remaining deficit. Moreover the non-merchandise deficit, much of which is made up in any year of obligations arising from earlier capital imports, actually continued to deteriorate until 1962.

Turning from longer-term to cyclical patterns, it may be noted that the behaviour of the current account in the business expansion that took place between 1961 and 1962 has not been typical. Instead of deteriorating, the current account showed some improvement. Although most of this improvement was in the final

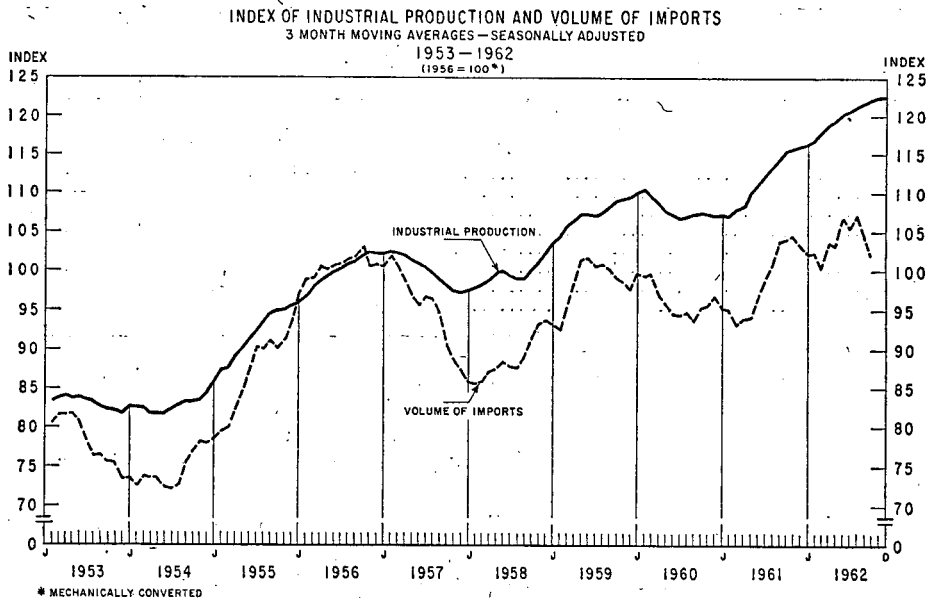
quarter of the year, it is nevertheless true to say that, through the year, the business situation was receiving more stimulus from the current account than would be considered normal at such a stage in the cycle.

The following table indicates the changing proportion of imports to Gross National Product in the years from 1949 to 1962. In addition to the cyclical pattern which it suggests it also shows that the proportion of our Gross National Expenditure which is associated with imports has been showing a gradual decline.

TABLE 28
IMPORTS OF GOODS AS A PROPORTION OF G.N.E. 1949-1962

	Percent
1949.....	16.5
1950.....	17.4
1951.....	19.4
1952.....	16.0
1953.....	16.8
1954.....	15.7
1955.....	16.7
1956.....	18.2
1957.....	17.2
1958.....	15.4
1959.....	16.0
1960.....	15.3
1961.....	15.3
1962 preliminary.....	15.4

In 1962 the price of imports rose substantially more than other items in the national expenditure because the devaluation affected the price of imports directly. Accordingly, the volume increases in imports in 1962 were less than the value increases. The accompanying chart shows the volume of imports of goods plotted against the index of industrial production, which covers a substantial part of the volume of real output in Canada. It can be seen that, apart



from cyclical movements which affect both industrial production and imports, the trend of production has been upward, while the volume of imports has not changed significantly for many years. Toward the end of 1962, industrial production was more than 20 per cent above 1956, while import volume was about unchanged. Among the categories of imports contributing to the relative decline, two of the most striking were fuels and lubricants and construction materials, steel and pipe.

TABLE 29
INTERNATIONAL PAYMENTS: CURRENT ACCOUNT

	1959	1960	1961	Prelim. 1962
	(Millions of dollars)			
Current Receipts—				
Merchandise exports (adjusted).....	5,150	5,392	5,889	6,364
Gold available for export.....	148	162	162	165
Travel expenditures.....	391	420	482	560
Interest and dividends.....	182	173	209	211
Freight and shipping.....	420	442	486	498
Inheritance and immigrants' funds.....	109	102	103	124
Other current receipts.....	392	419	403	426
Total Current Receipts.....	6,792	7,110	7,734	8,348
Current Payments—				
Merchandise imports (adjusted).....	5,572	5,540	5,716	6,209
Travel expenditures.....	598	627	642	610
Interest and dividends.....	671	653	770	781
Freight and shipping.....	525	533	568	588
Inheritance and emigrants' funds.....	165	181	174	163
Official contributions.....	72	61	56	32
Other current payments.....	693	758	790	813
Total Current Payments.....	8,296	8,353	8,716	9,196
Balance on Merchandise Trade.....	-422	-148	+173	+155
Balance on Other Transactions.....	-1,082	-1,095	-1,155	-1,003
Current Account Balance.....	-1,504	-1,243	-982	-848

Merchandise exports have grown over the last six years by about the same percentage (32 per cent) as has G.N.P. The increase has been fairly well diversified, with exports of farm and forest products showing less increase than metals and minerals, chemicals and fertilizers. As the following table shows, a very substantial increase has been recorded in the category of "Manufactured and Miscellaneous" which includes machinery of all types, automotive items, aircraft, whiskey, textiles, etc.

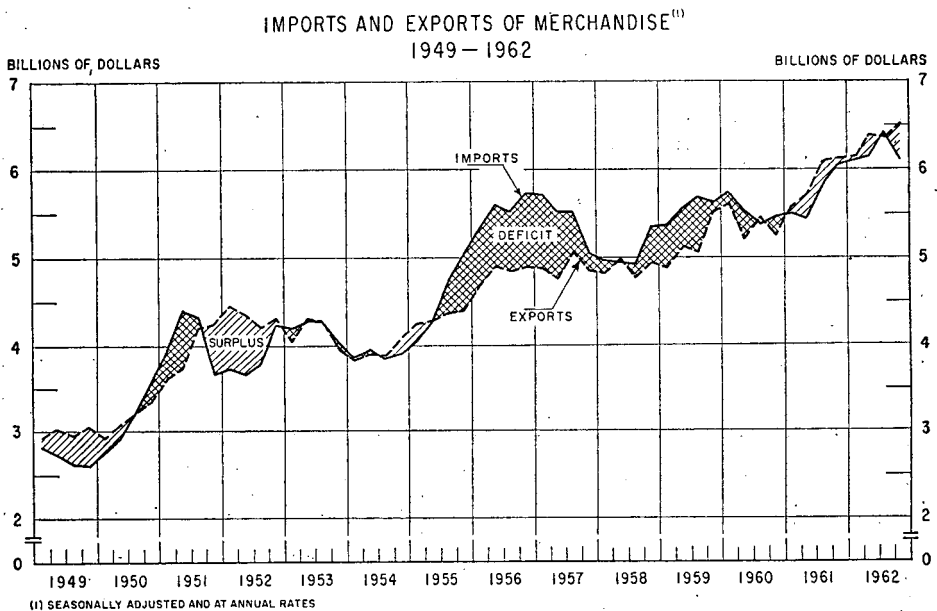
TABLE 30
MERCHANDISE EXPORTS BY COMMODITIES 1956 AND 1962

	Farm and Fish Products	Forest Products	Metals and Minerals	Chem- icals and Ferti- lizers	Manufac- tured and Miscel- laneous	Re- exports	Total
	(Millions of dollars)						
1956.....	1,121	1,496	1,472	183	489	73	4,834
1962 Prelim.....	1,264	1,701	2,063	248	902	169	6,348
% Increase.....	+12.8	+13.7	+40.1	+35.5	+84.5	+131.5	+31.3

SOURCE: Bank of Canada Statistical Summary. Data are based on Trade of Canada definitions which vary slightly from those used for balance of payments purposes.

Turning to developments in 1962, there was an expansion in both exports and imports of merchandise. In 1962 exports of goods increased by 8.1 per cent in value above 1961. Nearly one-half of the increase in the value of exports was attributable to higher prices, a reflection of the change in the foreign exchange value of the Canadian dollar. About one-half of the gain was accounted for by increased shipments of iron ore, crude petroleum, aluminum, nickel, lumber and timber and woodpulp. Declines were registered by uranium ores and concentrates and wheat. Exports of manufactured goods also showed a significant increase. The gains were more than accounted for by shipments to the United States; shipments to other countries were below those of 1961 due to inventory adjustments and other factors.

Within 1962 merchandise exports (on a seasonally adjusted basis) rose sharply from the first to the second quarter, were steady in the third quarter, then again rose sharply in the fourth quarter. From the beginning of the business expansion in the first quarter of 1961 to the fourth quarter of 1962, merchandise exports increased by 17 per cent.



Merchandise imports in 1962 rose 8.6 per cent over 1961. On a quarterly basis, the 1962 annual level had almost been reached by the first quarter of the year, where it stayed throughout the year, except for a temporary increase in the third quarter. Some, at least, of the third quarter increase was related to deliveries of goods ordered, for anticipatory purposes, about the time of the unsettled exchange situation in mid-year. As in exports, nearly half of the increase in imports was ascribable to higher prices, resulting from the change in the exchange rate.

During 1962, imports of industrial materials, automobile parts, non-farm machinery and electrical apparatus were prominent among the commodities which were higher than in 1961. More than three-fourths of the increase in merchandise imports in 1962 came from the United States.

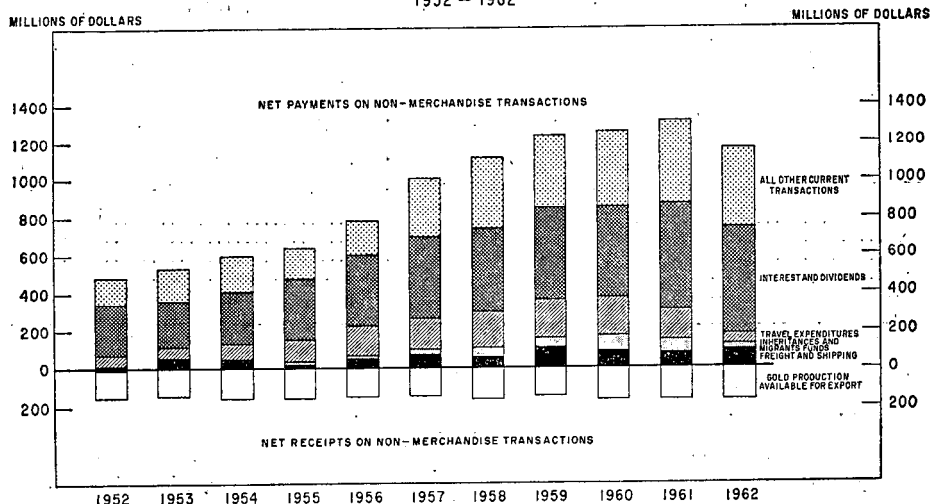
There were significant changes in the geographical distribution of merchandise exports during 1962 compared with 1961. On a balance of payments basis, the very large trading deficit with the United States was reduced while the surplus with the United Kingdom increased somewhat and the surplus with other countries was reduced.

TABLE 31
GEOGRAPHICAL DISTRIBUTION OF MERCHANDISE TRADE BALANCE

	Exports		Imports		Trade balance		Percentage change	
	1961	Prelim. 1962	1961	Prelim. 1962	1961	Prelim. 1962	1961/1962	
	(Millions of dollars)						Exports	Imports
United States.....	3,213	3,742	3,828	4,217	-615	-475	+16.5	+10.2
United Kingdom.....	924	924	593	575	+331	+349	0	-3.0
Other Countries.....	1,752	1,698	1,295	1,417	+457	+281	-3.1	+9.4
Total.....	5,889	6,364	5,716	6,209	+173	+155	+8.1	+8.6

Turning to the non-merchandise account in 1962, the most significant development was a smaller deficit, compared with the corresponding period in 1961. Changes in the balance on most major components were relatively small, but there was substantial improvement on travel account.

BALANCE ON NON-MERCHANDISE TRANSACTIONS
1952 - 1962



The seasonally adjusted data for the non-merchandise account indicate a significant improvement in the third and fourth quarters of 1962. (The data are as defined in the National Accounts which differ slightly from Balance of Payments definitions.)

TABLE 32
NON-MERCHANDISE ACCOUNT
(Seasonally Adjusted at Annual Rates)

	Exports	Imports	Balance
	(Millions of dollars)		
1Q 1961.....	1,676	2,876	-1,200
2Q 1961.....	1,764	2,748	-984
3Q 1961.....	1,752	2,808	-1,056
4Q 1961.....	1,776	2,872	-1,096
1Q 1962 prelim.....	1,788	2,852	-1,064
2Q 1962 prelim.....	1,868	3,004	-1,136
3Q 1962 prelim.....	1,872	2,720	-848
4Q 1962 prelim.....	1,912	2,720	-808

The third and fourth quarter 1962 reductions in non-merchandise payments were reflected in all categories. The sharpest reductions occurred in the outflow of interest and dividend payments which declined from an unusually high second quarter level, in payment for miscellaneous current services and in Canadian residents' travel expenditures abroad.

The improvement that took place in the travel account in the third and fourth quarters of 1962 was all with the United States. During 1962 there was a rise of \$75 million in expenditures in Canada by visitors from the United States together with a reduction of \$39 million in spending by Canadian travellers in the United States, following the further depreciation of the Canadian currency in May and the sharp reduction in June in the allowances for duty-free tourist purchases by Canadians.

The following table indicates the pattern of the deficit on travel account.

TABLE 33
DEFICIT ON TRAVEL ACCOUNT
(Millions of dollars)

1954.....	-84	1959.....	-207
1955.....	-121	1960.....	-207
1956.....	-161	1961.....	-160
1957.....	-162	1962 prelim.....	-50
1958.....	-193		

CAPITAL ACCOUNT

Table 34, which shows annual totals for capital movements, tends to mask some of the more extreme developments which occurred in the course of 1962, and largely cancelled themselves out. These developments which, in the first part of the year, involved net capital outflows and were reflected in the exchange crisis at mid-year, still show some of their effects in the twelve-month totals ending December 31, 1962: the outflow arising out of trade in outstanding Canadian stocks was the first since this series has been classified separately, while the capital outflow arising out of trade in foreign securities was the largest in the postwar period.

TABLE 34
INTERNATIONAL PAYMENTS: CAPITAL MOVEMENTS

	1959	1960	1961	Prelim. 1962
	(Millions of dollars)			
Direct investment in Canada.....	+550	+650	+515	+525
Direct investment abroad.....	- 80	- 50	- 80	-100
Canadian securities—				
Trade in outstanding bonds and debentures.....	+ 91	+ 3	+ 63	+ 64
Trade in outstanding common and preference stocks.....	+110	+ 51	+ 40	-116
New issues.....	+707	+447	+533	+708
Retirements.....	-258	-265	-297	-295
Foreign securities.....	- 33	- 19	- 33	- 79
Loans by Government of Canada—Drawings.....	- 1			- 7
Repayments.....	+ 34	+ 32	+ 37	+129
Subscriptions to IMF, IFC and IBRD in gold and U.S. dollars.....	- 59	- 3		- 1
Change in Canadian dollar holdings of foreigners.....	+ 13	+120	- 34	- 28
Special International Financial Assistance.....				+330
Change in official holdings of gold and foreign exchange (increase, -).....	+ 70	+ 39	-229	-537
Other capital movements.....	+360	+238	+467	+255
Net capital movement.....	+1,504	+1,243	+982	+848

Developments are more readily discussed by an analysis of quarterly data. The following table gives the data in summary form, while a more detailed statement is contained in Table 36.

TABLE 35
SUMMARY OF CAPITAL MOVEMENTS

	1961				1962			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
Capital movements in long term forms.....	+186	+270	+200	+134	+ 25	- 14	+260	+447
Capital movements in short term forms.....	+256	+ 92	-200	+273	- 56	-217	+460	+150
Balance on goods and services.....	-337	-311	- 62	-272	-333	-362	- 34	-119
Total of above.....	+105	+ 51	-62	+135	-364	-593	+686	+478
Special international financial as- sistance.....						+707		-377
Change in official holdings of gold and foreign exchange ⁽¹⁾	-105	- 51	+ 62	-135	+364	-114	-686	-101

⁽¹⁾Increase (-)

The summary table shows that in the first quarter of 1962 the customary net capital inflow ceased and was replaced in the second quarter of the year by a substantial capital outflow. It was not until the third quarter of the year that a net capital inflow was resumed. The shift from the second to the third quarter amounted to almost one billion dollars, much of it representing a "swing" in short-term capital movements.

TABLE 36

INTERNATIONAL PAYMENTS
CAPITAL ACCOUNT

	1961				1962			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
(Millions of dollars)								
Direct investment: in Canada	+140	+158	+117	+100	+110	+ 80	+145	+190
abroad.....	- 29	- 21	- 12	- 18	- 30	- 30	- 15	- 25
Canadian securities								
Trade in outstanding bonds and debentures.....	+ 31	+ 34	- 11	+ 9	- 3	+ 4	+ 39	+ 24
Trade in outstanding common and preference stocks.....	+ 13	+ 32		- 5	- 14	- 44	- 26	- 32
New issues.....	+101	+190	+125	+117	+ 52	(1)+200	+ 87	+369
Retirements.....	- 73	- 92	- 29	-103	- 70	- 68	- 48	-109
Foreign securities								
Trade in outstanding issues.....	+ 3		+ 2	- 10	- 32	- 37	- 9	- 5
New issues.....	- 5	- 18	- 7	- 7	- 2	- 4	- 5	- 5
Retirements.....	+ 2	+ 2	+ 3	+ 2	+ 5	+ 5	+ 5	+ 5
Loans by Government of Canada								
Drawings.....							- 7	
Repayments.....	+ 3	+ 7		+ 27	+ 3	+ 7	+ 68	+ 51
Subscriptions in Gold and U.S. dollars to International Financial Agencies.....								- 1
Change in Canadian dollar holdings of foreigners.....	- 5	- 72	- 1	+ 44	- 32	+ 34	- 54	+ 24
Special International financial assistance.....						+707		-377
Change in official holdings of gold and foreign exchange (increase,-).....	-105	- 51	+ 62	-135	+364	-114	-686	-101
Other capital movements.....	+261	+142	-187	+251	- 18	-378	+540	+111
Net Capital Movement.....	+337	+311	+ 62	+272	+333	+362	+ 34	+119

(1) Includes \$125 million of new corporate borrowing which was applied to the refinancing of external liabilities in other forms.

TABLE 37

NET TRANSACTIONS IN CANADIAN SECURITIES BETWEEN CANADA
AND OTHER COUNTRIES

	1962			
	1Q	2Q	3Q	4Q
(Millions of dollars)				
Bonds and debentures				
Government of Canada.....	-14	-19	+38	+114
Provincial government.....	+ 6	+ 3	+16	+114
Municipal.....	+ 1	- 1	+24	+ 35
Railways (not guaranteed by government).....	- 3	- 1		- 11
Other corporations.....	- 9	+154(1)	+ 4	+ 44
<i>Sub-total, bonds and debentures.....</i>	<i>-19</i>	<i>+136</i>	<i>+82</i>	<i>+296</i>
Common and preference stocks.....	-16	-44	-30	- 44
Total.....	-35	+92	+52	+252

(1) Includes \$125 million of new corporate borrowing which was applied to the refinancing of external liabilities in other forms.

Throughout 1962, the flow of direct investment remained inward. In the past ten years direct investment in Canada has varied between about \$400 million and \$650 million, depending upon a variety of factors including the phasing of particular new capital formation, refinancing operations, or acquisition by foreigners of existing Canadian concerns or interests. These financial operations were considerably larger in 1962 than in 1961. Inflows from direct investment declined somewhat from the first to the second quarter, then rose substantially late in the third and in the fourth quarter to the highest levels in six quarters. Industrially, the largest inflows were to the petroleum and natural gas industry and iron ore projects.

Apart from special financing by a corporation in the second quarter amounting to \$125 million, and a Government of Canada borrowing abroad in the fourth quarter, new security transactions in 1962 resulted in a net inflow of approximately \$150 million with most of this inflow occurring in the fourth quarter. Trade in outstanding Canadian bonds and debentures yielded a net inflow, most of which occurred in the third and fourth quarters. Net sales were made up mainly of Government of Canada direct and guaranteed issues and were on balance entirely to the United States as there were repurchases from residents of overseas countries. It will be noted that the yield spread between Canadian and United States long-term government bonds was considerably wider in the third and fourth quarters, after the exchange crisis, than before it.

Transactions in outstanding Canadian stocks, on the other hand, led to capital outflows in each of the four quarters of 1962, amounting in total to \$116 million. The sales of Canadian stocks were largely accounted for by overseas investors; there was only a modest capital outflow to the United States arising out of these transactions.

Proceeds from new issues of Canadian securities sold to non-residents in 1962 amounted to \$708 million. As previously noted, this includes \$125 million involved in the refinancing of external liabilities, which took place in the second quarter, and the Government of Canada 25-year external borrowing. Apart from this, proceeds from new issues sold to non-residents were, quarter by quarter, somewhat below the same period in 1961 until the fourth quarter of the year.

A capital outflow of \$79 million took place in 1962 in the form of net purchases of foreign securities; all but \$14 million of this occurred in the first half of the year. The bulk of the outflow was in United States securities.

Official transactions in 1962 (apart from special international financial assistance) yielded a net inflow of \$122 million. Most of this represented advance repayments on outstanding intergovernmental loans of \$67.6 million in July by France, and of \$32.1 million by the Netherlands in October.

In the course of 1962 there were some very large and very sharp movements of short-term capital. In the first quarter of the year, there was a relatively small outflow, followed by a large outflow in the second, all of which was more than offset by a very large inflow in the third quarter and was followed by a smaller inflow in the fourth quarter of the year. The shift between the second and third quarters amounted to an extraordinary \$677 million, of which about \$500 million represented Canadian-owned bank balances and other short-term funds in foreign currencies.

Canadian dollar holdings of foreigners yielded capital outflows in the first and third quarters of the year, and capital inflows in the second and fourth quarters. They included a small increase in foreign holdings of Government of Canada Treasury Bills and a decline in deposits as the following table shows:

TABLE 38
CHANGE IN CANADIAN DOLLAR HOLDINGS OF FOREIGNERS

	Treasury Bills	Deposits etc.	Total
	(Millions of dollars)		
1Q 1961.....	+33	-38	- 5
2Q 1961.....	-75	+ 3	-72
3Q 1961.....	-34	+33	- 1
4Q 1961.....	+18	+26	+44
1Q 1962.....	+18	-50	-32
2Q 1962.....	+50	-16	+34
3Q 1962.....	- 3	-51	-54
4Q 1962.....	-61	+85	+24

Non-resident holdings of finance company and commercial paper increased in all four quarters of 1962, with inflows amounting to \$28 million, \$25 million, \$35 million and \$52 million in successive quarters.

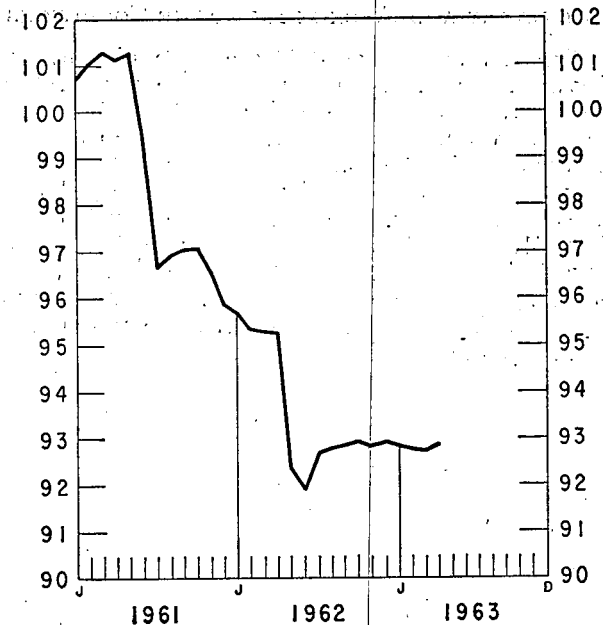
Quarterly movements of Canadian-owned bank balances and other short-term funds in foreign currencies in 1962 were respectively +\$49 million, -\$245 million, +\$257 million and +\$17 million (plus equals an inflow, minus equals an outflow). The second quarter outflow and the third quarter reversal were unprecedented in size.

On June 24, 1962, the Canadian authorities arranged for \$1,050 million in credits in foreign currency, as part of a programme of emergency measures. Of this total, \$400 million represented a stand-by credit with the Export-Import Bank of Washington. The remaining \$650 million of foreign exchange (equivalent in value to \$707 million Canadian) was in the form of a \$300 million drawing from the International Monetary Fund, a reciprocal currency arrangement entered into between the Bank of Canada and the Federal Reserve Bank of New York for \$250 million, and a similar arrangement with the Bank of England for \$100 million. Subsequently, as the situation improved, these arrangements were reduced or eliminated. The stand-by credit with the Export-Import Bank was reduced by \$250 million in September and eliminated entirely in December. The reciprocal currency arrangement with the Federal Reserve Bank of New York was reduced by \$100 million on October 31, by a further \$75 million on November 30, and eliminated on December 26; as each reduction took place a similar amount was placed on a stand-by basis. The arrangement with the Bank of England was also reduced in steps on these dates and eliminated on December 26.

Official holdings of gold and foreign exchange were subject to wide movements in 1962. During the period when the Canadian dollar was under heaviest pressure there were also substantial "forward" transactions.

As for the movements in the exchange rate, it will be recalled that, from the end of June, 1961 to September, 1961, the Canadian dollar settled at about a 3 per cent discount on the United States dollar. In October, however, an upward pressure on the Canadian dollar emerged. In resisting this pressure, the Exchange Fund accumulated \$186 million of foreign exchange in October. By the end of that month, the Fund held \$2,111 million.

CANADIAN DOLLAR IN UNITED STATES FUNDS

AVERAGE NOON RATES
U.S. CENTS PER UNIT

Toward the end of 1961 and in early 1962 pressures in the opposite direction developed and the rate began to move downward, reaching a 5 per cent discount on the United States dollar in February where it was held through March and April. Some \$32 million of exchange reserves were used up in November, \$23 million in December, \$134 million in January, \$175 million in February, and \$35 million in March. However, following the announcement of a General Election in April, heavy downward pressures re-emerged. The official reserves declined by \$114.6 million in April, while the exchange rate was still held at a level of approximately 95 cents (U.S.).

On May 2, 1962, with the concurrence of the International Monetary Fund, the Government declared a "par value" for the Canadian dollar, fixing it at a rate of one Canadian dollar equal to 92.5 cents (U.S.), with the normal one per cent margin either way. A short lull in the market was followed by renewed downward pressure on the exchange rate which gathered force late in May and through June, reaching a climax following the indecisive results of the General Election. By June 24 the "spot" position of the official reserves had fallen to about \$1,100 million and in addition there were outstanding substantial forward sale contracts.

On June 24, the Government announced its emergency measures, the exchange market settled and exchange reserves began to increase. At the end of June, official holdings totalled \$1,809 million, including \$650 million arising out of special international financial assistance. Between June 30 and year end, reserves rose to \$2,539 million, despite repayment of \$350 million of special international financial assistance.

The value of the Canadian dollar in U.S. funds averaged about 91.9 cents (U.S.) in June, and then subsequently strengthened in July to 92.7 cents (U.S.). It closed the year at 92.8 cents (U.S.).

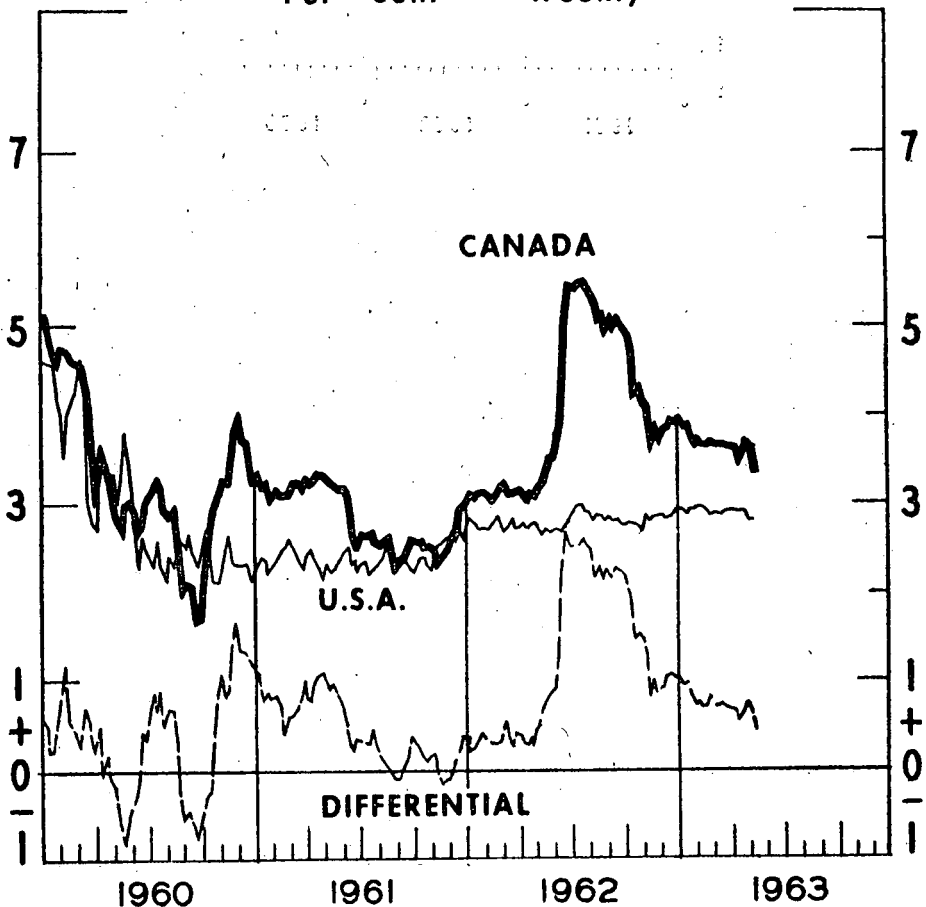
FINANCIAL DEVELOPMENTS

MONETARY AND FOREIGN EXCHANGE CONDITIONS

During the first few months of 1962 the continuing cyclical expansion in economic activity was financed without much change in general credit conditions. Yields on long-term government bonds drifted gradually lower during this period and by April, 1962 were under 5 per cent. The yield on three-month Treasury Bills rose around the end of 1961 from about $2\frac{1}{2}$ per cent to 3 per cent but thereafter showed only minor fluctuations through to late April 1962. Interest rate differentials between Canada and the United States, which had narrowed considerably in mid-1961, declined somewhat further in the early months of 1962. The total volume of funds raised through net new issues of securities in this period was appreciably less than in recent years. However bank loans continued to expand. Early in 1962 the expansion began to be accompanied by a gradual decline in the banks' holdings of liquid assets.

