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CANADA

BUDGET · SPEECH

DELIVERED BY

HONOURABLE WALTER L. GORDON

MINISTER OF FINANCE

MEMBER FOR DAVENPORT

IN THE

HOUSE OF COMMONS

APRIL 26, 1965

ROGER DUHAMEL, F.R.S.C.
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BUDGET SPEECH

DELIVERED BY

HON. WALTER L. GORDON

MINISTER OF FINANCE

HOUSE OF COMMONS, MONDAY, APRIL 26, 1965

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: It gives me a great deal of satisfaction to be able to report to the House, and to the country, on the state of our economy and of our national finances. There has been a great and encouraging improvement in economic conditions, and in the state of the budget during the past two years. This robust expansion must be continued. With the budget under control, we must use our fiscal policies to achieve the nation's goals. The primary objective now is a healthy rate of sustained economic growth.

[Translation]

I am glad to note that all regions in Canada have shared in this expansion. The Atlantic provinces and the province of Quebec, for example, have experienced substantially increased economic activity. I believe that it is in this context of a prosperous and expanding economy, benefiting all Canadians, that we shall best succeed not only in maintaining but in strengthening the unity of our great country.

[Text]

Economic Objectives

When this government first came into office we stated a number of economic objectives. Our first goal was a high level of employment for Canadians and the reduction of unemployment. The second was a high and sustainable level of economic growth.

Third, we wanted a better regional balance in both employment and growth. We also wished to bring into closer balance our trade and other current international transactions. To realize these objectives, we recognized that our industry, especially our manufacturing industry, would have to become more vigorous and competitive. We expected that as unemployment was reduced and these other objectives achieved, we would also be able to move toward a balanced budget. Moreover, we sought over the long term to improve the degree of participation by Canadians in the ownership and direction of businesses operating within our borders and using our resources.

We may all take pride in the extent to which these goals have been achieved.

Almost half a million new jobs have been created since the spring of 1963.

Unemployment had fallen by last month to 3.9 per cent, on a seasonally adjusted basis, which is just about half the 7.7 per cent reached in the first quarter of 1961.

This improvement in employment was not confined to one or two favoured parts of Canada. During the past two years some of the most rapid increases in employment took place in those sections of the country where unemployment had been particularly high. The decline in the unemployment rate in the Atlantic provinces and British Columbia was of the order of one third between the last quarter of 1962 and the last quarter of 1964; in Quebec there was a reduction of one-quarter. In Ontario and in the prairie provinces unemployment by the last quarter of 1964 was down to about 3 per cent.

We have also had a rapid increase in the Gross National Product. In the two years 1963 and 1964, the value of the nation's output increased by 6.5 per cent and 8.9 per

cent, or by a total for the two-year period of about 16 per cent. Incomes have improved materially. The value of construction of all kinds increased by more than 20 per cent from 1962 to 1964, and housing starts went up from 130,000 to 166,000—that is, by more than one-quarter.

• (8:10 p.m.)

In our dealings with other countries we have achieved a considerable improvement in our balance of trade and payments. Our deficit on current account in 1964 was less than one-third what it was at its peak in 1959.

Mr. Diefenbaker: All kinds of selective statistics.

Mr. Byrne: Sour grapes.

Mr. Gordon: This improvement was achieved not by restricting imports and travel by Canadians, but by a vigorous expansion of our exports. Our secondary manufacturing industry has accounted for an important part of this change.

The improvement in our international balance of payments, and indeed in our rate of economic growth in general, could not have come about if we had not been able to keep our prices and costs competitive. Canadian prices have risen less in the last two years than have those of any other industrial country in the world except the United States.

Along with these improvements in the performance of the economy we have been able to bring about a dramatic improvement in the federal budget. The 1962-63 fiscal year produced a budgetary deficit of \$692 million. This has been reduced to \$83 million for the fiscal year just ended.

If the accounts are translated into a form more suitable for measuring their impact on the economy, that is, into terms of the national economic accounts, the change in two years is from a deficit of \$399 million in 1962-63 to a surplus of \$332 million in the last fiscal year—an improvement of over \$700 million.

These achievements have taken place against the background of the longest period of peacetime economic expansion we have enjoyed in the present century. However, the pace of our expansion has not proceeded without faltering. There was a noticeable pause in the advance at the end of 1962.

New Policies

In no small measure the strength of the expansion, certainly since 1962, is due to the introduction of new policies. The results

[Mr. Gordon.]

achieved enable us to describe them as effective policies. They include:

(a) Strong incentives in the form of capital cost allowances to Canadian-owned manufacturing and processing companies installing new machinery and equipment.

(b) Similar inducements, together with a three-year tax exemption, for new manufacturing and processing companies to establish in designated areas of slow growth and high unemployment.

(c) Special arrangements to improve the efficiency of our automobile industry and to secure a fairer share of the total automotive production of North America.

Mr. Starr: Sixteen hundred laid off in Windsor.

Mr. Gordon: There seems to be a little noise, Mr. Speaker, but this will prove to be one of the most important policies ever introduced in Canada.

(d) Establishment of the Municipal Development and Loan Fund, to assist municipalities, with provincial approval, to accelerate their capital spending programs.

(e) Establishment of the Atlantic Development Fund of \$100 million to stimulate economic activity in the Atlantic provinces.

(f) The highly effective \$500 bonus for winter-built houses, and other increased help for housing and urban development.

(g) The provision of massive assistance to the provinces in the fields of technical and vocational training.

(h) The provision of guaranteed loans to students to assist them with their university education costs, and the provision of youth allowances to young people 16 and 17 years of age who remain in full-time education.

(i) A vigorous expansion in the loan programs of the Farm Credit Corporation.

(j) Increased amounts and improved terms for credits and insurance to finance a rapid increase in exports.

(k) Improved fiscal arrangements with the provinces to enable them to do their important part in a growing modern economy.

(l) And last, but certainly not least, there has been a monetary policy which enabled the demands of economic growth to be met without a tightening of credit conditions.

Partly as a result of such policies, the Canadian economy in the past two years has expanded faster, and unemployment has been reduced further than in the United States.

It might interest hon. Members to know that in the United States last year, 1964, the total output of the economy of that country

increased by 6.6 per cent. In Canada the increase was one third as much again.

In 1964 unemployment in the United States was reduced by 7 per cent. The rate of reduction in Canada was almost twice that figure.

Current Situation and Outlook

The economy is currently in a very healthy state. Unemployment is at its lowest level since 1957. Our output of goods and services is at record heights and is still rising. Prices are reasonably stable. Our international competitive position remains strong. The capacity of our industry is being used more fully. Business confidence is reflected in the highest level of capital investment we have ever had. All areas of the country, almost all types of industry and agriculture, and most groups in the community are sharing in this advance.

Mr. Winkler: Is that why the farmers are coming to Ottawa on Wednesday?

Mr. Pearson: To get even more.

Mr. Gordon: I thought all the farmers were over there, Mr. Speaker, but they won't be like that after the next election.

We may view our prospects for the coming year with confidence. Canadians in the aggregate, both individuals and businesses, and their governments will invest and consume substantially increased quantities of goods and services in 1965.

• (8:20 p.m.)

The economies of the nations with whom we trade, subject to one or two exceptions, are continuing to expand, and the markets for our exports should continue to grow. We have sufficient productive capacity in Canada to meet our own needs and those of our trading partners. New investments now being made will increase our capacity to produce. And last—but of great importance—we have the most rapidly growing labour force in the industrialized world and it is better trained than ever before.

Mr. Diefenbaker: Thanks to Mr. Starr.

Some hon. Members: Oh, oh.

An hon. Member: Even he couldn't keep a straight face.

Mr. Gordon: It is this growth in our labour force which provides the foundation for rapid economic growth in Canada. It also makes it necessary. This necessity for growth in order to put our young and rapidly growing labour force to work was the central feature of the First Annual Review of the Economic Council, published several months ago.

Economic Council Review

Honourable members will recall the main projections which the Council brought to the nation's attention: that between 1963 and 1970 Canada's labour force can be expected to grow by 2.7 per cent per year on the average; that the potential productivity of our workers—that is, output per person employed—can be expected to increase by 1.9 per cent per year; that, if the level of unemployment can be reduced to an annual national average of 3 per cent—which the Council regards as a realistic objective—and if we can catch up the lag in our productivity gains between 1957 and 1963—we can reach an average rate of growth in our production over this period of 5½ per cent. The Council points out how the achievement of this rate of growth would require and make possible rapidly expanding levels of consumer expenditures, government expenditures, business investment and exports.

The realization of the true potentials of the Canadian economy is a goal which all of us can accept. The problem has been, and will always be, to develop and put into effect the kind of policies needed so that each major part of the economy can make its full contribution. The Council has given us helpful advice in this regard.

There are, as the Council has pointed out, some especially difficult problems before us. Canada must train and place in the right jobs an enormous number of young people if we are to achieve the potentials the Council anticipates. Industry must grow at a pace which will provide these jobs and must increase its productivity. The capital must be found which industry, and governments, will require to finance this expansion. And above all, Canadians must find, and be efficient in competing for, the domestic and foreign markets for the goods which an expanded economy will be capable of producing.

To achieve all of this will be difficult enough, but our very success in doing so will itself pose problems. A higher rate of productivity is essential to the achievement of the nation's economic potential, and its ability to compete, but it means we have to find more markets to employ our manpower. Rapidly rising production generates more employment, but it could also lead to the large deficits in international payments which the Economic Council has projected in its model. These must be avoided.

Balances of Payments

We hear a great deal these days about the balance of payments problems of our friends the British and the Americans. The British problem springs in considerable part from the strain which has been placed on their productive capacity and which their recent budget is designed to relieve. The essence of the Americans' problem is that the very large surplus they earn in trade and other current transactions is substantially less than what is needed for the large scale private investment by Americans all over the world, in addition to the requirements of defence overseas and foreign aid.

Our problem is unlike either of these. Although we still have some room in our economy for increased production without undue strain, we continue to have a deficit in our current transactions with the rest of the world. To be sure, last year we achieved a trade surplus of \$700 million. But we used up this surplus and more in servicing past debts, in paying dividends to foreigners, and in making other kinds of current payments. Our current operating deficit was, I am glad to say, lower than it had been for ten years. But it is still sizeable. Furthermore, last year we exported large quantities of wheat to Russia, and we cannot count on having such large markets for our wheat on a continuing basis.

Our persistent international payments problem is apparent not only in the total size of our current account deficit, but also in its structure. Last year our current account deficit with the United States reached nearly \$1.7 billion. This was largely offset by a surplus of \$1.2 billion on merchandise and non-merchandise trade with the rest of the world, including the large wheat sales to communist countries. These transactions still left us with a current account deficit of \$453 million which we had to finance.

In order to provide jobs to match the quite exceptional growth of our labour force we will need high levels of capital investment in the next few years, higher than the present physical capacity of the economy can be expected to meet. I do not anticipate difficulties in financing outside Canada the moderate amounts really required for this purpose, but this dependence on foreign savings should not be permitted to persist indefinitely. The world is hungry for capital for investment both in developing and in industrialized countries. The major source of capital, the United States, is having to restrict its investments abroad. We would be foolhardy if we assumed that over the long term the capital

needed to cover our continuing current account deficits, whatever their size, would always be ours for the asking.

Financial Markets

The performance of our financial markets during 1964 was remarkably good. Through the first half of the year, they weathered successfully the continuing uncertainties arising out of the United States' Interest Equalization Tax. Later they adjusted readily to the disturbances arising out of the United Kingdom balance of payments problems. In spite of these difficulties the Canadian capital markets handled a greater volume of new issues than in the previous year.

The substantial improvement in the federal government's financial position enabled us to reduce our demands on the market, thereby making room for other borrowers. The improvement in the government's position also made it easier for monetary policy to continue to give support to economic expansion. Interest rates were slightly lower at the end of the year than they had been at the beginning.

The House will recall that, at the time the United States' Interest Equalization Tax and the Canadian exemption were announced in July, 1963, the Canadian government stated its intention not to seek to increase Canadian exchange reserves through borrowing in the United States. During 1964 Canadian monetary and debt-management operations were undertaken with a view to their effect on Canadian borrowers who might seek funds in the United States, as well as with a view to domestic conditions. The interest rate differentials between Canada and the United States fell, during the course of 1964, to the lowest level for some time.

The financial disturbances at the time of the sterling crisis and the raising of the bank rate in Canada were not allowed to interfere with this development. In fact, the careful handling of that situation by the Bank of Canada considerably assisted in meeting this objective and keeping our capital market working effectively.

The past year was marked by a further evolution of the international financial machinery. Just as Canada benefited from the rapid assembly of massive financial assistance at the time of her exchange crisis in 1962, so Britain was the recipient of even more massive aid in the autumn of 1964. Canada was an active and major participant in this operation.

[Mr. Gordon.]

• (8:30 p.m.)

International Liquidity

During the year representatives of the government took part in a series of international discussions on world liquidity. The question at issue has been whether the total of international reserves, such as our own reserves of gold and foreign exchange, when combined with official international credit arrangements such as those provided by the International Monetary Fund or by arrangements between central banks, is sufficient to support the growing level of international trade and payments both now and in the years ahead.

As Minister of Finance I attended meetings of the so-called "Group of Ten" in Paris last June and of the Board of Governors of the International Monetary Fund in Tokyo last September. The most immediate result of these discussions is that the Fund itself is to be enlarged by a 25 per cent increase in the quotas of all members, plus special additional increases for member countries such as Canada whose growth has been well above the average. I have made it quite clear that Canada would have welcomed a greater increase than this in world liquidity in order to ensure expansion of world trade and payments without any drag or interruption.

Trade Policies

In the Budget Speech last year I described our preparations for the "Kennedy Round" of tariff negotiations in Geneva, and outlined the principles that would govern Canada's participation. The formal opening of the negotiations occurred last November when the offers of reductions in duties on industrial goods and materials were exchanged. Our delegation is now engaged in a detailed examination, with other delegations, of the scope for tariff reductions of mutual benefit.

The negotiations on agricultural products are only now getting under way. This means that for Canada, with its important export interests in agriculture, the Kennedy Round is not yet in full swing.

Consequently it would be premature to offer any firm or final judgment as to the probable outcome of this tariff conference. Nevertheless I believe there are real possibilities for important tariff reductions covering a broad range of our exports. We have a strong delegation in Geneva, headed by Mr. Norman Robertson, one of the most respected senior public servants of Canada. I can assure the House that our representatives will bargain vigorously and realistically to advance the

interests of Canada at this conference. It is in our interests that barriers to trade throughout the world be progressively reduced.

There has been a good deal of interest recently in our trading relations with the United Kingdom. The United Kingdom has always been a very important market for Canadian raw materials and foodstuffs which Britain requires in great volume. For a wide range of such products Canada is Britain's nearest, and most reliable and cheapest source. As a result, our sales to Britain over the years have normally exceeded her sales to Canada.

In the last three years this excess has been increased because United Kingdom export markets in Canada were adversely affected, first by the devaluation of the Canadian dollar in 1962, and then by the Canadian import surcharges that were in effect for some nine months.

Understandably the British are concerned about the large deficit in their trade with Canada. We can appreciate this because we face the same sort of problem, but in a more exaggerated form, in our current account transactions with the United States. It would be better in both cases if increased exports enabled these large bilateral deficits to be reduced.

I am glad to note that for a good many products the United Kingdom has now significantly improved its position in this market. For 1964 as a whole its merchandise exports to Canada were \$60 million more than in 1963. This improvement is reflected in a variety of British exports to Canada, of which automobiles are one of the most notable examples. Our imports of cars from Britain in 1964 increased by 100 per cent over 1963. Here is a real example of energetic British exporters adapting their products and their dealer and service organizations to meet the needs of Canadian consumers. We expect now to see further substantial improvement in the sale of British products in the Canadian market.

Federal-Provincial Relations

The achievement of Canada's economic goals—of our potential growth—will require the use of the whole range of policies available to us and to provincial governments and local authorities. These include not only general policies, fiscal and monetary, trade and industrial, but also particular policies. These particular policies are reflected in measures relating to the development and use of our natural resources, the education and training

of our young people, the planning and proper use of our land, the development and the redevelopment of our cities and towns, and the proper planning and building of the roads and other utilities on which both our production and our living are dependent. That is necessary if business, labour, agriculture and other private interests are to play their full part in carrying forward the progress of our economy, and improving our productivity.

All this implies that the federal government must work with the provincial governments and that the latter, in turn, must work not only with us, but with the municipalities. The federal government's responsibility in the field of fiscal policy, monetary policy and trade policy is primary and indisputable. And that is as it should be. To work to best advantage, however, such policies should be co-ordinated with plans and policies in areas which come under provincial jurisdiction.

Moreover, we must recognize that the sum total of the effects of the fiscal policies of the provinces is also of national importance. The provinces and the municipalities together are now spending more than is the federal government. It follows that changes in provincial revenues and expenditures, and in their budgetary balance, have a major effect upon growth and stability in the Canadian economy. It follows too that the timing of their expenditure measures can be such as to contribute to a steady growth of production and jobs, or the reverse.

• (8:40 p.m.)

An essential part of the job of good economic management in Canada is to achieve a reasonable harmony in the policies of the different governments. That is why we spend much of our time, both Ministers and officials, in consultation with the provinces. For example, the Provincial Treasurers and Ministers of Finance met with me in what might be called a pre-budget meeting in December, in order that we might jointly review the state of the economy and compare our views as to its prospects.

During the next 18 months, the federal government and the provinces must also review and revise the federal-provincial fiscal arrangements between them in order that we can propose legislation for the five-year period commencing in 1967. It was for that purpose that the federal-provincial conference last year appointed the Tax Structure Committee of Ministers from Ottawa and from the provincial governments. The repre-

[Mr. Gordon.]

sentatives of the eleven governments will examine the fiscal outlook of federal and provincial governments in an effort to determine the probable requirements of each of them in the six years ahead. We shall endeavour to find a division of the tax fields and a formula for equalizing fiscal capacity which will assure to Parliament and to each provincial legislature effective means of carrying out its own responsibilities under the Constitution.

Royal Commission on Taxation

During the same time that we are discussing and revising our fiscal arrangements with the provinces, we shall be making a thorough review of our own federal tax system—both in its general plan and in detail—with the aid of the report of the Royal Commission on Taxation appointed in September, 1962. Last year I said I expected the report would be published in time to find some reflection in this year's budget. Unfortunately the Commission was not able to conclude its work when it planned to do so, and now I do not expect the report to be available before fall. Consequently we are having to defer the thorough review of our tax laws until later.

University Finance

This government, as well as its two predecessors, has taken a vital interest in doing what it properly could to help young Canadians to be trained to work effectively in the modern world. Our program of assistance to the provinces for technical and vocational training now involves annual expenditures of over one hundred million dollars. Parliament last year provided for youth allowances to young people of 16 and 17, and also instituted with the co-operation of the provinces a large and already successful program of guaranteed student loans. The Central Mortgage and Housing Corporation has been making loans to universities for student residences that are helping to transform the character as well as increase the size of our universities. We are paying unconditional grants equivalent to \$2 per capita to the universities in nine provinces and providing the equivalent in Quebec by a tax abatement formula. We are making large grants to universities for scientific research. It is evident, however, that more needs to be done in financing higher education in Canada, though just what should be done and in what way are unresolved questions.

The universities have established their own committee of enquiry into university finance which should be reporting later this year. Its report should be of much help in re-appraising not only what is needed but how it should be supplied. We shall be anxious to discuss the subject of university finance with the provincial governments when there has been an opportunity to study the forthcoming report of Dean Bladen and his colleagues.

Accounts for 1964-65

I come now to review briefly the outcome of our budgeting for the past year and assess the prospects for the year ahead, before putting the government's proposals before you. The figures are all given in part 2 of the White Paper which I tabled two weeks ago and I will refer only to the highlights. Revenues exceeded all expectations because of the excellent improvement in the economic situation, a greater improvement than I could properly forecast a year ago. At \$7,136 million they were \$436 million more than the figure in last year's budget. Expenditures are estimated at \$7,219 million, \$64 million, or less than one per cent, higher than originally forecast. This leaves a budgetary deficit of \$83 million, less than one-fifth the amount originally forecast.

Last year, for the first time, I included with the budget a forecast of our revenues and expenditures in terms of the national economic accounts. Part 1 of the White Paper explains the nature of these accounts and gives some of the figures for past years, and for the calendar year 1964. For the past fiscal year our revenues are estimated in these terms at \$8,313 million and our expenditures at \$7,981 million. This means that in place of the small deficit originally anticipated, in these terms, the national economic accounts reflect a federal government surplus of \$332 million.

These results—a deficit of \$83 million by our parliamentary public accounts, and a surplus of \$332 million by the national economic accounts—are the best in seven years. In practical terms it seems fair to say that after a long period of troublesome deficits the nation's finances are now under firm control.

In this new fiscal year we can anticipate further increases in our revenues based upon the growth to be expected in the economy itself. We can be confident that the recent rates of economic growth will continue well

into the summer, although the outlook for the latter part of the year is less certain. We can reasonably forecast an increase of about 7 per cent in the Gross National Product in 1965 compared with 1964, of which increase nearly 5 per cent would be in volume. This will mean that for the first time the Gross National Product of Canada this year will exceed \$50 billion.

Outlook for Revenue and Expenditure

Without any changes in our tax laws I would expect our revenues to be about \$7,525 million. With the consent of the House I would propose to include a table in *Hansard* at this point giving the details of this forecast, and comparing them with the estimated figures for last year.

Mr. Speaker: Does the House give unanimous consent?

Some hon. Members: Agreed.

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

Budgetary and Old Age Security

	<u>Fund Revenues</u>	1965-66 Forecast Before Tax Changes (\$ million)
	1964-65 Preliminary (\$ million)	
Personal income tax	2,108	2,175
Corporation income tax	1,510	1,570
Non-resident with- holding tax	144	148
Estate tax	90	97
Customs duties	617	670
Sales tax	1,193	1,300
Other duties and taxes	676	725
Total taxes	6,338	6,685
Non-tax revenues	798	840
Budgetary revenues	7,136	7,525
Old age security fund revenues	952	1,145
Total revenues	8,088	8,670

Mr. Gordon: I should point out that the details of these forecasts are inevitably complicated and involve many special factors affecting particular items, especially in the case of corporation income tax. The forecast

for personal income tax takes into account the higher abatements in favour of the provinces, and also some movement toward prompt remittance of tax deducted at the source.

I am forecasting budgetary expenditures for this year at \$7,650 million. This figure, like that for revenues, is based on the expectation that Quebec will take full advantage of the opportunity to contract out of established shared-cost programs recently authorized by Parliament, but that other provinces will not avail themselves of this opportunity this year. My forecast includes allowances for supplementary estimates and for the anticipated shortfall of total expenditures below appropriations requested. It includes all items I know of that are already authorized or that we plan to place before the House. On the basis of these forecasts of revenue and expenditure before budget changes, we would have a deficit in our budgetary accounts of \$125 million.

I expect the Old Age Security Fund this year to have revenues of \$1,145 million from which pensions of \$905 million will be paid. The remainder will be used to repay the outstanding loans to the Fund of \$36 million and to be applied in future years to meet the cost of paying pensions at ages below 70.

Taking into account our non-budgetary loans, investments, receipts and credits—particularly the accumulations in our employee superannuation accounts—we estimate our net total non-budgetary cash requirements at \$225 million. Adding this to the anticipated budgetary deficit we get a total cash requirement of \$350 million for the year, apart from government security transactions or variations in our exchange reserves, and before allowance for the proposals I will now be making.

As I did last year, I would like to table and have included as an appendix to the budget, tables showing how these forecasts of revenue and expenditure appear when expressed in terms of our national economic accounts. They show an expected surplus in these terms of \$343 million, compared with the surplus for the year just completed of \$332 million.

Mr. Speaker: If I may just interrupt, is it agreed that these tables be printed in *Hansard*?

Some hon. Members: Agreed.

[*Editor's note: For tables aboved referred to see Appendix "A".*]

● (8:50 p.m.)

[*Mr. Gordon.*]

PROPOSALS

Mr. Gordon: I turn, now, Mr. Speaker, to the proposals which I wish to lay before the House.

Canada Development Corporation

The first is a financial measure which does not involve tax changes. One of our important objectives is to encourage the development of industrial opportunities in Canada by Canadians. There has been over the years increasing evidence of the need for additional Canadian sources of financing for businesses in Canada, particularly where substantial sums of equity funds are required. The recent actions taken by the United States and by the United Kingdom to protect their balance of payments have emphasized the need for industrially developed countries to be able to stand on their own feet more than in the past. In the future, new business developments in Canada should be looking to domestic sources for more of their financial requirements.

Canadian provinces will find their financing problems much easier with the inauguration of the Canada Pension Plan and the Quebec Plan next year. Municipalities have already benefited greatly by the establishment of the Municipal Development and Loan Fund, and I expect they will derive at least indirect benefits from the accrual of funds under the Canada Pension Plan. Canada now needs some new institutional channel through which Canadians can invest their savings in a form that carries with it a share in the ownership and direction of businesses operating in this country.

To assist in meeting this requirement, Parliament will be asked to approve a measure establishing a Canada Development Corporation. It would be the function of this Corporation to share in financing the initial development, or expansion of large scale industrial projects in Canada, and to provide financing, including refinancing, for large Canadian enterprises which might otherwise be led to seek funds outside Canada, with a consequent loss of ownership and control to non-residents. The Corporation would be expected to invest in projects and enterprises which are likely to contribute to the sound economic development of Canada and to be profitable in the long run.

The Canada Development Corporation would be authorized to purchase from the government the equity interest in Crown

corporations that have become viable commercial operations. In particular the government would propose to sell to it Polymer Corporation, which has been a highly successful and profitable government enterprise of which Canadians can well be proud.

The sale of one or more Crown corporations in this way to the Canada Development Corporation would conform with the views expressed by the Glassco Commission.

The Canada Development Corporation would have an authorized share capital of about one billion dollars. The shares would be of the mutual fund type, the shareholder having the right of redemption at values to be established by the Corporation based on the value of its investments. There would be restrictions on the ownership and voting rights of the share of the Corporation to ensure that it is essentially Canadian owned.

The Corporation would be mainly financed by the sale of its shares to the public. Individual investors would be given priority in purchasing shares but support would also be sought from a wide variety of Canadian institutions, including insurance companies, banks, trust companies, pension funds, estates and trusts, credit unions, charitable foundations and, I may add, provincial governments and their agencies.

Mr. Herridge: We proposed the establishment of a Canadian development fund 15 years ago.

Mr. Gordon: I hear an interruption from my friend across the way. It is too bad he was not in a position to do anything about it.

No investor other than the federal government would be permitted to own more than 3 per cent of the outstanding shares.