TREASURY BILL RATES

Per Cent - Weekly

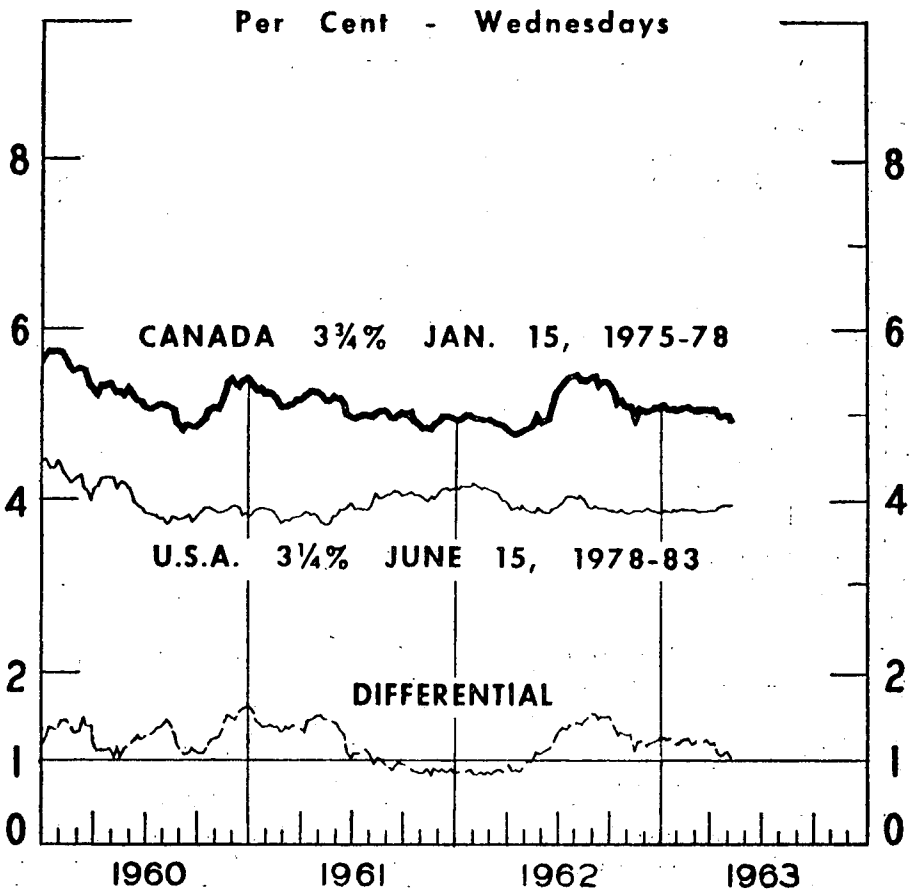


In late April and May the wave of selling on the New York stock market initiated similar movements in other markets, including Canadian. At about the same time downward pressure on the Canadian exchange rate intensified, and on May 2 the Government announced the introduction of a fixed rate of Can. \$1.00=U.S. \$0.925. Early in May Treasury Bill yields in Canada began to rise fairly rapidly and by mid-May a general upward movement in interest rates was under way.

From early May to late July the Government Purchase Fund acquired \$113 million in long-term bonds to cushion the fall in prices. In a period of little more than two weeks in June, when bond prices were declining rapidly, the Bank of Canada bought some \$150 million of short-term bonds for cash.

Pressure on the Canadian exchange rate came to a climax in June and emergency measures were introduced to protect the value of the Canadian dollar. These measures included re-introduction of a fixed Bank Rate at the high level of 6 per cent. During the period of the crisis and for several weeks after there was a complete absence of new security offerings and short-term yields moved to levels higher than those on long-term securities. On July 3, the prime lending rate of the chartered banks was raised from $5\frac{1}{2}$ per cent to 6 per cent.

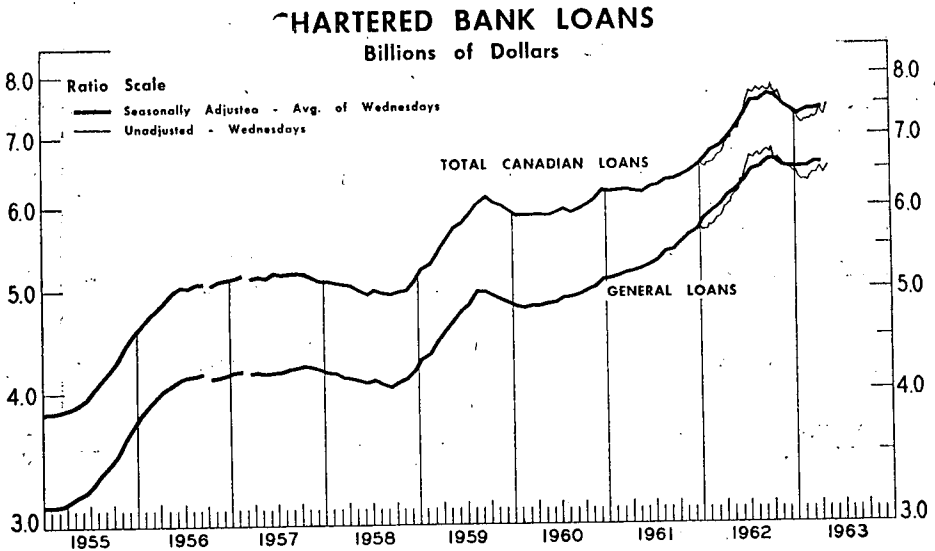
GOVERNMENT LONG-TERM BOND YIELDS



During the summer the banks were faced by a situation in which the more-than-seasonal increase in the demand for loans which had been occurring in the spring was continuing, while their cash reserves were falling. At the same time there was a strong demand by the general public, including industrial and financial institutions, for securities that, at substantially reduced prices, were offering very attractive yields. The banks sold substantial amounts of securities, and their total assets, together with their deposits, shrank accordingly. The reduction in the public's holdings of deposits shrank less rapidly, however, because the Government was using funds, accumulated from earlier sales of foreign exchange, to buy up the offerings of foreign exchange that were now being offered as "flight" capital returned to Canada.

As the emergency measures took effect, and the massive financial assistance from abroad assured the defence of the Canadian dollar at its declared par value, financial markets began to recover, monetary policy eased and interest rates declined. Bank Rate was reduced to $5\frac{1}{2}$ per cent on September 7, to 5 per cent on October 12, and to 4 per cent on November 13. The total money supply declined to early September and then began to increase. Total liquid assets of the chartered banks also increased. The proportion of total bank assets held in the form of government securities, day-to-day loans, cash and other liquid assets, which declined from 37 per cent in early 1962 to about 29 per cent in September, rose subsequently to 34 per cent by early 1963 where it levelled out.

A-6



The yield on 91-day Treasury Bills, which had reached $5\frac{1}{2}$ per cent earlier in the summer, fluctuated around 5 per cent from mid-August to early October, dropped sharply to about $4\frac{1}{2}$ per cent in mid-October and again to about $3\frac{3}{4}$ per cent in November. The yield spread on Treasury Bills between Canada and the United States declined to around $\frac{3}{4}$ of 1 per cent compared with $2\frac{1}{2}$ per cent in July. Yields on long-term Government of Canada bonds which were around $5\frac{1}{2}$ per cent in the summer declined slightly in September and more rapidly in October and November to a little over 5 per cent. The difference in yields on long-term government bonds between Canada and the United States declined to

about 1.2 per cent, compared with 1.5 per cent in July and 0.9 per cent in late 1961 and early 1962. In mid-November the prime lending rate of the chartered banks was reduced from 6 per cent to 5½ per cent.

The period since September 1962 has been characterized by the reappearance, on a significant scale, of Canadian security offerings in New York. In September it was announced that negotiations had been completed for the private sale to five life insurance companies of U.S. \$250 million in Government of Canada 25-year External 5 per cent Bonds. The proceeds were received in two equal instalments on October 15, 1962, and January 3, 1963, and were used to reinforce Canada's official reserves of foreign exchange. The Government of Canada's external issue was followed by an appreciable volume of security offerings in the United States market by Canadian provinces, municipalities and corporations.

Total net new borrowing by Canadian individuals, firms, and governments through the banking system and the bond and stock markets amounted to an estimated \$3.2 billion in 1962. This was only slightly higher than the amount raised in 1961. The demands for particular types of funds during the course of the year were affected by the disturbances in the financial and exchange markets. Some detail for each level of government and the private sectors is provided in Table 39.

New cash raised from banks and security issues by corporations and other private borrowers in 1962 appreciably exceeded the amounts raised in either of the preceding two years. Reflecting the upward swing in the business cycle, private borrowers had sharply increased their net borrowings from \$380 million to \$544 million from the first to the second half of 1961. During the first half of

TABLE 39
NET CHANGE IN SECURITIES AND BANK LOANS OUTSTANDING

	1960	1961	1962	1 Half 1962	2 Half 1962
	(Millions of dollars)				
Government of Canada Securities ⁽¹⁾	669	1,110	787	-371	1,158
Provincial governments Securities.....	477	935	669	288	381
Bank loans.....	89	-82	-17	-22	6
Sub-total.....	666	863	653	266	387
Municipal governments Securities.....	283	208	215	101	114
Bank loans.....	-14	30	-3	45	-48
Sub-total.....	269	238	212	146	66
Private Canadian Borrowers Corporate bonds.....	318	346	314	227	87
Corporate stocks ⁽²⁾	172	224	250	98	152
Finance Co. notes.....	10	-67	70	43	27
Bank loans ⁽³⁾	392	422	888	666	222
Sub-total.....	892	924	1,521	1,033	488
Total.....	2,396	3,126	3,172	1,074	2,098

SOURCE: Bank of Canada.

⁽¹⁾ Government of Canada and C.N.R. securities held outside Government accounts.

⁽²⁾ Excludes chartered bank stock issues.

⁽³⁾ All other chartered bank loans in Canadian currency, including day-to-day and call loans to securities dealers and Mortgage Loans.

NOTE: Totals may not add due to rounding.

1962 there were special influences which caused their rate of borrowing to accelerate to a total of \$1,033 million, practically all of which was concentrated in the second quarter. Private borrowing was about 25 per cent higher in this quarter than in any previous three-month period. Much of the private borrowing was in the form of bank loans.

The swollen level of bank loans during the summer was partly associated with the continued expansion in the economy. In addition there were other influences which probably contributed. In the period leading up to the exchange crisis, expectations of a further fall in the value of the Canadian dollar probably led to advance buying of imports and remittance of earnings abroad. Some corporations and governmental bodies postponed security issues because of unsettled conditions in the stock and bond markets and relied instead on bank loans. Some bank borrowers may have anticipated tighter money conditions, and engaged in precautionary borrowing.

The decline in private borrowing from \$1,033 million in the first half of 1962 to \$488 million in the latter half, probably reflected, in part, the reversal of the above temporary influences together with the effects of reduced business inventory accumulation towards the close of the year.

Overall borrowings by governments were sharply lower in 1962 than in 1961. The distribution of borrowings between the two halves of the year was opposite to that described above for the private sector. The uneven distribution of borrowings by the Federal Government accounts for most of the concentration of total government borrowings in the second half of the year.

The pattern of federal financing was sharply distorted by foreign exchange developments during 1962. In the first half of the year large scale liquidation of exchange reserves by the Federal Government provided it with funds to maintain unusually large cash balances at the chartered banks, and at the same time appreciably reduce the total amount of marketable government bonds outstanding. On June 24, one of the emergency measures announced was that the cash resulting from the sale of foreign exchange since the beginning of the 1962-63 fiscal year—about \$600 million—would be earmarked for future purchases of foreign exchange by the Exchange Fund Account.

In the course of rebuilding the exchange reserves the Federal Government drew down its cash balances at the chartered banks from July to early November raising new cash from securities market again. In the second half of 1962 the Federal Government raised \$1,158 net million from sales of Canada Savings Bonds and marketable securities to the public, and from net sales of securities held by Government accounts.

Following the mid-year financial instability the Federal Government's first public financing operation on August 1 took the form of a straight refunding. An issue maturing on June 15 had been paid off out of government cash balances, some of this issue having been handled previously by an advance refunding with the Bank of Canada. Included in the August 1 refunding was the sale of \$120 million in 18-year bonds. This was the first long-term issue since the C.N.R. issue in late 1960.

In September the Federal Government raised net new money from the securities market for the first time since March. At each weekly auction of Treasury Bills from September 6 to November 1, it sold \$15 million more than the amounts maturing, raising a total of \$135 million in new cash. A further \$82 million in new cash was raised from domestic debt operations on October 1. The debt management operations from December 1 to January 1 constituted, on a net basis, a refunding of existing government debt.

The average term to maturity of Government of Canada and C.N.R. market securities was steady at about eight years during the first seven months of 1962. It lengthened to eight years and two months in August, reflecting the

issue of 18-year bonds and lengthened again in December to eight years five months, reflecting the fact that almost all the holders of the 5½ per cent Government of Canada bonds due April 1, 1963 exercised their option to exchange them by the end of 1962, into an equal par value of 5½ per cent non-callable bonds due April 1, 1976.

The yield to maturity offered on the 1962 Series of Canada Savings Bonds, announced on September 14, was high, and sales were large. The bulk of the proceeds from the sale of Canada Savings Bonds became available to the government in November, and accounted, as in previous years, for a sharp increase in government cash balances in that month. The net sale of Canada Savings Bonds during 1962 provided the Government with \$540 million in new cash compared to \$486 million in 1961, \$382 million in 1960 and \$317 million in 1959. Individual purchase orders for the 1962 Series up to March 31 numbered almost 1,667,817 of which 674,894 were made under the Payroll Savings Plan at factories, offices and other places of work. The average amount of the 1962 Series bought by each person under the Payroll Savings Plan was \$343.

HOUSING FINANCE

Housing starts totalled 130,000 in 1962, an increase of 3.6 per cent from those in 1961. Expenditures on residential construction rose 8 per cent to a total of \$1.6 billion. This represented 3.9 per cent of Gross National Expenditure in 1962, the same as in 1961, but somewhat less than in previous years, reflecting in part the decline in net family formation.

There were important shifts during 1962 in the composition of housing starts, by type, and in the sources of financing for residential construction expenditures. Starts of rental dwellings increased noticeably while starts of dwellings for home-ownership declined slightly. The proportion of rental dwelling starts to total starts increased from about 37 per cent in 1961 to about 41 per cent in 1962. Partly associated with this trend was an increase in conventional mortgage lending and a shift away from financing under N.H.A. (See Table 40.)

TABLE 40
EXPENDITURES ON NEW HOUSING BY SOURCE OF FUNDS

	1960	1961	1962
	(Millions of dollars)		
CMHC direct loans and other public funds.....	308	300	224
Institutional funds—NHA			
Chartered banks.....	42	1	0
Life Insurance Companies.....	112	227	227
Loan and Trust Companies, etc.....	23	160	170
Sub-total.....	177	388	397
Institutional funds—Conventional			
Life Insurance Companies.....	201	171	277
Loan and Trust Companies, etc.....	93	79	133
Sub-total.....	294	250	411
Equities of owners in addition to the above Mortgages and other funds ⁽¹⁾	602	547	576
Total⁽²⁾.....	1,472	1,485	1,608

⁽¹⁾These include equities of owners or builders on dwellings being financed with mortgages from public funds or from institutional lenders. They also include 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 14, which includes major alterations to buildings but not the cost of land. Table 40 includes the cost of land but not major alterations to buildings.

NOTE: Totals may not add due to rounding.

N.H.A. lending activity in 1962, including institutional and direct C.M.H.C. loans, was below the previous year. The decline was particularly marked from June to November and was associated with a temporary narrowing in the spread between the maximum N.H.A. interest rate of $6\frac{1}{2}$ per cent in 1962 and long-term bond yields.

In 1962 C.M.H.C. conducted further auctions of insured mortgages from its portfolio as part of its continuing actions to promote a secondary market in mortgages. Sales totalled \$48 million compared to \$40 million in 1961. On December 6, 1962, the Government announced the establishment of a \$100 million re-discount facility as a further step in the development of a secondary market for N.H.A. mortgages. C.M.H.C. will make funds available as a lender of last resort to N.H.A. approved lenders. Total loans to any one company may not exceed three times its paid-up capital or \$5 million, whichever is the smaller.

CONSUMER CREDIT

Personal expenditures on goods and services increased 5.2 per cent in 1962 compared to 4.1 per cent in 1961. Sales of new automobiles featured prominently in the increase. In 1962 consumer credit extended by banks, finance companies and retail stores rose by 8.7 per cent or \$296 million compared to 6.0 per cent or \$192 million in 1961.

During the year there were divergent trends among the main lenders. The sharp increase in chartered bank consumer credit levelled off after mid-year, after allowance for seasonal influences, then started to rise again at the close of the year. Instalment finance company loans stopped declining early in 1962, followed a level trend during most of the year, and then towards the end of the year started to pick up. The small loan companies accelerated the previously moderate rate of increase in their loans in late 1961 and continued in this trend throughout 1962. Credit extended by retail stores rose moderately in 1962.

TABLE 41

NET CHANGE IN CONSUMER CREDIT AND OTHER LOANS TO INDIVIDUALS

	1960	1961	1962
	(Millions of dollars)		
Consumer Credit			
Chartered bank personal loans secured by household property etc. ⁽¹⁾	138	173	153
Instalment finance companies.....	22	-72	15
Small loan companies.....	65	45	95
Department stores.....	50	33	26
Other retail dealers.....	-5	13	7
Total.....	270	192	296
Other Loans			
Chartered bank personal loans secured by bonds and stocks.....	4	50	36
Chartered bank government-guaranteed home improvement loans.....	-4	10	4
Life insurance Co. policy loans.....	21	14	13
Quebec savings banks.....	1	3	10
Credit unions.....	36	92	n.a.

⁽¹⁾Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans.

n.a.=not available.

PART II

REVIEW OF GOVERNMENT ACCOUNTS 1962-1963

TABLE OF CONTENTS

	PAGE
1. Introduction.....	93
2. Highlights of governmental financial operations during 1962-63.....	93
3. Budgetary accounts.....	97
A. Revenues.....	98
B. Expenditures.....	106
4. Summary of assets and liabilities as at March 31, 1963.....	131
A. Changes in principal liability classifications during 1962-63	131
B. Changes in principal asset classifications during 1962-63..	139
C. Increase in net debt.....	149
5. The cash position.....	149
6. The public debt.....	153
7. Supplementary detailed tables.....	161

PART II

REVIEW OF GOVERNMENT ACCOUNTS

1962-63

1. INTRODUCTION

This Part of the Budget Papers presents in a concise manner a review of the accounts of the Government of Canada for the fiscal year 1962-63. The figures used are preliminary and will vary to some extent from the final figures when they become available on the closing of the books. The government's fiscal year ended on March 31, but in accordance with section 35 of the Financial Administration Act the books must remain open for some time after that date to take into account all payments up to and including April 30, originating in and properly chargeable to the fiscal year 1962-63 and to record various adjusting entries.

When Parliament was dissolved on February 6, 1963 the Revised Estimates and Supplementary Estimates (A) and (B) for 1962-63 had not been passed by the House of Commons. At that time Appropriation Acts had been passed authorizing the expenditure of only ten-twelfths of the estimates, and the remainder of the payments for the fiscal year were made under the authority of Special Governor General's Warrants issued on February 8, 1963 and March 4, 1963 in accordance with section 28 of the Financial Administration Act. It is not expected that the books for the fiscal year will be closed until a Special Appropriation Act is passed by Parliament, covering the Special Governor General's Warrants and authorizing certain accounting adjustments that remain to be made.

2. HIGHLIGHTS OF GOVERNMENTAL FINANCIAL OPERATIONS DURING 1962-63

This section outlines the budgetary and non-budgetary transactions, the operations of the old age security fund, and the debt transactions during 1962-63, and the cash position as at March 31, 1963.

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	
	1963 (preliminary)	1962
Budgetary transactions—		
Revenues—		
Tax.....	5,237	5,111
Non-tax.....	639	619
	<u>5,876</u>	<u>5,730</u>
Expenditures—		
Defence.....	-1,602	-1,650
Non-defence.....	-4,983	-4,871
	<u>-6,585</u>	<u>-6,521</u>
Deficit (-).....	-709	-791
Non-budgetary transactions—		
Receipts and credits (excluding unmatured debt transactions)—		
Repayment of temporary loans to old age security fund.....		17
Repayment of advances to the exchange fund account.....		231
Repayment of other loans, investments and working capital advances.....	162	120
Increase in non-interest-bearing notes payable on demand.....	385	
Net government annuities account receipts.....	26	36
Net insurance and pension account receipts.....	473	257
Other non-budgetary receipts.....	94	216
	<u>1,140</u>	<u>877</u>
Disbursements and charges (excluding unmatured debt transactions)—		
Temporary loans to old age security fund.....	-41	
Decrease in non-interest-bearing notes payable on demand.....		-12
Other loans, investments and working capital advances.....	-614	-481
Advances to the exchange fund account.....	-943	
Other non-budgetary disbursements.....	-300	-71
	<u>-1,898</u>	<u>-564</u>
Net amount available from or required for (-) non-budgetary transactions.....	-758	313
Overall cash requirements to be financed by increase in debt or decrease in cash balances.....	-1,467	-478
Net increase in unmatured debt outstanding in the hands of the public.....	1,064	895
Net increase or decrease (-) in Receiver General bank balances....	-403	417

Budgetary transactions

The revenues and expenditures as forecast in the budget speech of April 10, 1962 and revised on October 22, 1962 and the actual figures as now estimated are shown in the following table:

TABLE 2
(in millions of dollars)

BUDGETARY TRANSACTIONS FOR FISCAL YEAR 1962-63	Budget forecast April 10, 1962	Revised forecast October 22, 1962	Actual (prelimi- nary)	Increase or decrease (-) compared with October 22, 1962 forecast	
				Amount	Per cent
Revenues.....	5,780.0	5,930.0	5,876.1	-53.9	-0.91
Expenditures.....	-6,525.0	-6,500.0	-6,585.1	85.1	1.31
Surplus or deficit (-).....	-745.0	-570.0	-709.0	139.0	

Revenues

The budgetary revenues for the fiscal year ended March 31, 1963 amounted to \$5,876 million. This is \$54 million or almost one per cent less than the revised figure of \$5,930 million forecast on October 22, 1962, and \$146 million or 2½ per cent more than the total of \$5,730 million collected in the fiscal year 1961-62.

Tax revenues accounted for \$126 million of the increase over the previous year. The yield from personal income tax was \$48 million less than in 1961-62 due to the provincial tax collection agreements which came into effect on January 1, 1962, offset in part by a higher level of incomes during the year. The yield from corporation income tax was \$19 million less than the 1961-62 collections also due to the provincial tax collection agreements offset in part by higher corporate profits in 1961. Receipts from the sales tax were \$46 million more, from customs import duties \$111 million more (due to special surcharges imposed by the government in order to bolster the foreign exchange reserves) and from excise duties \$19 million more than the comparable amounts in 1961-62.

Non-tax revenues accounted for \$21 million of the total increase in revenue. Post office revenue was \$9 million higher, receipts from other non-tax revenue were \$8 million higher and returns on investments were \$4 million higher than the previous year.

Expenditures

Budgetary expenditures in the amount of \$6,585 million in 1962-63 were \$85 million or approximately 1.3 per cent higher than forecast on October 22, 1962 and \$64 million or approximately one per cent more than total expenditures in 1961-62.

Expenditures for defence again constituted the largest item, amounting to \$1,602 million or 24 per cent of the total expenditures, compared with \$1,650 million or 25 per cent in 1961-62.

Civil or non-defence expenditures amounted to \$4,983 million, an increase of \$112 million over the corresponding total for the previous fiscal year. There were increases of \$179 million in expenditures of the Department of Labour (including an increase of \$171 million in technical and vocational training assistance) and \$83 million in expenditures of the Department of National Health and Welfare (including an increase of \$53 million in the government's contribution under the Hospital Insurance and Diagnostic Services Act) and decreases of \$158 million in the expenditures of the Department of Finance (including a decrease of \$266 million in fiscal, tax-sharing, subsidy and other payments to provinces due to the lapsing on December 31, 1961 of the 1957 tax-sharing agreements, offset in part by an increase of \$79 million in public debt charges) and \$53 million in expenditures of the Department of Agriculture (including decreases of \$40 million in the prairie farm emergency fund deficit and \$40 million in payments to western grain producers due to the fact that no provision had been made for such payments for the 1962-63 crop year, offset in part by an increase of \$50 million in the net operating loss of the agricultural stabilization board).

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 preliminary figures the deficit for the fiscal year was \$709 million compared with the deficit of \$570 million as forecast on October 22, 1962, and the deficit of \$791 million in 1961-62.

Non-budgetary transactions

A net amount of \$758 million was required during the fiscal year to finance non-budgetary transactions (excluding unmatured debt transactions). Non-budgetary disbursements and charges totalled \$1,898 million and receipts and credits, \$1,140 million. Requirements for disbursements and charges were: \$943 million for advances to the exchange fund; \$614 million for other loans and investments and working capital advances; \$41 million for temporary loans to the old age security fund; and \$300 million for other non-budgetary disbursements. Amounts available from various receipts and credits were: \$385 million from non-interest-bearing notes payable on demand; \$499 million from the net receipts from various annuity, insurance and pension accounts; \$162 million from repayments of loans, investments and working capital advances; and \$94 million from other non-budgetary sources.

Old age security fund

Pension payments from the old age security fund totalled \$734 million in 1962-63 compared with \$625 million in the previous fiscal year. The increase of \$109 million was largely the effect of the increased rate of payment (from \$55 to \$65 per month) effective February 1, 1962. The full impact of the increased expenditure resulting from this increase was not reflected in the 1961-62 totals as they were in effect for only two months of that year whereas in 1962-63 they were in effect for twelve months. As there was a balance of \$2 million in the fund at March 31, 1962, the excess of \$43 million of pension payments over receipts was financed by temporary loans from the Minister of Finance in the amount of \$41 million. These loans were outstanding at March 31, 1963.

The transactions in the account during 1962-63 compared with those for the previous fiscal year were as follows:

	Fiscal year ended March 31	
	1963 (preliminary)	1962
	(in millions of dollars)	
Pension payments.....	734	625
Tax receipts.....	691	644
Excess of receipts over payments applied in part to the repayment of temporary loans from the Minister of Finance, or excess of payments over receipts (-) covered in part by temporary loans from the Minister of Finance..	-43	19
Balance in fund.....		2
Temporary loans outstanding at fiscal year end.....	41	

Debt transactions

During 1962-63 the gross public debt increased by \$1,904 million to \$24,812 million due to an increase of \$1,016 million in unmatured debt and \$888 million in other liabilities. The increase in unmatured debt was the result of the government issuing securities amounting to \$4,385 million (excluding the refunding of treasury bills which mature weekly) plus an adjustment of \$10 million due to revaluation of securities (issued in prior years) payable in London and New York, and redeeming or converting issues in the amount of \$3,379 million. During the same period the government's net assets increased by \$1,195 million to \$10,875 million. As a result, the government's net debt was \$13,937 million at March 31, 1963, the increase of \$709 million being equivalent to the budgetary deficit for the fiscal year.

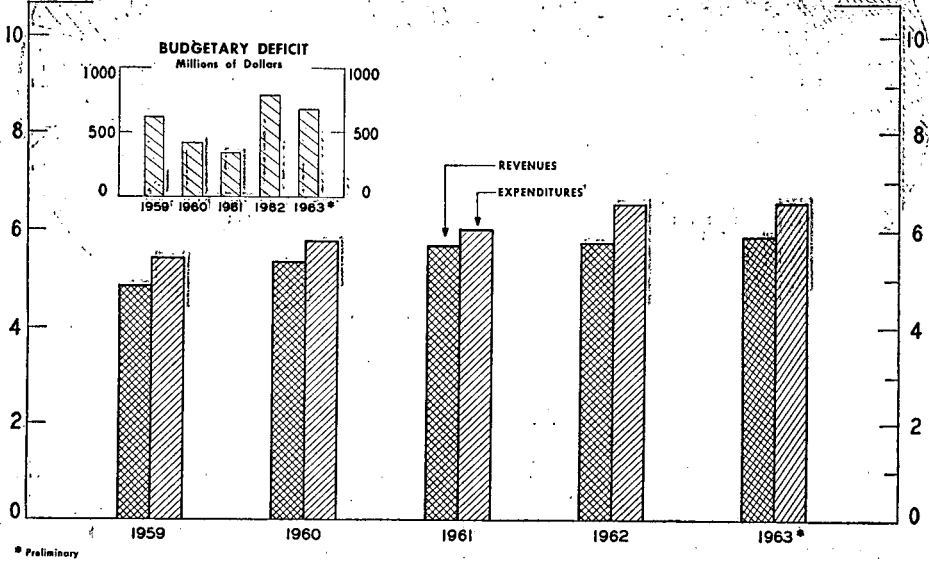
Cash position

The government's cash position was \$403 million lower at March 31, 1963 than it was at March 31, 1962. The budgetary deficit of \$709 million plus the amount of \$758 million required for non-budgetary transactions was financed by increasing unmatured debt outstanding in the hands of the public by \$1,064 million and by drawing down Receiver General cash balances by \$403 million.

BUDGETARY REVENUES AND EXPENDITURES

Fiscal Years Ended March 31

Billions of Dollars



3. THE BUDGETARY ACCOUNTS

Total revenues were \$5,876 million for 1962-63, \$146 million more than the total for the previous year. Total expenditures were \$6,585 million, an increase of \$64 million over the total for 1961-62. The deficit for the fiscal year 1962-63 was \$709 million compared with \$791 million for the previous year.

TABLE 3

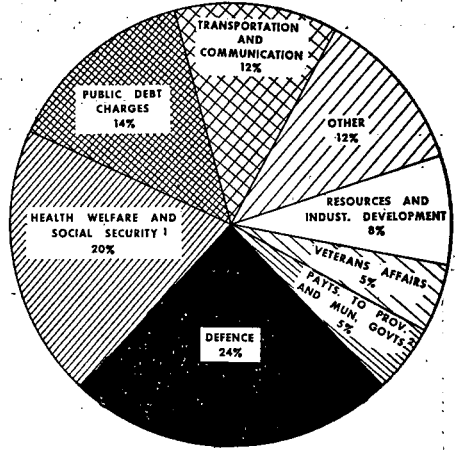
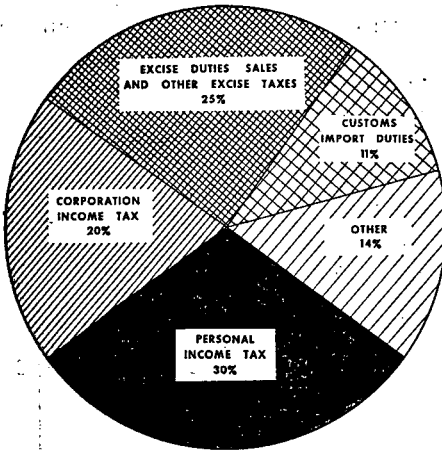
BUDGETARY REVENUES, EXPENDITURES AND DEFICIT
(in millions of dollars)

Fiscal year ended March 31	Budgetary revenues	Budgetary expenditures	Deficit (-)
1959.....	4,754.7	5,384.0	-609.3
1960.....	5,289.8	5,702.9	-413.1
1961.....	5,617.7	5,958.1	-340.4
1962.....	5,729.6	6,520.6	-791.0
1963 (preliminary).....	5,876.1	6,585.1	-709.0

BUDGETARY REVENUES BY MAJOR SOURCE

BUDGETARY EXPENDITURES BY MAJOR FUNCTION

For Fiscal Year Ended March 31, 1963



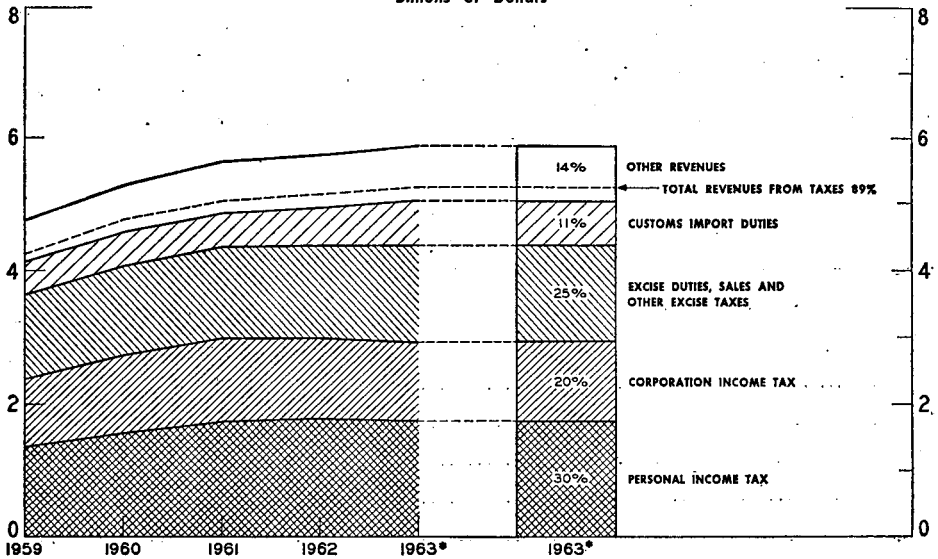
1. Does not include payments out of old age security fund.
2. Does not include those payments made to provincial and municipal governments for specific purposes.