The government would subscribe on its own account for 10 per cent of the issued share capital. In addition, the government might acquire additional shares from time to time, either as partial compensation for the sale of Polymer Corporation or in connection with underwriting the sale of shares to the public. In order to ensure the independence of the Corporation, any shares taken up by the government in excess of 10 per cent of the issued capital could be redeemed by the Corporation whenever the Board of Directors wished to replace them with shares sold to the public.

The government would also have authority to purchase debentures of the Corporation or to make loans to it up to a maximum of \$100 million.

The Corporation would be directed by a Board of Directors to be appointed initially by the Government, with provision for election of the directors by its shareholders when the Corporation's shares have been sold to the public. In this way the Corporation would stand on its own feet, free of government control. In view of its proposed investment in the Corporation, the government would retain the right to appoint a small proportion of the Directors.

We are convinced that thousands of Canadians will welcome an opportunity to share in the future growth and development of our country; that they will take pride in owning even a small interest in expanding Canadian industries. Participation in the Canada Development Corporation will provide this opportunity.

I am placing a Resolution on the notice paper immediately to pave the way for the introduction of a bill to establish this Corporation.

Publications

I turn now to a measure of a very different character. The government has given considerable thought to the best method of dealing with the magazine problem, and to the equally important matter of preserving Canadian ownership and control of Canadian newspapers. At the present time there is no law or other impediment standing in the way of the purchase by non-residents of any of our newspapers. Given the vital role newspapers play in influencing public opinion, we do not believe we should run the risk of them falling under foreign control.

• (9:00 p.m.)

In the Resolutions which I am presenting this evening we propose that the Income Tax Act be amended to disallow, as a business expense of a Canadian advertiser, the cost of advertising primarily directed to a Canadian market in a non-Canadian periodical or non-Canadian newspaper. This measure would become effective next January. Advertising in the so-called "Canadian editions" of non-Canadian periodicals now being published and printed in Canada will not be affected by this provision, nor will advertising in the two small foreign-owned weekly newspapers already being published in this country. The question of the subsidized postal rates now enjoyed by the Canadian editions of non-Canadian periodicals will be studied as part of a general review being made of postal rates.

The purpose of this measure as it affects newspapers is purely preventive. No existing commercial interests will be affected, nor will any changes in existing advertising patterns be required. Foreign newspapers can enter Canada freely and will continue to do so, but we intend that our Canadian newspapers shall remain under the control of Canadian owners. They will be as free as ever to determine their own editorial content; they will be free to use whatever foreign commentaries and other features they wish; they will be free to rely upon whatever foreign or international news services they favour.

I shall also be proposing tonight a Resolution to amend the Customs Tariff to prohibit the entry into Canada of non-Canadian periodicals, such as split runs, containing advertising primarily directed to the Canadian market, as well as periodicals in which more than 5 per cent of the advertising contains specific references to sources of availability in Canada or conditions of sale in Canada. This is essentially the same as the Resolution which stood on the order paper last session.

Accelerated Capital Cost Allowance

I wish to turn now to measures designed to encourage industrial development and increased productivity.

The first is one which does not require action by Parliament but which, I hope, will meet with general approval. It will be recalled that in 1963 the government introduced a highly accelerated rate of capital cost allowance on new manufacturing machinery and equipment, acquired by companies with a degree of Canadian ownership and by individuals carrying on business. This incentive measure is scheduled to terminate on June 13th of this year. It has permitted the cost of machinery and equipment to be deducted from income for tax purposes over as little as two years, and has greatly helped in bringing about the expansion and modernization of Canadian manufacturing and processing industries. It has been responsible in large measure for the great increase in private capital expenditure and thus for stimulating total employment and production. We have decided that this measure should be extended to cover machinery and equipment acquired up until the end of December, 1966. Before that date it will be thoroughly reviewed in the light of the analysis and conclusions of the Royal Commission on Taxation.

[Mr. Gordon.]

The effect upon our revenues in this fiscal year of this extension of the accelerated rate of capital cost allowance is estimated to be \$15 million. The effect next year will be much greater.

I am also proposing some changes in capital cost allowances to help farmers who are facing difficulty in marketing corn and other grain crops in areas where there is a shortage of grain storage facilities. I am thinking of many areas, including the area comprised by the constituency of Essex East, a great corn belt. Under this plan, which will be incorporated in a regulation, the cost of all new grain storage facilities constructed in the period May 1, 1965, to December 31, 1966, may be written off for tax purposes over a four-year period. This will apply to farmers and taxable co-operatives as well as to others. The new arrangement will be helpful both in the east, where corn production is expanding rapidly because of changes in harvesting techniques, and in the west where rationalization of transportation and grain handling facilities should go hand in hand.

An important tax concession will also be provided to encourage industry to take new steps to prevent the waste products from their operations polluting our streams and lakes. This will take the form of an amendment to the Income Tax Regulations to permit capital expenditures made until the end of 1966 by businesses primarily for the purpose of preventing water pollution to be deducted at the rate of 50 per cent. This provision will also be reviewed following the report of the Royal Commission on Taxation and after we have the results of studies being made of the problems of pollution and the means of dealing with them.

Scientific Research and Development

The Income Tax Act includes a provision introduced in 1962 which permits those making expenditures on scientific research to deduct not only the amount of these expenditures from income in the year in which they are incurred, but also an additional 50 per cent of the increase in research expenditures over those in the 1961 base year. This results in a reduction in taxes, which is equivalent to making a grant in support of such research.

I have received many representations and suggestions in regard to this extra 50 per cent deduction, as well as enquiries as to its future beyond the 1966 taxation year when the present provision expires. The government believes it is highly important to continue to offer a general inducement to industry to

expand its effort in scientific research and development. We consider, however, that this inducement could be made fairer and more effective if it were in a form that was of more value to new and small companies, subject to the lower rate of tax, and of those faced with losses. The assistance now proposed would take the form of grants of defined amounts to be taken in cash or applied as credits against the tax liability of the businesses concerned. Such benefits would then be accounted for to Parliament in the same way as other expenditures.

For this purpose we propose to bring forward a bill that will provide in 1967 and later years a grant or a credit against tax liabilities equal to 25 per cent of the defined amount of expenditures on scientific research or development carried out by a business, either directly by its own staff or by contract with others in Canada. For 1966 a business will be permitted to elect whether to get the benefits available under the Income Tax Act or the benefits under this new legislation.

It is proposed that the whole amount of capital expenditures for scientific research or development would be eligible to qualify for the bonus, subject to certain safeguards. In regard to current expenditure, it is proposed that the bonus be calculated on the increase in research and development expenditures in any particular year over the average of such expenditures in the three preceding years.

• (9:10 p.m.)

This assistance for research and development will be administered by the Department of Industry. It will be available automatically to all businesses whose expenditures on research and development are less than \$50,000 a year. Those who wish to receive assistance based on larger expenditures than this will be able to do so by getting prior agreement from the Minister of Industry that the research and development proposed, if successful, would be likely to benefit Canada.

I have set forth the government's intention here so those making long term plans will be able to take these intentions into account. The legislation proposed will not be required until 1966, and we will welcome comments and suggestions based on the outline I have given.

Improvements to Income Tax Act

I have reviewed the Income Tax Act again this year, and considered carefully the many requests and suggestions received from taxpayers across Canada. It will not be pos-

sible to accede to all of them. If we were to do so the government would be left with no revenues at all.

I wish to propose a number of amendments to increase the equity of the Act in its application to individuals. One of these will be to allow a taxpayer to claim a deduction for supporting his niece or nephew where the parents of the niece or nephew are not able to provide support. A taxpayer will also be allowed a deduction for amounts spent to support his aunt or uncle if she or he is dependent by reason of mental or physical infirmity.

There will also be an amendment to ensure that contributions to the Canada Pension Plan and the Quebec Plan will be fully deductible in calculating taxable income.

Amendments will be introduced to permit individuals to transfer lump sum retiring allowances into a pension plan, deferred profit-sharing plan or registered retirement savings plan without attracting tax at the time of transfer. The percentage of earned income that an individual may deduct as a premium under a registered retirement savings plan will also be increased.

It is proposed that amounts paid as annual trade union dues or professional dues, which now may be deducted from income under Section 11 of the Act, will no longer be included in amounts covered by the \$100 optional standard deduction. This will permit both the amount of dues and the \$100 standard deduction to be claimed in future.

I propose that corporations and individuals in business be granted the right to deduct certain expenditures made in connection with their businesses that have hitherto been ruled as non-deductible, on the grounds that they were capital in nature or not related directly to earning income. This amendment will permit a taxpayer to deduct expenditures such as the costs of making representations to a government or municipality for the purpose of obtaining a licence, franchise or trade mark in connection with his business, or amounts spent investigating the suitability of a site for a new factory or power development. It will also permit a taxpayer to deduct the cost of landscaping his place of business or an apartment building, and it will permit a farmer to deduct amounts spent for clearing land or laying drainage tile.

Mr. Herridge: You can aspire now to receiving grateful credit for this.

Mr. Fisher: You can retire now.

Mr. Gordon: Well, Mr. Speaker, I would just like to thank the hon. Member for Kootenay West for bringing this to my attention, and say I hope he does not retire. That, however, does not go for all his colleagues.

In 1963 a number of provisions were placed in the Income Tax Act to prevent tax avoidance by means that were prevalent at that time. These deterrents have been effective. Other loopholes in the law continue to be found, however, and exploited in a way which is unfair to others as well as costly to the Crown. When the Act is extensively revised in the light of the report of the Royal Commission on Taxation we hope that we can make some general changes that will safeguard against abuses. In the meantime we will continue the 1963 measures, and I propose to add several more of a specific character, some of which are in the Resolution, while others will first appear in the Bill itself.

Section 36 of the Act, which is intended to provide tax relief for lump sum payments, is being abused in some cases. Some persons arrange to have inordinately large amounts placed to their credit in pension or profit-sharing plans and then, having received this amount upon termination of their employment or the winding up of the plan, they elect to have it taxed at a low rate under section 36. I propose that the major abuses in this area be blocked by restricting the amounts that qualify for taxation under Section 36.

I also propose an amendment to prevent persons from arranging to have business income taxed at no more than the non-resident withholding tax rate of 15 per cent through the use of trusts with non-resident beneficiaries. Because of the varied use of trusts it is difficult to foresee the effect that the proposed amendments in this area may have in all cases. Consequently modifications of this proposal will be considered if representations should show that the amendments outlined in the Resolution will have an unintended impact upon trust arrangements where tax avoidance is not a factor.

Some companies and their principal shareholders have found it possible to avoid taxation on the distribution of accumulated surpluses, or to avoid the withholding tax on payment of dividends to non-residents, by changing the residence of these companies to another country of companies incorporated in Canada. To prevent this form of tax avoidance I propose that henceforth companies incorporated in Canada shall be deemed to remain residents of Canada.

[Mr. Gordon.]

Several amendments will be introduced to prevent certain of the concessionary provisions applicable to the oil, gas and mining industries being used in ways that were not intended.

We propose to require annual returns from trustees administering pension plans, retirement savings plans, and deferred profit-sharing plans. These plans involve very large sums of money representing accumulations of income on which tax has been deferred. We believe that the tax authorities should receive an annual account of their operations.

Customs Tariff Changes

I turn now to matters relating to the Customs Tariff. As honourable members are aware, the Kennedy Round of trade negotiations which is being conducted under the auspices of the GATT is now in progress in Geneva. A number of the requests which have been received in the past year for reductions in rates of duty are being taken up in these negotiations. Accordingly the Resolutions relating to the Customs Tariff which I shall table at the end of my remarks contain fewer changes than usual, and I do not feel it is necessary to describe them here.

I shall be seeking authority to renumber the items in the Customs Tariff by Order-in-Council. The present numbering of the Tariff has evolved over the years and is a mixture of numbers and letters, making it difficult to relate import statistics to individual tariff items. A purely arithmetic numbering of the tariff will permit the use of modern tabulating equipment for correlating import statistics and tariff items. As the Resolution makes clear, the proposed renumbering will not affect the substance of any item in any way.

During 1964 the Tariff Board submitted two reports, one covering mining equipment and the other covering oil-seeds, vegetable oils and related products. On March 29 of this year I tabled a report by the Board on radio, television and related products, and on April 9 I tabled a report on live turkeys. These four reports are now under consideration in preparation for international negotiations in connection with items which have been bound under the General Agreement on Tariffs and Trade.

I am proposing to send two new references to the Tariff Board. One will cover machines used in the grading, packing and storing of fresh fruits or fresh vegetables. The other will relate to precision instruments used in

such activities as engineering, surveying, drafting and machining.

The Customs Act

I am proposing several changes in the Customs Act this year. One is being introduced to deal with the case put forward by the British government that there are some features of our Customs law which bear inequitably or unreasonably on British goods by comparison with goods from other countries.

What is involved in the operation of the value for duty provisions of the Customs Act as they relate to the quantities of goods sold and to the trade level at which they are sold in the country of origin. We have accepted the British contention that there are certain circumstances in which these provisions work a particular hardship on their exporters as compared with exporters in certain other countries. Accordingly I shall be moving an amendment to the Customs Act to provide power to deal with such cases by means of a new Section 37A of that Act. If Parliament approves it, we shall make effective use of this section to remove any discrimination of this nature against British goods.

It is the government's hope that this proposal will be taken by British exporters as a decisive response to their pleas that Canada give a clear signal that we welcome their goods; we hope, too, they will respond by seeking out and serving the very substantial demand which certainly exists here in Canada for imported goods.

There are a number of other less important amendments which will be advanced in the Resolution on the Customs Act.

Estate Tax Act

I do not propose this year to introduce any amendments to the Estate Tax Act. We amended the Estate Tax Act last year, as you will recall, in a number of particulars, and I said that any material changes would now affect provincial revenues more than they would affect our own budget position. I went on to say we felt action should be deferred on such changes of substance until we had seen the results of both the federal and provincial commissions of enquiry, and had consultations with the provinces. That is still the situation.

Excise Tax Act

In regard to the Excise Tax Act, I have had many representations on the present exemptions from the sales tax, and proposals

for new exemptions. I have considerable sympathy with a number of these proposals; their implications, however, raise still further problems of equity, and consequential changes. It is my belief that we must make a thorough review and revision of the sales tax as soon as possible after we have received the views of the Royal Commission on Taxation. I intend that it should be given priority and my department has already put in hand preparatory work to enable them to get ahead with the review quickly once we know what the commissioners' conclusions are. In the meantime, I do not propose to put forward any proposals for amendments in this Budget.

Drugs

There has been much concern expressed about the high prices of drugs in Canada and proposals made that they should be exempt from the sales tax, which has always applied to them. The government has considered these representations but does not wish to act on them until the matter has been considered by the special Committee of the House on Food and Drugs.

Some hon. Members: Shame.

Mr. Gordon: Hon. Members across the way are making remarks but I would remind them that this is a Committee of the House on which I am sure some of them are important members. If the Committee comes to the conclusion that, as part of a comprehensive and effective program to reduce the prices of drugs, they should be exempt from the sales tax, I would expect to see this done in a special statute covering all the measures required to give effect to the program, and I am quite sure the hon. Member for Halton (Mr. Harley), who is Chairman of this Committee, will see it proceeds with this very important matter just as expeditiously as it can.

Tax Cut

I come finally, Mr. Speaker, to the question of what should be the general weight of our taxation in this coming year and, if it should be altered, what should be the amount and form of the change. I have already given the House the highlights of the economic situation, which are set forth in detail in the White Paper. From this it is evident that we have enjoyed an excellent rate of economic expansion in the last few years, and our situation now is good, though not completely satisfactory.

Looking ahead we foresee a further advance this year over 1964. However, we must plan to accommodate a rapid increase in our labour force this summer and in the next several years. We need to assure the market demand to put it to work productively. At the beginning of 1966, within this fiscal year, the commencement of the payment of contributions into the Canada and Quebec Pension Plans will exercise some restraining influence on the growth of consumer expenditure, which may not be fully offset by increased capital spending by the provinces or their agencies out of moneys from the Pension funds.

Our budgetary position for the last fiscal year came close to a balance in our normal accounting terms, and showed a sizeable surplus in terms of the economic accounts. For this new fiscal year our budgetary accounts will not be quite so close to a balance, because of changes already authorized by Parliament or proposals already placed before you. In terms of our national economic accounts, however, the federal budget will be a restraining influence this year unless we make some further changes.

• (9:20 p.m.)

Accordingly, after weighing up these considerations and the advice I have received from many quarters—including business men, trade unions, academic circles and the Review of the Economic Council—I believe this budget should be an expansionary one. To achieve this effect we should reduce moderately the weight of our taxation.

In choosing the nature and form of the reduction, I have been influenced by the fact that we are expecting to make a thorough revision of our tax structure after receiving the report of the Royal Commission and discussing the whole situation with the provinces. While we can count on none of our taxes being unaffected by such a revision, I have concluded that we should leave both the sales tax and the Corporation income tax largely as they are pending this review. Consequently we propose to concentrate the reduction in the personal income tax.

Some hon. Members: Hear, hear.

Mr. Nowlan: Wait till you hear it before you cheer.

Mr. Gordon: Those who pay this tax provide a very important part, indeed the largest single part, of federal government revenues. I am happy to recognize here their essential contribution in the last few years toward bringing the budget under control.

[Mr. Gordon.]

I also recognize the very natural feeling among people generally that taxes should be kept as low as possible. As Minister of Finance, I am happy that the present budget provides an opportunity to carry out that most desirable objective.

We have chosen a form of reduction that will not reduce provincial revenues, nor be too complicated for the typical taxpayer to apply in making out his return. In determining the amount of the reduction I have had to consider the condition of the budget and the economic consequences of the change. There is no precise mathematical formula that can be applied in our present situation. It must be a matter of judgment.

Taking all these factors into account, I propose, Mr. Speaker, that effective from the first of July we make a reduction of our federal tax equal to 10 per cent of the basic tax payable under our personal income tax law, subject to a maximum reduction of \$600 per year.

Mr. Diefenbaker: Just under one cent a day.

Mr. Gordon: In most provinces this basic tax equals the total income tax payable to the federal and provincial governments combined. After allowing for the abatements from the basic tax in favour of the provinces, the reduction in the federal tax will be about 12½ per cent, except for the higher incomes.

[Translation]

The amount of this tax reduction will be the same for all persons having the same taxable income. This means that people residing in the province of Quebec, for example, will benefit from this tax cut just as much as people in all other parts of Canada. This is as it should be.

[Text]

The direct effect of this tax reduction would be to reduce our revenues by about \$170 million this fiscal year and by about \$265 million in a full year. The amount retained by individuals as personal disposable income—that is, “take-home pay”—will be correspondingly increased. As a result, we can expect the rate of private expenditure to increase by nearly this amount, and there should be secondary effects which ultimately should increase the rate of Gross National Product by something more than the amount of the tax reduction.

Apart from these effects upon private expenditures, I believe that this substantial cut

in personal taxes will encourage and stimulate our working force—including those in management and the professions—upon whose efforts our prosperity and progress depend. This is one of the main reasons for concentrating the whole amount of the reduction on the personal income tax.

Since this tax reduction is being deliberately made to achieve these economic effects, I would not expect provincial governments to move in to raise their income taxes to take advantage of our action. If we in Parliament are to manage the nation's economic affairs properly we must be able and prepared to take action of this kind from time to time, both in putting taxes down and in putting them up when the occasion demands it. The larger the share of the provinces and municipalities in the total public revenues of the country, the larger must be

the proportionate change in our own taxes necessary to achieve the objectives of fiscal management.

The particular form of this tax cut should be regarded as provisional until we have completed the basic review of our structure that is under way. I would expect that by 1967 we will enact a new schedule of tax rates and make a number of modifications in the base of the tax.

I would like to insert in *Hansard* here tables showing the effects of the tax cut on the annual tax payable by taxpayers at various income levels.

Mr. Speaker: Does the house agree?

Some hon. Members: Agreed.

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

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX REDUCTION
(Single Taxpayer with no Dependents)

Income	Tax for 1965 before reduction		Tax reduction in a full year		
	Combined federal and provincial tax	Federal tax only	Amount of reduction	% of combined federal and provincial tax	% of federal tax only
\$	\$	\$	\$	%	%
2,000	99	78	10	10.0	12.7
3,000	236	186	24	"	"
4,000	403	318	40	"	"
5,000	591	467	59	"	"
7,500	1,154	912	115	"	"
10,000	1,795	1,418	180	"	"
15,000	3,520	2,781	352	"	"
20,000	5,645	4,460	565	"	"
30,000	10,195	8,054	600	5.9	7.4
50,000	20,333	16,063	600	3.0	3.7
100,000	49,295	38,943	600	1.2	1.5

The "Combined federal and provincial tax" shown for 1965 before tax reduction includes provincial tax computed at the rate of 21% of basic tax. The "Federal tax only" is after deducting the abatement of 21% in accordance with current federal-provincial arrangements.

The old age security tax is not included in the taxes shown.

In calculating these taxes it has been assumed that taxpayers with incomes under \$10,000 deduct only the optional standard deduction of \$100 but that taxpayers with incomes of \$10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income.

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX REDUCTION
(Married Taxpayer with no Dependants)

Income	Tax for 1965 before reduction		Tax reduction in a full year		
	Combined federal and provincial tax	Federal tax only	Amount of reduction	% of combined federal and provincial tax	% of federal tax only
\$	\$	\$	\$	%	%
3,000	99	78	10	10.0	12.7
4,000	236	186	24	"	"
5,000	403	318	40	"	"
7,500	918	725	92	"	"
10,000	1,505	1,189	151	"	"
15,000	3,120	2,465	312	"	"
20,000	5,195	4,104	520	"	"
30,000	9,695	7,659	600	6.2	7.8
50,000	19,783	15,628	600	3.0	3.8
100,000	48,645	38,430	600	1.2	1.6

The "Combined federal and provincial tax" shown for 1965 before tax reduction includes provincial tax computed at the rate of 21% of basic tax. The "Federal tax only" is after deducting the abatement of 21% in accordance with current federal-provincial arrangements.

The old age security tax is not included in the taxes shown.

In calculating these taxes it has been assumed that taxpayers with incomes under \$10,000 deduct only the optional standard deduction of \$100 but that taxpayers with incomes of \$10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income.

TO ILLUSTRATE PROPOSED PERSONAL INCOME TAX REDUCTION
(Married Taxpayer with Two Dependent Children Eligible for Family Allowance)

Income	Tax for 1965 before reduction		Tax reduction in a full year		
	Combined federal and provincial tax	Federal tax only	Amount of reduction	% of combined federal and provincial tax	% of federal tax only
\$	\$	\$	\$	%	%
3,000	33	26	3	10.0	12.7
4,000	152	120	15	"	"
5,000	301	238	30	"	"
7,500	786	621	79	"	"
10,000	1,349	1,066	135	"	"
15,000	2,880	2,275	288	"	"
20,000	4,925	3,891	493	"	"
30,000	9,395	7,422	600	6.4	8.1
50,000	19,453	15,367	600	3.1	3.9
100,000	48,255	38,121	600	1.2	1.6

The "Combined federal and provincial tax" shown for 1965 before tax reduction includes provincial tax computed at the rate of 21% of basic tax. The "Federal tax only" is after deducting the abatement of 21% in accordance with current federal-provincial arrangements.

The old age security tax is not included in the taxes shown.

In calculating these taxes it has been assumed that taxpayers with incomes under \$10,000 deduct only the optional standard deduction of \$100 but that taxpayers with incomes of \$10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income.

[Mr. Gordon.]

Mr. Gordon: It will be seen that in a full year the federal tax for a single person with an income of \$3,000 will be reduced from \$186 to \$162, that is, by \$24; for a married man with two children and an income of \$5,000, the reduction will be \$30 a year; for a married man without children having an income of \$10,000, the reduction will be \$151 a year.

I would also like to include two tables showing how the prospective Canadian income tax for 1966, including the Old Age Security Tax, the Canada Pension Plan contributions and the provincial income tax in Ontario, as an example, would compare with the United

States income taxes including social security contributions and the State income tax in New York. It must be recognized that the comparison in any individual case will be affected substantially by the deductions which can be claimed under the tax laws of the two countries. In the United States deductions are permitted for state taxes paid, mortgage interest, etc., which will vary from person to person. The deductions used for the comparisons in these tables are set forth in the footnotes.

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

COMPARISON OF PERSONAL INCOME TAXES IN CANADA AND THE UNITED STATES
(Single taxpayer with no dependants)

Income	Canada—taxes at rates proposed for 1966				U.S.A.—taxes at rates for 1966 in present law			
	Federal income tax	Provincial income tax	O.A.S. tax and C.P.P. contribution	Total taxes	Federal income tax	State income tax (New York)	Social Security tax	Total taxes
\$	\$	\$	\$	\$	\$	\$	\$	\$
1,000	—	—	7	7	14	—	41	55
2,000	65	24	61	150	161	16	83	260
3,000	156	57	119	332	329	43	124	496
4,000	266	97	177	540	500	70	165	735
5,000	390	142	199	731	671	106	198	975
7,500	762	277	199	1,238	1,168	203	198	1,569
10,000	1,185	431	199	1,815	1,742	334	198	2,274
15,000	2,323	845	199	3,367	3,170	706	198	4,074
20,000	3,726	1,355	199	5,280	4,838	1,190	198	6,226
30,000	7,148	2,447	199	9,794	8,885	2,190	198	11,273
50,000	14,853	4,880	199	19,932	18,242	4,190	198	22,632
100,000	36,864	11,831	199	48,894	45,333	9,190	198	54,721

The taxes shown for each country are the federal income tax, the provincial or state income tax and the federal social security charge. The federal income tax shown for Canada is the tax in all provinces except Quebec. The provincial income tax is the provincial income tax in any province except Quebec, Manitoba or Saskatchewan. The state income tax is the New York State income tax. In the United States thirty-five states impose income taxes.

In calculating the Canadian taxes it has been assumed that taxpayers with incomes under \$10,000 deduct only the optional standard deduction of \$100 but that taxpayers with incomes of \$10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income. The Canadian federal income tax is after the proposed reduction of 10% of basic tax with a maximum of \$600.

In calculating the United States taxes it has been assumed that taxpayers with incomes of \$10,000 or less deduct only the optional standard deduction. This is 10% of income with a minimum of \$300 for single taxpayers and a maximum of \$1,000. It was also assumed that taxpayers with incomes in excess of \$10,000 use the optional standard deduction for purposes of their state income tax and for federal tax purposes deduct charitable donations eligible medical expenses, mortgage interest, property taxes, etc., which aggregate 5% of their income and in addition deduct their state income tax.

The old age security tax in Canada is 4% of taxable income with a maximum of \$120 and the Canada Pension Plan contribution is 1.8% of income in excess of \$600 with a maximum of \$79.20. The social security tax in the United States for 1966 as provided in the present law is 4.125% of adjusted gross incomes with a maximum of \$198 and this has been used in the above table. However, the Budget Message of the President on January 25, 1965, recommended that this be increased to 4.25% with a maximum of \$238 for 1966.

COMPARISON OF PERSONAL INCOME TAXES IN CANADA AND THE UNITED STATES
(Married taxpayer with no dependants)

Canada—taxes at rates proposed for 1966					U.S.A.—taxes at rates for 1966 in present law			
Income	Federal income tax	Provincial income tax	O.A.S. tax and C.P.P. contribution	Total taxes	Federal income tax	State income tax (New York)	Social Security tax	Total taxes
\$	\$	\$	\$	\$	\$	\$	\$	\$
1,000	—	—	7	7	—	—	41	41
2,000	—	—	25	25	56	—	83	139
3,000	65	24	79	168	200	10	124	334
4,000	156	57	137	350	354	37	165	556
5,000	266	97	195	558	501	67	198	766
7,500	606	220	199	1,025	915	163	198	1,276
10,000	993	361	199	1,554	1,342	283	198	1,823
15,000	2,059	749	199	3,007	2,363	639	198	3,200
20,000	3,429	1,247	199	4,875	3,452	1,115	198	4,765
30,000	6,768	2,327	199	9,294	6,087	2,115	198	8,400
50,000	14,435	4,748	199	19,382	13,189	4,115	198	17,502
100,000	36,370	11,675	199	48,244	36,057	9,115	198	45,370

The taxes shown for each country are the federal income tax, the provincial or state income tax and the federal social security charge. The federal income tax shown for Canada is the tax in all provinces except Quebec. The provincial income tax is the provincial income tax in any province except Quebec, Manitoba or Saskatchewan. The state income tax is the New York State income tax. In the United States thirty-five states impose income taxes.

In calculating the Canadian taxes it has been assumed that taxpayers with incomes under \$10,000 deduct only the optional standard deduction of \$100 but that taxpayers with incomes of \$10,000 or greater deduct charitable donations and eligible medical expenses which aggregate 2½% of their income. The Canadian federal income tax is after the proposed reduction of 10% of basic tax with a maximum of \$600.

In calculating the United States taxes it has been assumed that taxpayers with incomes of \$10,000 or less deduct only the optional standard deduction. This is 10% of income with a minimum of \$400 for joint returns of married taxpayers and a maximum of \$1,000. It was also assumed that taxpayers with incomes in excess of \$10,000 use the optional standard deduction for purposes of their state income tax and for federal tax purposes deduct charitable donations, eligible medical expenses, mortgage interest, property taxes, etc., which aggregate 5% of their income and in addition deduct their state income tax. It was further assumed that taxpayers take advantage of the income splitting provision in the federal tax law.

The old age security tax in Canada is 4% of taxable income with a maximum of \$120 and the Canada Pension Plan contribution is 1.8% of income in excess of \$600 with a maximum of \$79.20. The social security tax in the United States for 1966 as provided in the present law is 4.125% of adjusted gross income with a maximum of \$198 and this has been used in the above table. However, the Budget Message of the President on January 25, 1965 recommended that this be increased to 4.25% with a maximum of \$238 for 1966.

It will be noted that the combined Canadian levy is below that in the United States throughout for single persons. For married persons the Canadian combined levies are less up to a level of about \$17,000 a year; above that level the effect of "income splitting" for husband and wife in the United States puts their tax slightly lower than ours.

It must of course be borne in mind that these are comparisons of levies on personal incomes only, and there are many other taxes in both countries which have to be taken into account in comparing the total weight of taxation. On the whole, however, after this tax cut, income taxes and social security contributions based on income will be less in Canada than in the United States. This

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means there will be no inducement from an income tax point of view for young Canadians to move to the United States or to continue to live there rather than in Canada.

This major tax cut of \$265 million a year, together with the other changes outlined, will alter our revenues for this new fiscal year directly and also indirectly by reason of their effect on the economy. I would expect the Gross National Product for 1965 as a whole to increase over 1964 by slightly more than the approximate figure of 7 per cent. I mentioned earlier. Taking this and direct effects of tax changes into account, we estimate that our revenues for this fiscal year should be about \$7,350 million. Our expenditures I have forecast at \$7,650 million. This.

will leave a deficit in terms of our public accounts of approximately \$300 million.

Taking all our expected non-budgetary receipts and disbursements into account, we would anticipate a total cash requirement, for other than transactions in government securities, or changes in our foreign exchange reserves, of \$525 million.

In terms of our national economic accounts the federal government's revenue and expenditure transactions would show a modest surplus of \$152 million. Given the economic and fiscal prospects for the year ahead, I think this outcome of the budget is about right.

In conclusion, Mr. Speaker, may I emphasize that our national finances have been brought under control; our national economy is moving ahead in a satisfactory way; and we are now able to lead from strength.

The times call for an expansionary approach in our financial and economic affairs. Consequently this is a growth budget. It expresses the determination of the government to give a lead in achieving our national potential. It is intended as a challenge to Canadians in all provinces to share in the great future that can be ours.

RESOLUTIONS

CANADA DEVELOPMENT CORPORATION

Resolved: That it is expedient to introduce a measure to establish an investment corporation, to be known as the Canada Development Corporation, to provide through savings by Canadians a supplementary large-scale source of financing where substantial sums of equity capital are required for the initiation or expansion of larger enterprises in Canada and for facilitating, in the case of offers to purchase or sell shares of such enterprises, the acquisition of such shares by Canadian residents rather than non-residents; to authorize the issue by the Corporation to Canadian residents, at an initial issue price of five dollars per share, of shares of the Corporation the total number of which outstanding at any time shall not exceed two hundred million; to authorize the Government of Canada to underwrite the issue of shares of the Corporation, and at its discretion to invest in shares of the Corporation on its own account not exceeding in number ten per cent of the total number of issued and outstanding shares of the Corporation, the amount of which underwriting commitment, together with the total amount in-

vested by the Government of Canada in shares of the Corporation, shall not exceed two hundred and fifty million dollars; to authorize the Government of Canada to make loans to or purchase debentures of the Corporation to an aggregate amount not exceeding one hundred million dollars and to sell to the Corporation the holdings of Canada of shares of certain Crown corporations; and to provide further for other necessary and incidental matters relating to the establishment of the Corporation, its objects and powers, and its management, operation and control.

THE CUSTOMS ACT

Resolved, that it is expedient to amend the Customs Act by:

1. Striking out subsection (1) of section 22 and substituting the following:

22. (1) Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry,

(a) pay or cause to be so paid, all duties upon all goods entered inwards; or

(b) in the case of goods entered in accordance with the terms and conditions prescribed by regulations made under subsection (3), present in respect of the duties upon such goods a bond, note or other document as prescribed by such regulations;

and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unloading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

2. Adding to section 22 the following subsection:

22. (3) The Governor in Council may make regulations prescribing

(a) the terms and conditions upon which goods may be entered into Canada free of any requirement that the importer shall, at the time of entry, pay or cause to be so paid all duties on the goods so entered inwards;

and
(b) the terms and conditions of any bond, note or other document presented upon the entry of such goods in respect of the duties thereon.

3. Striking out subsection (1) of section 35 and substituting the following:

35. (1) The value for duty of goods imported shall be determined in accordance with the provisions of sections 36 to 41A.

4. Striking out all that portion of subsection (2) of section 35 preceding paragraph (a) and substituting the following:

35. (2) In this section and sections 36 to 41A, with reference to any goods,

5. Adding immediately after section 37 the following section:

37A. Where the Governor in Council is satisfied, on a report from the Minister, that the application of subparagraph (i) of paragraph (e) of subsection (2) of section 36 or subsection (3) of section 36 is inequitable in that it results in discrimination against the importation of goods of a class from any country, as compared with the importation of goods of that class from any other country, the Governor in Council may prescribe the manner in which the value for duty of goods of that class, as determined under section 36 or 37, shall be reduced; but the value for duty of any imported goods upon being reduced as provided in this section shall not be less than an amount equal to the cost of production of the goods plus such amount for gross profit as is deemed reasonable by the Governor in Council.

6. Adding immediately after section 41 the following section:

41A. In the case of any imported goods that (a) were shipped indirectly to Canada from the country of origin through one or more other countries; and

(b) would, but for this section, be valued for duty under sections 36 to 40B at less than

the value for duty of such goods would be if the country of export were the country of origin;

the goods shall, notwithstanding subsection (1) of section 36, upon such terms and conditions as to shipment, documentation, warehousing, transshipment or the like as the Governor in Council may prescribe, be valued for duty as if they were imported direct from the country of origin at the time they were first shipped from that country.

7. Striking out section 79 and substituting the following:

79. Subject to subsection (1) of section 22, no person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

8. Adding to section 104 the following subsection:

104. (1a) Where goods, the property of the government of a country other than Canada, that were imported into Canada free of duty or at a rate lower than that to which they would otherwise be liable, are sold or otherwise disposed of on behalf of the government of such country in accordance with an agreement between the governments of such country and Canada, such goods shall be charged with duties payable at such rate as may be determined by the Minister.

CUSTOMS TARIFF

1. Resolved, that the *Customs Tariff* be amended by adding thereto, immediately after section 16 thereof, the following section:

17. (1) The Governor in Council, by order, may from time to time amend

(a) Schedules A to C, and

(b) any lists of articles or goods the duties on which are removed or reduced pursuant to any Act or any order in council under the Customs Act or this Act, by renumbering the items set out in Schedules A to C or in any such list but not so as to affect the status of any of those items with respect to the payment of duty.

(2) On and after the coming into force of an order under subsection (1) a reference by its former number in any Act or in any statutory or other instrument or document to any item renumbered by that order shall, unless the context otherwise requires, be construed to be a reference to that item as renumbered by the order.

(3) The Minister of National Revenue may, from time to time by publication in Part I of the Canada Gazette, give notice of any change required to be made, by virtue of an order under subsection (1), in any reference in any Act or in any statutory or other instrument or document to an item renumbered by the order where the reference thereto is by the former number.

2. Resolved, that Schedule A to the *Customs Tariff* be amended by striking out tariff items 209e, 210i, 263e, 384, 440m(1), 440n(1), 445z, 541a(2) and 695c, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting therein the following items, enumerations of goods and rates of duty:

Tariff Item	British Preferential Tariff	Most- Favoured- Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
				British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
209e Potassium chloride..... (Applicable to December 31, 1966)	Free	Free	25 p.c.	Free	Free (Applicable to December 31, 1965)	25 p.c.
210i Sodium hypochlorite in solution..... (Applicable to December 31, 1966)	15 p.c.	20 p.c.	30 p.c.	15 p.c.	20 p.c. (Applicable to December 31, 1965)	30 p.c.
263e Compounds of tetramethyl lead, in which tetramethyl lead is the preponderant constituent by weight..... (Applicable to December 31, 1966)	12½ p.c.	12½ p.c.	25 p.c.	12½ p.c.	12½ p.c. (Applicable to December 31, 1965)	25 p.c.
384 Skelp, plate, sheet or strip of iron or steel, hot- or cold- rolled, for use in the manufacture of pipes or tubes...	Free	7½ p.c.	15 p.c.	Free 5 p.c. 5 p.c.	7½ p.c. 10 p.c. 15 p.c.	15 p.c. 20 p.c. 25 p.c.
<u>388 Foundry moulding snap flasks and jackets for use there- with.....</u>	Free	Free	35 p.c.	10 p.c. Various	22½ p.c. Various	35 p.c. 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
440m	Aircraft, not including engines, under such regulations as the Minister may prescribe: (1) When of types or sizes not made in Canada.... on and after July 1, 1966	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (on and after July 1, 1965)	27½ p.c. 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.... on and after July 1, 1966	Free Free	Free 15 p.c.	27½ p.c. 27½ p.c.	Free Free	Free 15 p.c. (on and after July 1, 1965)	27½ p.c. 27½ p.c.
445z	<u>Parts for use in the manufacture or repair of electric dry shaving machines for use in removing human hair or of rectifier converters used in conjunction therewith....</u>	Free	Free	10 p.c.	Free 15 p.c.	Free 22½ p.c.	10 p.c. Various
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: (2) Linen yarns for weaving, <u>knitting</u> or braiding into fabrics.....	Free	Free	25 p.c.	Free 12½ p.c. 15 p.c.	Free 17½ p.c. 20 p.c.	25 p.c. 25 p.c. 25 p.c.
695c	<u>Original sculptures and statuary, including the first twelve replicas made from a sculptor's original work or model; all the foregoing the professional productions of sculptors only and valued at not less than seventy-five dollars each.....</u>	Free	Free	Free	Free	Free	Free
695e	<u>Hand-woven tapestries, suitable only for use as wall hangings, valued at not less than twenty dollars per square foot.....</u>	Free	Free	Free	25 p.c.	27½ p.c.	55 p.c.

3. Resolved, that Schedule B to the *Customs Tariff* be amended 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
<u>1010</u>	<u>Knitted netting.</u>	<u>When used in the manufacture of shapes for women's or children's headgear.....</u>	99 p.c.

4. Resolved, that Schedule C to the *Customs Tariff* be amended by striking out item 1220 and the enumeration of goods set opposite that item, and by inserting therein the following item and enumeration of goods:

1220 Offensive weapons, as defined in the Criminal Code:

This item does not affect in any manner:

- (a) arms, implements or munitions of war, army, naval and air stores, and any articles deemed capable of being converted thereinto or made useful in the production thereof, imported under permit issued by the Minister of National Revenue pursuant to regulations made by the Governor in Council under section 279 of the Customs Act;
- (b) firearms imported by a person who holds a permit in Form 43 or Form 44, issued with respect thereto, under section 94 of the Criminal Code;
- (c) shotguns and rifles of the standard or auto-loading type imported for sporting use only;
- (d) antique articles eligible for entry under tariff item 693 (i) or tariff item 693 (iii), and bona fide collectors' items, as determined by the Minister;
- (e) arms, military stores and munitions of war eligible for entry under tariff item 708 or tariff item 708b; or
- (f) arms, military stores, munitions of war or offensive weapons exempted from the provisions of this item by a regulation of the Governor in Council in any particular case or class of cases.

5. Resolved, that Schedule C to the *Customs Tariff* be amended by inserting therein the following item and enumeration of goods:

- 1221 (1) Issues of a periodical, one of the four immediately preceding issues of which, if such preceding issue is dated after September 30, 1965, has, under regulations prescribed by the Governor in Council, been found to be an issue of a special edition, including a split run or a regional edition, that contained an advertisement that was primarily directed to a market in Canada and that did not appear in identical form in all editions of that issue of that periodical that were distributed in the country of origin.
- (2) Issues of a periodical, one of the four immediately preceding issues of which, if such preceding issue is dated after September 30, 1965, has, under regulations prescribed by the Governor in Council, been found to be an issue, more than 5 per cent of the advertising space in which consisted of space used for advertisements that indicated specific sources of availability in Canada, or specific terms or conditions relating to the sale or provision in Canada, of any goods or services, except where the indication of such sources of availability or such terms or conditions was primarily directed to persons outside Canada.
- For the purposes of this item,
- (a) "issue" includes a special annual issue, and

- (b) "periodical" means a periodical, the issues of which, other than special annual issues, are published at regular intervals of more than 6 days and less than 15 weeks and are distributed as issues of a distinct publication or as a supplement to more than one newspaper, but does not include
- (i) a catalogue,
 - (ii) a newspaper, or
 - (iii) a periodical, the principal function of which is the encouragement, promotion or development of the fine arts, letters, scholarship or religion.

6. Resolved, that any enactment founded upon resolutions 2, 3 and 4 of the foregoing resolutions shall be deemed to have come into force on the 27th day of April, 1965, 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.

7. Resolved, that any enactment founded upon resolution 5 of the foregoing resolutions shall come into force on the 1st day of January, 1966, and shall apply to all goods mentioned in the said resolution imported or taken out of warehouse for consumption on or after that day, and shall apply to goods previously imported for which no entry for consumption was made before that day.

INCOME TAX ACT RESOLUTION

Resolved that it is expedient to introduce a measure to amend the Income Tax Act and related provisions of the Federal-Provincial Fiscal Arrangements Act and to provide among other things:

1. That for the 1966 and subsequent taxation years the income tax payable by an individual be reduced by an amount equal to the lesser of 10 per cent of basic tax or \$600 and for the 1965 taxation year by an amount equal to the lesser of 5 per cent of basic tax or \$300.

2. That for the 1965 and subsequent taxation years a taxpayer may deduct in computing his taxable income an amount for the support of a person who was his niece or nephew and who during the year resided in Canada, was wholly dependant upon him for support, and was

(a) under 21 years of age,

(b) 21 years of age or over and dependant by reason of mental or physical infirmity, or

(c) 21 years of age or over and in full time attendance at a school or university, if

(d) the mother of the niece or nephew was divorced or separated and not in receipt of alimony or similar payments, or

(e) the father of the niece or nephew was deceased or mentally or physically infirm, not exceeding \$300 if the person was a child qualified for family allowance and \$550 if he was not so qualified.

3. That for the 1965 and subsequent taxation years a taxpayer may deduct in computing his taxable income an amount not exceeding \$550 expended by him during the year for the support of a person who was his aunt or uncle and who during the year resided in Canada and was dependant upon him for support by reason of mental or physical infirmity.

4. That for the 1970 and subsequent taxation years the additional exemption of \$500 now allowed to a taxpayer who has attained the age of 65 years be allowed only if the taxpayer has attained the age of 70 years and that for the taxation years 1966 to 1969 inclusive a taxpayer who has attained the age of 65 years but has not attained the age of 70 years be allowed the additional exemption of \$500 only if he did not receive a pension under the Old Age Security Act in respect of any month in that year.

5. That for the 1965 and subsequent taxation years a taxpayer who deducts in computing his income from an office or employment

(a) annual dues to maintain membership in a trade union or to maintain membership in an association of public servants,

(b) annual dues retained from his remuneration pursuant to the provisions of a collective agreement aid paid to a trade union or association, or

(c) annual professional membership dues the payment of which was necessary to maintain a professional status recognized by statute,

shall not by reason of such deduction be ineligible to deduct the standard deduction of \$100 described in paragraph (ca) of subsection (1) of section 27 of the Act.

6. That for the 1966 and subsequent taxation years a person, the spouse of such person residing with him and previously resident in Canada, or any dependant child of such person, shall be deemed to have been resident in Canada throughout a taxation year if such person was at any time in the year performing services in a country other than Canada under a prescribed international development assistance program of the Government of Canada, and was resident in Canada during a part of the year preceding the commencement of such services.

7. That for the 1966 and subsequent taxation years a contribution made by a person under the Canada Pension Plan or under a provincial pension plan as defined in section 3 of the Canada Pension Plan may be deducted in computing the income of such person.

8. That for the 1965 and subsequent taxation years the limitation on the amount related to earned income that a taxpayer may deduct as a premium under a registered retirement savings plan be increased from 10 per cent of earned income to 20 per cent of earned income.

9. That for the 1965 and subsequent taxation years such part of any amount that would otherwise be included in computing income of a taxpayer as a retiring allowance be deductible if it is paid in the year, or within 60 days after the end of the year, as a contribution to a registered pension fund or plan, as a premium under a retirement savings plan, or to a trustee under a deferred profit sharing plan.

10. That there may be deducted in computing the income of a taxpayer an amount in respect of an outlay or expense made by the taxpayer in the 1965 and subsequent taxation years

(a) to a person with whom the taxpayer is dealing at arms length and who is the lessee of property owned by the taxpayer, to obtain the cancellation of a lease on such property,

(b) for landscaping property used by the taxpayer for the purpose of gaining or producing income,

(c) for clearing land or laying tile drainage for the purpose of carrying on a farming business,

(d) as or on account of the cost of making representations to a government, municipality or other public authority in connection with a business carried on by the taxpayer, including representations for the purpose of obtaining a license, permit, franchise, or trademark,

(e) as or on account of the cost incurred in investigating the suitability of a site for a building or other structure planned by the taxpayer for use in connection with a business carried on by him.

11. That for the 1965 and subsequent taxation years a corporation shall be deemed to be resident in Canada throughout a taxation year if

(a) it was incorporated in Canada before April 27, 1965 and was resident in Canada in its taxation year that included April 26, 1965 or in any subsequent taxation year, or

(b) it was incorporated in Canada after April 26, 1965.

12. That with respect to payments received by a taxpayer after April 26, 1965, other than a payment made upon the death of an employee, the amount that a taxpayer may elect to have taxed under section 36 of the Act shall not exceed

(a) in the case of a single payment

(i) out of or pursuant to a superannuation or pension fund or plan, or

(ii) pursuant to deferred profit sharing plan, or

(iii) pursuant to an employee's profit sharing plan,

\$1,500 times the number of years during which the employee, in respect of whom the payment was made, was a member of the plan; or

(b) in the case of

(i) a single payment upon retirement of an employee in recognition of long service, or

(ii) a payment or payments made by an employer to an employee or former employee upon or after retirement in respect of loss of office or employment

\$1,000 times the number of years during which the employee, in respect of whom the pay-

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ment was made, was an employee of the employer who made the payment.

13. That for taxation years commencing after April 26, 1965, a trust or estate (other than a trust or estate arising on death) that has income from a business carried on by it in Canada may not deduct in computing its income an amount paid or payable to a beneficiary who is

(a) a non-resident of Canada,

(b) a non-resident-owned investment corporation, or

(c) another trust or estate resident in Canada, unless that other trust or estate

(i) arose on a death, or

(ii) has been since April 26, 1965 a beneficiary of the trust or estate paying the amount and the trust or estate paying the amount has been carrying on the business since April 26, 1965, and any amount paid or payable out of the income for the year of the first-mentioned trust or estate will continue to be included in the income of its beneficiary notwithstanding the fact that the first-mentioned trust or estate was not entitled to deduct the amount in computing its income.

14. That for the 1965 and subsequent taxation years the amount of income derived from a new mine that a corporation may exclude in computing its income shall be confined to income from the operation of the mine by the corporation.

15. That where a joint exploration corporation acquires after April 26, 1965 a right, licence or privilege to explore for, drill for or take petroleum, natural gas or other related hydrocarbons, the cost of the right, license or privilege may not be renounced to a shareholder corporation.

16. That for the 1965 and subsequent taxation years an amount that a taxpayer may exclude from his income because it is consideration for a mining property acquired as the result of his efforts as a prospector, or as the result of efforts of a prospector who was employed or financially assisted by him, shall not include a share of profits, a royalty or a payment based on production.

17. That the Minister of National Revenue with the approval of the Governor in Council may on behalf of the Government of Canada enter into an agreement with the government of a province, under which one government undertakes to transfer to the other, in respect of income tax paid by an individual from whom deductions were made at source as though he were resident in a place other

than the province in which he was resident on the last day of the year, a part of the amount deducted or withheld under section 47 of the Act or a similar provision of a provincial income tax act.

18. That in order to give effect to the provisions of paragraph 1 without reducing the amount of equalization payments to any province a consequential amendment be made to the Federal-Provincial Fiscal Arrangements Act to adjust the fractions set out therein in the definition of "standard individual income tax" used in the computation of equalization payments.

19. That a new section be added to the Act concerning expenditures of a taxpayer for advertising space in a non-Canadian newspaper or periodical having effect substantially as follows:

"12A. (1) In computing income, no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer for advertising space in an issue of a non-Canadian newspaper or periodical dated after December 31, 1965 for an advertisement directed primarily to a market in Canada.

(2) An issue or edition of an issue of any newspaper or periodical that is edited in whole or in part in Canada and printed and published in Canada and that was not on April 26, 1965 a Canadian newspaper or periodical shall be deemed, for the purposes of subsection (1), not to be an issue of a non-Canadian newspaper or periodical if

(a) throughout the period of twelve months ending April 26, 1965 issues or editions of issues of that publication were being edited in whole or in part in Canada and printed and published in Canada at the usual intervals for issues of that publication and have since that date continued to be so edited, printed and published without interruption except for a reason other than the cessation of the business of publishing that publication; and

(b) in the case of a periodical, the periodical is similar, in content and in respect of the class of readers to whom it is directed, to the issues or editions of that periodical that were throughout the period of twelve months ending April 26, 1965 being edited in whole or in part in Canada and printed and published in Canada.

(3) Subsection (1) does not apply with respect to an advertisement in a special issue or edition of a newspaper that is edited in whole or in part and printed and published outside Canada if such special issue or edition is devoted to features or news related pri-

marily to Canada and the publishers thereof publish such an issue or edition not more frequently than twice a year.

(4) Subsection (1) does not apply with respect to an advertisement in

(a) a catalogue, or

(b) any publication the principal function of which is the encouragement, promotion or development of the fine arts, letters, scholarship or religion.

(5) In this section,

(a) 'Canadian issue' means,

(i) in relation to a newspaper, an issue, including a special issue,

(A) the type of which, other than the type for advertisements or features, is set in Canada,

(B) the whole of which, exclusive of any comics supplement, is printed in Canada,

(C) that is edited in Canada by individuals resident in Canada, and

(D) that is published in Canada, and

(ii) in relation to a periodical, an issue, including a special issue,

(A) the type of which, other than the type for advertisements, is set in Canada,

(B) that is printed in Canada,

(C) that is edited in Canada by individuals resident in Canada, and

(D) that is published in Canada,

but does not include an issue of a periodical

(E) that is produced or published under a license granted by a person who produces or publishes issues of a periodical that are printed, edited or published outside Canada, or

(F) the contents of which, excluding advertisements, are substantially the same as the contents of an issue of a periodical, or the contents of one or more issues of one or more periodicals, that was or were printed, edited or published outside Canada;

(b) 'Canadian newspaper or periodical' means a newspaper or periodical the right to produce and publish issues of which belongs to or is vested in

(i) a Canadian citizen,

(ii) a partnership of which at least $\frac{3}{4}$ of the members are Canadian citizens and in which interests representing in value at least $\frac{3}{4}$ of the total value of the partnership property are owned by Canadian citizens,

(iii) an association or society of which at least $\frac{3}{4}$ of the members are Canadian citizens,

(iv) Her Majesty in right of Canada or a province, or a municipality in Canada, or

(v) a corporation

(A) that is incorporated under the laws of Canada or a province,

(B) of which the chairman or other presiding officer and at least $\frac{1}{3}$ of the directors or other similar officers are Canadian citizens, and

(C) of which, if it is a corporation having share capital, at least $\frac{1}{3}$ of the shares having full voting rights under all circumstances, and shares representing in the aggregate at

least $\frac{1}{3}$ of the paid-up capital, are owned by Canadian citizens or by corporations other than corporations controlled directly or indirectly by citizens or subjects of a country other than Canada; and

(c) 'issue of a non-Canadian newspaper or periodical' means an issue that is not a Canadian issue of a Canadian newspaper or periodical."