A. REVENUES

Budgetary revenues were \$5,876 million for 1962-63 compared with \$5,730 million in 1961-62, an increase of \$146 million or approximately 3 per cent. Tax revenues of \$5,237 million accounted for 89 per cent of the total and non-tax revenues of \$639 million accounted for 11 per cent.

BUDGETARY REVENUES BY SOURCE

Fiscal Years Ended March 31
Billions of Dollars



*Preliminary

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

SOURCE	Fiscal year ended March 31				Increase or decrease (-)	
	1963 (preliminary)		1962		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
Tax revenues—						
Income tax—						
Personal (1).....	1,745.0	29.7	1,792.7	31.3	-47.7	-2.7
Corporation (1).....	1,183.0	20.1	1,202.0	21.0	-19.0	-1.6
On dividends, interest, etc., going-abroad.....	129.0	2.2	112.3	2.0	16.7	14.9
Excise taxes—						
Sales (1).....	806.0	13.7	759.7	13.2	46.3	6.1
Other.....	260.0	4.4	262.5	4.6	-2.5	-1.0
Customs import duties.....	645.0	11.0	534.5	9.3	110.5	20.7
Excise duties.....	382.0	6.5	362.8	6.3	19.2	5.3
Estate tax (2).....	87.0	1.5	84.6	1.5	2.4	2.8
Other taxes.....	0.1		0.1			
	5,237.1	89.1	5,111.2	89.2	125.9	2.6
Non-tax revenues—						
Return on investments.....	311.0	5.3	307.5	5.4	3.5	1.1
Post office revenue.....	193.0	3.3	183.7	3.2	9.3	5.1
Other non-tax revenue.....	135.0	2.3	127.2	2.2	7.8	6.1
	639.0	10.9	618.4	10.8	20.6	3.3
Total budgetary revenues.....	5,876.1	100.0	5,729.6	100.0	146.5	2.6

	1962-63 (preliminary)	1961-62
(1) Excluding tax credited to the old age security fund—		
Personal income tax.....	273.6	259.0
Corporation income tax.....	115.3	100.1
Sales tax.....	302.2	284.9
	691.1	644.0

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

(1) TAX REVENUES

Federal-provincial tax-collection agreements

The receipts from personal and corporation income taxes and the payments to provinces were lower in 1962-63 than in the previous year due to the lapsing of the 1957 tax rental arrangements. Under the 1957 tax rental arrangements,

the obligation on the renting provinces to abstain from the imposition of personal and corporation income taxes was to lapse on December 31, 1961. Under the new arrangements 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 arrangements, 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 facilitate the imposition of the provincial income taxes, the Income Tax Act was amended in the 1961 session of Parliament (1) to 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) to reduce the federal tax rate on the taxable income of corporations earned in the provinces by 9 percentage points. Canada has entered into agreements to collect the personal income tax, with all the provinces with the exception of the Province of Quebec, and to collect the corporation income tax, with all the provinces with the exception of the Provinces of Ontario and Quebec. 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 Provinces of Manitoba and Saskatchewan 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.

Under these agreements payments are made monthly to the provinces based on estimated receipts. When the actual amounts of the returns are established, usually in the month of December following the fiscal year-end, adjustments are to be made with the provinces.

Tax on personal incomes

The personal income tax was again in 1962-63 the largest source of government revenue. The yield (excluding the old age security tax) was \$1,745 million or 30 per cent of all budgetary revenue, \$48 million or 3 per cent less than the 1961-62 collections. However, in addition to the federal revenue of \$1,745 million, \$252 million was collected on behalf of the provinces under the new federal-provincial tax collection agreements. This compares with the situation in 1961-62 when all income taxes (with the exception of \$37 million which had been collected for the provinces) were credited to federal revenue and payments were made to the provinces and charged to budgetary expenditure. Therefore, although the government's books reflect lower receipts of personal income taxes in 1962-63 when compared with 1961-62, there was actually an increase of \$204 million in personal income taxes collected due to higher levels of employment and incomes during 1962.

The tax on personal incomes levied under the Old Age Security Act and credited to the old age security fund amounted to \$274 million.

Corporation income tax

On January 1, 1962 the system, whereby the federal government made tax rental payments to certain provinces and charged these to expenditures, was changed so that the provinces' share of corporation income taxes is collected by the federal government and is remitted directly to the provinces without being included in federal revenue or expenditure. In addition to the federal revenue of \$1,183 million (excluding the old age security tax), \$65 million was

collected on behalf of the provinces. Although the government's accounts show lower collections of corporation income taxes of \$19 million or 2 per cent when compared with those of 1961-62 there was actually an increase of \$46 million in collections. The increase was due to higher corporate profits for the calendar year 1961 on which collections of corporation income taxes in 1962-63 were largely based.

Provincial corporation income taxes collected by the federal government are remitted to the provinces in accordance with agreements between the federal government and the provincial governments. A more detailed explanation will be found at the beginning of this section on tax revenues.

In addition to the above, the tax on incomes of corporations levied under the Old Age Security Act in the amount of \$115 million was credited to the old age security fund.

Taxes on dividends, interest, etc., going abroad

Revenue in this category is derived from taxes withheld on payments of dividends, interest, rents, royalties, alimony and income from estates and trusts paid to non-residents. Collections for 1962-63 were \$129 million, an increase of \$17 million over the comparable total for 1961-62 reflecting higher dividend payments in 1962.

Excise taxes

Revenue under this heading includes collections from the general sales tax and other special excise taxes.

From a revenue standpoint the sales tax was the most important tax levied under the Excise Tax Act. Receipts therefrom (excluding the old age security tax) were \$806 million, \$46 million or about 6 per cent higher than in the previous fiscal year.

The tax on sales, levied under the Old Age Security Act, in the amount of \$302 million was credited to the old age security fund.

Excise taxes levied under the Excise Tax Act, other than the general sales tax, were \$260 million, a decrease of \$3 million from the 1961-62 total of \$263 million. The main changes were an increase of \$9 million in the excise taxes on tobacco products and a decrease of \$14 million in net revenue from the excise tax on passenger automobiles. In 1961-62 the excise tax on passenger automobiles amounted to \$25 million and refunds due to the repeal of the tax effective June 21, 1961 totalled \$11 million resulting in net receipts of \$14 million.

Customs import duties

Customs import duties were \$645 million for 1962-63, an increase of \$111 million over the comparable figures for 1961-62. This increase was due in large part to the surcharges which were in effect in 1962-63.

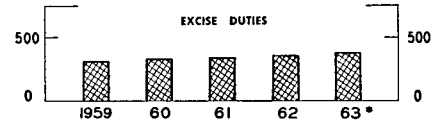
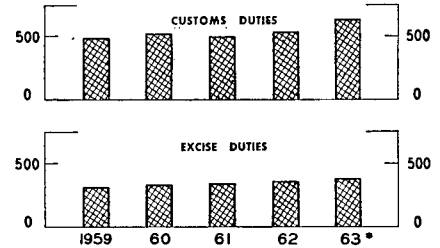
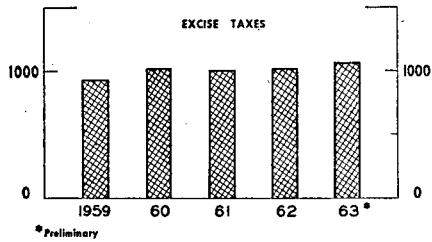
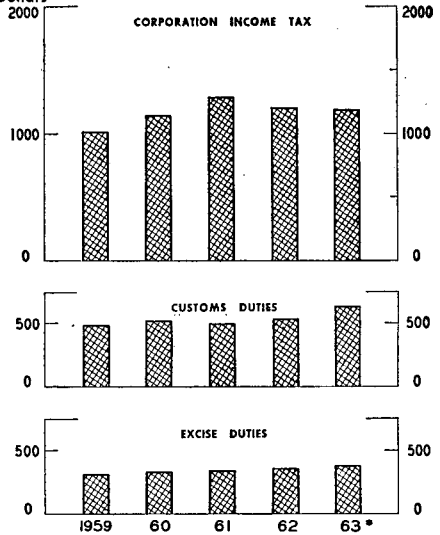
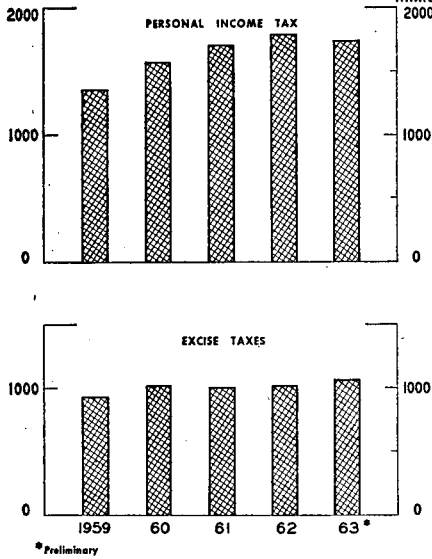
Excise duties

Excise duties are levied on alcoholic beverages and tobacco products. (Additional taxes on tobacco products are levied under the Excise Tax Act.) Net receipts in 1962-63 were \$382 million compared with \$363 million in 1961-62. Gross receipts of \$221 million from taxes on alcoholic beverages and \$166 million from taxes on tobacco products were partly offset by refunds and drawbacks totalling \$5 million. Comparable amounts in 1961-62 were \$207 million, \$160 million and \$4 million respectively.

PRINCIPAL SOURCES OF TAX REVENUES

Fiscal Years Ended March 31

Millions of Dollars



*Preliminary

Estate tax

Revenue from this source was \$87 million for 1962-63, an increase of approximately \$2 million over the total for the previous year.

Other taxes

Revenue under this heading was \$100 thousand, slightly higher than for 1961-62.

(2) NON-TAX REVENUES

Non-tax revenues totalled \$639 million for 1962-63, an increase of \$21 million or approximately 3 per cent over the comparable total in 1961-62.

TABLE 5
(in millions of dollars)

Non-Tax Revenues	Fiscal year ended March 31		Increase or decrease (-)	
	1963 (preliminary)	1962	Amount	Per cent
Return on investments.....	311.0	307.5	3.5	1.1
Post office revenue.....	193.0	183.7	9.3	5.1
Refunds of previous years' expenditure.....	22.4	18.1	4.3	23.8
Services and service fees.....	45.8	42.4	3.4	8.0
Proceeds from sales.....	25.9	25.9		
Privileges, licences and permits.....	24.9	23.3	1.6	6.9
Bullion and coinage.....	8.8	8.0	0.8	10.0
Premium, discount and exchange.....		1.8	-1.8	-100.0
Other.....	7.2	7.7	-0.5	-6.5
	639.0	618.4	20.6	3.3

Return on investments

Receipts in this category amounted to \$311 million for 1962-63, about \$4 million more than the total in 1961-62.

TABLE 6
(in millions of dollars)

RETURN ON INVESTMENTS	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Loans to, and investments in, Crown corporations—			
Bank of Canada—profits.....	96.7	107.7	-11.0
Canadian National Railways.....	3.8	1.4	2.4
Canadian National (West Indies) Steamships Limited..		1.2	-1.2
Canadian Overseas Telecommunication Corporation....	2.0	1.5	0.5
Central Mortgage and Housing Corporation.....	79.9	71.8	8.1
Eldorado Mining and Refining Limited.....	3.0	5.0	-2.0
Farm Credit Corporation.....	8.5	6.0	2.5
National Capital Commission.....	1.8	1.5	0.3
National Harbours Board.....	3.5	3.9	-0.4
Northern Canada Power Commission.....	1.7	0.9	0.8
Northern Ontario Pipe Line Crown Corporation.....	4.1	4.3	-0.2
Polymer Corporation Limited.....	1.5	3.0	-1.5
Miscellaneous.....	0.5	0.3	0.2
	207.0	208.5	-1.5
Other loans and investments—			
United Kingdom.....	21.5	21.8	-0.3
Other national governments.....	7.8	9.0	-1.2
Provincial governments.....	0.7	1.7	-1.0
Soldier and general land settlement loans and veterans land act advances.....	6.3	6.0	0.3
Exchange fund account.....	35.2	32.6	2.6
Purchase fund account.....	10.3	9.3	1.0
Securities investment account.....	2.0	5.7	-3.7
Sinking fund and other investments held for retirement of unmaturred debt.....	1.1	0.7	0.4
Interest-bearing deposits with chartered banks.....	14.4	6.4	8.0
Unemployment Insurance Commission.....		3.0	-3.0
Miscellaneous.....	4.7	2.8	1.9
	104.0	99.0	5.0
	311.0	307.5	3.5

Receipts from Crown corporations were \$207 million in 1962-63, a decrease of \$2 million from the total in the previous fiscal year. The main changes were a decrease of \$11 million in the Bank of Canada profits and an increase of \$8 million in receipts from the Central Mortgage and Housing Corporation.

Other loans and investments yielded \$104 million in 1962-63 compared with \$99 million in 1961-62. The increase of \$5 million was due mainly to increases of \$8 million in interest on Receiver General deposits with the chartered banks, \$3 million in the earnings of the exchange fund account and \$1 million in receipts from the purchase fund account that was established during 1961-62 to assist in the management of the public debt, partly offset by decreases of \$4 million in receipts from the securities investment account and \$3 million in interest on loans to the Unemployment Insurance Commission.

Post office revenue

Gross post office receipts totalled \$223 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 and delivered in foreign countries, etc., in the amount of \$30 million, brought net revenue to \$193 million. In 1961-62 gross receipts were \$214 million, authorized disbursements were \$30 million and net revenue was \$184 million.

As costs of operating the Post Office Department during 1962-63 (excluding the \$30 million charged to revenue) were \$189 million, net revenue exceeded net expenditure by \$4 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 (—)
	1963 (preliminary)	1962	
Postage—			
In Canada.....	207.3	198.6	8.7
From foreign countries.....	4.5	3.8	0.7
Commission on money orders.....	7.7	7.7	
Rental of post office boxes.....	2.1	2.0	0.1
Other.....	1.4	1.4	
	223.0	213.5	9.5
Less—			
Salaries and allowances at semi-staff and revenue offices.....	-25.2	-25.2	
Charges on parcels for delivery in foreign countries.....	-1.5	-1.9	0.4
Transit charges on foreign correspondence.....	-1.3	-1.5	0.2
Other.....	-2.0	-1.2	-0.8
	-30.0	-29.8	-0.2
	193.0	183.7	9.3

Refunds of previous years' expenditures

Refunds in 1962-63 of expenditures made in prior years were \$22 million, an increase of \$4 million over the comparable total for 1961-62.

The Department of National Defence received \$9 million, of which \$1 million was refunds on defence contracts resulting from cost audits and \$2 million in respect of contracts with the United States Government for the supply of defence equipment under an arrangement that when Canada places contracts with the Government of the United States, payments of estimated costs are made to the United States Treasury. If these estimated costs are revised or, if there are reductions in the contracts, the United States Government refunds the excess

payments. The Department of Finance received \$6 million mainly due to a refund from the Province of Ontario in connection with succession duty payments under the tax rental agreements. The Department of Trade and Commerce received \$1 million due to a refund from the Eldorado Mining and Refining Limited of expenditures in 1961-62 under a contract between Eldorado Mining and Refining Limited on behalf of Her Majesty and Macassa Gold Mines Limited for the purchase by Her Majesty of uranium concentrates.

Services and service fees

Revenues of \$46 million were received during 1962-63, an increase of \$3 million over the previous fiscal year.

Approximately 83 per cent of these fees was collected by the following four departments: \$15 million received by the Department of Transport, including aircraft landing fees of \$6 million and marine steamers earnings of \$4 million; \$13 million by the Royal Canadian Mounted Police, mainly for police services to provinces and municipalities; \$6 million by the Department of Agriculture, of which \$4 million was for services in connection with the inspection, weighing, storage and elevation of grain and \$1 million for race track supervision; and \$4 million by the Department of National Health and Welfare, due mainly to reimbursement of \$3 million by the provinces for treatment of Indians in federal government hospitals.

Proceeds from sales

Receipts from this source totalled \$26 million for 1962-63, approximately the same as the total for 1961-62.

Included in this category were receipts of: \$10 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 \$2 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 \$5 million by the Department of National Defence, mainly from sales of materials and supplies and from sales of meals.

Privileges, licences and permits

Revenues in this category were \$25 million for 1962-63 compared with the 1961-62 total of \$23 million.

Included in this revenue were \$10 million received by the Department of Transport, mainly for rentals, concessions and radio licence fees; \$4 million by the Department of Northern Affairs and National Resources; \$2 million by the Department of the Secretary of State, mainly for patent fees; \$2 million by the Department of Public Works for rental of public buildings and sites; and \$2 million by the Department of National Defence, of which \$1 million was for rental of quarters to armed forces personnel.

Bullion and coinage

Revenues in this category of \$9 million were derived from the operations of the Royal Canadian Mint and consisted mainly of 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

Premium, discount and exchange transactions for 1962-63 resulted in a net expenditure of \$10 million, compared with a net revenue of \$2 million in 1961-62.

The change from a revenue to an expenditure item was due to the change in accounting policy of revaluing securities payable in New York and London at the official parity rate rather than recording the loans in the government's books of account at \$1 U.S. = \$1 Can. and £1 = \$2.80 Can. The official parity rate at March 31, 1963 was \$1 U.S. = \$1.08108 Can. and £1 = \$3.027 Can.

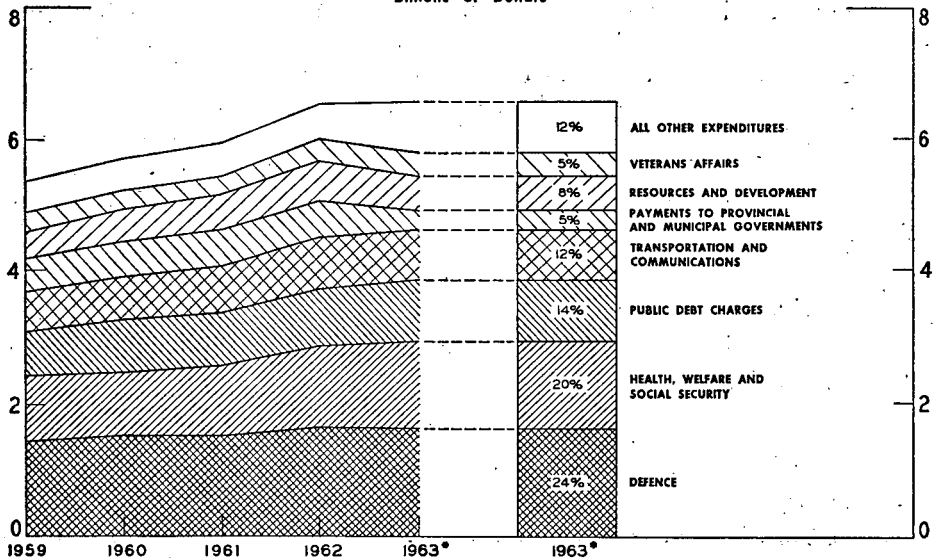
Other non-tax revenues

Other non-tax revenues amounted to \$7 million for 1962-63, approximately the same as for the previous fiscal year.

B. EXPENDITURES

Budgetary expenditures for 1962-63 amounted to \$6,585 million, an increase of \$64 million over the 1961-62 total of \$6,521 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.

*Preliminary

TABLE 8

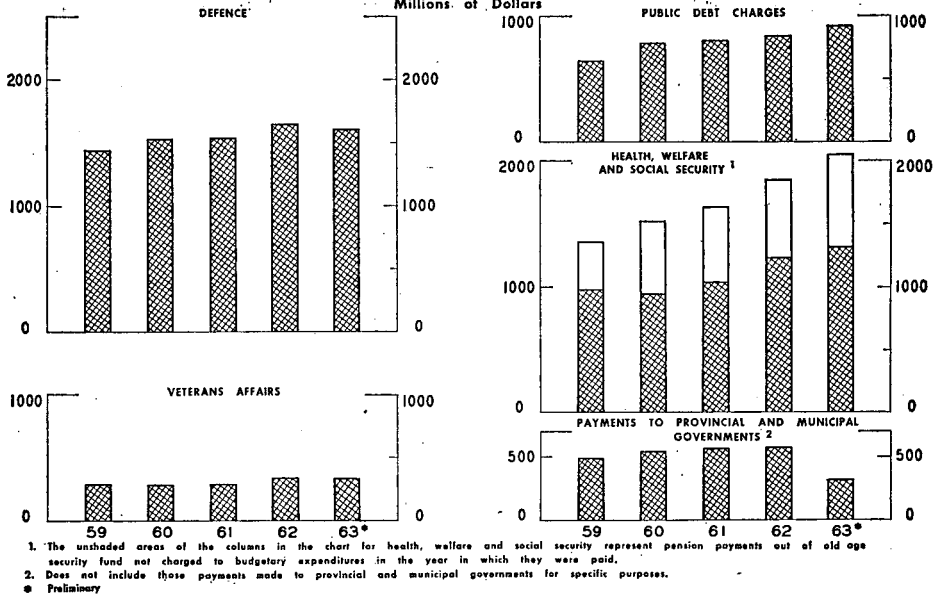
STATEMENT OF BUDGETARY EXPENDITURES BY DEPARTMENTS AND MAJOR CLASSIFICATIONS
(in millions of dollars)

	Fiscal year ended March 31				Increase or decrease (—)	
	1963 (preliminary)		1962		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
Defence expenditures—						
National Defence.....	1,572.9	23.9	1,626.1	24.9	-53.2	-3.3
Defence Production.....	29.5	0.4	23.9	0.4	5.6	23.4
	1,602.4	24.3	1,650.0	25.3	-47.6	-2.9
Non-defence expenditures—						
Agriculture.....	234.2	3.6	286.7	4.4	-52.5	-18.3
Atomic Energy.....	63.2	0.9	34.7	0.5	28.5	82.1
Canadian Broadcasting Corporation...	80.8	1.2	78.2	1.2	2.6	3.3
Citizenship and Immigration.....	66.2	1.0	65.0	1.0	1.2	1.8
External Affairs.....	84.6	1.3	95.6	1.5	-11.0	-11.5
Finance—						
Public debt charges.....	918.0	13.9	839.0	12.9	79.0	9.4
Fiscal, tax-sharing, subsidy and other payments to provinces.....	275.5	4.2	541.2	8.3	-265.7	-49.1
Government's contribution to the public service superannuation account.....	51.1	0.8	46.9	0.7	4.2	9.0
Other.....	109.4	1.7	84.9	1.3	24.5	28.9
	1,554.0	20.6	1,512.0	23.2	-158.0	-10.4
Fisheries.....	23.2	0.3	23.1	0.4	0.1	0.4
Forestry.....	16.3	0.2	14.7	0.2	1.6	10.9
Justice.....	10.0	0.1	9.5	0.1	0.5	5.3
Office of the Commissioner of Penitentiaries.....	24.0	0.4	23.1	0.4	0.9	3.9
	34.0	0.5	32.6	0.5	1.4	4.3
Labour.....	35.7	0.5	31.7	0.4	4.0	12.6
Technical and vocational training assistance.....	207.0	3.2	35.7	0.6	171.3	479.8
Unemployment Insurance Act administration and government's contribution.....	105.5	1.6	101.5	1.6	4.0	3.9
	348.2	5.3	168.9	2.6	179.3	106.2
Mines and Technical Surveys.....	71.2	1.1	67.6	1.0	3.6	5.3
National Health and Welfare—						
Family allowances.....	531.6	8.1	520.8	8.0	10.8	2.1
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	336.8	5.1	283.9	4.4	52.9	18.6
Other.....	254.8	3.9	235.6	3.6	19.2	8.1
	1,123.2	17.1	1,040.3	16.0	82.9	8.0
National Research Council, including the Medical Research Council.....	41.3	0.6	38.8	0.6	2.5	6.4
National Revenue.....	78.6	1.2	75.3	1.1	3.3	4.4
Northern Affairs and National Resources.....	90.3	1.4	82.3	1.3	8.0	9.7
Post Office.....	189.3	2.9	185.0	2.8	4.3	2.3
Public Works.....	175.0	2.7	188.8	2.9	-13.8	-7.3
Royal Canadian Mounted Police.....	65.5	1.0	60.5	0.9	5.0	8.3
Trade and Commerce.....	27.0	0.4	39.5	0.6	-12.5	-31.6
Transport.....	430.4	6.5	410.4	6.3	20.0	4.9
Veterans Affairs.....	336.4	5.1	333.2	5.1	3.2	1.0
Other Departments.....	49.8	0.8	37.4	0.6	12.4	33.2
	4,982.7	75.7	4,870.6	74.7	112.1	2.3
Total budgetary expenditures.....	6,585.1	100.0	6,520.6	100.0	64.5	1.0

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 \$1,602 million for 1962-63 was approximately 24 per cent of the aggregate budgetary expenditures of the government for the year and was \$48 million less than the total of \$1,650 million for 1961-62, when outlays for defence were 25 per cent of total expenditures.

TABLE 9
(in millions of dollars)

DEFENCE EXPENDITURES	Fiscal year ended March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Department of National Defence—			
Naval services.....	268.8	272.0	—3.2
Army services.....	442.3	442.4	—0.1
Air services.....	712.3	781.4	—69.1
	1,423.4	1,495.8	—72.4
Government's contribution to the Canadian forces super- annuation account.....	58.1	56.0	2.1
Defence research and development.....	41.7	40.4	1.3
Mutual aid to NATO countries including contributions towards military costs of NATO.....	25.0	11.1	13.9
Administration and general.....	24.7	22.8	1.9
	1,572.9	1,626.1	—53.2
Department of Defence Production—			
Technological capability.....	8.0	4.4	3.6
Production capacity and capital assistance.....	1.9	1.9	
Administration and general.....	19.6	17.6	2.0
	29.5	23.9	5.6
	1,602.4	1,650.0	—47.6

National Defence

Expenditures of the Department of National Defence were \$1,573 million in 1962-63 compared with \$1,626 million in 1961-62.

Expenditures for naval, army and air services at \$1,423 million were \$72 million less than the 1961-62 total. There were decreases of \$3 million for naval services and \$69 million for air services.

Direct charges to mutual aid during 1962-63 were \$25 million compared with \$11 million in 1961-62 and consisted of procurement of equipment for mutual aid and Canada's share of NATO military budgets and infrastructure costs.

Expenditures for defence research and development in the amount of \$42 million were \$1 million higher than in 1961-62.

The government's contribution to the Canadian forces superannuation account of an amount equal to $1\frac{1}{2}$ times the contributions of permanent services personnel was \$58 million, an increase of \$2 million over the total for the previous year.

Administration and general costs were \$25 million compared with \$23 million in 1961-62.

Defence Production

The expenditure of \$29 million in 1962-63 for the Department of Defence Production (including expenditures in respect of Defence Construction (1951) Limited and Canadian Arsenals Limited) was \$6 million more than in 1961-62.

Outlays of \$8 million in connection with the government program instituted in 1959-60 of supporting selected defence development programs to sustain technological capability in Canadian industry were \$4 million more than in 1961-62. Expenditures of \$2 million in respect of the procurement of capital equipment and works 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 the same as the corresponding expenditures in the previous fiscal year.

Administration and general costs were \$19 million in 1962-63, \$2 million more than in 1961-62.

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 1962-63, amounting to \$1 million, were credited to a special account to be used for the procurement of replacement materiel. Cash outlays from this account during the fiscal year were also \$1 million. Consequently the balance in the account remained at \$1 million at March 31, 1963.

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. During the year 1962-63 purchases of \$43 million exceeded proceeds from sales of \$30 million by \$13 million and the assets of the fund increased by an equivalent amount, resulting in a balance of \$41 million in the account as at March 31, 1963.

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 (-)
	1963 (preliminary)	1962	
Budgetary expenditures—			
Department of Defence Production.....	29.5	23.9	5.6
Department of National Defence.....	1,572.9	1,626.1	-53.2
	1,602.4	1,650.0	-47.6
Disbursements for, or receipts from (-)—			
Defence production revolving fund (net).....	13.4	11.6	1.8
Replacement of materiel account—sec. 11, National Defence Act (net).....	0.2	3.2	-3.0
	13.6	14.8	-1.2
Net cash outlays for defence.....	1,616.0	1,664.8	-48.8

(2) NON-DEFENCE EXPENDITURES

Agriculture

Expenditures of the Department of Agriculture were \$234 million for 1962-63 compared with \$287 million for 1961-62.

TABLE 11
(in millions of dollars)

AGRICULTURE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Agricultural stabilization board—net operating loss.....	72.0	22.0	50.0
Production and marketing branch—			
Freight assistance on western feed grains.....	14.4	17.5	-3.1
Health of animals division.....	13.8	14.2	-0.4
Payments to western grain producers.....	0.1	40.1	-40.0
Premium on hog and lamb carcasses.....	5.9	7.6	-1.7
Other.....	18.7	19.7	-1.0
	52.9	99.1	-46.2
Assistance re storage costs on grain.....	35.3	48.8	-13.5
Rehabilitation and reclamation projects.....	28.4	26.1	2.3
Research branch.....	26.7	26.8	-0.1
Board of Grain Commissioners (Canada Grain Act).....	6.2	6.5	-0.3
Prairie farm emergency fund—deficit.....	7.3	47.7	-40.4
Agricultural products board—net operating loss.....	0.6	4.9	-4.3
Administration and general.....	4.8	4.8	
	234.2	286.7	-52.5

The increase of \$50 million in the net operating loss of the agricultural stabilization board was more than offset by decreases of \$40 million in the deficit of the prairie farm emergency fund and \$40 million in payments to western grain producers.

The 1962-63 net operating loss of the agricultural stabilization board was \$72 million compared with \$22 million in 1961-62. The increase was due mainly to a payment of \$42 million for the stabilization of the price of butter for which there was no comparable payment in 1961-62.

The decrease of \$40 million in payments to western grain producers was due to the fact that no provision had been made for such payments for the 1962-63 crop year. The expenditure of \$100 thousand in 1962-63 was for completion of payments required for the 1961-62 crop year.

The Prairie Farm Assistance Act, c. 213, R.S., as amended, provides for a levy of one per cent to be deducted by all licensed purchasers of grain, the amount so deducted to be transferred to the Board of Grain Commissioners for deposit to the credit of the prairie farm emergency fund. Awards are made under the provisions of the Act to farmers in the spring wheat area in accordance with crop failure conditions provided for in the Act and are payable from this fund. Advances by the Minister of Finance to the prairie farm emergency fund to cover the years deficit, in the amount of \$7 million, were charged to budgetary expenditures. The comparable amount in 1961-62 was \$48 million.

Atomic Energy

Budgetary expenditures in respect of Atomic Energy of Canada Limited and the Atomic Energy Control Board totalled \$63 million in 1962-63 compared with expenditures of \$35 million in 1961-62, an increase of \$28 million.

TABLE 12
(in millions of dollars)

ATOMIC ENERGY	Fiscal year ended March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Atomic Energy Control Board—			
Grants for research.....	0.8	0.7	0.1
Administration.....	0.1	0.1	
	0.9	0.8	0.1
Atomic Energy of Canada Limited—			
Research program—			
Current operations and maintenance.....	28.7	25.7	3.0
Construction or acquisition of buildings, works, land and equipment.....	8.4	8.2	0.2
	37.1	33.9	3.2
Write-off of the undepreciated capital cost of the NRU reactor.....	25.2		25.2
	63.2	34.7	28.5

During the year under review \$37 million was paid to Atomic Energy of Canada Limited for its research program, \$3 million more than in the previous fiscal year. Of this total, \$29 million was for current operations and maintenance and \$8 million for the construction or acquisition of buildings, works, land and equipment.

In addition, the undepreciated capital cost of the NRU reactor will be charged to budgetary expenditure upon parliamentary approval and loans to Atomic Energy of Canada Limited were reduced by the same amount. As loans amounting to \$13 million were made to Atomic Energy of Canada Limited during the year, this brought the total of advances covered by obligations or shares of the company to \$53 million at March 31, 1963.

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

Canadian Broadcasting Corporation

Payments of \$81 million were made by the government to the Canadian Broadcasting Corporation during 1962-63, an increase of \$3 million over the total for 1961-62.

TABLE 13
(in millions of dollars)

CANADIAN BROADCASTING CORPORATION	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Grants in respect of radio and television services—			
Net operating requirements.....	72.5	70.3	2.2
Capital requirements.....	6.5	6.2	0.3
	79.0	76.5	2.5
International broadcasting service.....	1.8	1.7	0.1
	80.8	78.2	2.6

Grants for capital requirements including the replacement of existing capital assets of the radio and television services were \$7 million, slightly higher than in 1961-62. Grants in respect of the net operating requirements of the radio and television services totalled \$72 million, \$2 million higher than in the previous fiscal year.

Outlays of \$2 million for the international broadcasting service were approximately the same as in 1961-62.

Citizenship and Immigration

Expenditures of the Department of Citizenship and Immigration were \$66 million for 1962-63, an increase of \$1 million over the total for 1961-62.

TABLE 14
(in millions of dollars)

CITIZENSHIP AND IMMIGRATION	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Citizenship and citizenship registration.....	1.7	1.5	0.2
Immigration.....	12.5	12.0	0.5
Indian affairs.....	50.9	50.4	0.5
Administration and general.....	1.1	1.1	
	66.2	65.0	1.2

Outlays for the Indian affairs branch were slightly higher during 1962-63 due principally to Indian welfare and Indian economic development.

Expenditures of the immigration branch were also slightly higher than in the previous fiscal year whereas outlays for the citizenship and citizenship registration branches were approximately the same.

External Affairs

Expenditures of the Department of External Affairs amounted to \$85 million for 1962-63, a decrease of \$11 million from the total of \$96 million spent in the previous fiscal year.

TABLE 15
(in millions of dollars)

EXTERNAL AFFAIRS	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
External aid office—			
Colombo plan.....	41.5	50.0	-8.5
Assistance to other countries.....	4.5	3.4	1.1
Administration and general.....	0.3	0.5	-0.2
	46.3	53.9	-7.6
Representation abroad.....	15.1	12.8	2.3
Contributions to international organizations.....	8.2	14.5	-6.3
Canada's assessment for membership in international (including commonwealth) organizations.....	6.4	6.1	0.3
Administration and general.....	8.6	8.3	0.3
	84.6	95.6	-11.0

The principal changes in expenditure as compared with 1961-62 were decreases of \$8 million in the grant to the Colombo plan fund and \$6 million in contributions to international organizations, and increases of \$2 million for representation abroad and \$1 million for assistance to other countries.

The decrease in contributions to international organizations was due to the fact that expenditures in 1961-62 included an amount of \$6 million for the United Nations Congo Ad Hoc account for which there was no comparable expenditure in 1962-63.

Finance

Expenditures of the Department of Finance totalled \$1,354 million in 1962-63, a decrease of \$158 million from the 1961-62 total of \$1,512 million.

TABLE 16
(in millions of dollars)

FINANCE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Public debt charges.....	918.0	839.0	79.0
Fiscal, tax-sharing, subsidy and other payments to provinces.	275.2	541.2	-266.0
Government's contribution to the public service superannuation account.....	51.1	46.9	4.2
Grants to municipalities in lieu of taxes on federal property..	29.0	24.7	4.3
Grants to universities—			
Payments to the Canadian Universities Foundation....	26.3	19.4	6.9
Office of the Comptroller of the Treasury—administration expenses.....	22.7	21.3	1.4
Premium, discount and exchange.....	9.8		9.8
Government's share of medical-surgical insurance premiums	8.3	7.6	0.7
Government's contribution as an employer to the unemployment insurance fund.....	1.1	1.1	
Administration and general.....	12.5	10.8	1.7
	1,354.0	1,512.0	-158.0

The main changes were a decrease of \$266 million in fiscal, tax-sharing, subsidy and other payments to provinces and increases of \$79 million in public debt charges, \$10 million in premium, discount and exchange and \$7 million in grants to universities.

Public debt charges

In 1962-63 public-debt charges were again the second largest item of budgetary expenditure. These charges, which consist of interest on the 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, were \$918 million or 14 per cent of all budgetary expenditure compared with \$839 million or 13 per cent in 1961-62.

TABLE 17
(in millions of dollars)

INTEREST AND OTHER PUBLIC DEBT CHARGES	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Interest on public debt—			
Unmatured debt including treasury bills—			
Payable in Canada.....	705.3	638.8	66.5
Payable in London.....	1.0	1.0	
Payable in New York.....	2.7	2.7	
	709.0	642.5	66.5
Other liabilities—			
Annuity, insurance and pension accounts.....	169.8	157.3	12.5
Deposit and trust accounts.....	3.2	3.1	0.1
	173.0	160.4	12.6
Total interest on public debt.....	882.0	802.9	79.1
Other public debt charges—			
Annual amortization of bond discounts and commissions.....	32.7	33.7	-1.0
Cost of issuing new loans.....	1.7	1.6	0.1
Servicing of public debt.....	1.6	0.8	0.8
	36.0	36.1	-0.1
	918.0	839.0	79.0

Interest on public debt in 1962-63 in the amount of \$882 million was \$79 million more than the 1961-62 total of \$803 million. Interest of \$709 million on unmaturred debt was \$66 million higher than in 1961-62 reflecting the increase in unmaturred debt and in interest rates. Interest of \$173 million on other liabilities was \$13 million higher due mainly to increases of \$6 million in respect of the public service superannuation account and \$5 million in respect of the Canadian forces superannuation account.

Other public debt charges at \$36 million were approximately the same as in the previous fiscal year.

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 1962-63 this income amounted to \$311 million as shown in the non-tax revenue section under the heading "Return on investments". This amount deducted from the gross total of \$882 million for interest as shown in the above table leaves a net amount of \$571 million compared

with a net of \$495 million in 1961-62. Measured as a percentage of the net debt the burden of the net annual interest charges was 4.10 per cent in 1962-63 compared with 3.75 per cent in 1961-62.

TABLE 18
(in millions of dollars)

NET BURDEN OF ANNUAL INTEREST CHARGES	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Total interest on public debt.....	882.0	802.9	79.1
Return on investments.....	-311.0	-307.5	-3.5
Net interest cost.....	571.0	495.4	75.6
Net interest cost as percentage of net debt.....	4.10	3.75	

Fiscal, tax-sharing, subsidy and other payments to provinces

Payments to the provinces during 1962-63 for statutory subsidies, payments under the federal-provincial fiscal arrangements and tax-sharing arrangements, and the transfer of a portion of income tax receipts from certain public utility companies were \$275 million compared with \$541 million in 1961-62.

Charges to budgetary expenditures in 1962-63 in respect of the above payments were \$266 million less than in 1961-62 due to a decrease of \$480 million in payments under federal-provincial tax-sharing arrangements offset in part by payments of \$218 million under new federal-provincial fiscal arrangements.

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 facilitate the imposition of the provincial income taxes, the Income Tax Act was amended in the 1961 session of Parliament (1) to 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) to reduce the federal tax rate on the taxable income of corporations earned in the provinces by 9 percentage points. Canada has entered into agreements to collect the personal income tax, with all the provinces with the exception of the Province of Quebec, and to collect the corporation income tax, with all the provinces with the exception of the Provinces of Ontario and Quebec. 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 Provinces of Manitoba and Saskatchewan 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.

Under these agreements payments are made monthly to the provinces on the basis of estimated receipts. When the actual amount of the returns are established, usually in the month of December following the fiscal year-end, adjustments are to be made with the provinces.

The additional grant to Newfoundland, which in previous years was paid under the Newfoundland Additional Grants Act, is now included in the payment under the Federal-Provincial Fiscal Arrangements Act.

Statutory subsidies at \$24 million were unchanged from the previous year.

TABLE 19
(in millions of dollars)

FISCAL, TAX-SHARING, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Payments under Federal-Provincial Fiscal Arrangements Act.....	218.2		218.2
Payments under Federal-Provincial Tax-Sharing Arrangements Act, c. 29, Statutes of 1956, as amended.....	23.5	503.3	-479.8
Statutory subsidies.....	23.5	23.5	
Transfer of certain public utility tax receipts.....	10.0	6.4	3.6
Additional grant to Newfoundland.....		8.0	-8.0
	275.2	541.2	-266.0

A summary of payments, by provinces, during 1962-63 is given in the following table:

TABLE 20
(in millions of dollars)

FISCAL, TAX-SHARING, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ended March 31, 1963 (preliminary)				
	Payments under fiscal arrangements	Payments under tax- sharing arrange- ments	Statutory subsidies	Transfer of certain public utility tax receipts	Total
Newfoundland.....	32.1	0.3	1.7	0.2	34.3
Nova Scotia.....	31.0	2.8	2.1	0.5	36.4
Prince Edward Island.....	6.5	0.2	0.7	0.1	7.5
New Brunswick.....	26.7	0.7	1.7	(1)	29.1
Quebec.....	66.4	11.4	4.0	4.5	86.3
Ontario.....		-0.2	4.6	1.0	5.4
Manitoba.....	14.7	4.0	2.1	(1)	20.8
Saskatchewan.....	24.2	4.2	2.1	(1)	30.5
Alberta.....	9.3	4.9	2.8	2.6	19.6
British Columbia.....	7.3	-4.8	1.7	1.1	5.3
	218.2	23.5	23.5	10.0	275.2

(1) Less than \$50,000.

The amount of public utility tax receipts for transfer to provinces in 1962-63 was \$10 million, an increase of \$4 million over the 1961-62 total. The 1962-63 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 1960.

Government's contribution to the public service superannuation account

In 1962-63 the government's contribution to the public service superannuation account (equal to the estimated current and prior service payments of individuals in 1961-62) was \$51 million compared with \$47 million in 1961-62.

Premium, discount and exchange

Premium, discount and exchange transactions during 1962-63 resulted in a net expenditure of \$10 million, compared with a net revenue of \$2 million in 1961-62.

This net expenditure was due primarily to the charge resulting from the revaluing of the government's outstanding debt payable in New York and London at the official parity rates rather than at the former rates of \$1 U.S. = \$1 Can. and £1 = \$2.80 Can. The official parity rate at March 31, 1963 was \$1 U.S. = \$1.08108 Can. and £1 = \$3.027 Can.

Fisheries

Expenditures of the Department of Fisheries amounted to \$23 million for 1962-63, approximately the same as in 1961-62.

TABLE 21
(in millions of dollars)

FISHERIES	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Field services.....	11.3	11.8	-0.5
Fisheries Research Board of Canada.....	7.1	6.3	0.8
Canadian share of the expenses of international commissions..	1.2	1.1	0.1
Administration and general.....	3.6	3.9	-0.3
	23.2	23.1	0.1

An increase of \$1 million in expenditures of the Fisheries Research Board of Canada was offset by a decrease in outlays for field services.

Forestry

Expenditures of the Department of Forestry totalled \$16 million for 1962-63, an increase of \$2 million over the 1961-62 total.

TABLE 22
(in millions of dollars)

FORESTRY	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Forest research.....	7.4	7.0	0.4
Contributions to the provinces—			
Assistance in forest inventory, reforestation, forest fire protection and forest stand improvement.....	3.9	2.2	1.7
Forest access roads and trails.....	3.5	3.9	-0.4
	7.4	6.1	1.3
Administration and general.....	1.5	1.6	-0.1
	16.3	14.7	1.6

Contributions to the provinces for assistance in forest inventory, reforestation, forest fire protection and forest stand improvement were \$2 million higher than expenditures in the previous fiscal year and contributions to the provinces for assistance in establishing forest access roads and trails were slightly less than comparable expenditures in 1961-62.

Justice

Expenditures of the Department of Justice amounted to \$34 million for 1962-63, compared with \$33 million for the previous fiscal year.

TABLE 23
(in millions of dollars)

JUSTICE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Judges' salaries and travelling allowances.....	5.2	5.0	0.2
Administration and general.....	4.8	4.5	0.3
	10.0	9.5	0.5
Office of the Commissioner of Penitentiaries—			
Operation and maintenance of penitentiaries.....	18.0	17.3	0.7
Construction, improvements and equipment.....	5.3	5.1	0.2
Administration.....	0.7	0.7	
	24.0	23.1	0.9
	34.0	32.6	1.4

Expenditures of the Office of the Commissioner of Penitentiaries for operation and maintenance of penitentiaries accounted for most of the increase.

Labour

Expenditures of the Department of Labour totalled \$348 million for 1962-63, an increase of \$179 million over the total for 1961-62.

TABLE 24
(in millions of dollars)

LABOUR	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Payments to provinces authorized by the Technical and Vocational Training Assistance Act.....	207.0	35.7	171.3
Municipal winter works incentive program.....	27.3	24.4	2.9
Administration and general.....	8.4	7.3	1.1
	242.7	67.4	175.3
Unemployment Insurance Commission—			
Government's contribution to the fund.....	57.4	55.5	1.9
Administration and general.....	48.1	46.0	2.1
	105.5	101.5	4.0
	348.2	168.9	179.3

Payments to the provinces under the Technical and Vocational Training Assistance Act were \$207 million for 1962-63, \$171 million more than comparable expenditures in 1961-62. 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 in connection with 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 approved winter works projects, were \$27 million, \$3 million more than in the previous fiscal year.

Administration and general costs were \$1 million higher than expenditures of \$7 million in 1961-62.

Unemployment Insurance Act administration and government's contribution

Budgetary expenditures in 1962-63 (excluding the government's payment as an employer which is included in the expenditures of the Department of Finance) totalled \$105 million compared with \$102 million in 1961-62.

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 1962-63 was \$57 million and administrative costs \$48 million; the corresponding amounts for 1961-62 were \$56 million and \$46 million respectively.

	Fiscal year ended March 31	
	1963 (preliminary)	1962
	(in millions of dollars)	
Disbursements—		
Benefit payments.....	403	455
Interest on loans.....	403	3
		458
Receipts—		
Employee and employer contributions.....	287	278
Government's contribution.....	57	56
Interest from investments.....	4	6
	348	340
Deficit in fund for fiscal year.....	55	118

Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys amounted to \$71 million in 1962-63, an increase of \$4 million over the total for 1961-62.

TABLE 25
(in millions of dollars)

MINES AND TECHNICAL SURVEYS	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Dominion Coal Board.....	20.5	19.9	0.6
Emergency gold mining assistance.....	15.2	12.4	2.8
Marine sciences branch.....	11.0	10.9	0.1
Surveys and mapping.....	8.0	9.1	-1.1
Geological survey of Canada.....	6.4	5.5	0.9
Mines branch.....	5.1	4.8	0.3
Administration and general.....	5.0	5.0	
	71.2	67.6	3.6

Outlays for emergency gold mining assistance were \$3 million higher, and expenditures of the geological survey of Canada were \$1 million more, than in 1961-62.

National Health and Welfare

Expenditures of the Department of National Health and Welfare for 1962-63 were \$1,123 million, \$83 million more than the total of \$1,040 million in 1961-62.

TABLE 26
(in millions of dollars)

NATIONAL HEALTH AND WELFARE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
National health branch—			
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	336.8	283.9	52.9
General health grants to provinces.....	31.0	30.0	1.0
Indian and northern health services.....	24.7	24.0	0.7
Hospital construction grants.....	20.0	19.0	1.0
Other.....	10.7	10.3	0.4
	423.2	367.2	56.0
Welfare branch—			
Family allowances.....	531.6	520.8	10.8
Unemployment assistance.....	96.0	92.0	4.0
Old age assistance.....	38.3	30.8	7.5
Disabled persons allowances.....	19.6	16.4	3.2
Blind persons allowances.....	4.9	4.2	0.7
Other.....	3.4	3.3	0.1
	693.8	667.5	26.3
Administration and general.....	6.2	5.6	0.6
	1,123.2	1,040.3	82.9

Outlays for the national health branch at \$423 million for 1962-63 reflect an increase of \$56 million over the previous year's total. The increase was due primarily to an increase of \$53 million in the government's contributions under the Hospital Insurance and Diagnostic Services Act.

During 1962-63 expenditures of the welfare branch in the amount of \$694 million were \$26 million higher than in the previous year, due mainly to increases of \$11 million for family allowances, \$8 million for old age assistance, \$4 million for unemployment assistance and \$3 million for disabled persons allowances.

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 1962-63 payments were \$337 million compared with \$284 million in 1961-62. The increase of \$53 million was due to an increase in the cost of insured services to hospitals and the gradual increase in the number of insured persons.

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
	1963 (preliminary)	1962	
Newfoundland.....	7.5	6.3	1.2
Nova Scotia.....	13.5	11.9	1.6
Prince Edward Island.....	1.7	1.4	0.3
New Brunswick.....	10.9	9.5	1.4
Quebec.....	88.7	73.0	15.7
Ontario.....	122.1	104.5	17.6
Manitoba.....	17.3	15.2	2.1
Saskatchewan.....	18.3	16.0	2.3
Alberta.....	25.9	19.7	6.2
British Columbia.....	30.1	25.7	4.4
Northwest and Yukon Territories.....	0.8	0.7	0.1
	336.8	283.9	52.9

General health grants and hospital construction grants to provinces

Grants to provinces during 1962-63 for general health services and the control of diseases amounted to \$31 million and for assistance in hospital construction to \$20 million. Comparable amounts for the previous fiscal year were \$30 million and \$19 million respectively.

TABLE 28

(in millions of dollars)

GENERAL HEALTH GRANTS AND HOSPITAL CONSTRUCTION GRANTS	Fiscal year ended March 31, 1963 (preliminary)		
	General health grants	Hospital construction grants	Total
Newfoundland.....	0.9	0.6	1.5
Nova Scotia.....	1.4	1.3	2.7
Prince Edward Island.....	0.3	0.1	0.4
New Brunswick.....	1.2	0.7	1.9
Quebec.....	8.6	5.8	14.4
Ontario.....	9.4	6.6	16.0
Manitoba.....	1.9	0.8	2.7
Saskatchewan.....	1.7	0.9	2.6
Alberta.....	2.6	1.7	4.3
British Columbia.....	2.9	1.5	4.4
Northwest and Yukon Territories.....	0.1	(1)	0.1
	31.0	20.0	51.0

(1) Under \$50,000.

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 at the same rate during their first year of residence in Canada from appropriations of the Department of Citizenship and Immigration if during that period they are under sixteen years of age.

Family allowance payments for 1962-63 in the amount of \$532 million represented 8 per cent of total expenditures. The increase of \$11 million over the previous year reflected 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
	1963 (preliminary)	1962	
Newfoundland.....	16.6	16.4	0.2
Nova Scotia.....	21.8	21.6	0.2
Prince Edward Island.....	3.3	3.2	0.1
New Brunswick.....	19.4	19.2	0.2
Quebec.....	160.3	157.7	2.6
Ontario.....	172.7	168.4	4.3
Manitoba.....	25.5	25.1	0.4
Saskatchewan.....	26.5	26.3	0.2
Alberta.....	40.3	38.9	1.4
British Columbia.....	43.8	42.7	1.1
Northwest and Yukon Territories.....	1.4	1.3	0.1
	531.6	520.8	10.8

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. Payments in 1962-63 were \$38 million for old age assistance, \$20 million in respect of disabled persons allowances, \$5 million for blind persons allowances and \$96 million for unemployment assistance. Comparable figures in 1961-62 were, respectively, \$31 million, \$16 million, \$4 million and \$92 million.

The increases in old age assistance, disabled persons allowances and blind persons allowances were due mainly to amendments to the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act which raised the maximum pension towards which the federal government would contribute from \$55 to \$65 per month effective February 1, 1962.

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 \$4 million in contributions for 1962-63 over those for the previous year.

The following table presents a distribution of these payments to provinces for 1962-63:

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, 1963 (preliminary)			
	Old age assistance	Disabled persons allowances	Blind persons allowances	Unemployment assistance
Newfoundland.....	2.0	0.5	0.3	4.3
Nova Scotia.....	2.0	1.1	0.5	1.6
Prince Edward Island.....	0.4	0.3	(1)	0.2
New Brunswick.....	2.1	0.8	0.4	1.6
Quebec.....	13.8	8.6	1.7	33.1
Ontario.....	8.5	5.5	1.0	23.4
Manitoba.....	2.0	0.6	0.2	4.7
Saskatchewan.....	2.2	0.6	0.2	4.9
Alberta.....	2.5	0.7	0.3	6.2
British Columbia.....	2.7	0.9	0.3	15.9
Northwest and Yukon Territories.....	0.1	(1)	(1)	0.1
	38.3	19.6	4.9	96.0

(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 \$41 million for 1962-63 compared with \$39 million for 1961-62.

TABLE 31
(in millions of dollars)

NATIONAL RESEARCH COUNCIL, INCLUDING THE MEDICAL RESEARCH COUNCIL	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Scholarships and grants in aid of research.....	14.4	12.0	2.4
Construction or acquisition of buildings, works, land and equipment.....	3.8	5.4	-1.6
Administration and general.....	23.1	21.4	1.7
	41.3	38.8	2.5

In 1962-63 outlays for scholarships and grants in aid of research increased by \$2 million. Administration and general costs also increased by \$2 million and with a reduction of \$2 million in expenditures for construction or acquisition of buildings, works, land and equipment, there was a net increase of \$2 million over the previous year's total.

National Revenue

Expenditures of the Department of National Revenue totalled \$79 million for 1962-63, \$3 million more than in 1961-62, due mainly to increased costs of \$2 million for district offices of the taxation division and \$1 million for the customs and excise divisions.

TABLE 32
(in millions of dollars)

NATIONAL REVENUE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Customs and excise divisions.....	40.6	39.7	0.9
Taxation division.....	37.8	35.4	2.4
Income tax appeal board.....	0.2	0.2	
	78.6	75.3	3.3

Northern Affairs and National Resources

Expenditures of the Department of Northern Affairs and National Resources were \$90 million for the fiscal year 1962-63, an increase of \$8 million over the comparable total for 1961-62.

TABLE 33
(in millions of dollars)

NORTHERN AFFAIRS AND NATIONAL RESOURCES	Fiscal year ended March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Northern administration branch.....	40.5	32.0	8.5
National parks branch.....	27.6	29.1	-1.5
Contributions to the provinces to assist in the development of roads leading to resources.....	9.2	12.0	-2.8
Water resources branch.....	5.9	2.4	3.5
Canadian government travel bureau.....	3.3	3.0	0.3
Administration and general.....	3.8	3.8	
	90.3	82.3	8.0

The main changes were increases of \$9 million in outlays of the northern administration branch and \$4 million in expenditures of the water resources branch and decreases of \$2 million in expenditures of the national parks branch and \$3 million in contributions to the provinces to assist in the development of roads leading to resources.

Post Office

Gross expenditures of the Post Office Department for 1962-63 totalled \$219 million, an increase of \$4 million over the 1961-62 outlays of \$215 million.

TABLE 34
(in millions of dollars)

POST OFFICE	Fiscal year ended March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Charged to budgetary expenditure—			
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.....	120.1	117.0	3.1
Transportation—movement of mail by land, air and water.....	63.8	62.7	1.1
Financial services.....	3.3	3.2	0.1
Administration and general.....	2.1	2.1	
	189.3	185.0	4.3
Charged to revenue—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub- offices, and other disbursements.....	30.0	29.8	0.2
	219.3	214.8	4.5

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 1962-63, approximately the same as for 1961-62.

Public Works

Expenditures of the Department of Public Works for 1962-63 amounted to \$175 million, a decrease of \$14 million from the 1961-62 total of \$189 million.

TABLE 35
(in millions of dollars)

PUBLIC WORKS	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Public buildings—construction and services—			
Maintenance and operation.....	43.4	45.9	-2.5
Acquisition, construction and improvements of public buildings—			
Ottawa.....	9.0	11.3	-2.3
Other centres in Canada.....	12.6	15.4	-2.8
Outside Canada.....		0.4	-0.4
Improvements generally.....	0.5	0.2	0.3
Furniture and furnishings.....	2.3	2.8	-0.5
Fire prevention.....	0.2	0.2	
	68.0	76.2	-8.2
Development engineering services—			
Trans-Canada highway division—			
Contributions to the provinces under the terms of the Trans-Canada Highway Act.....	32.0	36.5	-4.5
Construction through national parks.....	3.9	5.1	-1.2
General.....	2.3	5.2	-2.9
	38.2	46.8	-8.6
Harbours and rivers engineering services—			
Acquisition, construction and improvements of harbours and river works.....	24.6	29.6	-5.0
Dredging.....	3.9	5.4	-1.5
Graving docks, locks and dams.....	0.7	0.8	-0.1
	29.2	35.8	-6.6
National Capital Commission.....	13.8	8.7	5.1
Housing.....	10.2	5.8	4.4
Administration and general.....	15.6	15.5	0.1
	175.0	188.8	-13.8

Decreases in expenditures of \$9 million in development engineering services, \$7 million in harbours and rivers engineering services and \$8 million in outlays for public buildings—construction and services, were partly offset by increases of \$5 million in payments to the National Capital Commission and \$4 million for housing.

The decrease of \$9 million in expenditures for development engineering services was due mainly to a decrease of \$5 million in contributions to the provinces under the terms of the Trans-Canada Highway Act and a reduction of \$3 million in general outlays.

The decrease of \$7 million in expenditures of the harbours and rivers engineering services was due mainly to a decrease of \$5 million in outlays for acquisition, construction and improvements of harbours and river works and \$2 million in costs of dredging.

Expenditures for public buildings—construction and services were \$8 million less than the comparable figure for the previous fiscal year, due to decreases of \$6 million in costs of acquisition, construction and improvements of public buildings and \$2 million in costs of maintenance and operation.

Royal Canadian Mounted Police

Expenditures of the Royal Canadian Mounted Police amounted to \$66 million for 1962-63, an increase of \$5 million over the 1961-62 total of \$61 million.

TABLE 36
(in millions of dollars)

ROYAL CANADIAN MOUNTED POLICE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Land, air and training divisions.....	49.2	45.5	3.7
Headquarters administration and national police services....	8.2	7.5	0.7
Pensions and other benefits.....	3.7	3.5	0.2
Government's contribution to Royal Canadian Mounted Police superannuation account.....	2.6	2.3	0.3
Marine services.....	1.8	1.7	0.1
	65.5	60.5	5.0

Payments as shown in the table represent gross expenditures; payments received from the provinces and municipalities for police services at \$12 million were credited to revenue.

The main changes in expenditures were increases of \$4 million for the land, air and training divisions and \$1 million in higher outlays for headquarters administration and national police services.

Trade and Commerce

Expenditures of the Department of Trade and Commerce were \$27 million for 1962-63, compared with the 1961-62 total of \$40 million. The decrease of \$13 million was due almost entirely to a reduction in the expenditures of the Dominion Bureau of Statistics.

TABLE 37
(in millions of dollars)

TRADE AND COMMERCE	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Dominion Bureau of Statistics.....	12.0	24.6	-12.6
Trade commissioner service.....	5.6	5.2	0.4
Standards branch.....	2.9	2.7	0.2
National Energy Board.....	0.5	0.5	
Administration and general.....	6.0	6.5	-0.5
	27.0	39.5	-12.5

The decrease of \$13 million in expenditures of the Dominion Bureau of Statistics was due to: (1) the 1961-62 expenditures included \$12 million in respect of the 1961 Decennial Census of Canada whereas the 1962-63 expenditures for this purpose were only \$1 million; and (2) a decrease of \$2 million in operating expenses.

Transport

Expenditures of the Department of Transport totalled \$430 million for 1962-63, an increase of \$20 million over the 1961-62 total.

TABLE 38
(in millions of dollars)

TRANSPORT	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Air services—			
Civil aviation branch	82.9	89.9	-7.0
Telecommunications and electronics branch	30.7	36.6	-5.9
Meteorological branch	17.4	18.1	-0.7
Administration	5.3	5.4	-0.1
	136.3	150.0	-13.7
Railway and steamship services—			
Maritime Freight Rates Act—			
Difference between tariffs and normal tolls	12.9	12.2	0.7
Railway to Great Slave Lake	12.2	1.1	11.1
Auto-ferries, docks and terminals	3.1	4.7	-1.6
Deficits—			
Canadian National Railways	48.9	67.3	-18.4
Newfoundland ferry and terminals	8.2	7.3	0.9
Prince Edward Island car ferry and terminals	3.3	3.0	0.3
Yarmouth, N.S.—Bar Harbour, Maine, U.S.A., ferry service	0.2	0.1	0.1
Other	0.5	0.2	0.3
	89.3	95.9	-6.6
Board of Transport Commissioners for Canada—			
Interim payments related to the recommendations of the Royal Commission on Railway Problems	50.0	50.0	
Freight Rates Reduction Act	36.7	19.0	17.7
Maintenance of trackage	7.0	7.0	
Contribution to the railway grade crossing fund	5.7	10.0	-4.3
Administration and general	1.3	1.3	
	100.7	87.3	13.4
Marine services—			
Canadian marine services	30.9	22.7	8.2
Aids to navigation	10.6	11.2	-0.6
Ship channel services—St. Lawrence and Saguenay rivers	4.2	6.3	-2.1
Marine regulations	4.1	3.8	0.3
Canals	3.8	3.5	0.3
Administration and general	1.4	1.1	0.3
	55.0	48.6	6.4
Canadian Maritime Commission	31.0	10.2	20.8
Non-active advances—National Harbours Board	5.2	4.9	0.3
Trans-Canada Air Lines—deficit	3.5	6.5	-3.0
Operating deficit of canals entrusted to the St. Lawrence Seaway Authority	3.1	2.6	0.5
Administration and general	6.3	4.4	1.9
	430.4	410.4	20.0

Outlays for air services reflected a decrease of \$14 million from the previous fiscal year due mainly to decreases of \$7 million in expenditures by the civil aviation branch and \$6 million by the telecommunications and electronics branch.