APPENDIX "A"

TABLES REFERRED TO IN BUDGET SPEECH
FEDERAL GOVERNMENT REVENUES AND EXPENDITURES PUBLIC ACCOUNTS AND
NATIONAL ACCOUNTS RECONCILIATION

	1963-64	1964-65 estimate	1965-66 forecast before tax changes
	(millions of dollars)		
1. Budgetary revenue.....	6,253	7,136	7,525
2. Supplementary period adjustment ⁽¹⁾	-21	-10	29
3. Extra-budgetary revenues			
Old Age Security tax collections.....	747	956	1,143
Prairie Farm Assistance Act levy.....	9	10	10
Unemployment insurance employer-employee contributions.....	297	307	331
Government pension funds, employer-employee contributions.....	245	251	261
Interest receipts of social insurance and government pension funds....	143	157	178
4. Corporate income tax ⁽²⁾ : excess (+) of accruals over collections.....	38	-137	-85
5. Profits before taxes (net of losses) of government business enterprises....	207	244	244
6. Interest on loans, advances and investments.....	175	169	216
7. Less: Budgetary return on investments.....	-392	-380	-466
8. Less: Postal revenue.....	-201	-230	-246
9. Budgetary revenue items offset against budgetary expenditures ⁽³⁾	-109	-112	-112
10. All other adjustments to budgetary revenue ⁽⁴⁾	-44	-48	-145
11. Total revenue, national accounts basis.....	7,347	8,313	8,883

⁽¹⁾ In the national accounts, revenues in the supplementary period are shifted to the following fiscal year.

⁽²⁾ Taxes on government business enterprises are excluded from this item and included in item 5.

⁽³⁾ See also line 10, expenditure reconciliation.

⁽⁴⁾ These adjustments are largely revenue items not relevant for the national accounts such as proceeds from sales of existing assets.

FEDERAL GOVERNMENT REVENUES AND EXPENDITURES PUBLIC ACCOUNTS
AND NATIONAL ACCOUNTS RECONCILIATION

	1963-64	1964-65 estimate	1965-66 forecast before tax changes
(Millions of dollars)			
1. Budgetary expenditure.....	6,872	7,219	7,650
2. Supplementary period adjustment ⁽¹⁾	- 33	- 6	40
3. Expenditures of extra-budgetary funds			
Old Age Security Fund payments.....	808	889	906
Unemployment insurance benefits.....	366	332	337
Government pension fund payments.....	89	97	109
Prairie farm assistance payments.....	11	10	10
4. Transfers to extra-budgetary funds.....	- 66	- 63	- 62
5. Adjustment to place other government funds and crown agencies on a disbursement basis ⁽²⁾	19	- 30	- 7
6. Budgetary expenditures offset against income of government business enterprises			
Post Office expenditures.....	-206	-211	-221
Deficits of government business enterprises.....	- 86	- 80	- 96
7. Capital assistance to non-defence industry ⁽³⁾	- 60	- 77	- 70
8. Reserves and write-offs.....	-161	- 42	- 54
9. Budgetary revenue items offset against budgetary expenditure ⁽⁴⁾	-109	-112	-112
10. All other adjustments to budgetary expenditure.....	109	55	110
11. Total expenditure, national accounts basis.....	7,553	7,981	8,540
12. Surplus (+) or deficit (-), national accounts basis.....	-206	+332	+343
13. Surplus (+) or deficit (-), budgetary basis.....	(-619)	(- 83)	(-125)
14. Total, national accounts basis.....	7,347	8,313	8,883

⁽¹⁾ In the national accounts, expenditures on goods and services in the supplementary period are split evenly between adjacent fiscal years. Other expenditure items are shifted entirely to the next fiscal year.

⁽²⁾ This adjustment replaces budgetary appropriations to various funds and agencies by the outlays actually made by these funds and agencies.

⁽³⁾ Government capital assistance to industry appears as part of business gross capital formation and is removed from the government sector to avoid double counting in the national accounts.

⁽⁴⁾ The largest component of this item consists of revenue from sales of goods and services by the government sector. These sales appear as final expenditure of the private sector and are deducted to avoid double counting.

GOVERNMENT OF CANADA ACCOUNTS, NATIONAL ACCOUNTS BASIS,
FISCAL YEAR PERIODS 1963-64-1965-66

	1963-64	1964-65 estimate	1965-66 forecast before tax changes
(Millions of dollars)			
A. Revenue			
1. Direct taxes, persons.....	2,254	2,635	2,696
2. Direct taxes, corporations ⁽¹⁾	1,385	1,500	1,615
3. Withholding taxes.....	126	143	148
4. Indirect taxes.....	2,516	2,907	3,194
5. Investment income.....	525	570	638
6. Employer-employee contributions to social insurance and government pension funds.....	541	558	592
7. Total.....	7,347	8,313	8,883
B. Expenditure			
1. Goods and services: defence.....	1,624	1,543	1,609
2. Goods and services: non-defence.....	1,384	1,538	1,745
3. Transfers to persons.....	2,143	2,262	2,362
4. Interest on the public debt.....	955	1,010	1,074
5. Subsidies.....	284	266	296
6. Transfers to other levels of government.....	1,163	1,362	1,454
7. Total.....	7,553	7,981	8,540
C. Surplus (+) or Deficit (-).....	-206	+332	+343

⁽¹⁾ Excludes taxes on government business enterprises. These taxes are included with government investment income.

BUDGET PAPERS

presented by

the Honourable Walter L. Gordon, M.P.,

Minister of Finance

for the information of Parliament

in connection with the Budget of 1965-1966

FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1964, 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, 1965.

PART I

ECONOMIC REVIEW OF 1964

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The tables and charts 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 1964 estimates are preliminary and subject to revision.

ECONOMIC REVIEW FOR 1964

GENERAL

In terms of economic achievement, the year 1964 was a remarkable one. As we were often reminded, in 1964 Canada was in the fourth year of a cyclical upswing whose length in itself was unusual. This fourth year, however, was specially notable in the extent of the gains achieved in all major sectors. The total value of the production of goods and services advanced by about 9 per cent cent, which was the largest year-to-year gain since 1956. Nor was this gain unduly inflated by price advances, as has been the case on occasions in the past at high levels of activity.

Moreover, the expansion was well-balanced, with consumers, investment and exports all contributing to the growth in demand, so that the economy at year-end was showing no signs of excesses or distortions. Most important of all, the level of unemployment was significantly reduced, particularly in the areas where it has been most serious for a number of years. This most welcome improvement occurred despite the fact that, mainly for demographic reasons, the Canadian labour force was expanding more rapidly in 1964 than in any year, save two, for which official statistics are available.

The advance in GNP excluding the farm sector was even larger than for total GNP, rising by about 10 per cent. The agricultural sector in 1964 enjoyed a year in which the weather was again kind, on the whole, and the harvest was good as measured by the long-term average. But a second successive grain crop of the magnitude of the mammoth 1963 harvest could not be expected, and accrued farm income as recorded in the national product accounts showed a decline in 1964. Farm cash income, however, was substantially higher in 1964 than in 1963, and the farm sector as a whole shared in the rising incomes and prosperity of the rest of the nation.

Higher employment levels and higher average earnings were reflected in the consumer expenditure pattern. Retail sales of all kinds have been brisk, but the most dramatic gains occurred in sales of consumer durable goods. About half the value of consumer durables bought in any year are new and used cars, and automobile sales in 1964 created new records in the course of the year.

During 1964, the number of marriages increased quite sharply. Net immigration was higher. More people were starting family life in Canada in 1964 than was the case in 1963, and more people were buying and moving into new houses. There was also an increase in the number of young people not yet married, who were setting up their own bachelor establishments in apartments for the first time. As might be expected, sales of furniture and other kinds of household durables rose considerably. Some people ran down their savings a little to finance these purchases, (even though total personal savings continued to increase substantially), while some others increased their instalment debt.

This was evidence of continued confidence in the outlook for jobs and income, confidence which appears to have been fully justified by events.

The economic highlight of the year 1964 was the dramatic revision made by the business sector in its capital investment expenditure plans. The first survey of investment intentions, published in February 1964, showed that the private sector expected to increase its capital outlays (excluding housing) at approximately the same rate of gain as that achieved over the preceding two or three years. By the time of the mid-year review, published in July, the business sector had revised its expectations very sharply upward, indicating that private investment totals for the year were expected to reach a level substantially higher than the original forecast.

The actual amount of capital outlays by the business sector in 1964 was close to the level forecast in the mid-year survey. The contribution made by investment expenditures to the economy was therefore strong, and was sustained through the year. These circumstances, and other evidence now becoming available on the outlook for business investment expenditure, indicate that private capital outlays have again become a dynamic element in the overall growth picture.

Following the developments in 1964, we may regard the continued announcements of further additions to capacity as having another significance. Expenditures on machinery and equipment bring quick returns to the economy, as this equipment is put into productive service very rapidly. These increases in productive capacity are then soon available to meet the rise in demand, stimulated by the investment process itself.

Federal government purchases of goods and services advanced only slightly in 1964, and have played a less important part in the current business expansion than has been the case in the past. This, to some extent, has been a reflection of the changes that have been taking place in defence expenditures. Provincial governments and municipalities have continued to increase their purchases of goods and services. Continued population growth requires additional construction of schools, hospitals, sewers, roads, and other forms of social capital, and also more people employed in education, health, and community services of all kinds.

Exports, of course, played a very important part in the general advance of 1964. Apart from the special wheat sales, there was steady growth in most of the major traditional exports, the products of our mines and forests. This was a reflection of continued strength in the foreign markets for our products. At the same time, there was a striking advance in some of the newer exports, especially manufactured goods. Exporters have been helped in this field not only by the lower value of the Canadian dollar in international markets since 1962, followed by relative cost and price stability, but also by increased use of export financing facilities. Much is due to the considerable enterprise and effort put into the expansion of foreign sales by Canadian producers in 1964.

Wheat exports, expanded by the special sales to Russia which took place through the winter and spring of 1963-1964, contributed substantially both to Canada's international reserves and to the general prosperity of the country. The cash income received by wheat producers as grain moved through commercial channels released funds for investment outlays in the farm sector, and also for some additions to consumption expenditure. Production and income in other sectors were thus affected by the export of wheat under the special contracts.

Imports also were higher in 1964. In any free and open economy, a rise in economic activity calls forth a demand for higher imports. This is particularly true of the Canadian economy, with its high degree of international specialization. The investment programme of 1964 naturally was accompanied by a rise in imports. The speedy installation of imported manufacturing equipment was an important factor in the expansion of production facilities to meet rapidly-growing demand. In this case as with many other products, the availability of imports at competitive prices acted to maintain price stability.

The international current account deficit was reduced further in 1964 to \$453 million, despite the sharp rise in imports, as both wheat and non-wheat exports expanded substantially. Even if the entire amount of the exceptional wheat shipments to the Soviet Union were to be deducted from exports in 1963 and 1964, the current account deficits so computed would be of the order of \$750 million in both years, a considerable improvement over earlier years, particularly when measured against rising incomes and heavy outlays on machinery and consumer durable goods, which typically have a large import content.

All of the recent improvement has been with overseas countries; the current account deficit with the United States widened considerably in 1964. In a subsequent section in this Review the broad pattern of financing our current account deficit is described. Briefly, the large current account deficit with the United States has, as usual, been covered only in part by a capital inflow from that country. The remainder has been covered by receipts from other countries, arising mainly from a surplus on current transactions, and from newly produced gold in Canada. On balance, over the postwar period, Canada has been a net provider of U.S. dollars to the United States economy.

Some modest upward movement in the various measures of price change continued in 1964. These movements are discussed and analysed in later pages of this Review. The section on prices points out that there are technical problems associated with the construction of some price indexes, which may perhaps have the effect of causing an apparent upward drift in the general level of measured prices, when it is by no means certain that true price increases have occurred.

Price movements are an essential element in a free and dynamic economy, inducing as they do the necessary movement of men and capital among industries, among occupations and among regions. In Canada, the distances between labour markets, together with the shortages of some kinds of skills, must always be recognized as a potential source of price strain as the margin of unemployed resources diminishes. However, to the extent it is possible to derive statistical proof, Canada appears fortunate in having a relatively high degree of mobility, with both labour and capital responding fairly readily to price and cost movements.

In this regard, and in other respects, it is therefore a fact of significance and for gratification that the greatest declines in unemployment which took place in 1964 were in the Atlantic provinces, Quebec and British Columbia. The margin of unemployment in Ontario and the Prairie provinces was of relatively small proportions at the beginning of 1964, and showed some improvement as the year wore on. Thus, the regions of high unemployment showed the most improvement over the year. Moreover, this improvement reflected not just a decline or stabilization of the labour force, but an important increase in the number of people with

jobs. This gives strong indication of overall and substantial improvement in the economies of these regions. These trends are encouraging, given our objective to attain maximum employment while maintaining the greatest possible degree of price stabilization.

Outlook for 1965

This record of a year of strength leads naturally to consideration of what may lie ahead. The evidence we have at present already suggests that the economy has moved into 1965 at continued high levels of activity, and there are indications that the present year will be one in which additional important economic gains are achieved in Canada.

The outlook contains several significant elements of strength. Among these are the plans for continuing advance in capital expenditures in both the public and private sectors, and further increases in consumer expenditure in response to continued improvements in personal disposable income. The normal growth of government expenditures can be expected to continue. We cannot expect these elements of strength will be reinforced, as they were in 1964, by extraordinary gains in exports; nevertheless, exports should be well maintained by the favourable demand conditions prevailing in the United States and most of our overseas markets so that any decline which may occur in exports of wheat from the abnormal 1964 level should be offset by gains in exports of other kinds.

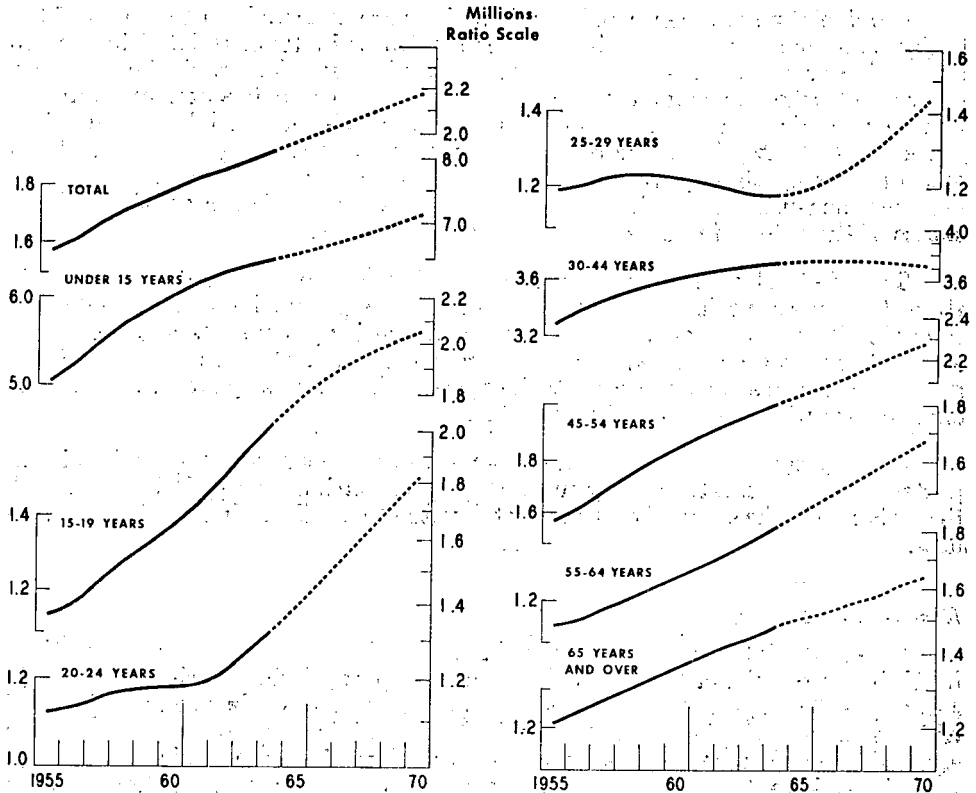
The Investment Outlook

The recent report on the investment outlook shows that total public and private investment in 1965 is expected to exceed that of 1964 by fourteen per cent. Therefore, it is now expected that 1965 will be the second successive year in which new capital formation has shown a strong tendency to expand from the relatively low levels which existed in earlier years. In those years public and private capital formation amounted to 22 per cent or less of gross national product, by contrast with the high figure of 27 per cent in 1957. If the forecast for 1965 is fulfilled, a level of capital formation equivalent to more than 24 per cent of gross national product will have been reached.

In addition to business capital requirements, which are discussed below, a large part of the current investment programme consists of housing and social capital. This is in part a consequence of the "population bulge". The number of young adults in the 20 to 24 and the 25 to 29 age groups will increase very rapidly during the next five years: by 31 per cent and 22 per cent respectively, compared with 18 per cent and a decline of 2 per cent over the past five years. These groups, in particular the 25-29 group, provide a large market for new housing, which in turn implies more schools and municipal services. Moreover, both age groups are important buyers of durable goods and can be expected to undertake substantial forward obligations at this time of life, in contrast to the relatively higher savings patterns that occur in middle age groups.

Businessmen in estimating future markets and providing the capital facilities necessary to produce the goods and services required by such markets are undoubtedly taking these and other factors into account. In addition, there are important new capital requirements for export markets. The domestic "infrastructure" of transport, power utilities and other services which are basic to the continued development of industry will also require substantial amounts of

POPULATION BY AGE GROUPS



Source: "Population and Labour Force Projections to 1970", a study prepared for the Economic Council of Canada, December 1964.
Data for the years 1955 to 1960 were obtained from D.B.S. intercensal estimates.

capital formation. Some idea of the investment required by these basic industries can be obtained from the recent report on the investment outlook for the year 1965. Manufacturing industries have reported investment intentions over one-fifth higher than in the preceding year. Finance, real estate and commercial construction is expected to increase by as much as one-third over 1964. Transportation, electric power and other utilities, retail and wholesale trades and new residential construction are all expected to increase their fixed capital investments by one-tenth. It can be expected that businessmen will continue to add to their stocks of inventories more or less in line with the growth of commodity production. In recent years, inventories have been worked down to lower levels in relation to production and sales.

Consumer expenditure

Changes in the number of people in particular age groupings, as illustrated in the preceding chart, have important consequences for consumer durable goods purchases, for example in the sales of automobiles, appliances and other household goods. These purchases expanded rapidly in the past year, but without excesses occurring, in productive capacity or deterioration in the quality of credit issued in connection with these purchases. A continuation of this expansion is expected in 1965, although at a somewhat less rapid rate. At least some of the demands that had accumulated earlier may have been met in the buoyant situation prevailing in 1964.

Government expenditures

Provincial governments and municipalities are expected, on the basis of the budgets so far announced, to increase expenditures in 1965. Related in part to population growth, demands for municipal services and for provincial highway, power and other developments will increase. School and hospital programmes will be expanded. In addition to capital requirements, provincial and municipal governments have been increasing their current operating expenses. Total expenditures by these governments may therefore be expected to increase at a rate commensurate with that of the past few years, which is considerably in excess of the rate of increase in gross national product.

Total federal government expenditures will increase at a slightly smaller rate than the gross national product. Transfers to provincial governments and municipalities and to persons through old age security payments and other health and welfare programmes will rise at a moderate rate. Outlays on non-defence goods and services are expected to increase as in the past year, while defence expenditure will remain relatively stable.

The aggregate of all governments' expenditures on goods and services is expected to rise at a rate slightly more than gross national product in 1965, with little change in the share of that product devoted to public as distinct from private uses.

Exports and Imports

The outlook for exports is determined to an important extent by conditions in United States' markets. The Economic Report of the President issued in January 1965, suggests a range of gross national product in that country for 1965 of between \$650 billion and \$670 billion, the middle point of which would be approximately six per cent above the level of \$623 billion achieved in 1964. Additional inventory accumulation over and above the very moderate levels of recent years, is also suggested in that Report. Translating these factors in demand for Canadian exports on the basis of past relationships, a substantial improvement in exports to that country can be expected in the coming months.

There are, of course, several offsets to be expected in overseas markets. Wheat sales cannot be expected to be as high as they were last year when the special shipments to Russia took place, although sales to Eastern Europe and China are continuing. Exports to the United Kingdom will be affected by the measures recently imposed to deal with her balance of payments difficulties. The outlook in most European markets and Japan is, on the whole, favourable.

Taking all of the above factors into account, the expansive factors are expected to more than offset the anticipated declines in certain markets. On balance, however, we would expect a smaller increase in exports in 1965 than last year.

Imports will continue to increase. The closer the economy approaches limits of capacity in particular industries, the more it would be inclined to satisfy its needs from abroad, especially since another substantial increase is expected in investment in machinery and equipment, much of which is not produced in Canada. Offsetting these tendencies, of course, have been the continuing successes of Canadian producers in making inroads in new markets, both at home and abroad, through the development of new lines at competitive prices.

On balance, it would be prudent to expect some widening of the current account deficit in 1965, from the levels achieved in 1963 and 1964 when the massive sales of wheat had a substantial impact on the trade balance.

Demand and Supply

The sum of these demand factors is expected to give rise to a further substantial growth in gross national product, probably at a rate somewhat less than the exceptional rate of increase now known to have been achieved in 1964.

Productive capacities in general appear to be adequate to meet the probable demands. There may be some supply difficulties in specific localities and industries, which a high degree of mobility of both labour and capital would help to relieve. The labour force is expected to increase somewhat more rapidly than in the past year, as a result of the large number of new entrants in the younger age groups, many of whom will be coming on to the labour market next June. It is also expected that industrial productivity will continue to improve. In these circumstances of productivity improvement and high labour force growth, the increases in output required to meet the demands outlined above are clearly within the growing capacity of the economy. Indeed, the economy must continue to expand rapidly if all those who wish to obtain employment are to find jobs.

Conclusion

These pages have contained an assessment of the outlook for the various sectors of the economy in the year ahead. In each case, some further expansion of expenditures appears likely. Some sectors may grow more rapidly than others, and the overall picture is one of rising but not excessive outlays. Productive capacity, in terms of both labour and capital equipment, will be larger in 1965 than it was in 1964, so that the increase in demand will be accompanied by higher levels of domestic output. While the record gains of 1964 may not be matched, good progress can be expected in the months ahead. Within a framework of continued relative stability of cost and price levels generally, and with the expectation of continued strength in our foreign markets, the Canadian economy as a whole should move forward to new and higher levels of activity in 1965.

THE NATIONAL ACCOUNTS

NATIONAL INCOME AND PRODUCT

The Gross National Product is the most convenient measure of the country's production of goods and services as a whole. Gross National Product in 1964 rose more rapidly than in any previous year of the present upswing. Comparing 1964 with 1963, labour income, corporation profits and investment income advanced strongly. Details are set forth in Table 1 and are shown graphically in the charts on page 4.

The level of non-farm activity at the beginning of 1964 was already high, and a further substantial advance occurred during the first quarter. Gains during subsequent quarters were less marked but the advance continued throughout the year.

PER CENT CHANGES IN MAJOR INCOME COMPONENTS⁽¹⁾

	3Q 1963 to 4Q 1963	4Q 1963 to 1Q 1964	1Q 1964 to 2Q 1964	2Q 1964 to 3Q 1964	3Q 1964 to 4Q 1964	1964 1963
Labour Income.....	8.4	10.2	6.5	10.5	7.2	8.7
Corporation Profits before taxes and before dividends paid abroad.....	24.8	39.4	-11.1	-8.2	46.1	14.6
Investment Income.....	10.8	3.0	4.0	-0.5	17.2	5.9
Net Income, non-farm unincorporated business.....	1.3	7.0	5.7	6.2	-4.9	4.7
Gross National Product.....	11.3	11.7	6.7	6.1	5.3	8.9

⁽¹⁾Seasonally adjusted, and percentage changes expressed at annual rates.

As a result of these developments, the Gross National Product was 8.9 per cent higher than it was in 1963.

The gain in wages, salaries and supplementary labour income, which amounted to 8.7 per cent, was accounted for by higher employment and lower unemployment on the one hand, and by the continuing secular uptrend in wage-rates, on the other. Increases in total earnings were over 9 per cent in manufacturing and construction, and in the primary industries as a group they amounted to 6.6 per cent. In the service sector, earnings in finance and personal services rose by 12.5 per cent. Transportation, communication and other utilities, together with public administration, recorded gains of about 6 per cent.

The sustained strength in labour income has been accompanied by a generally higher level of profits. Corporation profits, before taxes and before payment of dividends to non-residents, were 14.6 per cent higher than they were in 1963.

TABLE 1
NATIONAL INCOME AND GROSS NATIONAL PRODUCT
(Seasonally adjusted at annual rates)

	1963				1964			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Wages, salaries, and supplementary labour income.....	20,996	21,308	21,712	22,168	22,732	23,100	23,704	24,128
2. Military pay and allowances.....	560	608	596	628	572	576	584	600
3. Corporation profits before taxes.....	3,900	3,960	3,940	4,184	4,596	4,468	4,376	4,880
4. Deduct: Dividends paid to non-residents ⁽¹⁾	-608	-560	-596	-688	-684	-588	-680	-788
5. Rent, interest, and miscellaneous investment income.....	2,992	3,072	3,112	3,196	3,220	3,252	3,248	3,388
6. Accrued net income of farm operators from farm production ⁽²⁾	1,720	1,708	1,664	1,808	1,372	1,680	1,432	1,404
7. Net income of non-farm unincorporated business ⁽³⁾	2,448	2,440	2,496	2,504	2,548	2,584	2,624	2,592
8. Inventory valuation adjustment.....	-136	-312	-144	-188	-140	-292	88	-140
9. National Income.....	31,872	32,224	32,780	33,612	34,216	34,780	35,376	36,064
10. Indirect taxes less subsidies.....	5,572	5,308	5,640	5,752	6,140	6,340	6,500	6,344
11. Capital consumption allowances and miscellaneous valuation adjustments.....	4,996	5,140	5,160	5,392	5,512	5,580	5,596	5,740
12. Residual error of estimate.....	-280	-112	-192	-144	52	-16	-80	-132
13. Gross National Product at Market Prices.....	42,160	42,560	43,388	44,612	45,920	46,684	47,392	48,016
14. (Gross National Product at Market Prices excluding Accrued Net Income of Farm Operators).....	(40,440)	(40,852)	(41,724)	(42,804)	(44,548)	(45,004)	(45,960)	(46,612)

⁽¹⁾Includes the withholding tax applicable to this item.

⁽²⁾Includes an arbitrary smoothing of crop production and standard seasonal adjustments for withdrawals of grain from farm stocks and the change in livestock items. Because of the arbitrary elements, too precise an interpretation should not be given the seasonally adjusted figures of accrued net income of farm operators.

⁽³⁾Includes net income of independent professional practitioners.