Expenditures for railway and steamship services, including charges to expenditures in respect of deficits of certain government-owned enterprises, were \$89 million, a decrease of \$7 million from expenditures of \$96 million in the previous fiscal year.

The 1962 deficit of \$49 million of the Canadian National Railways charged to budgetary expenditures was \$18 million less than the comparable figure in 1961-62 and expenditures in respect of the construction of the railway to Great Slave Lake were \$11 million more than in the previous year.

Expenditures of the Board of Transport Commissioners for Canada increased by \$13 million, due mainly to an increase of \$18 million in payments under the Freight Rates Reduction Act offset in part by a decrease of \$4 million in the government's contribution to the railway grade crossing fund.

Marine services expenditures were \$55 million, an increase of \$6 million over the previous fiscal year. An increase of \$8 million in expenditures for the Canadian marine services was partly offset by a decrease of \$2 million in expenditures for the ship channel services—St. Lawrence and Saguenay rivers.

Outlays of the Canadian Maritime Commission at \$31 million were \$21 million more than in the previous fiscal year. The change was due mainly to increased payments of capital subsidies for construction of commercial and fishing vessels.

Deficits of government-owned enterprises charged to expenditure (other than the Canadian National Railways) were \$8 million for the Newfoundland ferry and terminals, \$4 million for Trans-Canada Air Lines, \$3 million for the Prince Edward Island car ferry and terminals and \$3 million for canals entrusted to The St. Lawrence Seaway Authority compared with \$7 million, \$7 million, \$3 million and \$3 million respectively in the previous year.

Non-active advances to the National Harbours Board totalled \$5 million for 1962-63, approximately the same as in 1961-62.

Veterans Affairs

Expenditures of the Department of Veterans Affairs amounted to \$336 million for 1962-63, an increase of \$3 million over the 1961-62 total.

TABLE 39
(in millions of dollars)

VETERANS AFFAIRS	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Pensions for disability or death.....	175.9	177.9	-2.0
War veterans allowances and other benefits.....	88.7	81.8	6.9
Treatment and welfare services.....	56.1	56.8	-0.7
Soldier Settlement and Veterans Land Acts—			
Provision for reserve for conditional benefits, Veterans			
Land Act.....	3.2	3.3	-0.1
Administration and general.....	4.6	4.6	
War service gratuities and re-establishment credits.....	1.1	2.0	-0.9
Administration and general.....	6.8	6.8	
	336.4	333.2	3.2

The net increase of \$3 million was due mainly to an increase of \$7 million for war veterans allowances, offset in part by decreases of \$2 million in pensions for disability or death, \$1 million in war service gratuities and re-establishment credits and \$1 million in treatment and welfare services.

All Other Departments

Expenditures of the departments not dealt with individually totalled \$50 million, an increase of \$12 million over the total for 1961-62.

TABLE 40
(in millions of dollars)

ALL OTHER DEPARTMENTS	Fiscal year ended March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Auditor General's Office.....	1.2	1.1	0.1
Board of Broadcast Governors.....	0.4	0.3	0.1
Office of the Chief Electoral Officer.....	11.8	0.4	11.4
Civil Service Commission.....	4.8	4.7	0.1
Governor General and Lieutenant-Governors.....	0.5	0.5	
Insurance.....	1.4	1.4	
Legislation.....	8.3	8.4	-0.1
National Film Board.....	5.6	5.1	0.5
National Gallery of Canada.....	1.0	1.0	
Privy Council.....	5.0	4.5	0.5
Public Archives and National Library.....	1.0	1.0	
Public Printing and Stationery.....	4.0	4.0	
Secretary of State.....	4.8	5.0	-0.2
	49.8	37.4	12.4

The most significant change in expenditures for 1962-63 was an increase of \$11 million by the Office of the Chief Electoral Officer for expenses of the federal election in June 1962.

4. SUMMARY OF ASSETS AND LIABILITIES OF CANADA AS AT MARCH 31, 1963

The assets and liabilities of the Government of Canada at March 31, 1963, the comparable balances at March 31, 1962 and the changes in each category during 1962-63, are shown in condensed form in the following table:

TABLE 41

SUMMARY OF ASSETS AND LIABILITIES OF CANADA

(in millions of dollars)

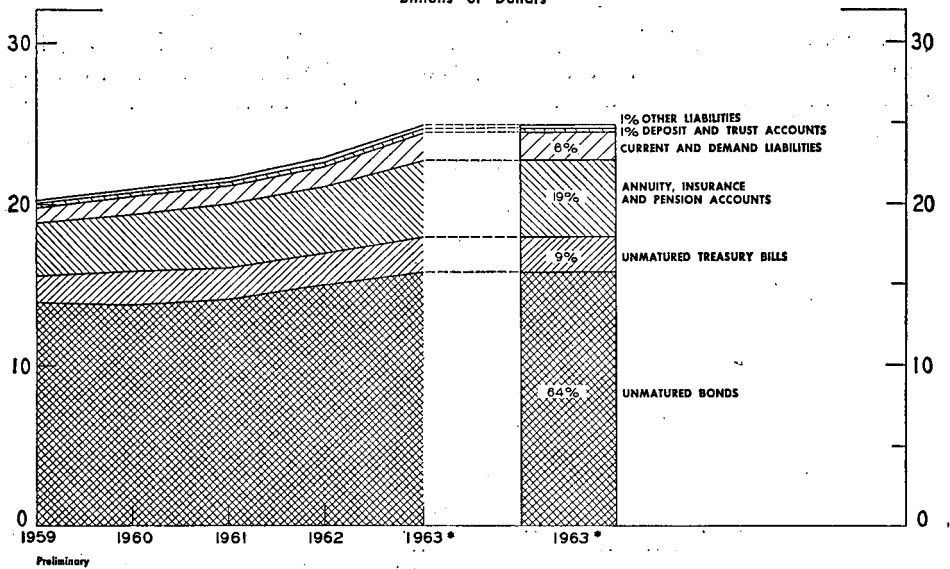
	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
LIABILITIES			
Current and demand liabilities.....	1,643.6	1,234.1	409.5
Deposit and trust accounts.....	222.9	266.6	—43.7
Annuity, insurance and pension accounts.....	4,741.9	4,246.0	495.9
Undisbursed balances of appropriations to special accounts...	126.5	115.1	11.4
Deferred credits.....	107.8	95.0	12.8
Suspense accounts.....	7.4	5.3	2.1
Unmatured debt.....	17,961.8	16,945.7	1,016.1
Total liabilities.....	24,811.9	22,907.8	1,904.1
ASSETS			
Current assets.....	824.7	1,246.0	—421.3
Advances to the exchange fund account.....	2,736.0	1,793.0	943.0
Sinking fund and other investments held for retirement of un- matured debt.....	22.0	19.4	2.6
Loans to, and investments in, Crown corporations.....	4,465.1	3,985.3	479.8
Loans to national governments.....	1,210.7	1,339.8	—129.1
Other loans and investments.....	1,105.4	993.9	111.5
Securities held in trust.....	25.6	25.8	—0.2
Deferred charges—			
Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	524.8	326.3	198.5
Public service superannuation account.....	276.7	276.7	
Royal Canadian Mounted Police superannuation account.....	3.5	3.5	
Unamortized loan flotation costs.....	131.6	121.3	10.3
	936.6	727.8	208.8
Suspense accounts.....	0.2	0.2	
Capital assets.....	(1)	(1)	
Inactive loans and investments.....	94.9	94.9	
Total assets.....	11,421.2	10,226.1	1,195.1
Less reserve for losses on realization of assets.....	—546.4	—546.4	
Net assets.....	10,874.8	9,679.7	1,195.1
Net debt, represented by excess of liabilities over net assets.....	13,937.1	13,228.1	709.0

(1) Shown at nominal value of \$1.

A. CHANGES IN PRINCIPAL LIABILITY CLASSIFICATIONS DURING 1962-63

The gross liabilities of the government increased by \$1,904 million during the fiscal year. Increases of \$1,016 million in unmaturred debt, \$496 million in annuity, insurance and pension accounts, \$410 million in current and demand liabilities and \$13 million in deferred credits were partly offset by a decrease of \$44 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 (-)
	1963 (preliminary)	1962	
Outstanding treasury cheques.....	267.6	265.7	1.9
Accounts payable.....	267.0	280.7	-13.7
Non-interest-bearing notes payable to—			
The international development association.....	19.3	14.0	5.3
The international monetary fund—			
Canada's subscription.....	370.0	358.0	12.0
Special loan.....	368.0		368.0
	757.3	572.0	385.3
Matured debt outstanding.....	32.4	36.4	-4.0
Interest due and outstanding.....	80.7	73.9	6.8
Interest accrued.....	200.6	174.6	26.0
Post office—outstanding money orders.....	32.8	25.4	7.4
Outstanding letter of credit cheques.....	4.6	4.7	-0.1
Other current liabilities.....	0.6	0.7	-0.1
	1,643.6	1,234.1	409.5

The net increase during the year was \$410 million. The main changes were increases of \$385 million in non-interest-bearing notes, \$26 million in interest accrued, \$7 million in outstanding post office money orders and \$7 million in interest due and outstanding and a decrease of \$4 million in matured debt outstanding.

The increase of \$385 million in non-negotiable non-interest-bearing notes includes \$380 million in respect of the international monetary fund.

Of this increase, notes in the amount of \$12 million were issued due to re-valuation of Canadian dollar balances in the international monetary fund and notes in the amount of \$368 million were issued to replace Canadian dollars remitted to the Receiver General by the international monetary fund in accordance with the standing arrangements regarding the international monetary fund account No. 1 namely, that the holdings of the account in excess of one per cent of Canada's quota in the fund will be exchanged for non-negotiable non-interest-bearing demand notes from time to time as circumstances permit. This \$368 million reflected two types of transaction (1) the Canadian borrowing from the fund (note issue of \$325 million) and (2) the United Kingdom repayment of Canadian dollars to the fund (note issue of \$43 million).

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 (-)
	1963 (preliminary)	1962	
Provincial tax collection agreements.....		38.0	-38.0
Indian trust funds.....	28.9	28.5	0.4
Post office savings bank.....	25.4	27.4	-2.0
Crown corporations deposits.....	30.0	24.2	5.8
Contractors securities—sundry departments—			
Bonds.....	8.2	9.5	-1.3
Cash.....	4.3	7.0	-2.7
Certified cheques.....	1.2	1.5	-0.3
	13.7	18.0	-4.3
Contractors holdbacks.....	17.3	17.8	-0.5
Korean operations pool.....	16.1	16.1	
Instalment purchase of bonds, public service.....	11.9	12.4	-0.5
United States of America.....	5.9	12.2	-6.3
Canadian Arsenals Limited pension fund.....	1.5	12.1	-10.6
Canadian Pension Commission—administration trust fund...	13.0	12.1	0.9
Guarantee deposits—			
National Revenue.....	4.4	4.5	-0.1
Northern Affairs and National Resources.....	8.4	5.9	2.5
	12.8	10.4	2.4
National Harbours Board—special accounts.....	7.1	7.6	-0.5
Army benevolent fund.....	6.0	6.3	-0.3
Soldier settlement and veterans land acts trust account—			
general.....	3.2	2.7	0.5
Permanent services deferred pay.....	3.2	2.8	0.4
Common school funds—Ontario and Quebec.....	2.7	2.7	
Veterans care trust fund.....	2.4	2.3	0.1
National Research Council—special fund.....	2.1	2.0	0.1
Emergency gold mining assistance—holdbacks.....	1.5	1.2	0.3
Canadian National Railways.....	7.6		7.6
Other.....	10.6	9.8	0.8
	222.9	266.6	-43.7

There was a decrease during the year of \$44 million due principally to the provincial tax collection agreements under which as at March 31, 1962 the federal government had collected \$38 million, while at March 31, 1963 the provinces had received advance payments of \$10 million in accordance with the federal-provincial tax collection agreements. This amount is recorded in the asset

category "Other loans and investments". There were also decreases of \$11 million in Canadian Arsenals Limited pension fund, \$6 million in the United States of America deposit account and \$4 million in contractors' securities. Partly offsetting these decreases were increases of \$8 million in the Canadian National Railways account (representing that part of the 1962 income deficit paid from company funds and which will be repaid to the company when parliamentary authorization is received), \$6 million in Crown corporations deposits and \$2 million in guarantee deposits.

Provincial tax collection agreements went into effect from January 1, 1962 and further details will be found under the category "Other loans and investments".

Annuity, insurances 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 (—)
	1963 (preliminary)	1962	
Unemployment insurance fund.....	23.4	78.2	-54.8
Less investment in bonds and accrued interest.....	-11.8	-63.6	51.8
Uninvested funds on deposit with the government.....	11.6	14.6	-3.0
Government annuities.....	1,261.7	1,235.3	26.4
Public service superannuation account.....	1,723.7	1,586.9	136.8
Canadian forces superannuation account.....	1,605.9	1,279.2	326.7
Other.....	139.0	130.0	9.0
	4,741.9	4,246.0	495.9

Unemployment insurance fund

During the year receipts amounted to \$348 million and included employees and employers contributions of \$287 million, the government's contribution of \$57 million and \$4 million in interest from investments. As benefit payments amounted to \$403 million there was a deficit for the year in the fund of \$55 million compared with \$118 million in the previous fiscal year.

The balance in the fund at March 31, 1962 of \$78 million was reduced to \$23 million at March 31, 1963 by the deficit in the fund for the year of \$55 million.

As the commission's investment in bonds and accrued interest amounted to \$12 million, the funds on deposit with the government were \$12 million at March 31, 1963 compared with \$15 million at March 31, 1962.

Government annuities account

The government annuities account increased by \$26 million during 1962-63 representing the amount by which premium receipts of \$34 million and interest of \$47 million credited to the account by the government exceeded payments of \$55 million to annuitants and beneficiaries.

Public service superannuation account

The increase of \$137 million in the public service superannuation account was due mainly to the government's contribution of \$51 million (equal to the estimated current and prior service payments of individuals in 1961-62) and interest of \$66 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 \$327 million during 1962-63. The increase included the government's contribution of \$58 million which was made at the rate of one and two-thirds times the current and prior service contributions, payment of interest by the government of \$53 million credited to the account and the amount of \$17 million by which contributions by permanent services personnel for current and prior years' service exceeded benefit payments from the account. There was also a credit of \$199 million to this account in 1962-63 to bring the balance in the account into line with an actuarial evaluation as at December 31, 1960 as calculated by the Department of Insurance. A contra entry was made to the asset account. "Deferred charges—unamortized portion of actuarial deficiency in the Canadian forces superannuation account".

Old age security fund

Under the Old Age Security Act pensions at the rate of \$65 per month are paid, without a means test, from the old age security fund to all eligible persons seventy years of age or over. Receipts of \$691 million, consisting of \$302 million from the 3 per cent sales tax, \$274 million from the 3 per cent tax on personal incomes (maximum tax \$90) and \$115 million from the 3 per cent tax on corporation profits, were \$43 million less than payments of \$734 million from the fund. As the balance in the fund at the end of the fiscal year 1961-62 was \$2 million, temporary loans of \$41 million were made by the Minister of Finance to cover the deficit in the fund.

TABLE 45
(in millions of dollars)

OLD AGE SECURITY FUND	Fiscal year ended March 31				
	1959	1960	1961	1962	1963 (preliminary)
Tax receipts—					
Sales tax.....	173.6	270.0	270.2	284.9	302.2
Personal income tax.....	146.4	185.6	229.4	259.0	273.6
Corporation income tax.....	55.3	91.3	103.5	100.1	115.3
Total tax receipts.....	375.3	546.9	603.1	644.0	691.1
Pension payments.....	-559.3	-574.9	-592.4	-625.1	-733.7
Excess of receipts over payments.....	-184.0	-28.0	10.7	18.9	-42.6
Temporary loans brought forward.....			-28.0	-17.3	
Balance in fund brought forward.....					1.6
Appropriation by Parliament—					
Charged to budgetary expenditures.....	184.0				
Temporary loans from the Minister of Finance to cover deficit in fund.....		28.0	17.3		41.0
Balance in fund.....				1.6	

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
	1963 (preliminary)	1962	
Newfoundland.....	14.0	11.9	2.1
Nova Scotia.....	33.8	28.9	4.9
Prince Edward Island.....	6.0	5.2	0.8
New Brunswick.....	24.9	21.3	3.6
Quebec.....	155.1	131.7	23.4
Ontario.....	265.3	226.1	39.2
Manitoba.....	44.6	38.1	6.5
Saskatchewan.....	46.3	39.6	6.7
Alberta.....	49.8	42.3	7.5
British Columbia.....	93.4	79.6	13.8
Northwest and Yukon Territories.....	0.5	0.4	0.1
	733.7	625.1	108.6

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 a net increase of \$11 million during the current fiscal year bringing the balance as at March 31, 1963 to \$126 million.

TABLE 47
(in millions of dollars)

UNDISBURSED BALANCES OF APPROPRIATIONS TO SPECIAL ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Colombo plan fund.....	91.7	77.6	14.1
Railway grade crossing fund.....	26.6	33.8	-7.2
National capital fund.....	8.1	3.6	4.5
Other.....	0.1	0.1	
	126.5	115.1	11.4

The increase of \$14 million in the Colombo plan fund represented the amount by which the \$42 million credited to the fund for assistance to countries in south and south-east Asia (and charged to budgetary expenditures) exceeded disbursements from the fund of \$28 million.

The railway grade crossing fund decreased by \$7 million during the year, representing disbursements of \$13 million from the fund less an amount of \$6 million voted by Parliament for this purpose which was credited to the fund and charged to budgetary expenditures.

The increase of \$4 million in the national capital fund represented the amount by which the \$9 million credited to the fund and charged to budgetary expenditures exceeded disbursements of \$5 million.

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: "Loans to, and investments in, Crown corporations", "Loans to national governments" and "Other loans and investments". The balance at March 31, 1963 was \$108 million, an increase of \$13 million during the year.

TABLE 48
(in millions of dollars)

DEFERRED CREDITS	Balance at March 31		Increase or decrease(—)
	1963 (preliminary)	1962	
Deferred interest—			
United Kingdom Financial Agreement Act, 1946.....	44.2	44.2	
The St. Lawrence Seaway Authority.....	49.4	33.7	15.7
	93.6	77.9	15.7
Capitalized interest—			
Northern Canada Power Commission.....	1.5	1.1	0.4
Agreements of sale of Crown assets.....	6.8	8.8	—2.0
Crown Assets Disposal Corporation.....	5.9	7.2	—1.3
	107.8	95.0	12.8

There was no change during the year in deferred interest of \$44 million on loans made under the United Kingdom Financial Agreement Act, 1946. This is a contra account to a corresponding item under "Loans to national governments".

Deferred interest in respect of The St. Lawrence Seaway Authority, which is a contra account to a corresponding item in "Loans to, and investments in, Crown corporations", increased by \$16 million during the year to \$49 million at March 31, 1963 and included \$19 million capitalized at March 31, 1959. In accordance with Order in Council P.C. 1961-1863 dated December 29, 1961, interest 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 interest due on that date, 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.

There was a small increase in the capitalized interest on loans made to Northern Canada Power Commission. Advances are made to the Commission for various projects in the Yukon Territory and Northwest Territories and advances are also made pursuant to the Atlantic Provinces Power Development Act to the Provinces of Nova Scotia and New Brunswick. Upon completion of a project accrued interest due is computed from, but not including, the date of each advance to the date of completion of the project and is set up as capitalized interest and added to the original amount of the advance to be repayable in thirty or forty (as the case may be) equal annual instalments.

Balances receivable under agreements of sale of Crown assets are set up as contra accounts to corresponding items under "Other loans and investments". Receipts of \$2 million were in respect of 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 decreased by \$1 million during the year.

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(—)
	1963 (preliminary)	1962	
Replacement of materiel, sec. 11, National Defence Act....	1.2	1.4	—0.2
Unclaimed cheques.....	1.4	1.4	
Other.....	4.8	2.5	2.3
	7.4	5.3	2.1

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. The balance in the account at March 31, 1963 was \$1 million, approximately the same as at the previous fiscal year-end.

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 at the close of the 1962-63 fiscal year amounted to \$17,962 million, an increase of \$1,016 million over the previous fiscal year-end total of \$16,946 million.

TABLE 50
(in millions of dollars)

UNMATURED DEBT	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Payable in Canada—			
Marketable bonds.....	10,792.2	10,812.8	—20.6
Non-marketable bonds—			
Canada savings bonds.....	4,582.2	4,055.2	527.0
Unemployment Insurance Commission.....	11.5	62.5	—51.0
	15,385.9	14,930.5	455.4
Treasury bills.....	2,165.0	1,885.0	280.0
	17,550.9	16,815.5	735.4
Payable in London ⁽¹⁾	34.5	32.0	2.5
Payable in New York ⁽¹⁾	376.4	98.2	278.2
	17,961.8	16,945.7	1,016.1

⁽¹⁾ Marketable bonds.

The details of the various loan issues, maturities, redemptions, cancellations and conversions resulting in the net increase are described more fully in the section "The Public Debt".

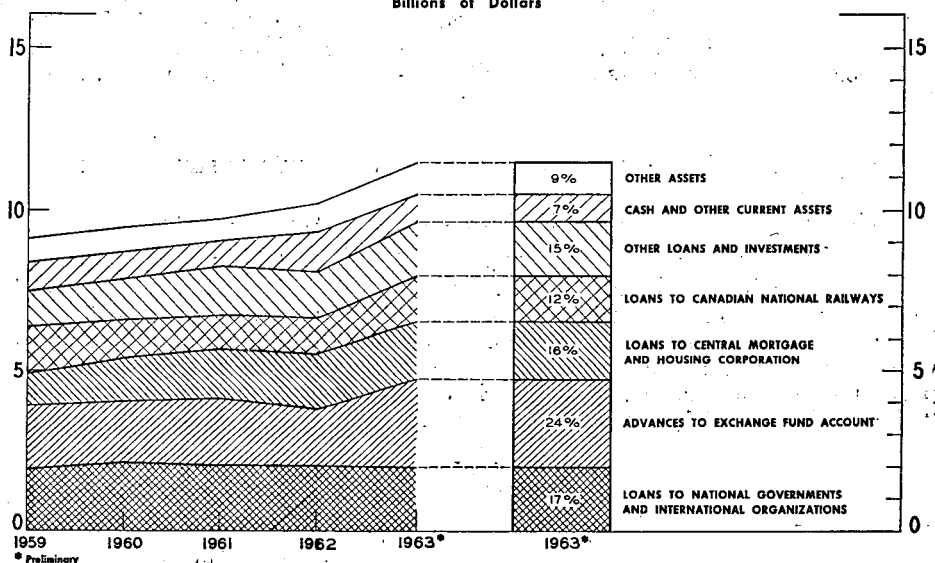
Unmatured debt obligations payable in London and in New York are stated in Canadian dollars converted at the rate of \$3.027 for the pound sterling and \$1.08108 for the U.S. dollar respectively.

B. CHANGES IN PRINCIPAL ASSET CLASSIFICATIONS DURING 1962-63

Total assets amounted to \$11,421 million at March 31, 1963, an increase of \$1,195 million during the fiscal year. As there was no change in the reserve of \$546 million for losses on realization of assets, net assets were \$10,875 million at the close of the fiscal year.

The principal changes were increases of \$943 million in advances to the exchange fund account, \$480 million in loans to, and investments in, Crown corporations, \$209 million in deferred charges and \$112 million in other loans and investments, and decreases of \$421 million in current assets and \$129 million in loans to national governments.

TOTAL ASSETS
Fiscal Years Ended March 31
Billions of Dollars



Current assets

Total current assets amounted to \$825 million at the end of the fiscal year 1962-63, a decrease of \$421 million from the 1961-62 total of \$1,246 million.

The main items responsible for the decrease of \$421 million during the year were decreases of \$403 million in cash in current and special deposits and \$61 million in the securities investment account and an increase of \$30 million in departmental working capital advances and revolving funds (of which \$13 million was in the defence production revolving fund).

TABLE 51
(in millions of dollars)

CURRENT ASSETS	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Cash in current and special deposits ⁽¹⁾	374.0	777.5	—403.5
Cash in hands of collectors and in transit.....	132.6	117.8	14.8
Departmental working capital advances and revolving funds—			
Agricultural commodities stabilization account.....	136.8	132.8	4.0
Defence production revolving fund.....	40.7	27.3	13.4
Miscellaneous departmental imprest and advance accounts	23.1	23.1	
Other.....	53.1	40.2	12.9
	253.7	223.4	30.3
Securities investment account.....	33.5	94.6	—61.1
Moneys received after March 31 but applicable to the current			
year.....	14.9	17.9	—3.0
Post Office—cash on hand and in transit.....	16.0	14.8	1.2
	824.7	1,246.0	—421.3

⁽¹⁾ Receiver General year-end balances in London, New York, Paris and Bonn are at the Canadian dollar equivalent of exchange rates at March 31.

Advances to the exchange fund account

Advances during the year to the exchange fund account to finance the purchase of gold and foreign exchange amounted to \$1,991 million, and repayments were \$1,048 million increasing outstanding advances to \$2,736 million at March 31, 1963. During 1961–62 advances were \$397 million, repayments were \$628 million and outstanding advances were \$1,793 million at March 31, 1962.

Sinking fund and other investments held for retirement of unmatured debt

The balance of \$22 million in this category at March 31, 1963 was approximately \$3 million more than at the end of the previous fiscal year.

It should be noted that the purchase fund account which was established to assist in the orderly retirement of the public debt showed a nil balance at March 31, 1963. During the year government securities totalling \$113 million were purchased and subsequently cancelled before the fiscal year-end. Full particulars of the securities purchased and cancelled may be found in section 6 "The Public Debt" further on in this report.

TABLE 52
(in millions of dollars)

SINKING FUND AND OTHER INVESTMENTS HELD FOR RETIREMENT OF UNMATURED DEBT	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Sinking fund invested in—			
Newfoundland guaranteed stock, 1933–63, 3 per cent.....	16.6	12.8	3.8
United Kingdom conversion stock, 1963, 4½ per cent.....	3.0	5.3	—1.4
	20.5	18.1	2.4
Other investments—			
Newfoundland guaranteed stock, 1933–63, 3 per cent.....	1.5	1.3	0.2
	22.0	19.4	2.6

NOTE: Converted at the official parity rate of £1 = \$3.027 Canadian.

Loans to, and investments in, Crown corporations

An increase of \$480 million in these loans and investments during 1962-63 brought the balance at March 31, 1963 to \$4,465 million.

TABLE 53
(in millions of dollars)

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS	Balance at March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Atomic Energy of Canada Limited.....	53.3	65.8	-12.5
Bank of Canada.....	5.9	5.9	
Canadian Arsenals Limited.....	7.5	7.5	
Canadian Broadcasting Corporation.....	3.0	3.0	
Canadian Commercial Corporation.....	9.5	10.0	-0.5
Canadian National Railways.....	1,434.7	1,160.0	274.7
Trans-Canada Air Lines.....	4.6	5.0	-0.4
	<u>1,439.3</u>	<u>1,165.0</u>	<u>274.3</u>
Canadian National (West Indies) Steamships Limited.....	0.3	0.9	-0.6
Canadian Overseas Telecommunication Corporation.....	50.2	37.9	12.3
Central Mortgage and Housing Corporation.....	1,797.5	1,701.0	96.5
Eldorado Mining and Refining Limited.....	8.2	8.2	
Export Credits Insurance Corporation.....	35.3	15.3	20.0
Farm Credit Corporation.....	269.0	210.0	59.0
National Capital Commission.....	40.9	31.5	9.4
National Harbours Board.....	192.7	178.8	13.9
Northern Canada Power Commission.....	19.0	26.2	-7.2
Northern Ontario Pipe Line Crown Corporation.....	111.5	119.0	-7.5
Polymer Corporation Limited.....	30.0	30.0	
The St. Lawrence Seaway Authority—			
Loans.....	341.5	334.5	7.0
Deferred interest.....	49.4	33.7	15.7
	<u>390.9</u>	<u>368.2</u>	<u>22.7</u>
Other Crown Corporations.....	1.1	1.1	
	<u>4,465.1</u>	<u>3,985.3</u>	<u>479.8</u>

Canadian National Railways (including Trans-Canada Air Lines)

Advances to the Canadian National Railways amounted to \$1,439 million as at March 31, 1963, an increase of \$274 million over the previous fiscal year-end balance of \$1,165 million.

TABLE 54
(in millions of dollars)

ADVANCES TO THE CANADIAN NATIONAL RAILWAYS	Balance at March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Capital Revision Act, 1952—			
Preferred stock.....	970.7	951.8	18.9
Twenty-year obligation.....	100.0	100.0	
Financing and Guarantee Acts.....	63.2	57.4	5.8
Refunding Act, 1955.....	283.8	33.8	250.0
Canadian Government Railways.....	17.0	17.0	
Trans-Canada Air Lines—income deficits.....	4.6	5.0	-0.4
	<u>1,439.3</u>	<u>1,165.0</u>	<u>274.3</u>

During the fiscal year ended March 31, 1963 the government made available to the Canadian National Railways \$322 million and received repayments of \$48 million. The amount of advances to the company outstanding at March 31, 1963 was therefore increased by \$274 million.

TABLE 55
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, THE CANADIAN NATIONAL RAILWAYS DURING THE FISCAL YEAR 1962-63	Fiscal year ending March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Advances—			
For the refunding of debt.....	250.0	37.1	212.9
For capital expenditures.....	5.8	27.6	-21.8
For purchase fund.....		2.9	-2.9
For interim financing of income deficits—			
Canadian National Railways.....	41.3	63.8	-22.5
Trans-Canada Air Lines.....	5.9	7.2	-1.3
Total advances.....	303.0	138.6	164.4
Purchase of 4 per cent preferred stock (C.N.R. Capital Revision Act, 1952).....	18.9	21.4	-2.5
	321.9	160.0	161.9
Repayments—			
Advances for capital and refunding purposes.....		-14.8	14.8
Advances for interim financing of income deficits—			
Canadian National Railways.....	-41.3	-65.8	24.5
Trans-Canada Air Lines.....	-6.3	-7.0	0.7
	-47.6	-87.6	40.0
Net increase during the fiscal year.....	274.3	72.4	201.9

In 1962-63 the government advanced to the company \$250 million for the retirement of debt in the hands of the public and \$6 million for capital purposes.