The substantial gains recorded in non-farm income were offset slightly by a drop in net income of farm operators. The decline in farm income, which amounted to 14.7 per cent, was a reflection of the return to more normal crop levels in 1964 from the record prairie wheat harvest of 1963. The 1964 level of farm income, in itself, was rather higher than the average of the past decade.

It may be noted that the fall in net farm income recorded in Gross National Product did not reflect a fall of similar proportions in farm cash income. Net farm income in the National Accounts is calculated on an accrual basis, with the new crop being recorded as income when it is harvested. Also included in this item are the accrued net earnings arising out of the operations of the Canadian Wheat Board. Farm cash income, which represents the actual cash receipts of farmers (excluding some supplementary payments), rose from a total of \$3,185 million in 1963 to \$3,456 million in 1964, a rise of 8.5 per cent. This rise was partly due to the payments made by the Canadian Wheat Board to the farmers through the winter and spring months of 1963-64, as grain moved rapidly into commercial channels.

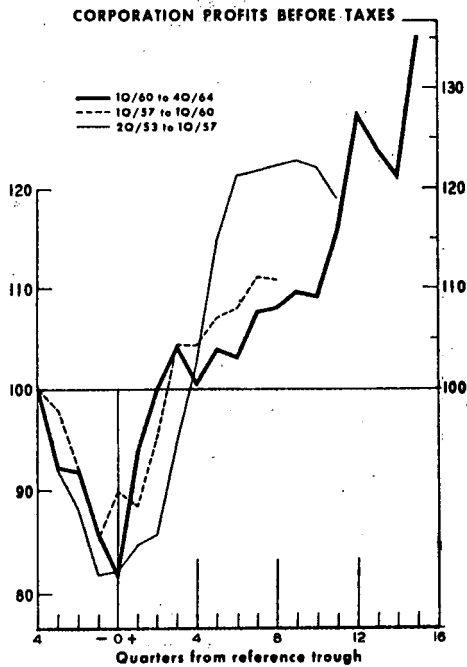
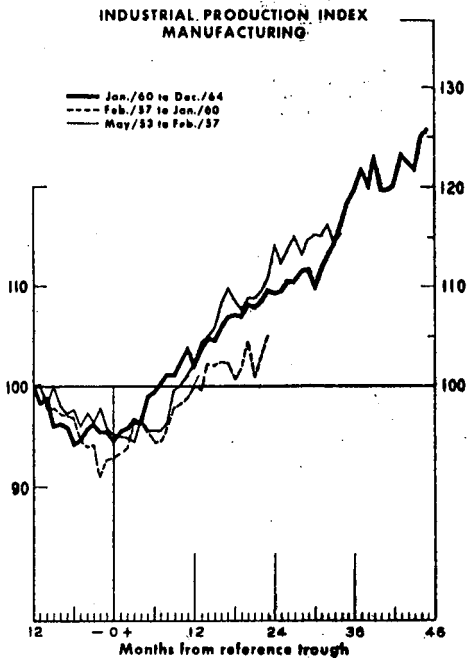
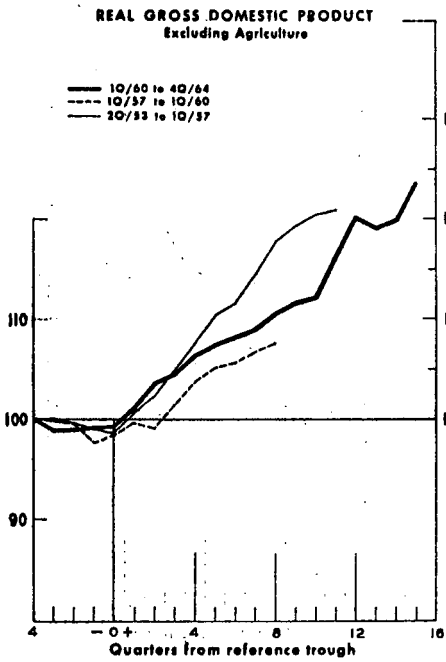
Total non-agricultural output in the economy, in volume terms, was 6.7 per cent higher in 1964 than in 1963. Sharp gains occurred in the transportation industries, which advanced by 10 per cent, reflecting the high level of activity in the handling and shipment of goods for export, particularly wheat. Output of the electric power and gas utilities, a useful guide to the level of industrial activity generally, was nearly 10 per cent higher.

Among the goods-producing industries, forestry output recorded a gain of over 8 per cent. This was associated with a comparable rise in exports of forest products. Mining output rose by about 9 per cent, and manufacturing output by nearly 8 per cent. Because of the major part played by manufacturing in the economy, this gain accounted for about one-third of the aggregate increase in output. Much of the increase reflected a substantial gain in output of motor vehicles and parts, and expansion of iron and steel production. Output in the construction industry, which was heavily influenced by the winter housing incentive programme, was high in the first and fourth quarters of 1964 (on a seasonally adjusted basis) but at somewhat lower levels in the second and third quarters. For the year, the advance in construction was over 9 per cent.

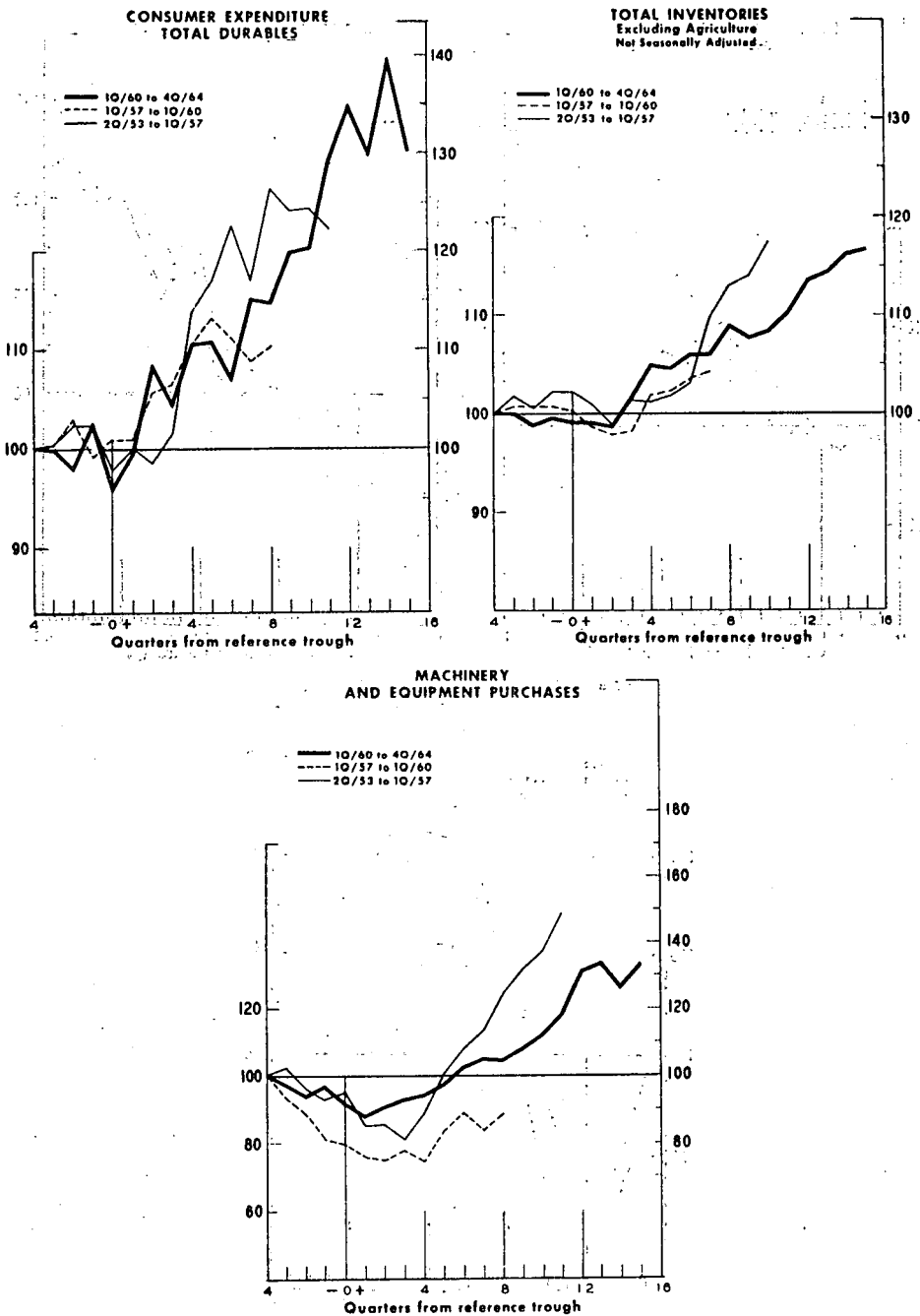
The high levels of manufacturing output, and specifically the gains in output of automobiles and iron and steel products, give some indication of the growth which has occurred in the economy since 1961. Total manufacturing output of durable and non-durable goods rose by 30 per cent between the first quarter of 1961 and the fourth quarter of 1964. Production of durable goods rose by nearly 40 per cent during this period, with production of primary iron and steel being 72 per cent higher. The advance in output of motor vehicles which was curtailed due to strike conditions in the fourth quarter, had risen by 126 per cent by the end of the preceding quarter.

National income and product in the fourth quarter recorded further gains, giving final 1964 totals substantially higher than the 1963 levels. Such price movements as have occurred (discussed in greater detail below) have accounted for only a small part in the overall advance. The degree of soundness and strength revealed in the course of 1964, coming as it did in the fourth year of a cyclical expansion, was notable not only for this reason but also because the economy at year-end was exhibiting no significant signs of distortion. The generally balanced

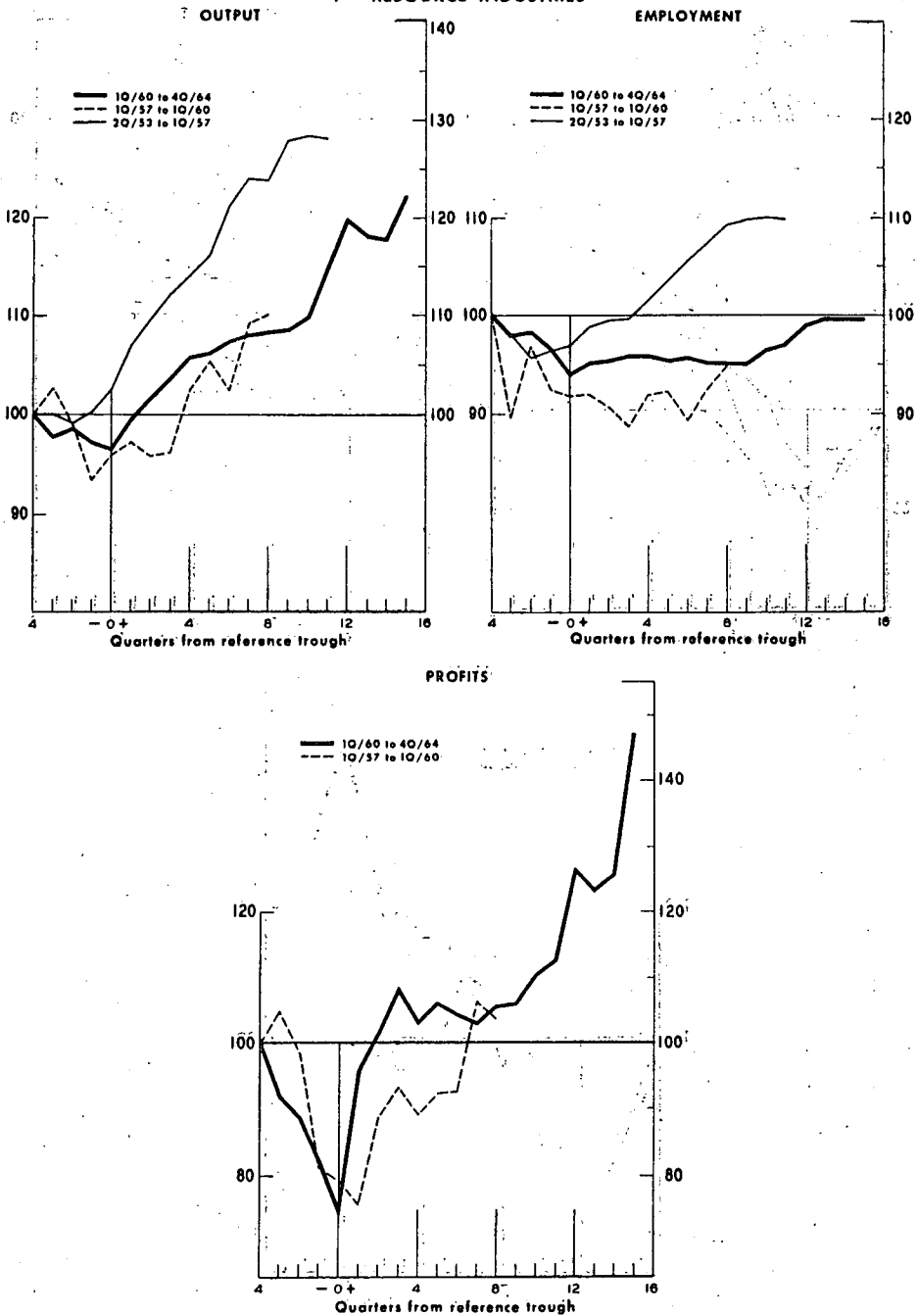
SELECTED ECONOMIC INDICATORS CYCLE-ON-CYCLE SERIES Previous Business Cycle Peak=100 Seasonally Adjusted



SELECTED ECONOMIC INDICATORS
CYCLE-ON-CYCLE SERIES
 Previous Business Cycle Peak=100
 Seasonally Adjusted



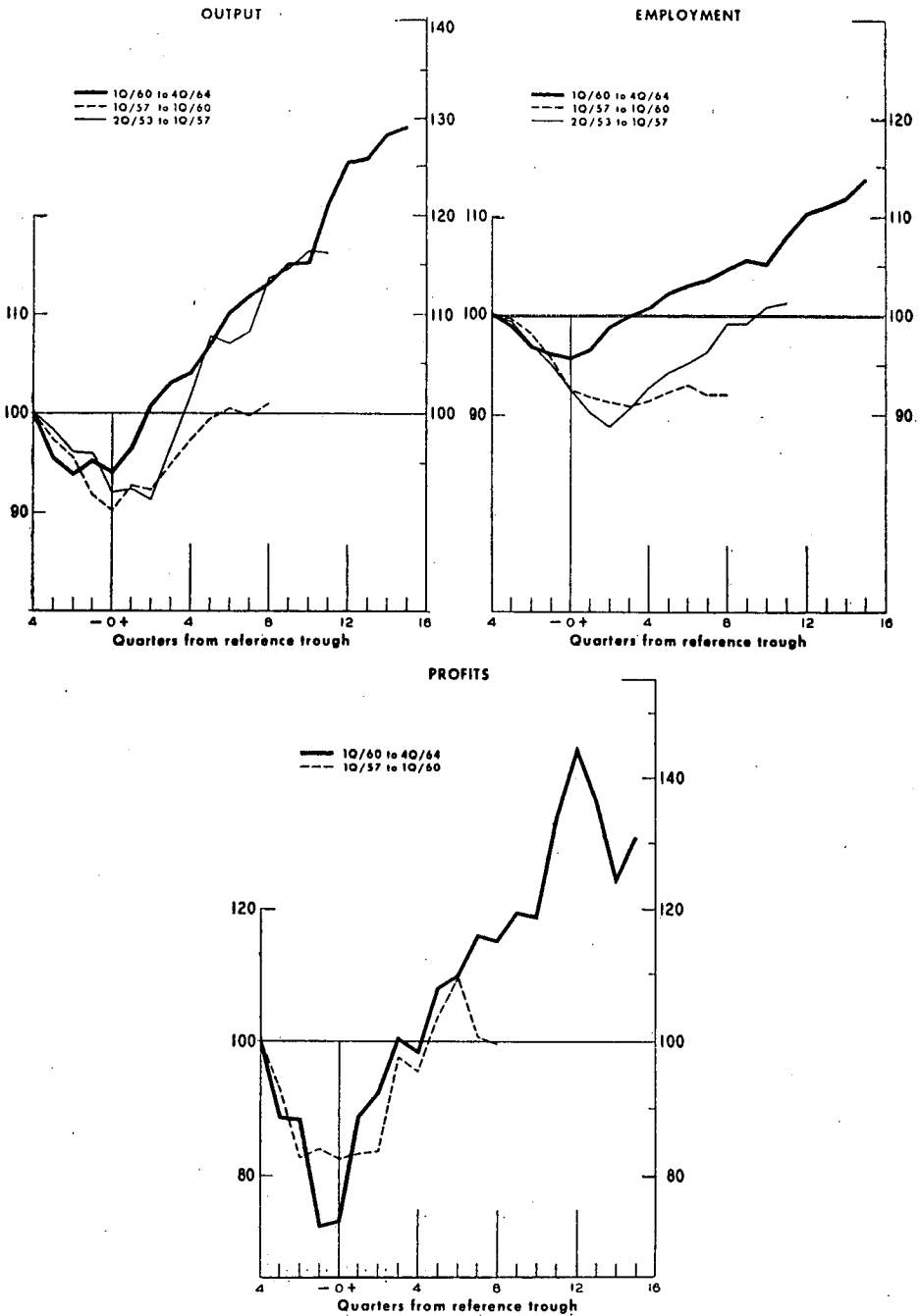
OUTPUT, EMPLOYMENT AND PROFITS
CYCLE-ON-CYCLE SERIES
 Previous Business Cycle Peak=100
 Seasonally Adjusted
I - RESOURCE INDUSTRIES



OUTPUT, EMPLOYMENT AND PROFITS

CYCLE-ON-CYCLE SERIES
Previous Business Cycle Peak=100
Seasonally Adjusted

II - SECONDARY MANUFACTURING INDUSTRIES



growth characteristic of the earlier part of the expansion continued through the year. Supply and capacity were, on the whole, able to meet the demands placed upon them. The 1964 developments on the expenditure side of the accounts are reviewed in the following section.

NATIONAL EXPENDITURE

All major components of demand continued to expand during 1964. The following table summarizes the course of events through the year and compares the quarterly level of expenditures in the various sectors with the level recorded in the preceding quarter.

PER CENT CHANGES IN MAJOR EXPENDITURE COMPONENTS⁽¹⁾

	3Q 1963 to 4Q 1963	4Q 1963 to 1Q 1964	1Q 1964 to 2Q 1964	2Q 1964 to 3Q 1964	3Q 1964 to 4Q 1964	1964 1963
Personal expenditure.....	1.9	2.5	0.7	2.2	1.6	7.3
Non-durables.....	0.5	2.0	1.7	1.7	2.5	6.3
Durables.....	7.5	4.2	-3.5	7.2	-6.6	10.4
Services.....	1.9	2.7	0.7	1.4	2.9	7.8
Government expenditure.....	0.1	5.5	-0.5	0.2	2.9	7.3
Federal.....	-2.7	8.1	-5.2	0.7	-0.7	3.5
Provincial-Municipal.....	1.7	4.0	2.3	-	4.9	9.4
Investment expenditure.....	4.3	11.3	-1.3	-1.2	7.6	18.1
Residential.....	5.8	18.8	-12.3	-1.9	13.7	18.4
Non-residential.....	2.6	7.0	2.5	4.1	6.3	17.9
Machinery and equip- ment.....	5.0	9.6	2.0	-5.5	5.5	18.2
Exports.....	8.2	2.7	6.1	1.4	-3.3	15.0
Total final demand.....	3.0	4.3	1.1	1.2	1.8	10.2
Total final demand ex im- ports.....	2.9	3.7	1.6	1.5	1.6	9.6
Inventories.....	+\$44 m	-\$120m	-\$ 4m	-\$ 60m	-\$156m	-\$111m
Business only.....	+\$252m	+\$ 72m	+\$ 44m	+\$188m	-\$756m	+\$310m

⁽¹⁾Quarterly magnitudes seasonally adjusted.

In the personal sector, total expenditures in 1964 were 7.3 per cent above the level recorded in the third quarter of 1963. During the year, the otherwise steady quarter-to-quarter gains were marked by a pause in the second quarter, when the total changed little from the high first-quarter level. The second-quarter total of expenditures was affected by a marked fall-off in consumer purchases of durables after the sharp gains of the earlier months. This pattern was associated with the unusually high level of activity in residential construction in the first quarter, as a result of which employment and consumer demand in the winter months were greatly increased in comparison with the traditional seasonal pattern. Further increases of the same magnitude in employment and expenditures in the second quarter could not be expected. Third-quarter purchases of consumer durables, however, rose again as consumer demand remained very strong. The supply of new cars during the annual changeover was, in 1964, adequate to meet high levels of demand, while purchases of other kinds of durables were stimulated by the high rate of residential construction. However, unavailability of some models of automobiles, due to strikes in the industry, resulted in a renewed decline in the fourth quarter but the year-over-year gain in durables expenditure was more than 10 per cent. A strong gain in the purchase of services was also evident, although a temporary levelling-off occurred here also in the second quarter.

TABLE 2

PER CENT CONTRIBUTION OF GNE COMPONENTS TO TOTAL CHANGE
IN GNE—THREE POST-WAR EXPANSIONS

	2Q 1954 to 4Q 1956 (10 quarters after trough)	1Q 1958 to 1Q 1960 (8 quarters after trough) (revised)	1Q 1961 to 4Q 1964 (15 quarters after trough)
Personal expenditure on consumer goods and services.....	43.6	48.9	54.3
<i>Non-durable goods</i>	18.8	17.6	25.2
<i>Durable goods</i>	7.0	4.8	7.8
<i>Services</i>	17.8	26.5	21.3
Government expenditures on goods and services.....	15.6	15.5	15.6
<i>Federal</i>	4.7	-1.5	1.2
<i>Provincial and Municipal</i>	10.9	17.0	14.3
New residential construction.....	3.7	-0.7	6.2
New non-residential construction.....	16.1	-4.9	9.1
New machinery and equipment.....	11.8	5.7	9.8
Non-farm business inventories.....	15.1	33.8	-2.3
Farm inventories and grain in commercial channels.....	7.4	3.6	4.4
Exports of goods and services.....	17.6	19.9	26.6
Imports of goods and services (-).....	-31.0	-21.8	-23.7
GNE (ex. error).....	100.0	100.0	100.0

Government sector expenditures on goods and services rose by 7.3 per cent between 1963 and 1964. Federal expenditures were up by 3.5 per cent and the first-quarter figures were affected by the purchase of some major items of defence equipment and by a number of other outlays of an unusual or non-recurring nature. Reductions in defence expenditures over the year were slightly exceeded by increases in non-defence expenditures, while at the provincial-municipal level there has been continuing growth of expenditures on education, roads and highways, and health services.

Total investment outlays in 1964 were, of course, heavily affected by the pattern of residential construction activity. The payment of a \$500 bonus to purchasers of winter-built housing, among other factors, stimulated house-building in the first and fourth quarters, so that this form of expenditure (seasonally adjusted) experienced a decline from the first to the second quarter and remained relatively low in the third, rising again in the fourth. The reintroduction of the special measures in the winter of 1964-1965 resulted in a strong upturn in housing expenditures in the fourth quarter of 1964.

The timing of outlays on plant and equipment was also influenced by special factors in 1964, including the application of an additional 4 per cent sales tax on building materials and production machinery at the beginning of the second quarter. Total investment activity in 1964 was high in the first quarter, with some decline occurring subsequently. The third quarter level, however, was 13.2 per cent above the level of the third quarter 1963, and there was a very strong rise again in the last quarter, which carried investment for the year as a whole to a level 18.1 per cent higher than in 1963. The fourth quarter total was influenced by the special factors ruling at the end of the year, notably the renewed housing incentives and possibly some anticipation of the final increase in sales taxes on January 1, 1965.

TABLE 3
GROSS NATIONAL EXPENDITURE
(Seasonally adjusted at annual rates)

	1963				1964			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	26,744	27,140	27,632	28,148	28,852	29,040	29,684	30,148
2. Government expenditure on goods and services.....	7,980	7,884	8,112	8,120	8,564	8,524	8,544	8,796
3. Business gross fixed capital formation ⁽¹⁾	7,112	7,512	7,704	8,036	8,944	8,828	8,720	9,380
<i>New residential construction.....</i>	<i>1,596</i>	<i>1,668</i>	<i>1,732</i>	<i>1,832</i>	<i>2,176</i>	<i>1,908</i>	<i>1,872</i>	<i>2,128</i>
<i>New non-residential construction.....</i>	<i>2,640</i>	<i>2,864</i>	<i>2,880</i>	<i>2,956</i>	<i>3,164</i>	<i>3,244</i>	<i>3,376</i>	<i>3,588</i>
<i>New machinery and equipment.....</i>	<i>2,876</i>	<i>2,980</i>	<i>3,092</i>	<i>3,248</i>	<i>3,604</i>	<i>3,676</i>	<i>3,472</i>	<i>3,664</i>
4. Value of physical change in inventories—total ⁽²⁾	568	296	528	572	452	448	388	232
<i>Non-farm business inventories.....</i>	<i>184</i>	<i>-132</i>	<i>248</i>	<i>600</i>	<i>572</i>	<i>616</i>	<i>804</i>	<i>48</i>
<i>Farm inventories and grain in commercial channels.....</i>	<i>384</i>	<i>428</i>	<i>280</i>	<i>72</i>	<i>-120</i>	<i>-168</i>	<i>-416</i>	<i>184</i>
5. Exports of goods and services ⁽³⁾	8,612	8,960	9,000	9,736	9,996	10,604	10,756	10,404
6. Imports of goods and services ⁽³⁾	-9,136	-9,348	-9,780	-10,140	-10,840	-10,772	-10,784	-11,076
7. Residual error of estimate.....	280	116	192	140	-48	12	84	132
8. Gross National Expenditure at Market Prices.....	42,160	42,560	43,388	44,612	45,920	46,684	47,392	48,016

⁽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 26 to achieve consistency with the other component series.

TABLE 4
GROSS NATIONAL EXPENDITURE IN CONSTANT (1957) DOLLARS
(Seasonally adjusted at annual rates)

	1963				1964			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Personal expenditure on consumer goods and services.....	24,712	24,984	25,312	25,732	26,252	26,316	26,812	27,156
2. Government expenditure on goods and services.....	6,848	6,704	6,852	6,784	7,140	7,076	6,996	7,184
3. Business gross fixed capital formation.....	6,308	6,624	6,728	6,968	7,684	7,476	7,360	7,848
<i>New residential construction.....</i>	<i>1,392</i>	<i>1,440</i>	<i>1,480</i>	<i>1,532</i>	<i>1,796</i>	<i>1,552</i>	<i>1,504</i>	<i>1,692</i>
<i>New non-residential construction.....</i>	<i>2,560</i>	<i>2,552</i>	<i>2,544</i>	<i>2,592</i>	<i>2,764</i>	<i>2,808</i>	<i>2,904</i>	<i>3,048</i>
<i>New machinery and equipment.....</i>	<i>2,556</i>	<i>2,632</i>	<i>2,704</i>	<i>2,844</i>	<i>3,124</i>	<i>3,116</i>	<i>2,952</i>	<i>3,108</i>
4. Value of physical change in inventories—total.....	536	268	508	532	444	424	336	208
<i>Non-farm business inventories.....</i>	<i>168</i>	<i>-116</i>	<i>248</i>	<i>460</i>	<i>568</i>	<i>596</i>	<i>744</i>	<i>32</i>
<i>Farm inventories and grain in commercial channels.....</i>	<i>368</i>	<i>384</i>	<i>260</i>	<i>72</i>	<i>-124</i>	<i>-172</i>	<i>-408</i>	<i>176</i>
5. Exports of goods and services.....	8,028	8,344	8,360	8,940	9,128	9,648	9,672	9,404
6. Imports of goods and services.....	-8,220	-8,376	-8,632	-8,924	-9,472	-9,364	-9,436	-9,740
7. Residual error of estimate.....	256	104	172	128	-44	12	76	116
8. Gross National Expenditure at Market Prices.....	38,468	38,652	39,300	40,160	41,132	41,588	41,816	42,176

The export sector (discussed in greater detail below) was a major source of strength in 1964. Wheat exports were, of course, heavily affected by the 1963 crop failure in Russia, as a result of which both Russia and other countries normally dependent on Russia for some part of their wheat supplies entered world markets as major buyers. Exports excluding wheat, however, also increased substantially in 1964, reflecting high levels of economic activity in the United States and other principal markets. The movement of wheat into export channels, by its effect on farm cash income, contributed to the rise in consumer purchases and also to expenditures on new machinery and equipment. Other industries in the export sector also undertook expanded investment programmes in the course of the year.

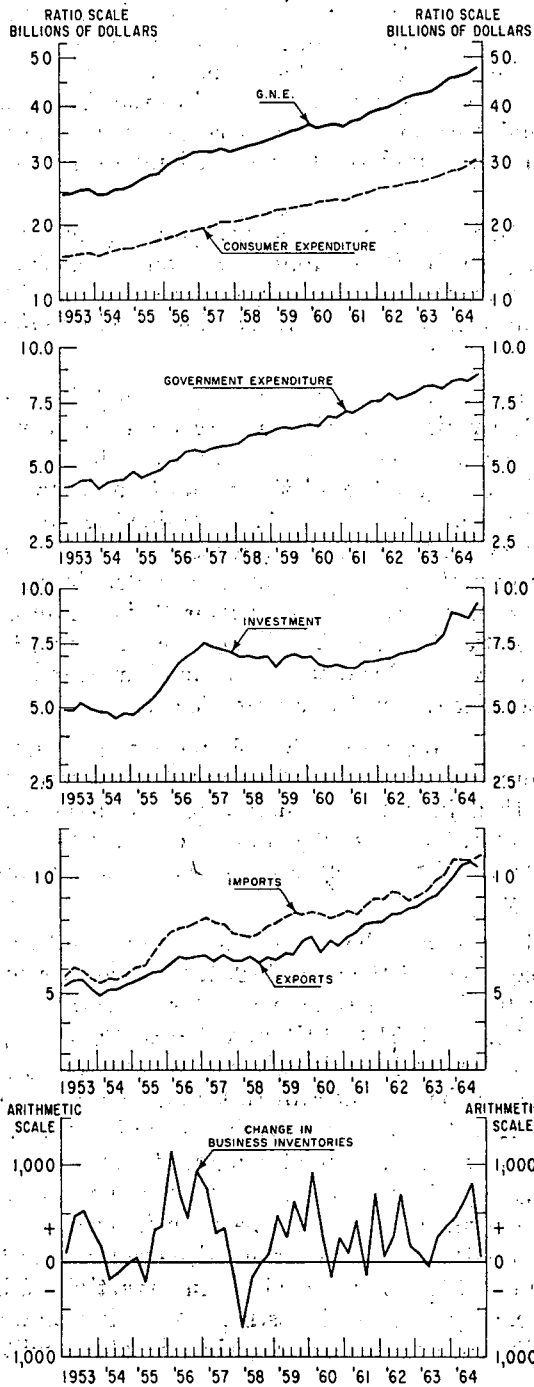
Business investment in inventories through the year showed a fairly regular quarter-to-quarter gain, until the fourth quarter when the accumulation was small. This advance represented about a 3 per cent rise in the total level of non-farm business inventories, compared with an increase in non-farm GNP of about 10 per cent.

The change in total non-farm inventories through the year was the sum of many changes in the various sectors. Some of these changes were offsetting. In the third quarter, for example, retail inventories declined while manufacturers' inventories rose. This shift reflected the circumstances prevailing in the automobile market in the summer of 1964. The sustained record levels of automobile sales caused a heavy depletion of retail inventories during the changeover period, while manufacturers built up supplies of new models in anticipation of a continuation of record sales into the fourth quarter. This buildup, however, was also in part due to expectation that supplies of components might later be interrupted by strikes. To some extent, this factor also contributed to a buildup of supplies of some kinds of steel at the manufacturers' level.

Inventories are by nature a highly volatile element. On the whole, developments since the fourth quarter of 1963 seem to reflect attempts by industry to raise the level of their inventories; these attempts, however, have been offset by the sustained overall level of demand in the economy, and inventories at the end of 1964 were still relatively low compared to sales levels across a large part of the economy.

Tables 2 and 5 analyse the movements of expenditure components over three postwar expansions. At the end of 1964, the level of economic activity had been rising through fifteen successive quarterly periods. The preceding two cyclical upswings, that of 1954 to 1956 and that of 1958 to 1960, had lasted ten and eight quarters respectively. Table 2 reveals the relatively greater importance of the export sector in the current growth trend, compared to the two previous cycles. It also indicates that additions to non-farm business inventories have so far not contributed to the expansion of demand. Consumer expenditure, notably on goods, has played a rather stronger role in the current expansion than previously, while the government sector has been unchanged in relative importance. Private investment outlays have contributed more strongly to the present upswing than they did in 1958-1960, when investment activity failed to expand with the rest of the economy. Private investment spending, however, remains substantially less significant than it was during the capital expenditures boom of 1954-1956.

GROSS NATIONAL EXPENDITURE
AND SELECTED COMPONENTS,
IN CURRENT DOLLARS⁽¹⁾
BY QUARTERS, 1953-1964



(1) SEASONALLY ADJUSTED AND AT ANNUAL RATES.

Table 5 shows the growth of components of Gross National Expenditure from a rather different viewpoint. This table compares the average annual rates of growth in both total expenditure and its various components during the three post-war cycles. Total expenditure in the current upswing has grown at an annual rate of 8.8 per cent, compared to about 6.9 per cent in 1958-1960, and 11.7 per cent in 1954-1956. Real non-agricultural gross domestic product, which provides a measure of output in constant dollars and excludes the irregular impact of crop conditions, has grown at a rate of about 6.0 per cent since 1961. Government expenditure on goods and services, at 6.9 per cent, has grown less rapidly in the current expansion than in 1954-1956, but moderately faster than in 1958-1960. Private investment outlays have grown much more rapidly since 1961 than in 1958-1960, but more slowly than in 1954-1956. Exports again show up as a source of strength in the present expansion. On the whole, the expenditure components viewed on this basis indicate clearly the more balanced nature of the current period of growth.

TABLE 5
CHANGES IN COMPONENTS OF GROSS NATIONAL EXPENDITURE
OVER THREE POST-WAR EXPANSIONS

	1954-1956	1958-1960	1961-1964
	Average annual per cent change over period of expansion		
	10 Quarters after 2Q 1954 trough	8 Quarters after 1Q 1958 trough	15 Quarters after 1Q 1961 trough
Personal expenditure.....	8.2	5.6	7.1
<i>Non-durables</i>	6.6	3.9	6.6
<i>Durables</i>	10.9	4.7	9.6
<i>Services</i>	9.6	8.4	7.0
Government expenditure on goods and services.....	10.5	6.2	6.9
<i>Federal</i>	5.8	-1.3	1.3
<i>Provincial and Municipal</i>	16.1	13.0	10.8
New residential construction.....	9.6	-1.0	13.8
New non-residential construction.....	29.2	-4.1	11.1
New machinery and equipment.....	17.8	5.5	12.1
Non-farm business inventories.....	(+\$454 m)	(+\$306 m)	(-\$ 70 m)
Farm and grain inventories.....	(+\$222 m)	(+\$ 86 m)	(+\$138 m)
Exports of goods and services.....	10.4	7.5	11.3
Imports of goods and services.....	16.6	7.1	8.9
Gross National Expenditure at Market Prices.....	11.7	6.9	8.8
Final Demand (ex inventories).....	10.7	5.0	8.5
G.N.E. in Constant (1957) Dollars.....	8.6	4.4	6.6
Real Non-agricultural Gross Domestic Product.....	8.6	4.7	6.0
Per Capita G.N.E. in Constant (1957) Dollars.....	5.4	2.0	4.5

PERSONAL INCOME AND ITS DISPOSITION

Personal income in 1964 reached a level some 6.8 per cent above that recorded in 1963. Wages, salaries and supplementary labour income, after adjustment for seasonality, rose in each quarter of the year, with the gains in the first and third quarters being greater than the gains in the second and fourth. Net income of non-farm unincorporated business rose by 4.7 per cent during the year, while interest, dividend and net rental income rose by about 5.8 per cent. Transfer payments to persons were 8.3 per cent higher in 1964. These developments are set out in detail in Table 6.

TABLE 6
SOURCES OF PERSONAL INCOME

—	1961	1962	1963	1964	1964 ⁽¹⁾			
					1Q	2Q	3Q	4Q
	(Millions of dollars)							
1. Wages, salaries and supplementary labour income.....	18,996	20,233	21,546	23,416	22,732	23,100	23,704	24,128
Deduct: Employer and employee contributions to social insurance and government pension funds.....	— 787	— 812	— 847	— 892	— 876	— 900	— 892	— 900
2. Military pay and allowances.....	550	586	598	583	572	576	584	600
3. Net income received by farm operators from farm production.....	978	1,492	1,587	1,362	1,828	1,276	1,108	1,236
4. Net income of non-farm unincorporated business.....	2,274	2,376	2,472	2,587	2,548	2,584	2,624	2,592
5. Interest, dividends and net rental income of persons.....	3,030	3,308	3,555	3,760	3,688	3,708	3,788	3,856
6. Transfer payments to persons—								
(a) from government (excluding interest).....	3,441	3,729	3,838	4,159	4,148	4,096	4,200	4,192
(b) charitable contributions made by corporations.....	40	44	44	44	44	44	44	44
7. Personal Income.....	28,522	30,956	32,793	35,019	34,684	34,484	35,160	35,748

⁽¹⁾Seasonally adjusted at annual rates.

TABLE 7
DISPOSITION OF PERSONAL INCOME

	1961	1962	1963	1964	1964 ⁽³⁾			
					1Q	2Q	3Q	4Q
(Millions of dollars)								
1. Personal direct taxes—								
income taxes.....	2,125	2,316	2,487	2,930	2,784	2,868	2,996	3,072
succession duties and estate taxes.....	146	165	171	185	164	228	156	192
miscellaneous taxes.....	240	249	253	292	284	268	300	316
Total direct taxes.....	2,511	2,730	2,911	3,407	3,232	3,364	3,452	3,580
2. Personal expenditure on consumer goods and services—								
non-durable goods.....	12,178	12,961	13,508	14,355	13,968	14,204	14,440	14,808
durable goods.....	2,716	2,952	3,223	3,558	3,588	3,464	3,712	3,468
Services ⁽¹⁾	9,572	10,000	10,685	11,518	11,296	11,372	11,532	11,872
Total consumer expenditure.....	24,466	25,913	27,416	29,431	28,852	29,040	29,684	30,148
3. Personal net saving.....	1,545	2,313	2,466	2,181	2,600	2,080	2,024	2,020
4. Personal Income	28,522	30,956	32,793	35,019	34,684	34,484	35,160	35,748
5. Personal Disposable Income ⁽²⁾	(26,011)	(28,226)	(29,882)	(31,612)	(31,452)	(31,120)	(31,708)	(32,168)

⁽¹⁾Includes net expenditure abroad.

⁽²⁾Personal Income less total direct taxes.

⁽³⁾Seasonally adjusted at annual rates.

Farm net income, which is subject to sometimes extensive fluctuations due to changes in the market conditions and in crops, reached \$1,828 million (annual rate) in the first quarter, but declined to \$1,276 million in the second, and to \$1,108 million in the third and increased to \$1,236 million in the fourth. The explanation for this pattern lies in the timing of payments by the Canadian Wheat Board to farmers. These payments, associated with the rapid movement of wheat into export channels in 1963, had been sustained from mid-1963 into the first quarter of 1964. The decline in these payments in the second quarter was reflected in net income of farm operators. As a result of this development, total personal income recorded a decline in the second quarter. The upward movement was resumed in the third quarter.

Personal disposable income, which is taken as personal income less personal direct taxes, rose sharply in the first quarter, fell in the second and moved up again in the third and fourth quarters. The second-quarter decline reflected the drop in personal income which occurred at that time, associated with the timing of payments by the Wheat Board discussed above, and also a rise in personal taxes paid. In all, personal disposable income in 1964 was 5.8 per cent higher than in 1963.

Consumer expenditures in 1964, and particularly expenditures on durables, increased more rapidly than they did in 1963. Purchases of non-durable goods were 6.3 per cent higher than in 1963. Purchases of durables were 10.4 per cent higher. All major classes of consumer durables contributed to the increase, with expenditures on new and used cars rising by 11.5 per cent. The 1964 advance in expenditures on appliances and radios was 8 per cent, and on furniture 6 per cent. Consumer outlays on services rose by 7.8 per cent, and total consumer expenditures were 7.3 per cent higher.

The seasonally-adjusted quarterly pattern of consumer expenditures indicates that total outlays advanced during all four quarters. The second-quarter decline in personal disposable income was however, reflected in a moderation in the quarter-to-quarter rate of advance in total consumer spending. Outlays on non-durable goods rose in each quarter, as did purchases of services, but expenditures on durables fell in the second quarter from the first-quarter level, and again in the fourth quarter after a very strong third quarter.

Personal net saving in 1964, at \$2.2 billion, was 11.6 per cent lower than a year previously. Personal saving, which is the difference between personal disposable income and personal expenditure on goods and services, takes the form of accumulation of a wide variety of financial and real assets: bank deposits, securities, insurance, equity in real estate, and so on. Personal saving by definition also covers any changes in inventory holdings of non-corporate business, including agriculture. Accordingly, large shifts in farm inventories, which may reflect changes in the level of crop production from one year to the next, affect the level of personal saving. Excluding farm inventory change, personal saving in 1964 was nearly \$2.3 billion, compared with rather less than \$2.2 billion in 1963. Personal saving, excluding farm inventories, amounted to 7.2 per cent of personal disposable income in 1964.

INVESTMENT AND CAPITAL EXPENDITURE

A rapid upsurge in public and private capital formation occurred in 1964. Both housing construction and business capital spending on construction, machinery and equipment increased by 18 per cent. Capital investment by government departments increased by 15 per cent. The above increases brought the total of public and private investment over the \$10 billion mark for the

first time. After allowing for price changes, the volume index of total investment exceeded the previous peak reached in 1957. It appears that these increases marked the emergence from several years of under-utilization of structures and equipment. The value of public and private capital formation amounted to 23 per cent of GNP, in comparison with less than 22 per cent of GNP in the previous three years. This ratio was well below the peak of 27 per cent which was reached in 1957.

An industrial breakdown of the 1964 investment programme is given in Tables 8 and 9; it will be seen that manufacturing was a principal contributor to the increase.

TABLE 8
PUBLIC AND PRIVATE CAPITAL EXPENDITURE

	1960	1961	1962	1963	1964
(Millions of dollars)					
Agriculture and fishing.....	550	576	663	762	820
Forestry.....	54	50	54	60	73
Mining, quarrying and oil wells.....	400	449	480	521	633
Manufacturing.....	1,178	1,085	1,269	1,358	1,815
Electric power, gas and water works.....	688	710	723	764	881
Transportation, storage and communications.....	1,084	988	878	1,007	1,196
Construction industry.....	130	136	109	135	151
Trade, finance and commercial services.....	875	847	860	918	996
Institutions.....	573	617	834	873	766
Housing.....	1,456	1,467	1,587	1,713	2,028
Government departments.....	1,274	1,247	1,258	1,282	1,468
Total Capital Expenditure⁽¹⁾.....	8,262	8,172	8,715	9,393	10,827
Total Capital Expenditure as a percentage of Gross National Expenditure.....	22.8	21.8	21.5	21.8	23.0
Index of total Capital Expenditure in constant (1957) dollars.....	90.2	89.5	93.1	97.3	108.5

⁽¹⁾For reconciliation with Business Gross Fixed Capital Formation in housing, plant and equipment as per national accounts, see below.

	1960	1961	1962	1963	1964
(Millions of dollars)					
Private and Public Capital Expenditure, Table 8...	8,262	8,172	8,715	9,393	10,827
Deduct:					
New residential construction by governments..	13	9	10	6	7
New non-residential construction by governments.....	1,420	1,368	1,562	1,609	1,640
New machinery and equipment outlays by governments.....	137	160	183	187	212
Business Gross Fixed Capital Formation in Housing, Plant and Equipment—National Accounts definition.....	6,692	6,635	6,960	7,591	8,968

TABLE 9
PERCENTAGE INCREASES IN CAPITAL EXPENDITURE BY INDUSTRY

	Percentage Increase 1963-64	Capital Expenditure as a Percentage of Total Capital Expenditure, 1964
Agriculture and fishing.....	7.6	7.6
Forestry.....	21.7	0.7
Mining, quarrying and oil wells.....	21.5	5.8
Manufacturing.....	33.7	16.8
Electric power, gas and waterworks.....	15.3	8.1
Transportation, storage and communications.....	18.8	11.0
Construction industry.....	11.9	1.4
Trade, finance and commercial services.....	8.5	9.2
Institutions.....	-12.3	7.1
Housing.....	18.4	18.7
Government departments.....	14.5	13.6
Total.....	15.3	100.0

BUSINESS CAPITAL

In 1964, all categories of business capital investment increased. The manufacturing sector experienced the greatest relative upsurge in capital outlays. These increased by 34 per cent over the previous year, compared with a gain of 7 per cent in 1963. Within the manufacturing sector, capital expenditures increased by 84 per cent in the textile industry, 61 per cent in the paper and allied industries, 72 per cent in the transportation equipment industry, 41 per

TABLE 10
INVESTMENT AS A PERCENTAGE OF GROSS NATIONAL EXPENDITURE 1948-1964

	Total Private and Public Investment	Housing and Social Capital ⁽¹⁾	Business Investment 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	9.3	13.4
1961.....	21.8	9.1	12.7
1962.....	21.5	9.2	12.3
1963.....	21.8	9.1	12.7
1964.....	23.0	9.2	13.8

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

⁽²⁾Includes government business enterprises.

cent in primary metals, 45 per cent in non-metallic mineral products and 40 per cent in the machinery manufacturing industry. Of course these large percentage increases are in comparison with levels which had been relatively low. Certain indicators of the rates of capacity utilization in some of the above industries suggest significantly higher rates in 1964 than in recent years.

TABLE 11

BUSINESS INVESTMENT AS PER CENT OF GDP⁽¹⁾ ORIGINATING BY INDUSTRY,
SELECTED YEARS

	1949	1955	1957	1963	1964
Agriculture.....	26	23	27	30	36
Forestry.....	10	14	12	15	16
Mining, quarrying and oil wells.....	18	31	50	33	36
Manufacturing.....	13	14	19	14	17
Construction.....	7	13	8	7	7
Transportation and storage.....	20	22	49	23	28
Communication.....	53	46	54	47	41
Electric power, gas and water utilities.....	105	78	108	61	62
Trade.....	9	10	9	7	6
Finance, insurance and real estate ⁽²⁾	72	64	58	49	55
Total.....	23	24	30	23	26

SOURCES: Tables 21 and 25 of Annual National Accounts, excluding public administration and defence, and community service industries. 1964 calculations by Department of Finance.

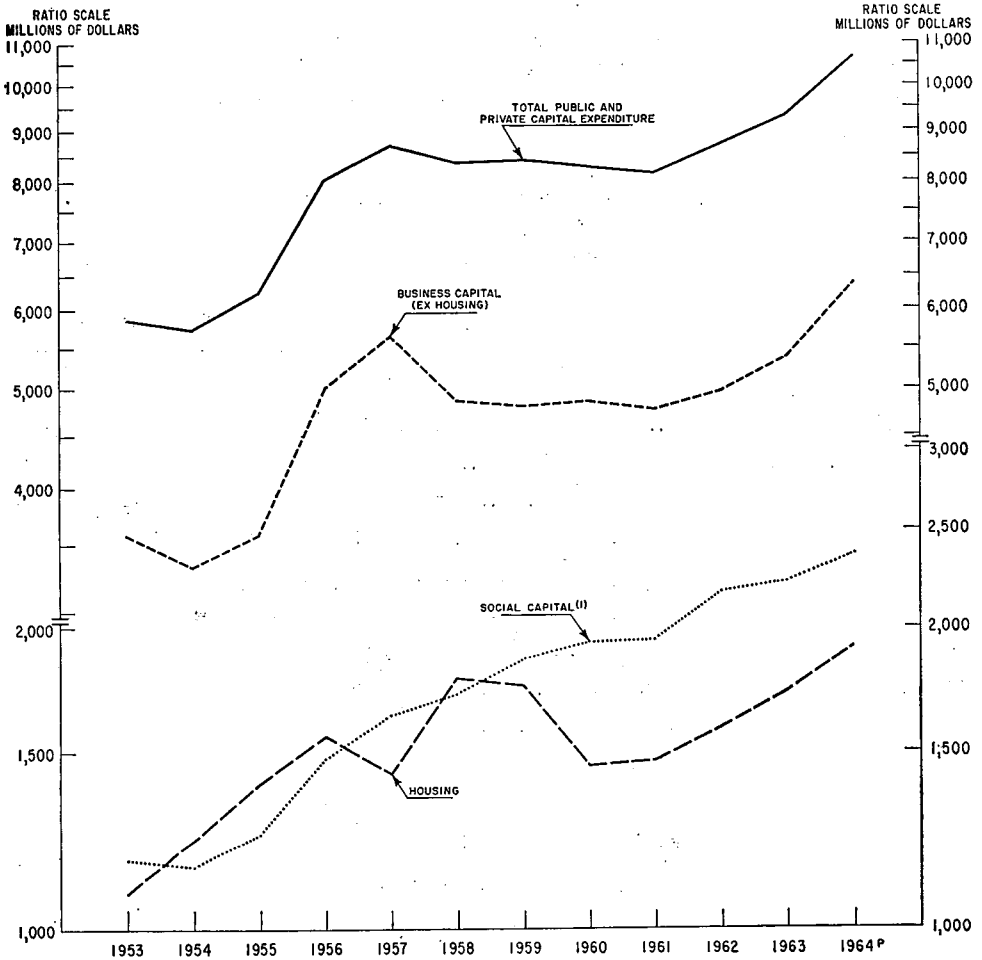
⁽¹⁾Gross domestic product at factor cost differs from gross national product at market prices by the exclusion of indirect taxes less subsidies and by the inclusion of net foreign factor payments such as net interest and dividend payments abroad. It is therefore a measure of the value of production of industries located in Canada whether or not they include returns to foreign investors. The above ratios were obtained by dividing new capital formation by value product in each industry. Further refinements in these data are possible and the above table should be used only to gain an indication of trends.

⁽²⁾Capital formation in finance, insurance and real estate includes new residential construction, and the product originating in the industry includes gross paid and imputed rents.

Table 9 shows the changes in new investment between 1963 and 1964. As indicated, manufacturing, which accounts for about one-sixth of total new investment, showed the largest percentage gain. As can be seen from the table, however, most other major industrial sectors also showed substantial increases in new investment in 1964. Although evidence is incomplete, it seems likely that the gains in investment in 1964 were associated with the extended gains in market demand, both domestic and foreign, which had been accumulating for several years. The increases in investment were also made against a background of credit expansion, and large flows of business savings in the form of undistributed earnings and capital cost allowances, referred to in other sections of this Review.

The ratios of investment so far achieved do not appear to be high by historical standards, as Table 10 shows. The present ratios compare quite closely with those of 1949 to 1955 as a percentage of GNE, but are well below the peak of 1957. Table 11 provides additional industrial detail, with regard to historical levels and current levels of capital formation as a per cent of value of production.

PUBLIC AND PRIVATE CAPITAL EXPENDITURE



(1) INSTITUTIONAL SERVICES, SUCH AS SCHOOLS AND HOSPITALS PLUS GOVERNMENT DEPARTMENTS AND WATERWORKS.

HOUSING AND SOCIAL CAPITAL

Expenditures on new housing in 1964 increased nearly 19 per cent over the previous year. This increase was as large as that realized during the three-year period 1960 to 1963. Both demographic and economic factors account for these increases. The chart of population by age groups shows that there are rapidly increasing numbers in the 20-24 and 25-29 age groups who normally establish their own households. In addition, higher incomes in general have permitted "un-doubling" of composite families, with older members and relatives apparently able to afford accommodation of their own. These factors may account for the rising proportion of apartments and multiple units which now amount to over 50 per cent by volume of all new housing construction. Thus, both new "family formation" by way of additional marriages and "non-family formation" by way of splitting-up of older units, or single persons establishing their own households, play their part in contributing to the demand for new housing. On the supply side, there has been a great deal of winter construction, aided by special measures. The ready availability of mortgage credit has also facilitated additional building to meet the above demands. This rate of building appears to

have come about without undue distortion of the housing market. Vacancy rates are moderate in the majority of cities, with no apparent geographic extremes.

The population and income changes already noted have given rise to new developments in the provision of urban and social capital. Capital outlays by government departments increased by 15 per cent from 1963 to 1964. Capital expenditures on institutional services were lower by 12 per cent in 1964, due to offsetting movements, related in part to the changing age composition of the population. School construction was lower, but university and hospital construction continued to expand at substantial rates of increase.

REVENUE AND EXPENDITURE OF ALL GOVERNMENTS

The familiar public accounts, which for the federal government are discussed in Part II of this Survey, are designed to permit legislative and administrative control over the manifold items of government expenditure. In the following section, the basic data for government revenue and expenditure have been regrouped and adjusted in such a way as to bring out the transactions between the government and other sectors of the economy as they appear in the broader framework provided by the National Accounts. This regrouping also corresponds to the manner in which the accounts of the other sectors of the economy are kept and presented.