In addition, to assist the Canadian National Railways to finance further capital expenditure during the year, the government purchased \$19 million of 4 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 3 per cent of the gross revenue of the company.

The government also provided the company with temporary loans of \$41 million in respect of its 1962 income deficit. It should be noted that the 1962 income deficit of the Canadian National Railways was \$49 million (of which \$41 million was covered by temporary loans and \$8 million paid from company funds) and on parliamentary authority will be charged to 1962-63 budgetary expenditures.

At March 31, 1962 temporary loans of \$5 million were outstanding to the Trans-Canada Air Lines in respect of its 1962 income deficit. During 1962-63 further advances of \$1 million were made bringing the total advances for this purpose to \$6 million. Of these advances \$3 million was repaid by the Air Lines and the balance of \$3 million representing the 1962 income deficit will be charged to 1962-63 budgetary expenditures upon parliamentary approval. The government also advanced \$5 million on account of the Air Lines 1963 income deficit which was outstanding at March 31, 1963.

Central Mortgage and Housing Corporation

Loans during the fiscal year were \$249 million of which \$198 million was for direct lending and limited dividend housing and \$51 million for federal-provincial projects. Repayments were \$153 million, of which \$141 million was in respect of direct lending, \$8 million in respect of federal-provincial projects and \$4 million in respect of housing. The balance at March 31, 1963 was \$1,798 million compared with \$1,701 million at March 31, 1962.

TABLE 56
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, CENTRAL MORTGAGE AND HOUSING CORPORATION	Fiscal year ended March 31		Increase or decrease (-)
	1963 (preliminary)	1962	
Advances—			
Direct lending and limited dividend housing.....	198.2	223.8	-25.6
Federal-provincial projects—			
Housing.....	10.0	9.5	0.5
Municipal sewage treatment.....	26.5	5.5	21.0
University housing.....	14.5	3.5	11.0
	51.0	18.5	32.5
	249.2	242.3	6.9
Repayments—			
Direct lending and limited dividend housing.....	-140.5	-46.4	-94.1
Federal-provincial projects—			
Housing.....	-5.8	-3.0	-2.8
Municipal sewage treatment.....	-2.0		-2.0
University housing.....	(1)		
	-7.8	-3.0	-4.8
Housing.....	-4.4	-2.6	-1.8
	-152.7	-52.0	-100.7
	96.5	190.3	-93.8

(1) Less than \$50,000.

Farm Credit Corporation

Loans to the Farm Credit Corporation amounted to \$60 million and investments in the capital of the corporation to \$2 million during the year. Repayments of \$3 million brought the balance at March 31, 1963 to \$269 million; \$59 million more than at the previous fiscal year-end.

The St. Lawrence Seaway Authority

Advances to The St. Lawrence Seaway Authority were \$7 million during the year resulting in a balance of \$342 million at March 31, 1963. Deferred interest on these loans increased by \$16 million during the year to \$49 million and included \$19 million capitalized as at March 31, 1959.

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 so deferred, together with the interest due on that date, 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. This single sum and the principal sum of the loans made to the Authority now outstanding, together with the deferred interest capitalized as at December 31, 1959, shall be repaid in equal annual instalments commencing December 31, 1964 over a period of forty-six years except that on December 31, 1984 the balance of the said single sum and interest thereon then owing and the principal sum, together with deferred interest and any unpaid interest thereon, shall be paid in cash or by the delivery of an obligation or obligations of the Authority bearing such rate of interest and subject to such other terms and conditions as the Governor in Council may approve.

Other Crown Corporations

Loans to the Export Credits Insurance Corporation increased by \$20 million during the fiscal year, loans to the National Harbours Board by \$14 million, loans to the Canadian Overseas Telecommunication Corporation by \$12 million and loans to the National Capital Commission by \$9 million. Loans to the Northern Ontario Pipe Line Crown Corporation decreased by \$8 million, advances to Northern Canada Power Commission decreased by \$7 million and advances to Atomic Energy of Canada Limited decreased by \$13 million.

Loans to national governments

These loans totalled \$1,211 million at March 31, 1963, a decrease of \$129 million from the previous fiscal year-end balance.

TABLE 57
(in millions of dollars)

LOANS TO NATIONAL GOVERNMENTS	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Loans to United Kingdom—			
The United Kingdom Financial Agreement Act, 1946....	1,012.9	1,030.3	—17.4
Deferred interest.....	44.2	44.2	
	1,057.1	1,074.5	—17.4
Loans under the Export Credits Insurance Act, Part II—			
Belgium.....	32.3	34.6	—2.3
France.....	67.0	133.9	—66.9
The Netherlands.....	32.1	68.8	—36.7
	131.4	237.3	—105.9
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada—			
Ceylon.....	1.4	1.7	—0.3
India.....	20.0	24.8	—4.8
	21.4	26.5	—5.1
Miscellaneous loans and advances—			
France—interim credit—consolidated interest.....	0.6	1.3	—0.7
Other.....	0.2	0.2	
	0.8	1.5	—0.7
	1,210.7	1,339.8	—129.1

The United Kingdom 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 \$1,013 million at March 31, 1963.

In 1957, the Government of the United Kingdom deferred the payment due December 31, 1957 of principal and interest on the above loan. The deferment was by an agreement between the Governments of Canada and the United Kingdom that was approved by a 1957 Act to amend the United Kingdom Financial Agreement Act, 1946. The agreement, which became effective April 29, 1957, permits the United Kingdom in lieu of any right of waiver hitherto existing to defer after December 31, 1956 seven instalments of principal and interest under certain conditions. Principal and interest due December 31, 1957 was so deferred. The first of any such deferred instalments is payable on December 31, 2001, and the others annually thereafter, in order. In addition, it permitted the instalment of interest in respect of the year 1956 to be deferred and provided that this instalment of interest so deferred shall be paid on December 31 of the year immediately following the year in which the last of all other instalments, including those deferred, is due. Interest at 2 per cent is payable on deferred instalments of both principal and interest.

Advances under Part II of the Export Credits Insurance Act to Belgium, France and The Netherlands to assist them in the purchasing of goods in Canada were reduced by repayments of \$106 million during the fiscal year. The balance at March 31, 1963 was \$131 million. In June 1962, France made an advance payment of \$67 million covering eight annual instalments payable December 31, 1962 to December 31, 1969 inclusive and The Netherlands made a payment of \$37 million in July 1962 covering eight instalments payable April 30, 1963 to April 30, 1970 inclusive.

Special loans to Colombo plan countries to finance the purchase of wheat and flour by them from Canada amounted to \$21 million at March 31, 1963, \$5 million less than at March 31, 1962.

Other loans and investments

The balance in this category was \$1,105 million at March 31, 1963, an increase of \$111 million during the fiscal year 1962-63.

Canada's subscriptions to the capital of international organizations increased by \$34 million during the fiscal year due to further subscriptions of \$8 million to the international development association, \$7 million to the international bank for reconstruction and development and \$6 million in working capital advances and loans to international organizations. The revaluation adjustments in the Canadian dollar balance in the international monetary fund accounted for an increase of \$13 million.

Loans to provincial governments increased by \$2 million during the fiscal year. This was caused by an overpayment of \$5 million to the Province of British Columbia under the 1957 tax-sharing agreements due to the revisions of population figures as a result of the 1961 census. Repayment will be made by the Province of British Columbia at the rate of \$175,000 per month.

As at March 31, 1963, under the federal-provincial tax collection agreements, payments in advance to the provinces exceeded the amount estimated as having been collected on behalf of the provinces by \$10 million. As at March 31, 1962 the federal government had collected on behalf of the provinces \$38 million which was recorded in that fiscal year as a liability in the deposit and trust category.

TABLE 58
(in millions of dollars)

OTHER LOANS AND INVESTMENTS	Balance at March 31		Increase or decrease (—)
	1963 (preliminary)	1962	
Subscriptions to capital of, working capital advances and loans to, international organizations—			
Canada's subscription to capital of—			
International bank for reconstruction and development.....	80.5	73.7	6.8
International development association.....	24.9	16.4	8.5
International finance corporation.....	3.5	3.5	
International monetary fund.....	577.3	564.7	12.6
Working capital advances and loans to international organizations.....	7.8	1.6	6.2
	694.0	659.9	34.1
Loans to provincial governments—			
Alberta.....	7.2	7.6	-0.4
British Columbia.....	18.4	14.7	3.7
Manitoba.....	12.4	13.0	-0.6
New Brunswick.....	31.1	28.9	2.2
Newfoundland.....	0.5		0.5
Nova Scotia.....	7.3	8.0	-0.7
Saskatchewan.....	23.1	25.7	-2.6
	100.0	97.9	2.1
Provincial tax collection agreements account—advances.....	10.3		10.3
Veterans Land Act advances.....	224.4	208.0	16.4
Less reserve for conditional benefits—Veterans Land Act, 1942	-28.8	-30.6	1.8
	195.6	177.4	18.2
Miscellaneous—			
Assisted passage scheme (section 69, Immigration Act, R.S. 1952).....	2.2	2.6	-0.4
Balances receivable under agreements of sale of Crown assets.....	8.3	10.6	-2.3
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.....	1.5	1.7	-0.2
Crown Assets Disposal Corporation—government equity in agency account.....	5.9	7.2	-1.3
Dominion Coal Company Limited.....	5.9	5.7	0.2
Hamilton Harbour Commissioners.....	1.2	1.2	
Housing projects for Canadian forces.....	12.6	6.4	6.2
Land development of the Cornwall Navigation System.....	1.7	1.7	
Municipal Improvements Assistance Act, 1938.....	1.3	1.5	-0.2
New Westminster Harbour Commission.....	2.2	2.3	-0.1
Northwest Territories.....	2.5	1.3	1.2
Old age security fund—temporary loans.....	41.0		41.0
Town of Oromocto, New Brunswick.....	3.9	4.0	-0.1
Town of Oromocto Development Corporation.....	1.2	1.2	
Yukon Territory.....	5.5	2.7	2.8
Other.....	5.5	5.4	0.1
	105.5	58.7	46.8
	1,105.4	993.9	111.5

Under the 1957 tax-sharing 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 (1) to 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 percent in 1966, and (2) to reduce the federal tax rate on the taxable income of corporations earned in the provinces by 9 percentage points. Canada collects 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. These two 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.

In accordance with the provisions of the Federal-Provincial Fiscal Arrangements Act an agreement has been entered into with each of the provinces (Quebec excepted) pursuant to which Canada will collect provincial income taxes on behalf of the province and will make payments to the province in respect of the taxes so collected in accordance with terms and conditions as the agreement prescribes.

At the beginning of each fiscal year the Minister of Finance will estimate (subject to revision at any time) the amount of the payment that in his opinion is due to the province in respect of the year ending in that fiscal year and will make payments to the province, on the basis of this estimate, in equal monthly instalments. Any adjustment will be made not later than December 31 following the end of that year.

The agreements became effective on January 1, 1962 and the first monthly payment was made in April 1962.

Under the Veterans Land Act advances are made by the government for the acquisition of properties, buildings, materials, livestock, farm equipment and commercial fishing equipment for sale to qualified veterans of world war 2 and Korea under sale agreements which carry specified conditional benefits if the terms of such agreements are adhered to by the veteran. Advances during the year less the reserve for conditional benefits increased by \$18 million.

Miscellaneous loans and investments were \$47 million higher at March 31, 1963, mainly on account of temporary loans of \$41 million to the old age security fund by the Minister of Finance.

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, 1963 was \$26 million, approximately the same as for the previous fiscal year.

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 an increase of \$209 million in this category during the year, bringing the balance at March 31, 1963 to \$937 million.

Unamortized portions of actuarial deficiencies

These accounts record 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. These deficiencies are based on actuarial valuations made as at December 31, 1957, December 31, 1960 and December 31, 1961, respectively.

The increase of \$199 million in the unamortized portion of the actuarial deficiency in the Canadian forces superannuation account is a contra item to a similar amount credited to the Canadian forces superannuation account. This was due to an actuarial revaluation of the account as at December 31, 1960 and brought the balance of the contra account to \$525 million.

Unamortized loan flotation costs

This account records the residual balances of discounts, commissions, redemption bonuses and conversion premiums on loan flotations that have not been charged to budgetary expenditure. The balance as at March 31, 1963 was \$131 million, an increase of \$10 million over the previous fiscal year.

TABLE 59
(in millions of dollars)

UNAMORTIZED LOAN FLOTATION COSTS	Fiscal year ended March 31	
	1963 (preliminary)	1962
Balance of account at beginning of fiscal year.....	121.3	130.7
New flotation costs to be amortized—		
3½% loan May 1, 1962—Oct. 1, 1967.....	1.7	
5½% loan Aug. 1, 1962—Oct. 1, 1969.....	1.1	
5½% loan Aug. 1, 1962—Aug. 1, 1980.....	3.1	
4½% loan Oct. 1, 1962—Apr. 1, 1965.....	1.6	
5½% loan Oct. 1, 1962—Apr. 1, 1969.....	0.8	
3½% loan Dec. 15, 1962—Feb. 1, 1965.....	4.9	
3½% loan Feb. 1, 1963—Feb. 1, 1964.....	1.0	
3½% loan Feb. 1, 1963—Feb. 1, 1966.....	6.6	
5% loan Oct. 15, 1962—Oct. 15, 1987 ⁽¹⁾	0.4	
Adjustments ⁽²⁾	2.3	
Treasury bills discount.....	14.9	10.0
Canada savings bonds—adjustment of previous issues.....	0.9	0.6
Canada savings bonds—new issue.....	14.6	9.3
3% loan May 1, 1961—May 1, 1962.....		1.6
3% loan Aug. 1, 1961—Aug. 1, 1962.....		1.2
4% loan Aug. 1, 1961—Dec. 1, 1964.....		2.8
4½% loan Sept. 15, 1961—Dec. 15, 1966.....		1.4
2½% loan Dec. 1, 1961—June 1, 1963.....		2.0
3½% loan Dec. 1, 1961—Oct. 1, 1964.....		3.4
4½% loan Dec. 1, 1961—June 1, 1967.....		0.5
2½% loan Jan. 15, 1962—Apr. 1, 1963.....		3.0
4½% loan Jan. 15, 1962—Jan. 15, 1968.....		0.5
	53.9	56.3
Less—		
Amortization applicable to fiscal year—		
Canada savings bonds and general loan.....	-32.7	-33.7
Discount on treasury bills charged to interest on public debt.....	-10.0	-11.3
Adjustments ⁽²⁾	-0.9	-0.7
	-43.6	-45.7
Increase or decrease (—) during the year.....	10.3	-9.4
Balance of account at end of fiscal year.....	131.6	121.3

⁽¹⁾ Loan issued in New York.

⁽²⁾ Adjustments due to cancellations, exchanges, conversions and additional issues of existing loans.

Cost of new loans issued during 1962-63 and charged to the account was \$54 million, of which \$15 million was in respect of treasury bill discounts to be charged to interest on public debt in 1963-64. Credits to the account were \$44 million, of which \$33 million was a charge to the budgetary expenditure item "Annual amortization costs", and \$10 million, representing discount on treasury bills sold in 1961-62, was a charge to the budgetary item "Interest on public debt", and \$1 million was an adjustment due to cancellations, exchanges, conversions and additional issues of existing loans.

Suspense accounts

The only item in this category is the cheque adjustment suspense account which reflects unadjusted balances in prior years 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 loans of \$49 million to China under the Export Credits Insurance Act, \$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 was no change in this reserve during the year, the balance of \$546 million as at March 31, 1963 being the same as at the previous fiscal year-end.

C. INCREASE IN NET DEBT

The deficit of \$709 million for the current fiscal year resulted in a corresponding increase in the net debt of Canada which amounted to \$13,937 million at March 31, 1963.

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 other non-budgetary transactions. In 1962-63 there was a decrease of \$403 million in the government's bank balances. This decrease was the result of the budgetary deficit of \$709 million and net disbursements of \$758 million for non-budgetary transactions offset in part by an increase of \$1,064 million in unmatured debt outstanding in the hands of the public (after taking into account transactions in the securities investment account and the sinking fund and other investments account).

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.

The increases or decreases in the government's assets and liabilities have been described in detail in the section entitled "Summary 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.

TABLE 60
(in millions of dollars)

CHANGES IN CASH POSITION	Fiscal year ended March 31	
	1963 (preliminary)	1962
Budgetary transactions—		
Revenues.....	5,876.1	5,729.6
Expenditures.....	-6,585.1	-6,520.6
Budgetary deficit.....	-709.0	-791.0
Non-budgetary transactions (excluding unmatured debt transactions) (net)—		
Receipts and credits.....	1,139.9	461.1
Disbursements and charges.....	-1,898.4	-147.7
Net amount received from or disbursed for (—) non-budgetary transactions (excluding unmatured debt transactions)....	-758.5	313.4
Overall cash requirement to be financed by increase in debt or decrease in cash balances.....	-1,467.5	-477.6
Net increase in unmatured debt outstanding in the hands of the public—		
Unmatured debt—		
Bonds.....	736.1	927.8
Treasury bills.....	280.0	-50.0
Securities investment account.....	(1)50.5	(1)19.1
Sinking fund and other investments.....	-2.6	-2.4
	1,064.0	894.5
Net increase or decrease (—) in Receiver General bank balances	-403.5	416.9

(1) Excluding securities other than government issues.

The preceding table summarizes both the budgetary and non-budgetary transactions for 1962-63 and indicates how they affected the government's cash position. For purposes of comparison the corresponding figures for 1961-62 are also shown.

As the table shows, non-budgetary receipts and credits for 1962-63 (excluding unmatured debt transactions) totalled \$1,140 million while non-budgetary disbursements and charges (also excluding unmatured debt transactions) were \$1,898 million, resulting in a net disbursement of \$758 million. As the budgetary deficit was \$709 million, \$1,467 million required financing by an increase in unmatured debt or a decrease in cash balances. In 1961-62 there was a net receipt of \$313 million from non-budgetary transactions and a budgetary deficit of \$791 million resulting in \$478 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 \$1,140 million in 1962-63 as shown in the following table:

TABLE 61
(in millions of dollars)

NON-BUDGETARY RECEIPTS AND CREDITS	Fiscal year ended March 31	
	1963 (preliminary)	1962
Repayments of loans, investments and working capital advances (net)—		
Agricultural products board account.....		4.9
Atomic Energy of Canada Limited.....	12.5	-4.9
Canadian Commercial Corporation.....	0.5	-3.0
Northern Canada Power Commission.....	7.2	0.3
Northern Ontario Pipe Line Crown Corporation.....	7.5	4.7
United Kingdom (1946 loan).....	17.4	17.1
Special loans to India and Ceylon (Re purchase of wheat from Canada).....	5.1	5.0
Other national governments (Export Credits Insurance Act).....	105.9	15.3
Unemployment insurance fund.....		67.0
Other.....	6.2	8.4
	162.3	114.8
Net government annuities account receipts—		
Premium receipts less payments to beneficiaries.....	-20.9	-9.8
Interest paid by government.....	47.3	46.0
	26.4	36.2
Net insurance and pension accounts receipts—		
Employee contributions less payments to beneficiaries.....	38.4	32.5
Government contributions.....	114.7	108.3
Actuarial deficiency in the Canadian forces superannuation account.....	198.5	
Actuarial deficiency in the Royal Canadian Mounted Police super- annuation account.....		3.5
Interest paid by government.....	122.5	111.4
Old age security fund.....	-1.6	1.6
	472.5	257.3
Net increase in current and demand liabilities—		
Outstanding treasury cheques.....	1.9	13.9
Interest due and outstanding.....	6.8	7.1
Accrued interest.....	26.0	20.6
Non-interest-bearing notes payable to the international development association.....	5.3	7.4
Non-interest-bearing notes payable to the international monetary fund.....	380.0	-19.0
Other.....	3.0	7.3
	423.0	37.3
Net increase in sundry liabilities—		
Deposit and trust accounts—miscellaneous.....	4.9	1.2
Undisbursed balances of appropriations—		
Colombo plan fund.....	14.1	10.1
National Capital Commission.....	4.5	0.8
Deferred credits—		
The St. Lawrence Seaway Authority—		
Deferred interest.....	15.7	14.3
Northern Canada Power Commission—		
Capitalized interest.....	0.4	1.1
Suspense accounts.....	2.3	-0.1
	41.9	27.4
Net decrease in sundry asset accounts—		
Moneys received after March 31 but applicable to the current year.....	3.0	-3.9
Securities investment account—Canadian Arsenal Limited pension fund.....	10.6	-12.2
Securities held in trust.....	0.2	4.2
	13.8	-11.9
	1,139.9	461.1

Non-budgetary disbursements and charges

Non-budgetary disbursements and charges totalled \$1,898 million in 1962-63 as shown in the following table:

TABLE 62
(in millions of dollars)

Non-BUDGETARY DISBURSEMENTS AND CHARGES	Fiscal year ended March 31	
	1963 (preliminary)	1962
Loans, investments and working capital advances (net)—		
Agricultural commodities stabilization account.....	4.0	42.6
Canadian National Railways (including Trans-Canada Air Lines)...	274.3	72.4
Canadian Overseas Telecommunication Corporation.....	12.3	6.2
Central Mortgage and Housing Corporation.....	96.5	190.3
Defence production revolving fund.....	13.4	11.6
Exchange fund account.....	943.0	-231.0
Export Credits Insurance Act (sec. 21A).....	20.0	5.3
Farm Credit Corporation.....	59.0	54.2
Housing projects for Canadian forces.....	6.2	1.9
International organizations (subscriptions to capital).....	34.1	28.8
National Capital Commission.....	9.4	6.2
National Harbours Board.....	13.9	6.0
Old age security fund.....	41.0	-17.3
Provincial governments.....	2.1	-0.5
Provincial tax collection agreements.....	10.3	
Royal Canadian Mint.....	6.4	6.7
The St. Lawrence Seaway Authority.....	22.7	28.3
Veterans Land Act advances.....	18.2	11.3
Governments of Yukon and Northwest Territories.....	4.0	1.0
Other.....	6.8	3.0
	1,597.6	227.0
Net disbursements from sundry liability accounts—		
Current and demand liabilities—		
International monetary fund—revaluation of Canadian dollar balance.....		10.1
Accounts payable.....	13.7	-59.3
Deposit and trust accounts—		
Canadian Arsenals Limited pension fund.....	10.6	-12.2
Liability to United States of America.....		24.5
Provincial tax collection agreements.....	38.0	-38.0
Annuity, insurance and pension accounts—		
Unemployment insurance fund—		
Uninvested funds on deposit with the government.....	3.0	3.0
Undisbursed balances of appropriations—		
Railway grade crossing fund.....	7.2	0.3
Deferred credits—		
Agreements of sale of Crown assets.....	2.0	1.2
Crown Assets Disposal Corporation.....	1.3	-2.3
Other.....		0.5
Suspense accounts—		
Replacement of materiel, sec. 11, National Defence Act.....	0.2	3.2
	76.0	-69.0
Net increases in sundry asset accounts—		
Cash in hands of collectors and in transit.....	14.8	-8.3
Post office—cash on hand and in transit.....	1.2	3.8
Unamortized portion of actuarial deficiency in the Canadian forces superannuation account.....	198.5	
Unamortized portion of actuarial deficiency in the Royal Canadian Mounted Police superannuation account.....		3.5
Unamortized loan flotation costs.....	10.3	-9.4
	224.8	-10.4
Net increase in other accounts.....		0.1
	1,898.4	147.7

Summary

In summary, as budgetary and non-budgetary transactions required financing in the amount of \$1,467 million, and unmatured debt outstanding in the hands of the public (after taking into account transactions in the securities investment account and sinking fund and other investments account) increased by \$1,064 million, cash balances on deposit with the banks decreased by \$403 million.

6. THE PUBLIC DEBT

Gross and net debt

The gross debt of Canada was \$24,812 million as at March 31, 1963. Unmatured debt (including treasury bills) in the amount of \$17,962 million accounted for approximately 72 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 \$6,850 million or approximately 28 per cent of the total debt.

The net debt of Canada was \$13,937 million as at March 31, 1963, an increase of \$709 million over the net debt at March 31, 1962. Total liabilities increased by \$1,904 million to \$24,812 million and net assets by \$1,195 million to \$10,875 million at March 31, 1963.

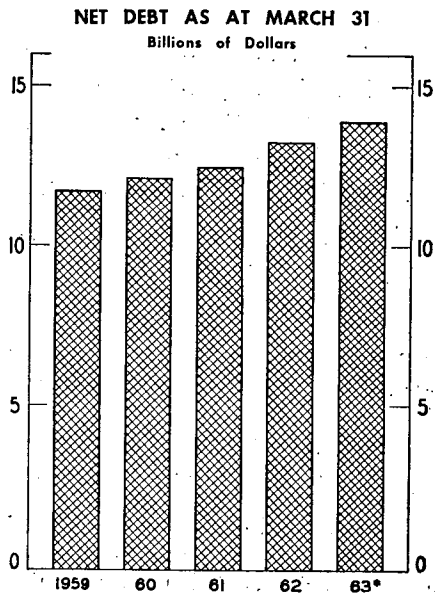
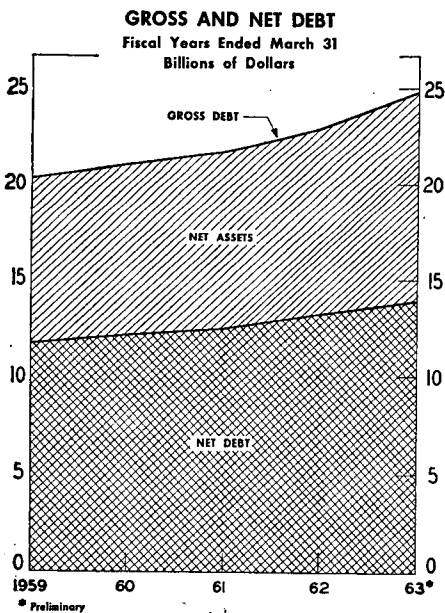


TABLE 63

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			
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.....	16,945.7	5,962.1	22,907.8	9,679.7	13,228.1	791.0
1963 (preliminary).....	17,961.8	6,850.1	24,811.9	10,874.8	13,937.1	709.0

Unmatured debt

The total unmaturred debt of Canada at March 31, 1963 was \$17,962 million, \$1,016 million more than at the end of the previous fiscal year. The government's holdings of its own securities were \$54 million, comprised of \$32 million in the securities investment account and \$22 million in the sinking fund and other investments account. This was a decrease of \$47 million from the comparable figure at March 31, 1962 when holdings were \$82 million in the securities investment account and \$19 million in the sinking fund and other investments account.

The decrease in the securities investment account was due mainly to the maturing of treasury bills held in the account.

Securities in the amount of \$113 million were acquired for the purchase fund, which was established in 1961 to assist in the management of the public debt. Purchases during the year were as follows:

\$20 million 4½% bonds due September 1, 1972

\$37 million 5½% bonds due October 1, 1975

\$ 4 million 3¼% bonds due June 1, 1976

\$ 8 million 3¼% bonds due January 15, 1978

\$ 8 million 3¼% bonds due October 1, 1979

\$35 million 4½% bonds due September 1, 1983

\$ 1 million 3¼% bonds due March 15, 1998

These securities were cancelled prior to the year-end and unmaturred debt was reduced by a similar amount.

Of the total unmaturred debt, \$17,551 million or approximately 98 per cent is payable in Canada, \$376 million in New York and \$35 million in London. Securities payable in New York and London have been valued at the official parity rates of \$1 U.S. = \$1.08108 Can. and £1 = \$3.027 Can., respectively.

Summary of security issues and maturities, redemptions, conversions or cancellations

During the year ended March 31, 1963, the government issued securities in the principal amount of \$4,385 million of which \$4,115 million was payable in Canada (excluding the refunding of treasury bills which mature weekly) and \$270 million was payable in New York. Securities issued in prior years payable in London and New York were valued at the official parity rates which resulted in an increase of \$10 million when stated in Canadian dollars.

Securities payable in Canada amounting to \$3,379 million were redeemed, converted or cancelled during the year.

TABLE 64
(in millions of dollars)

UNMATURED DEBT TRANSACTIONS	Fiscal year ended March 31	
	1963 (preliminary)	1962
Balance at beginning of year.....	16,946	16,068
New issues—		
For cash—		
Canada savings bonds series 15.....		65
Canada savings bonds series 16.....	78	973
Canada savings bonds series 17.....	1,634	
Marketable bonds.....	1,347	1,350
Non-marketable bonds (Unemployment Insurance Commission)	86	161
Treasury bills (net).....	280	
	3,425	2,549
By renewals and conversions—		
Marketable bonds.....	960	907
Total new issues.....	4,385	3,456
Adjustments due to valuation of securities payable in London and New York at the official parity rates ⁽¹⁾	10	
	4,395	3,456
Less—		
Matured marketable bonds.....	-984	-498
Redeemed non-marketable bonds (Unemployment Insurance Commission).....	-137	-99
Conversions.....	-960	-907
Canada savings bonds redeemed or matured.....	-1,185	-538
Treasury bills (net).....		-50
	-3,266	-2,092
Unmatured marketable bonds (purchased and cancelled).....	-113	-486
	-3,379	-2,578
Increase in unmatured debt.....	1,016	878
Balance at end of year.....	17,962	16,946

⁽¹⁾ Official parity rates at March 31, 1963 were £1=\$3.027 Can and \$1 U.S.=\$1.08108 Can.

Net sales of Canada savings bonds 1962, series 17, were \$1,634 million during 1962-63 and additional sales during the year of Canada savings bonds series 16 were \$78 million. Canada savings bonds series 6 outstanding in the amount of \$23 million matured on August 1, 1962 and redemptions prior to maturity of series 6 to 16 during the year amounted to \$1,162 million. The net increase during the year for all series was \$527 million; the amount outstanding and unmatured for all series at March 31, 1963 was \$4,582 million.

Treasury bills outstanding at March 31, 1963 amounted to \$2,165 million, consisting of \$1,310 million in three-month bills, \$740 million in six-month bills, \$85 million in 366-day bills and \$30 million in special bills of varying short term maturities held by the Bank of Canada.

TABLE 65

DEBT MATURED, REDEEMED, CONVERTED OR CANCELLED DURING THE FISCAL YEAR ENDED
MARCH 31, 1963 (preliminary)

	Matured	Redeemed	Converted	Cancelled prior to maturity	Total
	\$	\$	\$	\$	\$
3% 1961-62.....	75,000,000		(1) 25,000,000		100,000,000
3% 1960-62.....	140,000,000		(2) 50,000,000		190,000,000
3% 1961-62.....	285,000,000		(2) 50,000,000		335,000,000
5½% 1959-62.....	67,516,000		(3) 200,981,000		268,497,000
4½% 1960-62.....	140,000,000				140,000,000
3½% 1961-62.....	176,503,000		(4) 198,497,000		375,000,000
4% 1959-63.....	100,000,000				100,000,000
5½% 1960-63.....			(5) 435,018,000		435,018,000
4½% 1958-72.....				20,025,000	20,025,000
5½% 1959-75.....				36,575,000	36,575,000
3½% 1954-76.....				3,788,000	3,788,000
3½% 1953/54-78.....				8,447,000	8,447,000
3½% 1954-79.....				8,025,000	8,025,000
4½% 1958-83.....				35,250,000	35,250,000
3½% 1956-98.....				1,085,000	1,085,000
Canada savings bonds S.6.....	23,624,950				23,624,950
Canada savings bonds S.6-16..		1,161,795,150			1,161,795,150
Unemployment Insurance Commission (non-mar- ketable bonds)—					
3½%.....		62,500,000			62,500,000
4%.....		62,000,000			62,000,000
5½%.....		12,500,000			12,500,000
	1,007,643,950	1,298,795,150	959,496,000	113,195,000	3,379,130,100

(1) Exchanged for 2½% loan due June 1, 1963.