The "National Accounts" budgetary presentation differs from the parliamentary budgetary presentation in several ways. Only income and expenditure transactions which have a direct and immediate impact on the flow of incomes in the economy are included in the National Accounts budgetary presentation; financial transactions (i.e., loans), which result in changes in the liabilities of one sector of the economy to another, are excluded from the National Accounts presentation. A number of bookkeeping items in the parliamentary accounts of purely internal significance and having no impact on the private sector are also excluded from the National Accounts presentation.

A number of items which are excluded from the parliamentary budgetary accounts are of immediate significance to the private incomes stream. The National Accounts embrace these items, the most important of which are payments into and out of the Old Age Security Fund, the Unemployment Insurance Fund, and the government pension funds, by those contributing or drawing benefits.

National Accounts items are entered as they accrue, that is, at the time when the economic impact is felt on the economy, since this is the basic method used in business. Corporation income taxes in particular require a major adjustment from the public accounts to a National Accounts basis. These taxes will have been paid on an instalment basis beginning eight months before the end of the companies' fiscal year and ending four months after (taking into account the current advancement in payments of corporation income tax). Corporations can elect to estimate current income on the basis of last year's income or on the basis of their current records, but must complete the current year's payment within four months of the end of that year. As a result, corporations may accrue tax liabilities a number of months before tax payments are actually made and recorded in the public accounts. Tax accruals are directly related to corporate profits at the time they occur, and profits move with the business cycle. Accordingly, the recording of tax accruals and the analysis of the government sector, on a National Accounts basis, may permit a more meaningful appreciation of the timing of changes in revenues of the government sector in relation to fluctuations in economic activity. Similarly, timing adjustments are made on the expenditures side of the National Accounts to put government purchase of goods and services on an accrual basis, rather than at the time actual payments are made.

TABLE 12
GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1961	1962	1963	1964	1964 ⁽¹⁾			
					1Q	2Q	3Q	4Q
	(Millions of dollars)							
GOVERNMENT REVENUE—								
Direct Taxes—Persons.....	2,511	2,730	2,911	3,407	3,232	3,364	3,452	3,580
Federal.....	2,132	2,088	2,193	2,558	2,448	2,552	2,580	2,652
Provincial and Municipal.....	379	642	718	849	784	812	872	928
Direct taxes—Corporations.....	1,612	1,702	1,821	1,989	1,976	1,976	1,968	2,036
Income—								
Federal.....	1,311	1,271	1,356	1,482	1,484	1,480	1,468	1,496
Provincial.....	301	431	465	507	492	496	500	540
Withholding Taxes—Federal.....	116	125	127	140	132	140	140	148
Indirect Taxes.....	4,947	5,565	5,879	6,648	6,424	6,608	6,748	6,812
Federal.....	2,190	2,401	2,451	2,847	2,696	2,824	2,928	2,940
Provincial and Municipal.....	2,757	3,164	3,428	3,801	3,728	3,784	3,820	3,872
Investment Income.....	1,126	1,257	1,376	1,519	1,488	1,508	1,484	1,596
Federal.....	409	448	502	547	560	524	520	584
Provincial and Municipal.....	717	809	874	972	928	984	964	1,012
Employer and Employee Contributions to Social Insurance and Government Pension Funds.....	787	812	847	892	876	900	892	900
Federal.....	510	518	534	558	556	568	552	556
Provincial and Municipal.....	277	294	313	334	320	332	340	344
Transfers from Federal Government—								
Provincial and Municipal.....	1,128	1,134	1,169	1,254	1,164	1,300	1,264	1,288
Total Revenue.....	12,227	13,325	14,130	15,849	15,292	15,796	15,948	16,360
Federal.....	6,668	6,851	7,163	8,132	7,876	8,088	8,188	8,376
Provincial and Municipal.....	5,559	6,474	6,967	7,717	7,416	7,708	7,760	7,984

⁽¹⁾Seasonally adjusted at annual rates.

TABLE 12—Concluded
GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1961	1962	1963	1964	1964 ⁽¹⁾			
					1Q	2Q	3Q	4Q
	(Millions of dollars)							
GOVERNMENT EXPENDITURE—								
Goods and Services.....	7,236	7,710	8,024	8,607	8,564	8,524	8,544	8,796
Federal—								
Non-defence.....	1,369	1,345	1,363	1,490	1,488	1,452	1,520	1,500
Defence.....	1,613	1,678	1,576	1,552	1,672	1,544	1,496	1,496
Provincial and Municipal.....	4,254	4,687	5,085	5,565	5,404	5,528	5,528	5,800
Transfer Payments to Persons.....	3,441	3,729	3,838	4,159	4,148	4,096	4,200	4,192
Federal.....	2,006	2,112	2,137	2,235	2,256	2,216	2,236	2,232
Provincial and Municipal.....	1,435	1,617	1,701	1,924	1,892	1,880	1,964	1,960
Interest on Public Debt.....	1,170	1,302	1,420	1,532	1,500	1,520	1,528	1,580
Federal.....	786	866	935	995	984	988	992	1,016
Provincial and Municipal.....	384	436	485	537	516	532	536	564
Subsidies.....	251	292	311	317	284	268	248	468
Federal.....	221	260	275	278	248	228	208	428
Provincial and Municipal.....	30	32	36	39	36	40	40	40
Transfers to Other Governments—								
Federal.....	1,128	1,134	1,169	1,254	1,164	1,300	1,264	1,288
Total Expenditure.....	13,226	14,167	14,762	15,869	15,660	15,708	15,784	16,324
Federal.....	7,123	7,395	7,455	7,804	7,812	7,728	7,716	7,960
Provincial and Municipal.....	6,103	6,772	7,307	8,065	7,848	7,980	8,068	8,364
Deficit (–) or Surplus (+).....	–999	–842	–632	–20	–368	88	164	36
Federal.....	–455	–544	–292	328	64	360	472	416
Provincial and Municipal.....	–544	–298	–340	–348	–432	–272	–308	–380
Total Expenditure Minus Deficit of Plus Surplus.....	12,227	13,325	14,130	15,849	15,292	15,796	15,948	16,360
Federal.....	6,668	6,851	7,163	8,132	7,876	8,088	8,188	8,376
Provincial and Municipal.....	5,559	6,474	6,967	7,717	7,416	7,708	7,760	7,984

⁽¹⁾Seasonally adjusted at annual rates.

TABLE 13

FEDERAL GOVERNMENT REVENUES AND EXPENDITURES PUBLIC ACCOUNTS AND NATIONAL ACCOUNTS RECONCILIATION

	1962-63	1963-64	1964-65	1963				1964			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
(Millions of dollars)											
1. Budgetary revenue.....	5,878	6,253	7,136	1,479	1,393	1,489	1,683	1,688	1,772	1,721	1,835
2. Supplementary period adjustment ⁽¹⁾	-3	-21	-10	-125	125	—	—	-146	146	—	—
3. Extra-budgetary revenues											
Old Age Security tax collections.....	692	747	956	180	197	170	178	202	247	214	220
Prairie Farm Assistance Act levy.....	8	9	10	2	1	4	2	2	3	4	2
Unemployment insurance employer-employee contributions	286	297	307	74	67	76	77	77	71	78	79
Government pension funds, employer-employee contributions	237	245	251	60	59	60	61	65	63	62	64
Interest receipts of social insurance and government pension funds.....	126	143	157	34	34	35	36	38	37	39	39
4. Corporate income tax ⁽²⁾ : excess (+) of accruals over collections..	8	38	-137	-17	-10	4	51	-7	-123	-3	10
5. Profits before taxes (net of losses) of government business enterprises.....	166	207	244	26	57	54	53	43	56	52	85
6. Interest on loans, advances and investments.....	172	175	169	36	40	37	60	38	40	38	42
7. Less: Budgetary return on investments.....	-293	-392	-380	-65	-67	-43	-170	-112	-102	-60	-95
8. Less: Postal revenue.....	-194	-201	-230	-47	-48	-43	-58	-52	-53	-49	-70
9. Budgetary revenue items offset against budgetary expenditures ⁽³⁾	-106	-109	-112	-27	-27	-27	-27	-28	-29	-29	-30
10. All other adjustments to budgetary revenue ⁽⁴⁾	-31	-44	-48	-22	-7	-13	12	-36	-9	-14	7
11. Total Revenue, National Accounts Basis.....	6,946	7,347	8,313	1,588	1,814	1,803	1,958	1,772	2,119	2,053	2,188

⁽¹⁾In the National Accounts, revenues in the supplementary period are shifted to the following fiscal year.

⁽²⁾Taxes on government business enterprises are excluded from this item and included in item 5.

⁽³⁾See also line 10, expenditure reconciliation.

⁽⁴⁾These adjustments are largely revenue items not relevant for the National Accounts such as proceeds from sales of existing assets.

TABLE 13—Concluded

	1962-63	1963-64	1964-65	1963				1964			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
(Millions of dollars)											
1. Budgetary expenditure.....	6,570	6,872	7,219	2,070	1,374	1,604	1,629	2,265	1,420	1,675	1,809
2. Supplementary period adjustment.....	-55	-33	-6	-376	376	-	-	-409	409	-	-
3. Expenditures of extra-budgetary funds											
Old Age Security Fund payments.....	734	808	889	185	186	187	217	218	220	221	222
Unemployment insurance benefits.....	403	366	332	178	115	42	59	150	102	40	52
Government pension fund payments.....	78	89	97	21	22	21	22	24	24	24	24
Prairie farm assistance payments.....	15	11	10	11	1	-	3	7	-	-	2
4. Transfers to extra-budgetary funds.....	-105	-66	-63	-14	-21	-15	-15	-15	-15	-16	-16
5. Adjustment to place other government funds and crown agencies on a disbursement basis ⁽²⁾	55	19	-30	6	-47	29	32	5	-93	41	-19
6. Budgetary expenditures offset against income of government business enterprises											
Post Office expenditures.....	-189	-206	-211	-51	-47	-53	-53	-53	-51	-50	-53
Deficits of government business enterprises.....	-100	-86	-80	-6	-59	-4	-5	-18	-26	-21	-11
7. Capital assistance to non-defence industry ⁽³⁾	-35	-60	-77	-14	-12	-20	-10	-18	-26	-21	-11
8. Reserves and write-offs.....	-41	-161	-42	-11	-47	-13	-14	-87	-11	-11	-10
9. Budgetary revenue items offset against budgetary expenditure ⁽⁴⁾	-106	-109	-112	-27	-27	-27	-27	-28	-29	-29	-30
10. All other adjustments to budgetary expenditure.....	121	109	55	-51	77	65	-11	-22	25	45	-21
11. Total Expenditure, National Accounts Basis.....	7,345	7,553	7,981	1,921	1,891	1,816	1,827	2,019	1,949	1,898	1,938
12. Surplus (+) or deficit (-), National Accounts basis.....	-399	-206	332	-333	-77	-13	131	-247	170	155	250
13. Surplus (+) or deficit (-), budgetary basis.....	(-692)	(-619)	(-83)	(-591)	(+19)	(-115)	(+54)	(-577)	(+352)	(+46)	(+26)
14. Total, National Accounts basis.....	6,946	7,347	8,313	1,588	1,814	1,803	1,958	1,772	2,119	2,053	2,188
15. Surplus (+) or deficit (-), National Accounts basis, seasonally adjusted at annual rates.....	(-399)	(-206)	(332)	(-344)	(-588)	(-188)	(-48)	(+64)	(+360)	(+472)	(+416)

⁽¹⁾In the National Accounts, expenditures on goods and services in the supplementary period are split evenly between adjacent fiscal years. Other expenditure items are shifted entirely to the next fiscal year.

⁽²⁾This adjustment replaces budgetary appropriations to various funds and agencies by the outlays actually made by these funds and agencies.

⁽³⁾Government capital assistance to industry appears as part of business gross capital formation and is removed from the government sector to avoid double counting in the National Accounts.

⁽⁴⁾The largest component of this item consists of revenue from sales of goods and services by the government sector. These sales appear as final expenditure of the private sector and are deducted to avoid double counting.

The National Accounts presentation of the government accounts is shown in Table 12. A reconciliation of the federal government's public accounts and the National Accounts presentation for recent annual and quarterly periods is set out in Table 13.

STRUCTURE OF GOVERNMENTS' REVENUES AND EXPENDITURES

Table 12, which displays the principal revenue and expenditure sources of the federal government and of provincial and municipal governments combined, according to National Accounts definitions, is the main basis of subsequent analysis. Some definitions and highlights are given below.

Direct taxes on persons consist of payments made to the various governments. (These data include personal income, estate, gift, and inheritance taxes.) In 1964 about three-fourths went to the federal government and about one-fourth to provincial governments. Similar proportions of corporation direct taxes went to the federal and provincial governments.

Indirect taxes, according to National Accounts definitions, consist of customs duties and sales and excise taxes of the federal government; sales, gasoline, motor vehicle, natural resource and other taxes of provincial governments; and property taxes of municipal governments. It can be observed that they exceed all other tax sources combined, and that they are the main source of provincial and municipal governments' revenues.

Investment income consists of interest on funds, loans and investments, and profits of government business enterprises. The latter comprise crown corporations and agencies of the federal government, including government-owned business enterprises. Provincial enterprises include liquor control boards and public utilities. Municipal enterprises include gas, water, sewer, transport and other enterprises which levy specific charges designed to cover operating and other costs.

Revenues of funds include the public service pension receipts of the three governments, including both employer and employee contributions. Revenues of the federal unemployment insurance fund and of provincial workmen's compensation funds are also included here. It may be noted that old age security is financed by tax revenue and is, therefore, not included in the funds shown here.

The item "transfers from other governments" shows that the federal government transferred to provincial and municipal governments an amount of just over \$1,250 million in 1964. Provincial governments transferred a roughly equivalent amount to municipal governments in that year. These transfers are discussed in greater detail below.

Turning to the expenditure side of Table 12, the largest item is expenditure on goods and services which consists of wages and purchased materials and services which are supplied by private sectors of the economy. Included are capital goods such as roads, buildings and public works in general, except those built by government business enterprises, which are included in business investment.

Transfer payments to persons include old age security, family allowances, veterans' pensions, unemployment insurance benefits, and other payments by the federal government. Provincial and municipal transfers to persons include direct relief, workmen's compensation, and various health and welfare payments, including payments to hospitals.

Debt interest is the gross amount paid on the outstanding public debts of the three governments, without deduction of interest revenue from loans and investments, which is shown separately on the revenue side.

Transfers to other governments were mentioned briefly above. It will be noted that they do not affect the combined deficit of all governments, since the payment by one government represents an equivalent receipt by another. In comparing government revenue and expenditure with gross national product or similar aggregates, it is necessary to remove any duplication in total revenues or expenditures which occurs when funds are transferred between governments before they are finally spent. It was noted earlier that the amount of federal government transfers to provincial governments is almost exactly equalled, on balance, by the amount of provincial government transfers to municipalities. While transfers between governments may have certain redistributive consequences, these are not analysed here. Some additional comment is made subsequently on the transfers between provincial governments and their municipalities.

TRENDS IN REVENUES AND EXPENDITURES OF GOVERNMENTS

In the period from 1950 to 1964, taxation revenues of all governments advanced somewhat more rapidly than gross national product. While they amounted to 21.3 per cent of gross national product in 1950, they had risen to 26.0 per cent in 1964. The major part of the increase was due to provincial and municipal taxation revenues, which rose from 6.5 per cent of gross national product in 1950 to 11.0 per cent in 1964. The federal government's taxation revenue as a percentage of gross national product was 14.8 per cent in 1950, 16.0 per cent in 1955, 15.3 per cent in 1960 and 14.9 per cent in 1964. These comparisons reflect changes that occurred in federal-provincial tax-sharing arrangements during the period, as well as in individual governments' tax rates and in the growth of the various economic sectors from which tax revenues are derived.

TABLE 14

TAXATION REVENUE OF GOVERNMENTS AS A PROPORTION OF GROSS NATIONAL PRODUCT, SELECTED YEARS 1950-1964
(National Accounts basis)

	1950		1955		1960		1964	
	\$ Millions	Per- centage of G.N.P.	\$ Millions	Per- centage of G.N.P.	\$ Millions	Per- centage of G.N.P.	\$ Millions	Per- centage of G.N.P.
Federal Government.....	2,660	14.8	4,346	16.0	5,542	15.3	7,027	14.9
Provincial Governments...	677	3.7	960	3.5	1,688	4.7	3,267	7.0
Municipalities.....	503	2.8	851	3.1	1,458	4.0	1,890	4.0
Total.....	3,840	21.3	6,157	22.7	8,688	24.0	12,184	25.9
Gross National Product...	18,006		27,132		36,287		47,003	

Expenditures on goods and services by governments represent public consumption out of the nation's total production of goods and services. These amounted to 18 per cent of gross national product in 1964. Their trend and relative composition since 1950 are brought out in Table 15 below. In addition, governments engage in what might be termed redistributive activities, partly via intergovernmental transfers and eventually vis-à-vis the private economy. It can be calculated from Table 12 above that total expenditure of all governments (excluding intergovernmental transfers in order to avoid double counting of total expenditures) was the equivalent of 31 per cent of GNP in 1964. The difference between the 18 per cent expenditure on goods and services and the 31 per cent total expenditure is represented by transfers to persons, debt interest

and subsidies, and is the equivalent of 13 per cent of GNP. Transfers to persons include pensions and other social security outlays, as well as grants to hospitals and other institutions, and amounted in total to \$4,159 million or 9 per cent of GNP in 1964. They have grown at a faster rate than gross national product since 1950. The remaining 4 per cent consisted of debt interest and subsidies, which together were slightly larger relative to gross national product in 1964, than they had been in 1950.

TABLE 15

GOVERNMENT EXPENDITURES ON GOODS AND SERVICES AS A PROPORTION OF GROSS NATIONAL EXPENDITURE, SELECTED YEARS 1950-64

(National Accounts basis)

	1950		1955		1960		1964	
	\$ Millions	Per- centage of GNE	\$ Millions	Per- centage of GNE	\$ Millions	Per- centage of GNE	\$ Millions	Per- centage of GNE
Federal Government.....	977	5.4	2,510	9.3	2,730	7.5	3,042	6.5
Provincial Governments and Municipalities.....	1,367	7.6	2,282	8.4	4,039	11.1	5,565	11.8
GNE.....	18,006		27,132		36,287		47,003	

Federal government expenditures on goods and services increased rapidly at the time of Korea and the subsequent defence buildup, but have since tended to grow less rapidly. The stability in defence spending is of course the main reason, while the ratio of non-defence expenditure on goods and services to GNE has not changed significantly. Goods and services expenditures declined to 6.5 per cent of GNE in 1964, while other kinds of expenditure were relatively stable. Table 16 shows that federal transfers to other governments were 2.7 per cent of GNE in 1964. The main trends in federal government expenditures are illustrated in the following chart.

TABLE 16

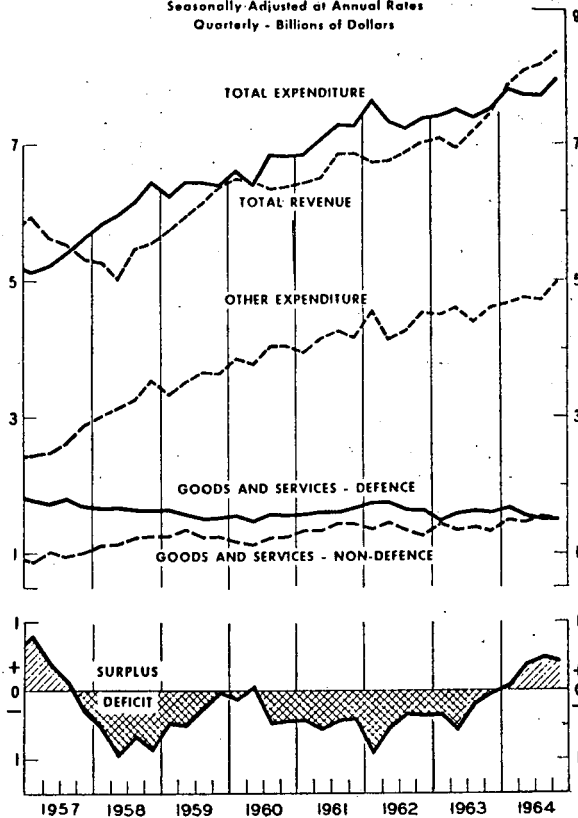
FEDERAL GOVERNMENT EXPENDITURES, SELECTED YEARS 1950-1964

(National Accounts basis)

	1950		1955		1960		1964	
	\$ Millions	Per- centage of GNE	\$ Millions	Per- centage of GNE	\$ Millions	Per- centage of GNE	\$ Millions	Per- centage of GNE
Goods and Services.....	977	5.4	2,510	9.3	2,730	7.5	3,042	6.5
Transfer Payments to Per- sons ⁽¹⁾	615	3.4	1,232	4.5	1,976	5.5	2,235	4.8
Interest on the Public Debt.....	427	2.4	494	1.8	753	2.1	995	2.1
Transfers to Other Levels of Government.....	251	1.4	450	1.7	994	2.7	1,254	2.7
Other.....	60	.3	75	.3	207	.6	278	.6
Total.....	2,330	12.9	4,761	17.5	6,662	18.4	7,804	16.6

⁽¹⁾Excluding interest payments.

FEDERAL GOVERNMENT REVENUE AND EXPENDITURE
 National Accounts Basis
 Seasonally Adjusted at Annual Rates
 Quarterly - Billions of Dollars



Turning to the fiscal position in 1964, the sum of taxation and other revenues of the federal government was \$8,132 million on a National Accounts basis in 1964. This amount was somewhat greater than expenditures so that there was a surplus on a National Accounts basis. Provincial and municipal governments' tax and non-tax revenues plus transfer receipts were \$7,717 million in the same period. This was somewhat less than their combined expenditures, so that they incurred a small deficit. In the combined total of all governments' revenue and expenditure, there existed an approximate balance on the national accounts basis, in the past year.

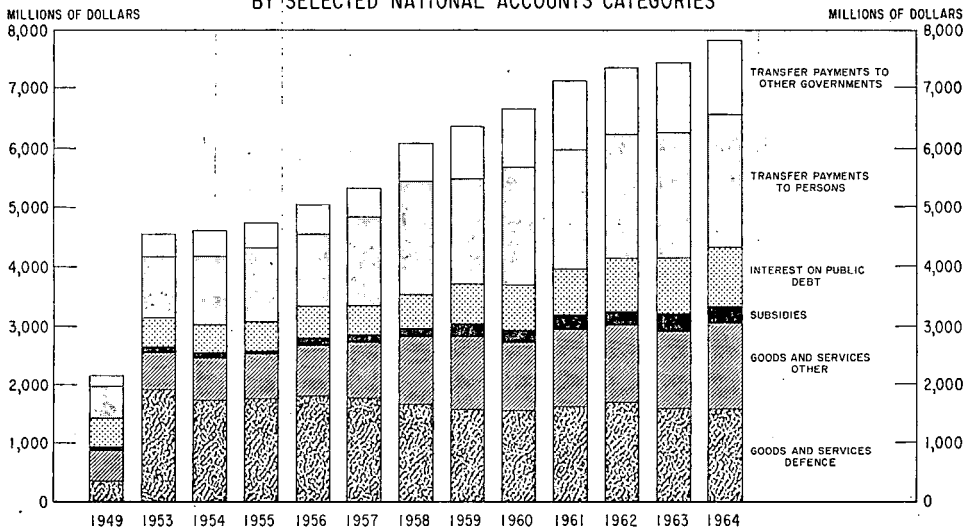
The effect of intergovernmental transfers is brought out in the following table. These transfers include both conditional grants, that is, those which can be allocated to specific expenditures such as school or hospital construction, and unconditional grants which cannot be specifically allocated according to function. The following table is based on National Accounts definitions.

It is apparent from the table that transfers from the federal government to provincial and municipal governments reduce the federal government's share of combined tax and non-tax revenues from 56 to 47 per cent of the total revenue, while raising the provincial and municipal governments' combined share from 44 to 53 per cent of the total revenue. It has already been mentioned that provincial governments transfer to municipalities an amount almost equivalent to that which they receive from the federal government.

TABLE 17
ADJUSTMENT FOR INTER-GOVERNMENTAL TRANSFERS, 1964
(Millions of dollars)

	(1) Taxation and other revenue		(2) Minus: Transfer payments to other govern- ments	(3) Plus: Transfers received from other govern- ments	(4) = (1 + 2 + 3) = Revenue after transfers	
	\$	%			\$	%
Federal.....	8,132	56	-1,254		6,878	47
Provincial-Municipal.....	6,463	44		+1,254	7,717	53
Total.....	14,595	100	-1,254	+1,254	14,595	100

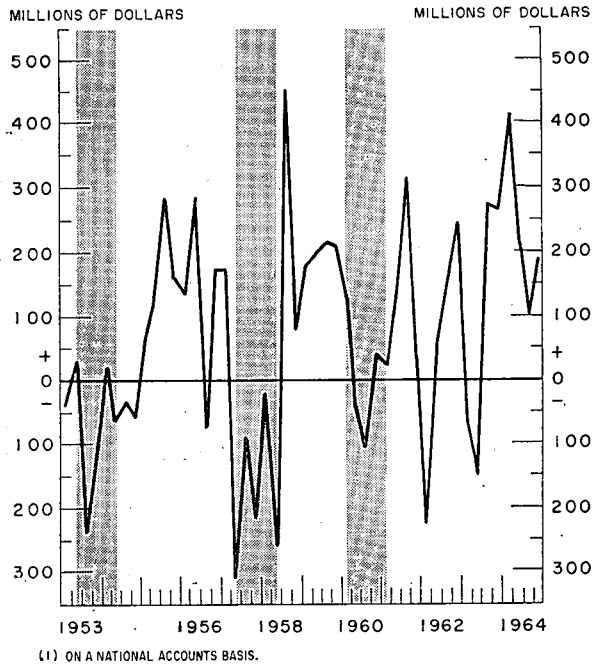
FEDERAL GOVERNMENT EXPENDITURE
BY SELECTED NATIONAL ACCOUNTS CATEGORIES



CURRENT POSITION OF THE FEDERAL SECTOR

During 1964, the position of the government of Canada was tending toward a surplus on a National Accounts basis. Business conditions proved to be more expansive than had been anticipated and revenues reflected an even stronger rise, as a result of both special factors and the normal cyclical responses of taxes and tax bases. Quarterly changes in federal government revenue during the past three business cycles are shown in the following chart, in which the shaded areas represent cyclical contractions. It is quite apparent that revenues fall off substantially in contractions, and expand rapidly in prosperous periods. The final chart at the end of this section shows that both the surplus or deficit position and the unemployment rate (inverted) are similarly subject to changes in general business conditions.