(2) Exchanged for 3½% loan due Oct. 1, 1967.

(3) Exchanged for 5½% loan due Oct. 1, 1975.

(4) \$38,497,000 exchanged for 4½% loan due Jan. 15, 1968 and \$110,000,000 exchanged for 3½% loan due Feb. 1, 1965.

(5) Exchanged for 5½% loan due April 1, 1976.

TABLE 66

NEW SECURITIES ISSUED DURING YEAR ENDED MARCH 31, 1963 (preliminary)

Description	Price to government	Yield at price to government	Total amount issued	Renewals or conversions included in amount issued	Amount issued for cash
	\$	per cent	\$	\$	\$
Marketable bonds—					
Loan due June 1, 1963, 2½%...	99.15	3.56	100,000,000	(1) 25,000,000	75,000,000
Loan due Jan. 15, 1968, 4½%...	99.25	4.42	150,000,000	(2) 88,497,000	61,503,000
Loan due Oct. 1, 1975, 5½%...			200,981,000	(3) 200,981,000	
Loan due April 1, 1976, 5½%...			435,018,000	(4) 435,018,000	
Loan due Feb. 1, 1964, 3½%...	99.25	4.02	125,000,000		125,000,000
Loan due Feb. 1, 1965, 3½%...	98.75	4.12	350,000,000	(5) 110,000,000	240,000,000
Loan due April 1, 1965, 4½%...	97.00	5.55	50,000,000		50,000,000
Loan due Feb. 1, 1966, 3½%...	97.25	4.49	225,000,000		225,000,000
Loan due Oct. 1, 1967, 3½%...	98.25	4.11	100,000,000	(6) 100,000,000	
Loan due April 1, 1969, 5½%...	99.50	5.59	100,000,000		100,000,000
Loan due Oct. 1, 1969, 5½%...	99.00	5.67	80,000,000		80,000,000
Loan due Aug. 1, 1980, 5½%...	98.00	5.68	120,000,000		120,000,000
New York loan due Oct. 15, 1987, 5%...	100.00	5.00	270,270,000		270,270,000
Non-marketable bonds—					
Unemployment Insurance					
Commission, 4%...	100.00	4.00	62,000,000		62,000,000
Unemployment Insurance					
Commission, 5½%...	100.00	5.12	24,000,000		24,000,000
Canada savings bonds—					
Nov. 1, 1961—Nov. 1, 1971, 4½-5%, S. 16...	100.00	4.60	78,598,800		78,598,800
Nov. 1, 1962—Nov. 1, 1976, 4½-5½%, S. 17...	100.00	5.11	1,633,808,950		1,633,808,950
Treasury bills (net).....			280,000,000		280,000,000
			4,384,676,750	959,496,000	3,425,180,750

(1) In exchange for 3% loan due May 1, 1962.

(2) In exchange for 3½% loan due Dec. 15, 1962.

(3) In exchange for 5½% loan due Oct. 1, 1962.

(4) In exchange for 5½% loan due April 1, 1963.

(5) In exchange for 3½% loan due Dec. 15, 1962.

(6) \$50,000,000 in exchange for 3% loan due Aug. 1, 1962 and \$50,000,000 in exchange for 3% loan due June 15, 1962.

Interest rates

The average interest rate on the government's unmatured debt at March 31, 1963 was 4.15 per cent compared with 3.94 per cent at the end of the previous fiscal year.

The yield on three-month treasury bills at tender on March 29, 1962 was 3.12 per cent. It dropped to 3.04 per cent on April 12, 1962, rose to a high of 5.51 per cent on July 19, 1962 and then declined to 3.62 per cent on March 28, 1963.

The yield on six-month treasury bills at tender on March 29, 1962 was 3.29 per cent. It dropped to 3.19 per cent on April 26, 1962, rose to a high of 5.74 per cent on July 19, 1962 and then declined to 3.74 per cent on March 28, 1963.

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 1958-59 to 1962-63 inclusive, and for six-month bills for the fiscal years 1959-60 to 1962-63 inclusive.

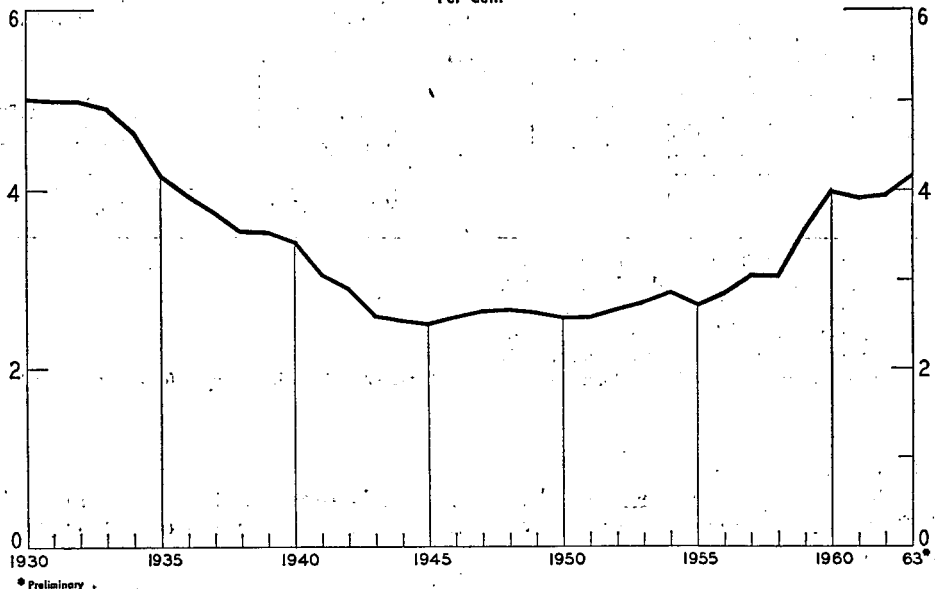
TABLE '67

TREASURY BILL YIELD AT TENDER

Fiscal year ended March 31	High	Low	Last issue
	per cent	per cent	per cent
Three-month bills—			
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	3.12
1963.....	5.51	3.04	(1)3.62
Six-month bills—			
1960.....	6.87	3.23	3.23
1961.....	4.07	1.99	3.37
1962.....	3.49	2.53	3.29
1963.....	5.74	3.19	(1)3.74

(1) At tender on March 28, 1963.

AVERAGE INTEREST RATE ON UNMATURED DEBT

As At March 31
Per Cent

* Preliminary

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, 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 \$4,136 million at December 31, 1962 compared with \$3,651 million at December 31, 1961.

TABLE 68

SUMMARY OF INDIRECT DEBT OR CONTINGENT LIABILITIES AS AT MARCH 31, 1963

	Amount of guarantee authorized	Amount outstanding March 31, 1963
	\$	\$
Railway securities guaranteed as to principal and interest—		
1. Canadian National 5½% due December 15, 1964.....	199,576,000	198,576,000
2. Canadian National 3% due January 3, 1966.....	35,000,000	35,000,000
3. Canadian National 2½% due January 2, 1967.....	50,000,000	50,000,000
4. Canadian National 4½% due April 1, 1967.....	75,000,000	72,300,000
5. Canadian National 5% due May 15, 1968.....	60,000,000	55,800,000
6. Canadian National 2½% due September 15, 1969.....	70,000,000	70,000,000
7. Canadian National 2½% due January 16, 1971.....	40,000,000	40,000,000
8. Canadian National 5½% due December 15, 1971.....	424,000	424,000
9. Canadian National 3½% due February 1, 1974.....	200,000,000	200,000,000
10. Canadian National 2½% due June 15, 1975, U.S. \$6,000,000.....	6,486,480	6,486,480
11. Canadian National 5% due May 15, 1977.....	90,000,000	84,600,000
12. Canadian National 4% due February 1, 1981.....	300,000,000	300,000,000
13. Canadian National 5½% due January 1, 1985.....	100,000,000	99,500,000
14. Canadian National 5% due October 1, 1987.....	175,000,000	168,675,000
	1,401,486,480	1,381,361,480
Other outstanding guarantees and contingent liabilities—		
15. Deposits maintained by the chartered banks in the Bank of Canada.....	Unstated	741,869,671
16. Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements.....	25,000,000 ⁽¹⁾	12,976,000
17. Insured loans made by approved lenders under the National Housing Act, 1954.....	6,000,000,000 ⁽²⁾	4,123,000,000
18. Insurance guarantees and long-term financing contracted or approved under section 21 and 21A of the Export Credits Insurance Act.....	700,000,000	333,645,786
19. Loans made by chartered banks under the Farm Improvement Loans Act.....	Indeterminate ⁽¹⁾	47,966,702
20. Loans made by chartered banks under the Veterans' Business and Professional Loans Act.....	Indeterminate ⁽¹⁾	71,952
21. Loans made by chartered banks and credit unions under the Fisheries Improvement Loans Act.....	Indeterminate ⁽¹⁾	154,275
22. Loans made by chartered banks under the Prairie Grain Producers' Interim Financing Act, 1956.....	Indeterminate	14,214
23. Loans made by chartered banks under the Prairie Grain Loans Act.....	Indeterminate	1,773
24. Loans made by chartered banks under the Small Businesses Loans Act.....	30,000,000 ⁽¹⁾	5,564,559
25. Loans made by chartered banks to the Canadian Wheat Board	180,000,000	80,331,172
26. Loans made by chartered banks to the Canadian Wheat Board pursuant to the Prairie Grain Provisional Payments Act...	Unstated	3,396
27. Loans made by chartered banks under the Prairie Grain Advance Payments Act.....	Unstated	7,245,127
		5,352,844,627
28. Loans maintained by approved lending institutions under National Housing Acts prior to 1954 Act.....	Unstated	Indeterminate
29. Guarantees to owners of returns from moderate rental housing projects ⁽³⁾	Unstated	Indeterminate

⁽¹⁾ As at December 31, 1962.⁽²⁾ As reported (in accordance with Sec. 45, National Housing Regulations) by approved lenders at December 31, 1962.⁽³⁾ Funds totalling \$3,872,193 are held by Central Mortgage and Housing Corporation for the purpose of settling claims. In 1962 rental guarantee contracts totalled \$15,006,000.

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)

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
	\$	\$	\$	\$	\$
TAX REVENUES					
Income tax—					
Personal ⁽¹⁾	1,353.5	1,566.6	1,711.2	1,792.7	1,745.0
Corporation ⁽¹⁾	1,020.6	1,142.9	1,276.6	1,202.0	1,183.0
On dividends, interest, etc., going abroad.....	61.2	73.4	88.2	112.3	129.0
	<u>2,435.3</u>	<u>2,782.9</u>	<u>3,076.0</u>	<u>3,107.0</u>	<u>3,057.0</u>
Excise taxes—					
Sales tax ^{(1) (2)}	694.5	732.7	720.6	759.7	806.0
Other excise taxes—					
Automobiles.....	59.3	64.3	59.6	25.3	(3)
Cigarettes, tobacco and cigars....	148.0	185.5	193.7	207.6	216.6
Electric power export.....	1.2	1.3	1.6	1.0	0.5
Jewellery, watches, ornaments, etc.	5.6	5.6	5.9	5.6	6.1
Matches and lighters.....	0.9	0.8	0.8	1.1	1.1
Television sets, radios, tubes and phonographs.....	17.8	17.8	15.9	18.4	20.2
Toilet preparations.....	6.8	7.7	8.4	9.4	10.2
Wines.....	3.1	3.0	3.2	3.3	3.7
Sundry commodities.....	1.2	1.2	1.1	1.1	1.5
Interest and penalties.....	0.5	0.6	0.8	0.7	0.5
Less refunds.....	-2.6	-0.4	-0.3	-11.0	-0.4
	<u>241.8</u>	<u>287.4</u>	<u>290.7</u>	<u>262.5</u>	<u>260.0</u>
Customs import duties.....	486.5	525.7	498.7	534.5	645.0
Excise duties—					
Spirits.....	96.5	102.4	108.5	114.1	122.0
Beer.....	83.1	90.7	91.0	92.7	98.6
Cigarettes, tobacco and cigars.....	141.2	146.2	149.6	160.5	165.7
Licences.....	(3)	(3)	(3)	(3)	(3)
Less refunds.....	-4.1	-4.1	-4.2	-4.5	-4.3
	<u>316.7</u>	<u>336.2</u>	<u>344.9</u>	<u>362.8</u>	<u>382.0</u>
Estate tax ⁽⁴⁾	72.6	88.4	84.9	84.6	87.0
Miscellaneous tax revenues.....	(3)	(3)	(3)	0.1	0.1
Total tax revenues.....	4,247.4	4,752.3	5,015.8	5,111.2	5,237.1
NON-TAX REVENUES					
Return on investments.....	221.2	239.7	283.8	307.5	311.0
Post office—net postal revenue.....	157.5	167.6	173.6	183.7	193.0
Other.....	128.6	130.2	144.5	127.2	135.0
Total non-tax revenues.....	507.3	537.5	601.9	618.4	639.0
Total revenues.....	4,754.7	5,289.8	5,617.7	5,729.6	5,876.1

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

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
Personal income tax.....	146.4	185.6	229.4	259.0	273.6
Corporation income tax.....	55.3	91.3	103.5	100.1	115.3
Sales tax.....	173.6	270.0	270.2	284.9	302.2

⁽²⁾Net after deduction of refunds and drawbacks as well as transfers to the old age security fund.

⁽³⁾Less than \$50,000.

⁽⁴⁾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)

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
	\$	\$	\$	\$	\$
AGRICULTURE—					
Administration and general.....	3.6	3.6	4.4	4.8	4.8
Agricultural commodities stabilization account—net operating loss.....	15.0	57.7	53.4	22.0	72.0
Agricultural products board account— net operating loss.....				4.9	0.6
Assistance re storage costs of grain.....	38.4	42.3	48.2	48.8	35.3
Board of Grain Commissioners.....	6.1	6.1	6.3	6.5	6.2
Prairie farm emergency fund—deficit.....	17.0	12.5	9.2	47.7	7.3
Production and marketing branch.....	23.2	25.4	29.3	33.9	32.5
Contributions to Alberta, Saskatch- ewan and Manitoba—unhar- vested crops.....		4.7	1.4		
Payments to western grain producers.....	41.3		40.5	40.1	0.1
Freight assistance on western feed grains.....	20.0	23.8	19.2	17.5	14.4
Premium on hog and lamb carcasses.....	6.9	8.2	6.6	7.6	5.9
Rehabilitation and reclamation proj- ects.....	13.5	17.6	20.2	26.1	28.4
Research branch.....	23.6	25.6	26.2	26.8	26.7
	208.6	227.5	264.9	280.7	234.2
ATOMIC ENERGY.....	26.1	30.1	38.9	34.7	63.2
AUDITOR GENERAL'S OFFICE.....	0.8	0.9	0.9	1.1	1.2
BOARD OF BROADCAST GOVERNORS.....	0.1	0.2	0.3	0.3	0.4
CANADIAN BROADCASTING CORPORATION—					
Grants toward the anticipated operat- ing deficit and capital expenditures of the radio broadcasting and tele- vision services.....	50.3	61.9	64.9	76.5	79.0
International service.....	1.9	2.0	1.9	1.7	1.8
Payment from the consolidated reve- nue fund of amounts equal to taxes collected under the Excise Tax Act in respect of radio and television sets and equipment.....	9.8				
	62.0	63.9	66.8	78.2	80.8
OFFICE OF THE CHIEF ELECTORAL OFFICER..	3.2	0.3	0.6	0.4	11.8
CITIZENSHIP AND IMMIGRATION—					
Administration and general.....	2.1	2.1	2.4	2.6	2.8
Immigration branch.....	14.4	11.7	12.3	12.0	12.5
Indian affairs branch.....	36.4	41.1	46.4	50.4	50.9
	52.9	54.9	61.1	65.0	66.2
CIVIL SERVICE COMMISSION.....	3.5	3.7	4.2	4.7	4.8
DEFENCE PRODUCTION—					
Administration and general.....	12.1	15.0	18.6	22.0	27.6
Production capacity and capital assist- ance to defence industry.....	1.8	2.6	1.8	1.9	1.9
	13.9	17.6	20.4	23.9	29.5
EXTERNAL AFFAIRS—					
Administration and general.....	30.7	36.5	35.6	28.9	23.2
External aid.....	35.5	50.6	55.8	53.9	46.3
Representation abroad.....	9.6	10.1	11.6	12.8	15.1
	75.8	97.2	103.0	95.6	84.6

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

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
	\$	\$	\$	\$	\$
FINANCE—					
Administration and general.....	10.2	10.8	19.9	19.5	21.6
Office of the Comptroller of the Treasury.....	17.9	18.2	19.8	21.3	22.7
Grants to municipalities in lieu of taxes on federal property.....	21.9	22.5	24.5	24.7	29.0
Grants to universities.....	25.5	26.1	19.0	19.4	26.3
Government's contribution with respect to the public service superannuation account.....	37.7	40.0	41.4	46.9	51.1
Payments to provinces—					
Statutory subsidies.....	20.6	20.8	20.7	23.5	23.5
Tax-sharing arrangements, 1956 act.....	423.1	485.4	504.9	503.3	23.8
Fiscal arrangements, 1961 act.....					218.2
Transfer of certain public utility tax receipts.....	8.7	4.8	4.2	6.4	10.0
Transitional grant to Newfoundland.....	1.0	0.7	0.3		
Additional grants to Newfoundland.....	13.6	7.3	7.7	8.0	
Premium, discount and exchange.....		0.2			9.8
Public debt charges—					
Interest on public debt.....	606.6	735.6	756.7	802.9	882.0
Cost of issuing new loans and annual amortization of bond discounts and commissions.....	40.8	47.3	40.2	35.3	34.4
Servicing of public debt.....	0.6	0.5	0.7	0.8	1.6
	1,228.2	1,420.2	1,460.0	1,512.0	1,554.0
FISHERIES.....	17.5	19.9	19.2	23.1	23.2
FORESTRY.....	9.8	9.9	10.1	14.7	16.3
GOVERNOR GENERAL AND LIEUTENANT GOVERNORS.....	0.4	0.4	0.4	0.5	0.5
INSURANCE.....	1.2	1.2	1.3	1.4	1.4
JUSTICE—					
Administration and general.....	7.6	8.1	8.6	9.5	10.0
Office of the Commissioner of Penitentiaries.....	16.7	19.7	19.1	23.1	24.0
	24.3	27.8	27.7	32.6	34.0
LABOUR—					
Administration and general.....	6.5	12.9	15.6	31.6	35.7
Government annuities—amount required to maintain reserve.....	0.2	0.2			
Technical and vocational training assistance payments to provinces.....	7.7	8.2	8.5	35.7	207.0
Unemployment Insurance Commission—					
Administration and general.....	35.3	35.9	42.1	46.0	48.1
Government's contribution.....	37.1	45.7	55.1	55.6	57.4
	86.8	102.9	121.3	168.9	348.2
LEGISLATION—					
House of Commons.....	5.6	5.6	6.3	6.2	6.2
Library of Parliament.....	0.3	0.3	0.3	0.3	0.3
Senate.....	1.7	1.8	1.9	1.9	1.8
	7.6	7.7	8.5	8.4	8.3
MINES AND TECHNICAL SURVEYS—					
Administration and general.....	22.7	23.7	27.7	35.3	35.5
Dominion Coal Board.....	11.3	17.6	19.3	19.9	20.5
Emergency gold mining assistance.....	9.8	13.1	12.1	12.4	15.2
	43.8	54.4	59.1	67.6	71.2

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

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
	\$	\$	\$	\$	\$
NATIONAL DEFENCE—					
Defence forces, army, naval and air services.....	1,222.7	1,397.1	1,406.0	1,502.8	1,430.8
Defence research and development.....	74.4	39.2	41.9	40.4	41.7
Government's contributions with respect to Canadian forces superannuation account.....	49.5	51.8	40.5	56.0	58.1
Mutual aid to NATO countries.....	70.7	18.4	14.6	11.1	25.0
Pensions—payments under Defence Services Pension Act.....	6.0	6.3	6.7	7.3	7.6
Other.....	2.4	3.8	7.8	8.5	9.7
	1,425.7	1,516.6	1,517.5	1,626.1	1,572.9
NATIONAL FILM BOARD.....	4.3	4.6	4.9	5.1	5.6
NATIONAL GALLERY OF CANADA.....	0.6	0.7	0.9	1.0	1.0
NATIONAL HEALTH AND WELFARE—					
Administration and general.....	4.6	4.5	5.1	5.6	6.2
National health branch—					
General health grants and hospital construction grants.....	45.9	46.0	48.0	49.0	51.0
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	54.7	150.6	189.4	283.9	336.8
Indian and northern health services.....	22.1	21.5	23.0	24.0	24.7
Other.....	9.1	9.1	9.4	10.1	10.7
Welfare branch—					
Family allowances.....	474.8	491.2	506.2	520.8	531.6
Fitness and amateur sport payments.....				0.2	1.0
Old age assistance, blind persons and disabled persons allowances.....	49.7	50.6	51.3	51.4	62.8
Old age security fund—deficit.....	184.0				
Unemployment assistance.....	23.9	40.2	51.5	92.0	96.0
Other.....	3.1	3.0	3.3	3.3	2.4
	871.9	816.7	887.2	1,040.3	1,123.2
NATIONAL RESEARCH COUNCIL, including the Medical Research Council.....	25.4	31.5	34.4	38.8	41.3
NATIONAL REVENUE.....	68.8	68.7	73.3	75.3	78.6
NORTHERN AFFAIRS AND NATIONAL RESOURCES.....	58.0	74.3	74.3	82.3	90.3
POST OFFICE.....	157.8	165.8	178.4	185.0	189.3
PRIVY COUNCIL, including Prime Minister's Office.....	1.1	1.4	1.9	4.5	5.0
PUBLIC ARCHIVES AND NATIONAL LIBRARY.....	0.7	0.7	0.8	1.0	1.0
PUBLIC PRINTING AND STATIONERY.....	3.5	3.5	3.5	4.0	4.0
PUBLIC WORKS—					
Administration and general.....	170.1	158.5	145.9	138.5	125.3
National Capital Commission.....	4.9	6.2	6.3	8.7	13.8
Trans-Canada highway contributions.....	51.1	53.2	48.7	41.6	35.9
	226.1	217.9	200.9	188.8	175.0
ROYAL CANADIAN MOUNTED POLICE.....	51.7	52.4	56.0	60.5	65.5
SECRETARY OF STATE.....	4.4	4.7	4.9	5.0	4.8
TRADE AND COMMERCE—					
Administration and general.....	19.9	17.7	21.4	39.0	26.5
National Energy Board.....		0.2	0.4	0.5	0.5
	19.9	17.9	21.8	39.5	27.0

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

(in millions of dollars)

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
	\$	\$	\$	\$	\$
TRANSPORT—					
Administration and general.....	4.0	4.6	5.0	8.4	10.7
Air services.....	115.4	124.1	133.9	150.0	138.3
Canadian Maritime Commission.....	5.9	6.7	6.9	10.2	31.0
Marine services.....	61.5	59.1	49.1	48.6	55.0
Non-active assets—					
National Harbours Board.....	4.3	2.0	0.6	4.9	5.2
Railway and steamship services.....	1.8	3.7	6.2	5.9	15.8
Deficits—					
Canadian National Railways.....	51.6	43.6	67.5	67.3	48.9
Canadian National (West Indies) Steamships Ltd.....	1.2				
North Sydney—Port aux Basques ferry and terminals.....	5.8	5.8	5.4	7.3	8.2
Prince Edward Island car ferry and terminals.....	2.0	2.6	2.6	3.0	3.3
Yarmouth—Bar Harbour ferry service.....	0.2	0.2	0.1	0.1	0.2
Freight Rates Reduction Act.....		7.8	20.4	19.0	36.7
Interim payments related to the recom- mendations of the Royal Com- mission on Railway Problems.....				50.0	50.0
Maintenance of trackage.....	7.0	7.0	7.0	7.0	7.0
Maritime Freight Rates Act.....	13.1	14.3	14.1	12.2	12.9
Contribution to the railway grade crossing fund.....	15.0	15.0	15.0	10.0	5.7
Trans-Canada Air Lines—deficit.....			2.6	6.5	3.5
	288.8	296.5	336.4	410.4	430.4
VETERANS AFFAIRS—					
Administration and general.....	6.3	6.4	6.7	6.8	6.8
Hospital accommodation, additions, alterations and improvements.....	3.3	4.5	6.1	4.9	2.2
Pensions.....	150.7	149.7	150.7	177.9	175.9
Provision for reserve for conditional benefits.....	4.4	3.8	3.4	3.3	3.2
Soldier settlement and veterans land acts.....	5.4	5.2	5.2	4.6	4.6
Treatment and welfare services.....	56.1	52.6	52.6	52.0	53.9
Veterans allowances, treatment allow- ances and other benefits.....	60.4	63.2	64.7	81.7	88.7
War service gratuities and re-estab- lishment credits.....	2.2	2.9	2.9	2.0	1.1
	288.8	288.3	292.3	333.2	336.4
TOTAL EXPENDITURES.....	5,364.0	5,702.9	5,958.1	6,520.6	6,585.1

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

(in millions of dollars)

	1958-59	1959-60	1960-61	1961-62	1962-63 (preliminary)
	\$	\$	\$	\$	\$
Loans to, and investment in, Crown corporations—					
Atomic Energy of Canada Limited....	2.7	0.6	1.5	4.9	-12.5
Canadian Broadcasting Corporation...	-27.0		3.0		
Canadian Commercial Corporation....		2.0	1.0	3.0	-0.5
Canadian National Railways.....	199.5	-261.4	-116.5	72.3	274.7
Canadian National (West Indies) Steamships Limited.....	-0.3	-0.2	-1.0	-0.7	-0.6
Canadian Overseas Telecommunication Corporation.....	0.3	9.6	9.1	6.2	12.3
Central Mortgage and Housing Corporation.....	335.6	315.1	192.0	190.3	96.5
Export Credits Insurance Corporation.....				5.2	20.0
Farm Credit Corporation.....	22.0	28.5	40.1	54.2	59.0
National Capital Commission.....	5.0	10.7	7.4	6.2	9.4
National Harbours Board.....	20.2	15.8	11.4	6.0	13.9
Northern Canada Power Commission.....	6.2	5.0	0.9	-0.3	-7.2
Northern Ontario Pipe Line Crown Corporation.....	42.8	8.0	2.2	-4.7	-7.5
The St. Lawrence Seaway Authority..	(1)106.1	(1)33.1	24.0	(1)28.3	(1)22.7
Trans-Canada Air Lines.....	2.5	1.0	1.3	0.2	-0.4
Other.....		-0.1	0.1		
	715.6	167.7	176.6	371.1	479.8
Loans to national governments—					
United Kingdom—					
The War Appropriation (U.K. Financing) Act, 1942.....	-22.5				
The United Kingdom Financial Agreement Act, 1946.....	-16.1	-16.4	-16.7	-17.1	-17.4
Export Credits Insurance Act.....	-17.9	-17.9	-15.2	-15.3	-105.9
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada.....	18.3	0.5	-3.5	-5.0	-5.1
Other.....	-0.8	-0.6	-0.9	-1.0	-0.7
	-39.0	-34.4	-36.8	-38.4	-129.1
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.....	-2.6	235.4	15.0	21.0	12.6
International bank for reconstruction and development.....			2.8		6.8
International development association.....			8.5	7.9	8.5
Working capital advances and loans to international organizations.....		-0.1	-0.3	-0.1	6.2
Loans to provincial governments(2)....	(3)26.6	1.9	-1.1	-0.5	2.1
Provincial tax collection agreements—advances.....					10.3
Balances receivable under agreements of sale of Crown assets.....	-2.9	-3.1	-3.9	-1.5	-2.3
Old age security fund.....		28.0	-10.7	-17.3	41.0
Unemployment Insurance Commission.....			67.0	-67.0	
Veterans land act advances.....	-3.0	0.6	14.5	11.3	18.2
Other.....	3.4	-3.4	0.4	4.4	8.1
	21.5	259.3	92.2	-41.8	111.6
Net total of changes in loans and investments.....	698.1	392.6	232.4	200.9	462.2

(1) Includes deferred interest.

(2) Includes advances to Nova Scotia and New Brunswick pursuant to the Atlantic Provinces Power Development Act.

(3) 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, 1963
AND THE ANNUAL INTEREST THEREON**

		Date of maturity	Rate per cent	Amount of loan \$	Annual interest \$
Payable in Canada—					
Loan of 1960.....	T. 37	1963 Apr. 1	5½	12,802,000	704,110
Loan of 1961 and 1962.....	AT.10	Apr. 1	2½	300,000,000	8,250,000
Loan of 1961.....	AT. 7	June 1	2½	275,000,000	7,562,500
Canada savings bonds 1952.....	S. 7	Aug. 1	3½	(1)19,203,050	720,114
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 1963.....	AT.18	1964 Feb. 1	3½	125,000,000	4,062,500
Loan of 1961.....	AT. 1	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
Loan of 1962.....	AT.17	1965 Feb. 1	3½	350,000,000	12,250,000
Loan of 1962.....	AT.15	Apr. 1	4½	50,000,000	2,125,000
Conversion loan 1958.....	T. 27	Sept. 1	3½	1,265,890,600	47,470,898
Canada savings bonds 1953.....	S. 8	Nov. 1	3½	(1)64,399,400	2,414,978
Loan of 1963.....	AT.19	1966 Feb. 1	3½	225,000,000	7,875,000
Ninth victory loan.....	P. 7	Sept. 1	3	245,202,200	7,356,066
Canada savings bonds 1954.....	S. 9	Nov. 1	3½	(1)39,400,150	1,280,505
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
Loan of 1962.....	AT.12	Oct. 1	3½	100,000,000	3,750,000
Canada savings bonds 1955.....	S. 10	Nov. 1	3½	(1)37,963,800	1,233,824
Loan of 1961.....	AT.11	1968 Jan. 15	4½	250,000,000	10,625,000
Refunding loan 1950.....	P. 9	June 15	2½	308,581,000	8,485,978
Canada savings bonds 1959.....	S. 14	Nov. 1	5	(1)1,028,554,750	51,427,738
Loan of 1962.....	AT.16	1969 Apr. 1	5½	100,000,000	5,500,000
Loan of 1960.....	T. 39	Apr. 1	5½	80,000,000	4,400,000
Canada savings bonds 1956.....	S. 11	May 1	4	66,215,950	2,648,638
Loan of 1962.....	AT.13	Oct. 1	5½	80,000,000	4,400,000
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)503,900,350	23,935,267
Canada savings bonds 1960.....	S. 15	Nov. 1	4½	(1)513,630,100	23,113,355
Canada savings bonds 1961.....	S. 16	1971 Nov. 1	4½	(1)514,276,500	23,142,443
Conversion loan of 1958.....	T. 28	1972 Sept. 1	4½	1,267,203,100	53,856,132
Canada savings bonds 1958.....	S. 13	1973 Nov. 1	4½	(1)160,807,200	6,834,306
Loan of 1959.....	T. 36	1975 Oct. 1	5½	310,361,000	17,069,855
Loan of 1960.....	T. 38	1976 Apr. 1	5½	436,198,000	23,990,890
Loan of 1954.....	T. 11	June 1	3½	247,046,500	8,029,011
Canada savings bonds 1962.....	S. 17	Nov. 1	4½	(1)1,633,808,950	73,521,403
Loan of 1953 and 1958.....	T. 5	1978 Jan. 15	3½	207,911,500	7,796,681
Loan of 1954.....	T. 13	1979 Oct. 1	3½	343,246,500	11,155,511
Loan of 1962.....	AT.14	1980 Aug. 1	5½	120,000,000	6,600,000
Conversion loan 1958.....	T. 29	1983 Sept. 1	4½	1,992,679,450	89,670,575
Conversion loan 1956.....	T. 15	1998 Mar. 15	3½	197,045,000	7,389,188
Loan of 1936.....	P. 1	Perpetual	3	55,000,000	1,650,000
Three-month treasury bills.....			(2)3.62	1,310,000,000	48,710,000
Various (123 to 158 days) treasury bills..			3.71	30,000,000	1,113,000
Six-month treasury bills.....			(2)3.74	740,000,000	29,790,500
366-day treasury bills.....			5.69	85,000,000	4,836,500
Special non-marketable bonds (U.I.C.).			5½	11,500,000	589,375
				17,550,847,250	727,277,447
Payable in London—					
Loan of 1933 and 1934.....		1963 July 1	3	(3)32,445,301	973,359
Loan of 1938.....		July 1	3½	(3)2,138,751	69,509
				34,584,052	1,042,868
Payable in New York—					
Loan of 1949.....		1974 Sept. 1	2½	(4)65,087,502	1,789,906
Loan of 1950.....		1975 Sept. 15	2½	(4)1,047,527	1,128,807
Loan of 1962.....		1987 Oct. 15	5	(4)270,270,000	13,513,500
				376,405,029	16,432,213
				17,961,836,331	744,752,528

NOTE: Where various rates of interest are applicable during the term of a loan the interest rate in effect at March 31, 1963 has been used.

(1) Preliminary.

(2) Rate of discount at tender on March 28, 1963.

(3) Conversion rate \$3.027 = £1.

(4) Conversion rate \$1.08108 Can = \$1 U.S.

STATEMENT

made by

THE HONOURABLE WALTER L. GORDON,

Minister of Finance, in the House of Commons.

June 19, 1963

Certain administrative difficulties have arisen respecting the immediate application of the proposed 30% tax on takeovers, announced in the budget speech on June 13.

One of the difficulties is in connection with new financing for the expansion of existing businesses. This cannot be allowed to lapse or be deferred until detailed regulations have been formulated.

It may take a little time to work out satisfactorily the difficulties referred to. Pending a solution, the Government proposes to withdraw paragraph 11 of the Budget Resolution respecting the Excise Tax Act.

Since the budget was delivered, I have had a number of conversations about this matter with people familiar with the administrative side of the securities business including the Presidents of the Toronto and Montreal Stock Exchanges, and a senior officer of The Investment Dealers' Association of Canada. I have also heard by telegram from the President of the Vancouver Stock Exchange. Most of the people I have talked with have pointed out the administrative difficulties I have referred to, but are anxious to find a solution that will be consistent with the government's statement of disapproval of takeovers of Canadian concerns by non-residents.

This attitude is not shared by the President of the Montreal Stock Exchange. In a letter to me dated June 18, he states that "a non-resident takeover confers great benefits on the Canadian economy". Either before or just after an interview with me yesterday, and without informing me of his intention to take such action, the President of the Montreal Stock Exchange handed copies of his letter to members of the press.

The letter is both intemperate and irresponsible in tone and content. It is a strange communication coming as it does from a man who holds the position of President of an important Canadian stock exchange.

I want to make it clear that this government disagrees completely with the interpretation of the national interest expressed by the President of the Montreal Stock Exchange. Our attitude to the desirability of maintaining and increasing Canadian ownership of Canadian assets was clearly set out in the budget speech. It remains unchanged.

STATEMENT

made by

THE HONOURABLE WALTER L. GORDON,

Minister of Finance, in the House of Commons,

July 8, 1963

"Since the Budget was brought down on June 13, the Government has received representations and suggestions for changes from members of all parties in this House and from many people outside. The old saying that only he who wears the shoe knows where it pinches has always been as true of taxes as of most things. The complexity of modern business and, therefore, the complexity of modern taxation, has made it increasingly difficult for governments to foresee all the administrative problems and all the consequences of tax changes. Detailed information, from those affected, can be secured only after the proposals have been made public. No Government—no Minister of Finance—should be reluctant to reconsider and revise proposals if public discussion shows it to be desirable.

On this occasion I acknowledge with gratitude the representations and suggestions that have been made. All have been carefully considered. Some are good ideas which I am glad to act on. Therefore, on behalf of the Government I am proposing to table tonight revised resolutions on the Income Tax Act and the Excise Tax Act to supersede those tabled on the night of the Budget.

In part, what the revisions do is to clarify the Budget proposals and improve them in detail.

For example, we had recommended that sales taxes would not have to be paid by the purchaser under a fixed-price contract; it should have been made clear that a binding tender, submitted before the Budget, would also be regarded, if accepted, as equivalent to a contract.

There is another administrative change of a similar kind. We had proposed to set a time limit of twelve months—i.e., until June 14, 1964 before which deliveries of building materials, machinery, etc., under existing fixed-price contracts must be made in order to qualify for refund of sales tax. Although that time limit is adequate in the majority of cases it is not unreasonable, I think, that it be extended to 31st December 1964.

Information received from various industries since the Budget makes it clear that the exemption from sales tax on materials consumed or expended in a manufacturing process should be continued. The tax would bear inequitably on many manufacturing enterprises and on the printing and graphic arts industries. The resolution has been modified accordingly.

It has also been revised to operate more fairly as between those who construct buildings on the site and those who manufacture pre-fabricated buildings or certain pre-fabricated components of buildings.

A different type of clarification in the Income Tax resolution concerns the question of appeal, which was raised early in discussion in this House. It is the Government's intention that the powers sought in order to prevent "dividend stripping" and the use of associated companies to reduce tax should be made subject, in the bill, to appeal to the Exchequer Court. This has been incorporated in the resolution.

I should also refer at this point to the provision for pipeline companies to deduct exploration expenses. The date set was chosen to keep the law as simple as possible, not to provide retroactive benefits. But since this has been questioned, and to make certain there will be no retroactive benefits, the provision will apply only from the the date of the Budget.

There is one other substantial clarification proposed. This concerns the definition of the degree of Canadian ownership which will entitle companies to deduct a lower rate of non-resident withholding tax and to take 50 per cent depreciation for certain new assets. The proposed definition has been changed in a number of ways. The requirement that 25 per cent of the company's directors shall be Canadians will not come into effect until 1965 and will be broadened to include resident officers of the corporation. Moreover, to give greater stability the status of the corporation will be determined by the ownership of its shares in the 60 days immediately preceding its taxation year. And, to meet the cases of corporations with widely-spread ownership who would have great difficulty in determining the beneficial ownership of shareholdings, they will be able to qualify if their shares are listed on a Canadian Stock Exchange and not more than 75 per cent of the voting stock is owned by a non-resident shareholder and others associated with him.

This requirement provides for a substantial minority interest, available to Canadian investors, as a counterweight to a controlling group with interests outside Canada.

In addition to these clarifications, the Government proposes that two changes of substance will be made in the Excise Tax resolution.

The first of these concerns schools and universities and similar educational institutions. It is proposed that materials used in their construction will continue to be exempt from sales tax, in effect, by the refunding of the tax on a basis similar to that followed in the case of hospitals.

The issues involved in a decision such as this are extremely difficult ones for a Minister of Finance. Any tax produces hard cases. It is often tempting to think that we should deal with them by allowing an exception. But if we should follow that impulse we would in no time end up with a tax system which is too complicated to be administered well, and which does not produce the revenue needed.

For this reason, if exceptions and exemptions are allowed to go far, they do more harm than good.

Nevertheless, after careful reconsideration, I think it right to make such an exception in the case of schools and universities. Their need for new buildings is so great, they are of such importance to the future of Canadians, and the sources of finance available for their construction are already so strained, that they are a very special case indeed; one that, on reflection, I believe should be recognized.

The second change that the Government proposes is one that has, in the short run, a considerable effect on the revenue that will be raised. I should therefore remind the House of the objectives of the Budget which was presented on June 13th.

It is, first of all, a Budget designed to encourage production and employment. To achieve those purposes we must accept a deficit while our economy expands. But if we are to have full employment and economic growth, not only in the short run but on a sustained basis, we must reduce the excess of our current payments to other countries over receipts from those countries.

Such excess expenditure abroad does not produce any employment in Canada. That is one reason why we must export more and compete more effectively against imports.

Moreover—and this is the second main objective—we must take positive action to safeguard the Canadian economy against an ever-increasing and excessive degree of ownership and control outside this country. This must be done while we continue to treat fairly the foreign investors who are making—and, I hope and believe, will continue to make—an essential contribution to the development of our country.

These objectives cannot be gained without maintaining confidence in our economy and our finances. For that reason, we cannot contemplate an indefinite series of budget deficits. It must be clearly established that our fiscal policy and measures are so designed that, when other forces are strong enough to cause the economy to operate close to its full capacity, our Budget will be balanced.

These are the inter-related objectives of the Budget. They are not simple or easy. But I think they are objectives to which most responsible people will subscribe.

They mean that, in present conditions of production and employment, it is reasonable to budget for a substantial deficit. But they also mean that the Government must take definite action to reduce the deficit as production and employment increase. That reduction will not come about quickly enough solely through the natural expansion of government revenues. The growth of Canada implies growth in our expenditures also. Many of the new programmes which Canadians clearly want for their well-being, and which are needed for economic expansion and the creation of more jobs, will require increased expenditures next year. We must be in a position to meet those needs. We must therefore provide for new sources of revenue, especially for revenue that will come to us next year.

I have explained to the House why removal of the exemption from sales tax on building materials and machinery is, in my opinion, the least objectionable source of additional revenue.

At the same time, the evidence that has been presented makes it clear that the sudden imposition of the tax at the rate of 11 per cent would have a very sharp immediate impact on some industries. Of course, there are always objections to raising any tax, even from many of those who feel most strongly that the Budget should be balanced. The Government cannot accept such pleas to eliminate the tax. But full consideration of the arguments suggests that the timing of the extra taxation can be adjusted in a way that will synchronize with the needs of the economy over a longer period.

It is proposed, therefore, that the tax will come into effect in stages. The rate charged from June 14th will be 4 per cent. This will continue until 31 March next year. The rate will then be raised to 8 per cent and will continue at that level until 31 December 1964. After that the final 3 per cent will be added.

Refunds will be made to those who, during the period from June 14 until tonight, have actually remitted sales tax at the full rate on goods they have sold or imported that were previously exempt.

The graduation of the tax will have two effects. First, it will give people time to adjust their affairs, to absorb the impact of the tax in the most convenient way. Secondly, the graduation of tax rates will provide an important incentive to people to proceed with construction and other investment projects now.

The total result of the revision in the resolutions will be to reduce revenues, compared with the estimate I made on June 13th, by about \$115 million in the remainder of the current fiscal year. For the full fiscal year 1964-65, we estimate that the additional revenues previously forecast will now be \$125 million less.

The resolutions I am tabling contain the details of the changes I have mentioned and some minor or consequential changes I have not mentioned; I would propose that they be printed in Hansard for the convenience of honourable members.

As Minister of Finance, I regret the loss of revenue during the next eighteen months but I believe that on balance the changes now proposed will be helpful. They do not alter the objectives of the Budget. They will improve its immediate economic effect and stimulate expansion and employment."

EXCISE TAX ACT

The Minister of Finance—In Committee of Ways and Means:—

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 certain building materials be withdrawn by repealing the exemption for all goods mentioned under the heading "Building Materials" in Schedule III of the said Act and by repealing the exemptions for

- (a) "Creosote oil and other wood preservatives when for use exclusively in the treatment of timber, poles or lumber;"
- (b) "Railway ties;"
- (c) "Goods for use as part of sewerage and drainage systems, and articles and materials to be used exclusively in the manufacture thereof;"

2. That any enactment based on paragraph 1 of this resolution provide that

- (a) goods for use as part of sewerage and drainage systems be exempt from sales tax when sold to or imported by a municipality for its own use and not for resale;
- (b) any transfer of a sewerage or drainage system to a municipality by any person within two years after the completion thereof, pursuant to a by-law of or agreement with that municipality under which that person is required to install such system and transfer it without charge to that municipality after the completion thereof be deemed, for the purpose of section 46 of the said Act, to be a sale to the municipality for its own use and not for resale of goods for use as part of a sewerage or drainage system,

and that any agency operating a sewerage or drainage system for or on behalf of a municipality may be declared by the Minister to be a municipality for the purpose of this paragraph.

3. That any enactment based on paragraph 1 of this resolution provide that drain tile for agricultural purposes and materials to be used exclusively in the manufacture thereof be exempt from sales tax.

4. That any enactment founded on paragraph 1 of this resolution provide that where materials have been purchased by or on behalf of a school, university or other similar educational institution for use exclusively in the construction of a building for that institution and the tax imposed by Part VI of the said Act has been paid in respect of those materials, the Minister of National Revenue may, upon application by the institution in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to the institution an amount equal to that tax.

5. That any enactment founded on paragraph 1 of this resolution provide that a person who

- (a) manufactures or produces a building or other structure otherwise than at the site of construction or erection thereof, in competition with persons who construct or erect similar buildings or structures not so manufactured or produced,
 - (b) manufactures or produces otherwise than at the site of construction or erection of a building or other structure, structural building sections for incorporation into such building or structure, in competition with persons who construct or erect buildings or other structures that incorporate similar sections not so manufactured or produced, or
 - (c) manufactures or produces concrete or cinder building blocks,
- be deemed for the purposes of the said Act not to be, in relation to any such building, structure, building sections or building blocks so manufactured or produced by him the manufacturer or producer thereof.

6. That the present exemption from sales tax for "Seventy-five per cent of the sale price if manufactured in Canada, or seventy-five per cent of the duty paid value if imported, of trailers for use as homes" be changed to read "Twenty-five per cent of the sale price if manufactured in Canada, or twenty-five per cent of the duty-paid value if imported, of trailers for use as homes".

7. That the present exemption for certain machinery and apparatus to be used in manufacture or production be withdrawn by repealing the exemption for all goods mentioned under the headings "Machinery and Apparatus to be used in Manufacture or Production" and "Engines" in Schedule III of the said Act and by repealing the exemptions for

- (a) "Seismic shot-hole casing and materials used in the manufacture thereof,"
- (b) "Tires and tubes for use exclusively on the machinery enumerated in Customs Tariff Item 411a."
- (c) Goods enumerated in Customs Tariff items 399a, 399b, 399c, 411a, 417, 431h, 439c, 848, 848a and 848b.

8. That any enactment founded on paragraph 7 of this resolution provide that traction engines for farm purposes and accessories therefor (not including machines and tools for operation by such engines) and complete parts of all the foregoing, and materials to be used exclusively in the manufacture of the said engines, accessories or parts be exempt from sales tax.

9. That any enactment founded on paragraph 7 of this resolution provide that farm wagons, including four-wheeled farm wagons equipped to be tractor drawn and farm sleds, and materials to be used exclusively in the manufacture thereof be exempt from sales tax.

10. That the present exemption from sales tax for "Photographs, paintings, pastels, drawing and other art work and illustrations of all kinds, whether originals, copies or proofs, and printing plates made to reproduce the same, for use exclusively as non-advertising news pictures or for illustrating non-advertising articles or stories in periodical publications enjoying second-class mailing privileges, the pages of which are regularly bound, wired, stitched or otherwise fastened together;" be changed to read "Typesetting and composition, metal

plates, cylinders, matrices, film, art work, designs, photographs, rubber material, plastic material and paper material, when impressed with or displaying or carrying an image for reproduction by printing, made or imported by or sold to a manufacturer or producer for use exclusively in the manufacture or production of printed matter."

11. That feeds for fish, supplements for addition to such feeds, and materials to be used exclusively in the manufacture of such feeds or supplements be exempt from sales tax.

12. That the exemption from sales tax for materials for use in the equipment and repair of ships over ten tons net register tonnage be restricted to materials for use in the equipment and repair of ships to be used exclusively for commercial purposes.

13. That the present exemption from sales tax for "Bakers' cakes and pies including biscuits, cookies or other similar articles;" be changed to read "Bakers' cakes and pies including biscuits, cookies and similar articles but not including simulated chocolate bars or candy bars;"

14. That the export duty of three one-hundredths of one cent per kilowatt hour on electrical power exported from Canada be repealed.

15. That any enactment founded on paragraphs 1 to 13 of this resolution be deemed to have come into force on June 14, 1963, and any enactment founded on paragraph 14 of this resolution be applicable in respect of electrical power exported after June, 1963.

16. That with respect to the period commencing June 14, 1963 and ending March 31, 1964, the rate of tax payable under Part VI of the said Act in respect of any goods for which exemption from tax was withdrawn by any enactment founded on paragraphs 1 and 7 of this resolution be four per cent instead of eight per cent, and that with respect to the period commencing June 14, 1963 and ending December 31, 1964 the rate of tax payable under subsection (1) of section 10 of the Old Age Security Act in respect of any such goods be nil.

17. That the said measure further provide that

(a) where any tax under Part VI of the said Act has become payable by any person in respect of any goods for which exemption for tax under that Part was withdrawn by any enactment founded on paragraphs 1 and 7 of this resolution, which goods were, not later than December 31, 1964, sold and delivered by that person, or applied by that person to a use resulting in the property in the goods passing from that person, pursuant to a *bona fide* contract in writing

(i) that provided for the sale of those goods or their application to that use for a fixed amount stated in the contract and that did not permit the adding of the tax to the amount payable to that person under the contract, and

(ii) that was signed by the parties thereto

(A) on or before June 13, 1963, or

(B) after June 13, 1963, if the contract was entered into in accordance with the terms of a tender in writing submitted by that person on or before that day whereby that person undertook to enter into such a contract and in default of so doing to incur or cause to be incurred a pecuniary penalty whether by forfeiture of a security deposit or otherwise,

a refund, or deduction from any of the taxes imposed by the said Act, of the tax or such part thereof as could not under the contract be added to the amount payable to that person thereunder may be granted to that person; and

- (b) where any goods for which exemption from tax under Part VI of the said Act was withdrawn by any enactment founded on paragraphs 1 and 7 of this resolution were, after June 13, 1963 and not later than December 31, 1964, sold and delivered by any person, or applied by any person to a use resulting in the property in the goods passing from that person, pursuant to a *bona fide* contract in writing
 - (i) that provided for the sale of those goods or their application to that use for a fixed amount stated in the contract and that did not permit the adding of any tax under that Part that became payable after June 13, 1963 in respect of those goods to the amount payable to that person under the contract, and
 - (ii) that was signed by the parties thereto
 - (A) on or before June 13, 1963, or
 - (B) after June 13, 1963, if the contract was entered into in accordance with the terms of a tender in writing submitted by that person on or before that day whereby that person undertook to enter into such a contract and in default of so doing to incur or cause to be incurred a pecuniary penalty whether by forfeiture of a security deposit or otherwise,

an amount equal to the tax or such part thereof as could not under the contract be added to the amount payable to that person thereunder may, where application therefor is made to the Minister of National Revenue by that person in such form as the Minister prescribes within two years from the time the goods were delivered by that person or applied by him to that use, and the Minister is satisfied that the tax has been paid, be paid by the Minister to that person.

INCOME TAX ACT

The Minister of Finance—In Committee of Ways and Means:—

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

1. That with respect to new depreciable property of a prescribed class acquired in the period of 24 months commencing June 14, 1963 capital cost allowances be computed on a straight line basis at a prescribed rate not exceeding 50 per cent per annum if the property has been acquired by a taxpayer in a taxation year for a manufacturing or processing business in Canada and the taxpayer is

- (a) an individual who was resident in Canada for a period of not less than 183 days in the year; or
- (b) a corporation that in the year had a degree of Canadian ownership and control;

and for the purposes of this paragraph,

- (c) a corporation has a degree of Canadian ownership and control in a year if the corporation throughout the 60 day period immediately preceding the year (or if the corporation did not have a preceding year, throughout the 60 day period commencing on the first day of the year) complied with the following conditions:

- (i) the corporation was resident in Canada,

- (ii) either

- (A) not less than 25 per cent of its voting shares were beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada or a combination thereof,

- or

- (B) the voting shares of the corporation were listed on a recognized stock exchange in Canada and it is established, in prescribed manner, that no one non-resident shareholder owned beneficially, together with any other person associated with him at any time in the period, more than 75 per cent of the voting shares of the corporation, and

- (iii) where the year commences after December 31, 1964, the number of directors of the corporation who were resident in Canada was not less than 25 per cent of the total number of directors of the corporation;

or complied with the conditions specified in clauses (i) and (iii) and was a wholly-owned subsidiary of a corporation that throughout the 60 day period complied with the conditions specified in clauses (i), (ii) and (iii); and

- (d) a corporation is controlled in Canada at a particular time if at that time it complies with the following conditions:

- (i) the corporation is resident in Canada, and

- (ii) not less than 51 per cent of its voting shares are beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada or a combination thereof.

2. That a taxpayer whose business in a prescribed area of Canada has been certified to be a new manufacturing or processing business that com-

menced commercial operations in the period of 24 months commencing with the date on which any enactment based on this paragraph is assented to be exempt from tax on the income from that business for a period of 36 months from the date certified to be the date of commencement of operations, and that the rate of capital cost allowances for new depreciable property of a prescribed class acquired by the said taxpayer in the said 24 months period for such business be computed on a straight line basis at a prescribed rate not exceeding 50 per cent per annum.

3. That with effect for 1964 and subsequent taxation years section 40A of the Act, which provides for a deduction from the tax otherwise payable by a manufacturing and processing corporation, be repealed.

4. That with respect to expenses incurred after June 13, 1963 a corporation whose principal business is operating a pipeline for the transmission of oil or natural gas 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 for petroleum or natural gas in Canada and the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada.

5. That for the 1963 and subsequent taxation years a dividend received by a person resident in Canada from a corporation that throughout its taxation year in which the dividend is paid or credited

- (a) is taxable as a non-resident corporation carrying on business in Canada,
- (b) derives substantially all of its income from sources in Canada, and
- (c) has its shares listed on a recognized stock exchange in Canada

be deemed to be a dividend from sources in Canada paid or credited by a taxable corporation within the meaning of section 38 of the Act.

6. That the 15 per cent rate of tax payable by a non-resident person on dividends paid or credited to him by a person resident in Canada be reduced to 10 per cent with respect to dividends paid or credited after June 13, 1963 by a corporation that in its taxation year in which the dividend is paid or credited has a degree of Canadian ownership or control within the meaning of paragraph 1.

7. That the 15 per cent rate of tax payable by a non-resident person on dividends paid or credited to him by a person resident in Canada be increased to 20 per cent with respect to dividends paid or credited after December 31, 1964 by a corporation that in its taxation year in which the dividend is paid or credited does not have a degree of Canadian ownership or control within the meaning of paragraph 1.

8. That where a corporation resident in Canada that in any year before 1967 was not a corporation that had a degree of Canadian ownership and control, within the meaning of paragraph 1, becomes a corporation that in 1967 has such a degree of Canadian ownership and control, a non-resident person shall be entitled to a refund equal to

- (a) 5 per cent of any dividends paid or credited by the corporation to him after June 13, 1963 and before January 1, 1965, in respect of which he has paid a tax of 15 per cent to Canada, and
- (b) 10 per cent of any dividends paid or credited by the corporation to him after December 31, 1964 and before January 1, 1967, in respect of which he has paid a tax of 20 per cent to Canada.

9. That where a corporation (other than a non-resident-owned investment corporation) paid or credited dividends during the period commencing on June 14, 1963 and ending on December 31, 1964 in taxation years in which it did not have a degree of Canadian ownership and control within the meaning of paragraph 1, the amount of which dividends exceeds five-fourths of the amount of dividends paid or credited by the corporation during that number of days immediately preceding June 14, 1963 that is equal to the number of days in the period commencing on June 14, 1963 and ending on December 31, 1964 that were included in taxation years in which the corporation did not have such a degree of Canadian ownership and control, the corporation shall, on or before January 31, 1965, pay a special tax equal to 5 per cent of the amount of the excess.

10. That with respect to income earned after December 31, 1964 the 15 per cent tax imposed by Part IIIA of the Act on a non-resident corporation carrying on business in Canada be 20 per cent.

11. That with respect to income of a non-resident-owned investment corporation earned after December 31, 1964 the present 15 per cent rate of tax be 20 per cent.

12. That any amount paid or credited after June 13, 1963, by a person resident in Canada to a non-resident person, as or on account of a management or administration fee or charge, be subject to the 15 per cent tax on income from Canada of non-resident persons.

13. That with respect to interest paid by a person resident in Canada to a non-resident person on any obligation issued after June 13, 1963, if the non-resident person

(a) is exempt from income tax in the country in which that person is resident; and

(b) has obtained a certificate of exemption from the Minister, the non-resident person be exempt from the 15 per cent rate of tax imposed in respect of such payment.

14. That for the taxation years ending after November, 1965 a corporation shall during the 12 months period ending 4 months after the close of each taxation year, pay to the Receiver General of Canada

(a) on or before the last day of each of the first 10 months in that period, an amount equal to one-twelfth of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,

(b) on or before the last day of the eleventh month in the period, an amount equal to one-half of the remainder of the tax payable as estimated by it on its taxable income for the year at the rate for the year, and

(c) on or before the last day of the period, the remainder of the tax and that for the taxation years ending after November, 1963 and before December, 1964 a corporation shall, during the 11 months period ending 5 months after the close of its taxation year, pay to the Receiver General of Canada.

(d) on or before the last day of each of the first 9 months in that period, an amount equal to one-twelfth of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,
 (e) on or before the last day of the tenth month in the period, an amount equal to one-half of the remainder of the tax payable as estimated by it on its taxable income for the year at the rate for the year, and
 (f) on or before the last day of the period, the remainder of the tax,
 and that for taxation years ending after November, 1964 and before December, 1965 a corporation shall, during the 11 months period ending 4 months after the close of its taxation year, pay to the Receiver General of Canada

(g) on or before the last day of each of the first 9 months in that period, an amount equal to one-eleventh of the tax as estimated by it at the rate for the taxation year

(i) on its estimated taxable income for the year, or

(ii) on its taxable income for the immediately preceding year,

(h) on or before the last day of the tenth month in the period, an amount equal to one-half of the remainder of the tax payable as estimated by it on its taxable income for the year at the rate for the year, and

(i) on or before the last day of the period, the remainder of the tax.

15. That the return of income for a taxation year that is to be filed with the Minister in prescribed form and containing prescribed information by or on behalf of a corporation be filed

(a) for taxation years ending after November, 1963 and before December, 1964 within 5 months from the end of the year, and

(b) for taxation years ending after November, 1964 within 4 months from the end of the year.

16. That with respect to amounts received after June 13, 1963, where a taxpayer has received an amount in a taxation year,

(a) as consideration for the sale or other disposition of any shares of a corporation or of any interest in such shares,

(b) in consequence of a corporation having

(i) redeemed or acquired any of its shares or reduced its capital stock, or

(ii) converted any of its shares into shares of another class or into an obligation of the corporation, or

(c) otherwise, as a payment that would, but for this provision, be exempt income,

which amount, in the opinion of the Minister, was received by the taxpayer as part of a transaction or series of transactions whenever effected or to be effected, one of the purposes of which was or is to effect a substantial reduction of, or disappearance of, the assets of a corporation in such a manner that the whole or any part of any tax that might otherwise have been or become payable under the Act in consequence of any distribution of income of a corporation has been or will be avoided, the amount so received by the taxpayer or such part thereof as may be specified by the Minister shall, if the Minister so directs,

(d) be included in computing the income of the taxpayer for that taxation year, and

(e) in the case of a taxpayer who is an individual, be deemed to have been received by him as a dividend from a taxable corporation within the meaning of section 38 of the Act.

17. That for the 1964 and subsequent taxation years where, in the case of two or more corporations, the Minister is satisfied

(a) that the separate existence of those corporations is not solely for the purpose of carrying out the business of those corporations in the most effective manner, and

(b) that one of the main reasons for such separate existence is to reduce the amount of taxes that would otherwise be payable under the Act the two or more corporations shall, if the Minister so directs, be deemed to be associated with each other.

18. That upon any appeal to the Exchequer Court of Canada from an assessment in such case, the Court may confirm or vary any direction given by the Minister as provided in paragraph 16 or 17, or may vacate any such direction where it determines that

- (a) none of the purposes of the transaction or series of transactions referred to in paragraph 16 was or is that specified in that paragraph, or
- (b) none of the main reasons for the separate existence of the corporations referred to in paragraph 17 is that specified in subparagraph (b) of that paragraph.

19. That for the 1963 and subsequent taxation years

- (a) a business loss incurred in a previous year by a corporation may not be deducted in a taxation year if
 - (i) the business in which the loss was sustained by the corporation was not carried on by it in the taxation year, and
 - (ii) in the period between the end of the year in which the loss was sustained and the end of the taxation year control of the corporation has changed hands, and
- (b) a business loss incurred by a corporation in a taxation year may not be deducted in computing the income of the corporation for that taxation year if the business in which the loss was sustained by the corporation was wound up or discontinued, and after such winding up or discontinuance control of the corporation passed to a person or persons who did not control the corporation in the year at any time when the business in which the loss was sustained was carried on;

but this paragraph is not applicable where the change of the control of the corporation occurred prior to June 14, 1963.

20. That for the 1963 and subsequent taxation years section 18 of the Act, which provides rules in the case of any lease option agreement, hire purchase agreement or other contract or arrangement for the leasing or hiring of property, be repealed, and appropriate transitional provisions be enacted in respect of any such contract or arrangement.

21. That for the 1963 and subsequent taxation years the benefits received by an employee from his employer's contribution to a group life insurance plan that are at present excluded from income be excluded only if such contribution is in respect of group term life insurance.

22. That, with respect to any annuity contract entered into after June 13, 1963, that part of the proceeds of the contract that consists of interest accumulated prior to the date on which the annuity commences be included in computing income of the recipient unless such proceeds are received as a life annuity or as a refund of premiums upon the death of the holder of the annuity contract.

23. That for the 1962 and subsequent taxation years the manner of taxing a bankrupt corporation, a bankrupt individual and a trustee in bankruptcy be revised and in particular

- (a) that the trustee be deemed to be the agent of the bankrupt person for all purposes of the Act;
- (b) that section 63 of the Act not apply in the case of any income of the trustee from dealing in the property of the bankrupt person or from carrying on the business of the bankrupt person;
- (c) that the income of the bankrupt person be computed as if upon the occurrence of the bankruptcy the property of the bankrupt person did not pass to and vest in the trustee; and
- (d) that the trustee be liable for payment of any tax payable by the bankrupt person to the extent of the property of the bankrupt person in the possession of the trustee.