QUARTERLY CHANGES IN FEDERAL GOVERNMENT REVENUE⁽¹⁾



All major components of revenue were affected by the general improvement in business conditions in 1964. Personal direct tax revenue showed a very substantial increase in 1964, partly due to the increase in the Old Age Security Tax rate on personal income and partly due to the built-in responsiveness of the personal income tax to cyclical variations in general activity. Corporation tax liabilities to the government also rose considerably in the first quarter, but levelled off in subsequent quarters. The special depreciation allowances introduced in 1963 have tended to moderate the growth in corporation tax liabilities in 1964. Indirect tax revenue also reflected the general expansion, with customs duties on imports and the manufacturers' sales tax both showing substantial increases.

Much of the increase in total expenditure in 1964 occurred in the first quarter of the year, as a result of increases in both defence and non-defence expenditures on goods and services. In the second quarter, increased payments to provincial governments more than offset a decline in defence expenditure. Other expenditure components changed very little. In the third quarter, defence expenditure declined once again but small increases in transfers to persons and in expenditure on goods and services, resulted in no overall change. Most of the above components showed decreases in the fourth quarter of 1964, but they were offset by an increase in subsidies. Several of these factors are temporary, being related more to variations in the quarterly timing of government expenditures than to any basic change in trend.

PROVINCIAL GOVERNMENTS AND MUNICIPALITIES

Summing up the revenue and expenditure components of provincial governments and municipalities in terms of their surplus or deficit position on a National

Accounts basis, provincial governments are close to balance and municipalities are incurring substantial deficits.

PROVINCIAL GOVERNMENTS AND MUNICIPALITIES
DEFICIT (-) OR SURPLUS (+)

(NATIONAL ACCOUNTS BASIS)
(Millions of dollars)

	1959	1960	1961 ⁽¹⁾	1962 ⁽¹⁾	1963 ⁽¹⁾	1964 ⁽¹⁾
Provincial.....	+112	- 76	-128	+ 94	+ 80	+104
Municipal.....	-341	-390	-416	-392	-420	-452
Total.....	<u>-229</u>	<u>-466</u>	<u>-544</u>	<u>-298</u>	<u>-340</u>	<u>-348</u>

⁽¹⁾Preliminary estimates by the Department of Finance.

The municipal deficits have been occurring despite annual increases in transfers from provincial governments to municipalities, mainly in the form of grants to school boards or districts and grants for roads. Total transfers from provinces to municipalities increased from \$622 million in 1959 to \$1,143 million in 1963.

The major increases in provincial expenditures are in the field of education; this is also true of municipal expenditures. Large absolute increases in expenditures on health, welfare and transportation (roads, bridges, etc.) are also evident.

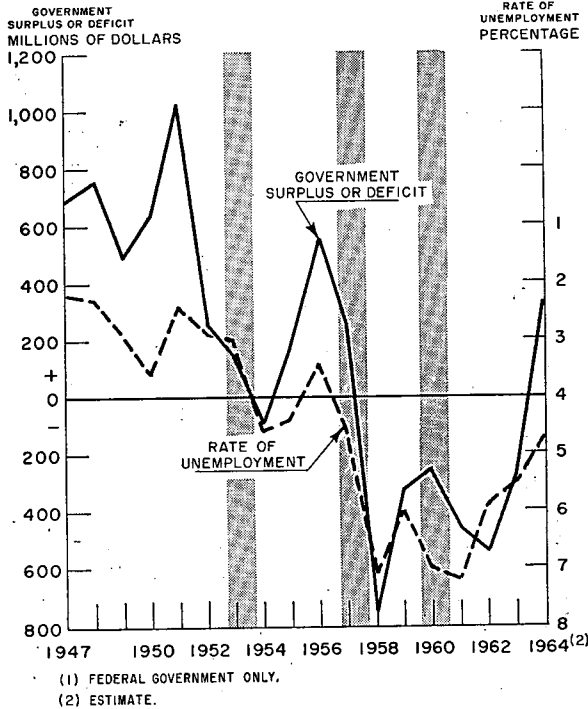
The consequences of this rate of increase in expenditures have been four-fold. First, municipal governments have incurred deficits every year and this has led to progressively greater increases in debt. Provincial debt has also increased annually. The total annual increase in gross debt, of course, has been greater than the operating deficits of governments shown above, since they also borrow to finance investment in municipally- and provincially-owned public utilities. The latter are shown in the business sector of the National Accounts.

Second, as expenditures continue to grow, provincial and municipal governments have found it necessary to introduce new taxes and increase rates on existing taxes. Because of the nature of provincial and municipal tax structures, increases customarily take place in the consumption and property tax fields. In recent years gasoline and general sales tax increases have been common. However federal abatements on personal income tax and corporation taxes have allowed more tax room in these fields to provincial governments.

Third, federal government personal income tax abatements increased substantially in 1962-63 when new tax-sharing arrangements were completed and all provinces levied their own corporation and personal income taxes. Prior to 1962-63 Ontario and Quebec alone levied their own corporate income taxes and Quebec levied her own personal income tax. Under the earlier system, the rental rate (or abatement rate for non-agreeing provinces) on the personal income tax was 13 per cent. The abatement under the new arrangements was increased to 16 per cent in 1962-63 and increased annually by one point until 1964-65, when it reached 18 per cent. It will increase by 3 points in 1965-66 (to 21 per cent) and by a further 3 points in 1966-67, to reach 24 per cent.

Finally, with the new arrangements beginning in 1962-63, there was also an increase in unconditional transfers to the provincial governments. Further, in 1964-65, the equalization formula was revised resulting in a substantial increase in total payments from the federal government to the provinces.

ANNUAL RATES OF UNEMPLOYMENT AND GOVERNMENT⁽¹⁾ SURPLUS OR DEFICIT



EMPLOYMENT AND EARNINGS

Both the labour force and the number of people with jobs again rose in 1964. At the end of the year, despite another substantial increase in new-comers to the labour market, the unemployment rate (apart from seasonal influences) was lower than it had been in any month since early 1957.

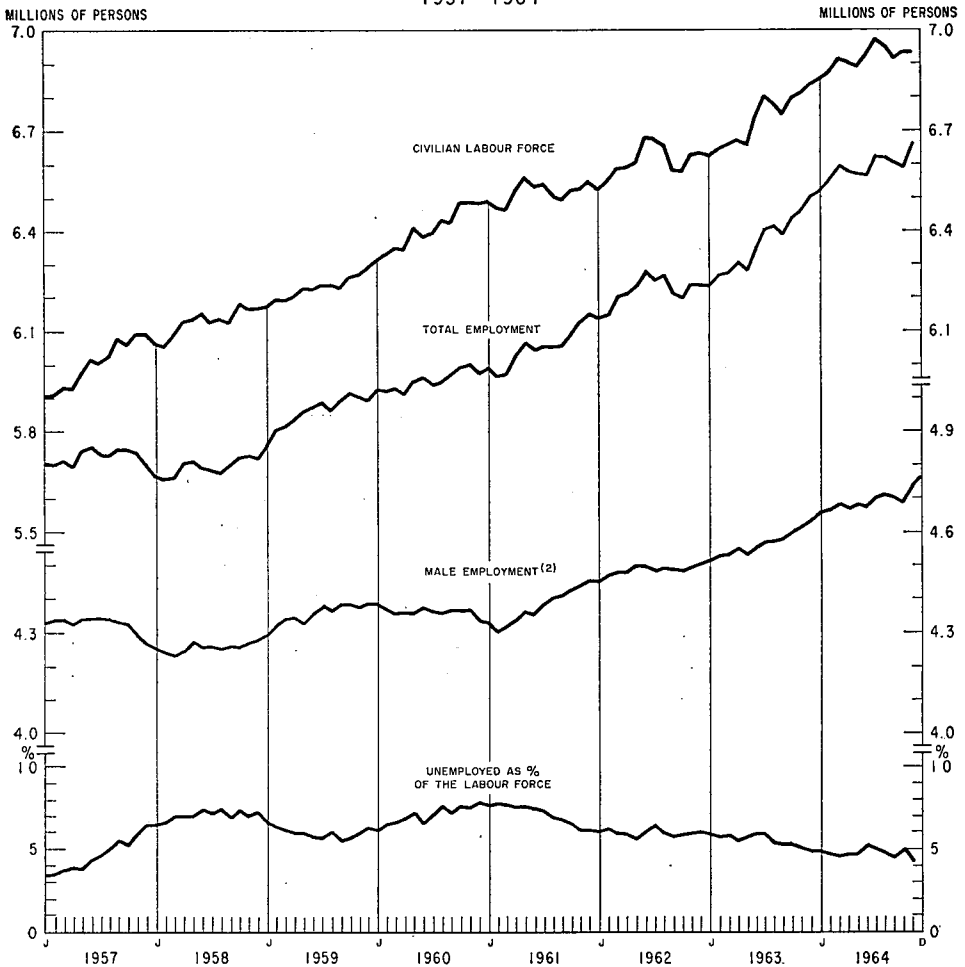
The total civilian labour force in 1964 grew by 183,000 persons, or 2.7 per cent, over the 1963 average. The number of employed rose by 231,000 or 3.6 per cent. Unemployment, expressed as a percentage of the labour force, dropped from the 1963 average of 5.5 per cent to an average of 4.7 per cent in 1964. These developments are illustrated in the following chart.

The growth in the labour force consisted of an increase of 102,000 women and 81,000 men, as the female participation rate continued to edge up. The participation rate is the percentage of the total number of people in a given age group who are at work or are actively seeking work. The total participation rate for males continued its long-term decline in 1964, although it rose temporarily during the summer months, when demand for labour was particularly strong and a number of older workers returned to the labour force for a limited period. The student participation rate also rose slightly during the summer, reflecting to some extent the greater availability of jobs.

The teen-age population, 14 to 19 years of age, rose by 102,000 persons in 1964. This rise, like that of 1963, was a reflection of the sharp upward shift in the birth rate which occurred after the end of the second world war.

THE LABOUR FORCE⁽¹⁾

1957-1964



(1) SEASONALLY ADJUSTED ESTIMATES

(2) SEASONALLY ADJUSTED ESTIMATES BY THE DEPARTMENT OF FINANCE

ANNUAL INCREASE, POPULATION 14-19 YEARS
(Thousands of persons)

1959	1960	1961	1962	1963	1964
68	74	77	80	91	102

The teen-age labour force rose by 28,000, as many of these young people entered the labour market permanently. At the same time, the teen-age participation rate continued its long-term decline, owing to the continued trend towards a longer period of formal education.

PARTICIPATION RATE, POPULATION 14-19 YEARS
(Labour force as a per cent of population)

1959	1960	1961	1962	1963	1964
37.9	37.9	36.5	35.4	34.6	34.2

The teen-age unemployment rate fell slightly in 1964, to the lowest level recorded in recent years. Unemployment in this age-group, however, remains substantially above the average, as many young people in the modern economy are handicapped by lack of skills and experience.

UNEMPLOYMENT RATE, LABOUR FORCE 14-19 YEARS
(Unemployed as per cent of the labour force)

<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
11.1	13.0	13.2	11.5	11.4	10.3

While the influx of steadily-growing numbers of teen-agers into the labour force has become a major feature of the employment picture, the now-established tendency of women to increase their participation in the labour force in response to employment opportunities remains a significant factor. Thus, as employment rises and unemployment declines, these conditions themselves induce a more rapid increase in the labour force than would be brought about by population factors alone. Conversely, when employment opportunities decrease many women withdraw from the labour force. In 1964, the female participation rate in all age groups rose to a greater extent than in the previous two years, with the result that the total female participation rate rose quite sharply.

PARTICIPATION RATE, WOMEN, ALL AGE GROUPS
(Labour force as a per cent of population)

<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
26.7	28.0	28.8	29.1	29.6	30.5

The participation rate for men of all ages continued its long-term decline in 1964, falling to 78.4 per cent from 78.8 per cent in the previous year. Men between 25 and 65 years of age maintained the high and steady rates characteristic of the group, but participation rates among men 20 to 24 years fell from 88.9 per cent to 88.2 per cent. The major contributing factor here, as in the teen-age group, is the tendency to extend the years of formal education.

Adult unemployment rates in 1964 varied by age-group and sex. Unemployment rates for men averaged 5.3 per cent, but young men 20 to 24 years of age experienced an unemployment rate of 7.9 per cent, while in the 35 to 44 group the rate was 3.8 per cent. The rates for men were uniformly higher than for women, as men remain in the labour force and continue to seek work if they become unemployed, whereas women (as observed above) tend to withdraw in the same circumstances. The 1964 average unemployment rate for women of all ages was 3.1 per cent. In the 20 to 24 age-group the percentage was 3.0, and in all other adult groups recorded, the level of unemployment was even lower.

Regional developments in 1964 employment revealed a further substantial improvement in unemployment conditions in the Atlantic and Quebec regions, although all parts of Canada experienced a more rapid increase in employment than in labour force.

Unemployment expressed as a percentage of the labour force therefore declined in all regions. The decline was particularly marked in the Atlantic region and Quebec, although there was a further marked improvement also in British Columbia. The declines in Ontario and the Prairie region, where unemployment was already lower, were smaller. Thus, the sharp increase in employment which occurred in 1964 was achieved without the development of generalized pressures in the labour market.

The 3.6 per cent growth in employment in 1964 was accompanied by a 8.7 per cent increase in wages, salaries and supplementary labour income. Average hourly earnings in manufacturing rose by 3.1 per cent from \$1.95 to \$2.01 (11 months data period). Earnings in construction industry rose from \$2.14 to \$2.25, a rise of 5.1 per cent, and in mining from \$2.24 to \$2.31, a rise of 3.1 per cent. Average weekly hours of work in manufacturing rose from 40.8 to 41.2 and average weekly earnings in manufacturing rose by 4.2 per cent from \$86.17 to \$89.81.

TABLE 18
REGIONAL INCREASES IN LABOUR FORCE AND EMPLOYMENT
(Annual averages—thousands of persons)

	1962 1961		1963 1962		1964 1963	
	Labour Force	Employ- ment	Labour Force	Employ- ment	Labour Force	Employ- ment
Atlantic.....	8	10	1	8	13	22
Quebec.....	30	59	50	49	46	63
Ontario.....	19	47	52	62	78	89
Prairies.....	21	28	7	10	21	26
British Columbia.....	13	22	17	19	27	32
Totals.....	90	168	129	147	183	231

(Totals may not add due to rounding).

TABLE 19
UNEMPLOYMENT AS A PERCENTAGE OF THE LABOUR FORCE
(By region—annual averages)

	1961	1962	1963	1964
Canada.....	7.2	5.9	5.5	4.7
Atlantic.....	11.1	10.7	9.5	7.8
Quebec.....	9.3	7.5	7.5	6.3
Ontario.....	5.5	4.3	3.8	3.3
Prairies.....	4.6	3.9	3.7	3.0
British Columbia.....	8.5	6.7	6.3	5.3

PRICE AND COST TRENDS

Relative stability of prices and costs was maintained across the economy as a whole throughout the year, despite the high level of employment attained in some regions in 1964. The generally stable price environment reflected the availability of adequate productive capacity in most industries, rising productivity per worker, and only moderate advances in wage-rates and hourly earnings. In the field of export and import prices, further price changes made in adjustment to the situation created by the devaluation of mid-1962 were less significant than the effects of changes in the world prices of many commodities important to the Canadian economy. Domestic prices and costs, as measured in the GNE implicit price deflator, continued the slight upward trend of recent years.

The cycle-on-cycle charts on page 40 show the movements of some major price series over the course of the current business cycle, in comparison with developments in the two preceding periods of recession and upswing. These charts illustrate the sensitivity of the Canadian economy to changes in relative price levels in the international economy, both in the wholesale price index (which is heavily weighted with import and export goods) and in the consumer price index, which is influenced in part, in some cases with a substantial lag, by the movement of the wholesale index. The effects of the 1960-1962 changes in exchange rate values, which caused wholesale and (eventually) consumer prices to rise, although to a far lesser extent, can be seen on these charts.

The substantial changes in 1964 in world prices of non-ferrous metals products had some effect on the wholesale price index and some relevant sub-indexes, as shown in Table 20. Changes in import and export price indexes influence as well the implicit price deflator which is applied to the Gross National Expenditure and its components to derive a constant-dollar GNE. Table 21 shows the year-to-year changes in these various measures of price change.

TABLE 20
PERCENTAGE CHANGES IN WHOLESALE PRICE INDEXES
(Annual averages)

	1961	1962	1963	1964
	1960	1961	1962	1963
General Index.....	+1.0	+2.9	+1.9	+0.3
Vegetable Products.....	—	+4.2	+7.6	-1.9
Animal Products.....	+2.9	+3.1	-2.6	-1.8
Textile Products.....	+2.0	+2.9	+2.8	+0.1
Wood Products.....	+0.4	+3.5	+2.4	+2.4
Iron Products.....	+0.7	-0.7	-1.0	+1.1
Non-Ferrous Metals and Products.....	+2.1	+5.8	+2.8	+4.2
Non-Metallic Minerals and Products.....	-0.2	+2.1	+0.2	+0.7
Chemical Products.....	+0.3	+1.0	-0.6	+1.0
Industrial Materials.....	+1.2	+2.0	+2.2	+1.9

TABLE 21
IMPLICIT PRICE INDEXES OF G.N.E. AND COMPONENTS
(percentage price changes)

	Year		
	1962	1963	1964
	1961	1962	1963
Personal expenditure.....	+1.3	+1.5	+1.5
Non-durable goods.....	+1.3	+1.7	+1.7
Durable goods.....	-0.3	+0.4	-1.1
Services.....	+2.0	+1.5	+2.2
Government expenditure.....	+2.9	+4.1	+2.6
Business gross fixed capital formation.....	+2.6	+2.6	+3.6
New residential construction ⁽¹⁾	+2.8	+3.5	+5.7
New non-residential construction ⁽¹⁾	+2.2	+2.6	+2.7
New machinery and equipment.....	+2.7	+2.2	+3.2
Exports of goods and services.....	+3.1	+1.1	+2.3
Imports of goods and services.....	+4.1	+2.9	+1.7
Gross National Expenditure.....	+1.5	+1.8	+2.3

⁽¹⁾ Price indexes of these sectors are measured 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.

TABLE 22
COMPARATIVE PRICE CHANGES, 1961-1964
(Year-to-year percentage changes)

	Dec. 1962	Dec. 1963	Dec. 1964
	Dec. 1961	Dec. 1962	Dec. 1963
Consumer Price Index.....	+1.6	+1.7	+1.9
General Wholesale Price Index.....	+2.4	+1.3	+0.3
Non-ferrous metals products.....	+3.4	+2.9	+6.0
Total fully manufactured goods.....	+2.4	+1.6	-0.1
G.N.E. deflator ⁽¹⁾	+2.2	+1.7	+2.4
Import Price Index ⁽¹⁾	+2.7	+3.2	+0.1
Export Price Index ⁽¹⁾	+1.7	+1.9	+1.6

⁽¹⁾Fourth Quarter

The consumer price index average in 1964 rose by 1.8 per cent, about the same as the rise which occurred in 1963. Within the total index, the price index for services rose by 2.5 per cent, as the price of services continued its long-term upward trend. Other sub-aggregates rose less. These changes are set out in Table 23.

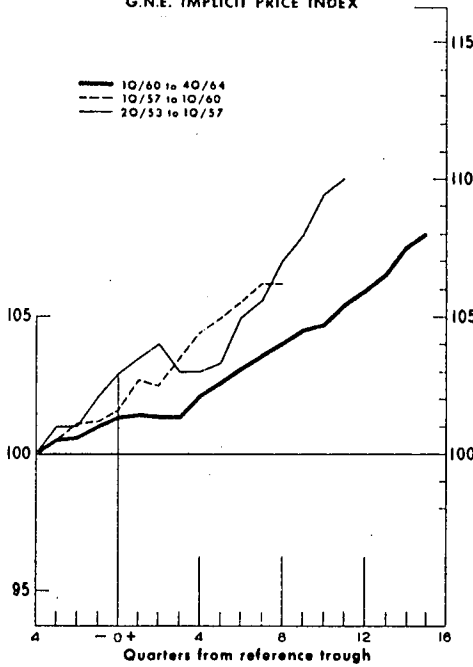
TABLE 23
PERCENTAGE CHANGES IN CONSUMER PRICE INDEXES
(Annual averages)

	1961	1962	1963	1964
	1960	1961	1962	1963
Total—All Items.....	+0.9	+1.2	+1.8	+1.8
Food.....	+1.5	+1.8	+3.2	+1.6
Housing.....	+0.4	+1.2	+1.0	+1.6
Clothing.....	+1.4	+0.9	+2.5	+2.5
Transportation.....	+0.2	-0.1	—	+1.1
Health and Personal Care.....	+0.5	+1.9	+2.6	+3.4
Recreation and Reading.....	+1.2	+0.8	+1.4	+1.7
Tobacco and Alcohol.....	+0.4	+1.3	+0.3	+1.8
Supplementary Classifications				
All Commodities.....	+0.5	+0.8	+1.7	+1.3
Durables.....	-1.8	-0.7	+0.2	-0.9
Non-Durables.....	+1.0	+1.2	+2.0	+1.7
Non-Durables excluding Food.....	+0.6	+0.7	+1.0	+1.7
Services.....	+1.3	+1.4	+1.4	+2.6
Services excluding Shelter.....	+1.9	+2.1	+2.0	+3.7

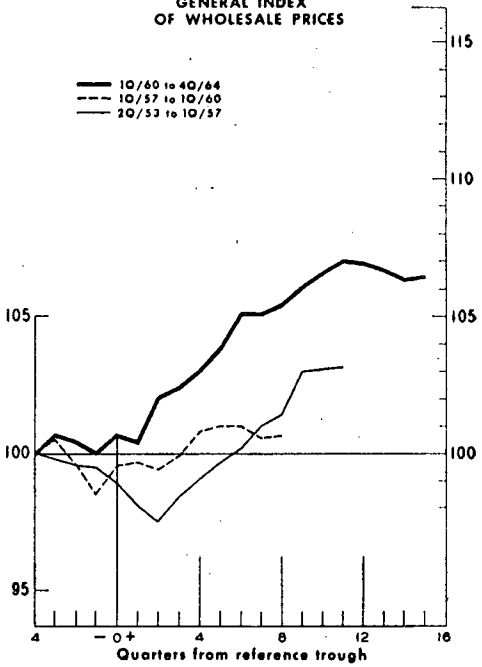
In the construction of both the consumer price index and the GNE implicit price deflator, some components are more directly affected by changes in wage levels than are others. For example, in both private and public construction, the lack of final price data makes it necessary to use wage and material costs as a proxy for some prices. Some overstatement of price increases can occur when wage-rates rise, insofar as concurrent productivity increases in the construction industry may not be fully allowed for. There are similar problems in constructing indexes in the case of services. In the government sector, whose output has no market price, the value of the product also can be estimated only by measuring the cost of producing the service. These costs consist largely of wage and salary payments, and it is not generally possible to make any allowance for productivity gains, or for improvements in the quality of the service produced. This is equally true in the case of some consumer services. For some services productivity in terms of volume of output per man-hour cannot readily be increased. Rising wage levels are thus reflected in increases in the price of services.

SELECTED PRICE INDEXES CYCLE-ON-CYCLE SERIES Previous Business Cycle Peak=100

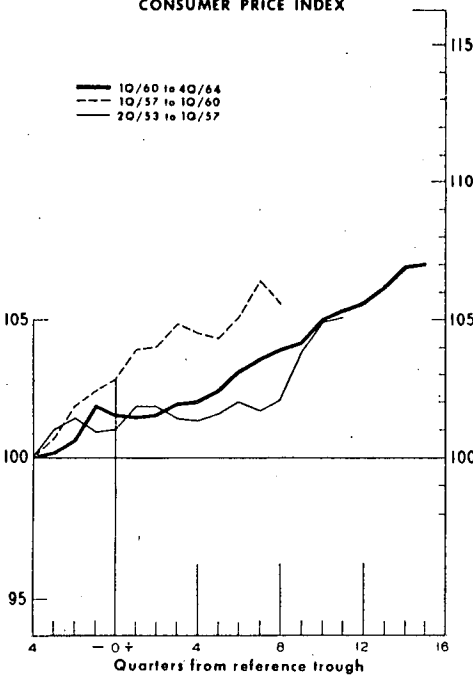
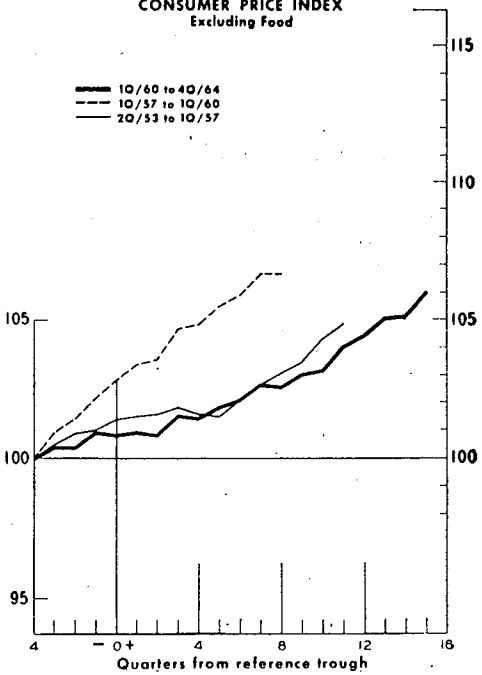
G.N.E. IMPLICIT PRICE INDEX



GENERAL INDEX OF WHOLESALE PRICES



CONSUMER PRICE INDEX

CONSUMER PRICE INDEX
Excluding Food

Developments in labour income, cost per unit of output and real output in manufacturing are depicted graphically in the chart on page 42. Real manufacturing output in 1964 rose by 8.6 per cent, and output per production worker man-hour by 2.8 per cent. Average hourly earnings in manufacturing were 3.1 per cent higher, and there was a fractional increase, of the order of 0.3 per cent, in wage costs per unit of output in 1964 over 1963. The wholesale price index of fully or chiefly-manufactured goods rose by 0.9 per cent. The rise in prices of consumer goods, which was somewhat higher than the rise at the wholesale level during the year, was also in part a reflection of rising costs in those service industries, such as wholesale and retail trade and business and commercial services, which are engaged in the task of distributing to the final purchaser the product of the factories. Some higher taxes, particularly on alcohol and gasoline, also affected consumer prices in 1964. Table 24 summarizes recent changes in some prices and costs, on a comparative basis.

TABLE 24
RECENT CHANGES IN COSTS AND PRICES
(Percentage changes)

	1963	1964
	1962	1963
Average Hourly Earnings in Manufacturing.....	+3.7	+3.1
Average Weekly Wages and Salaries Industrial Composite.....	+3.5	+3.7
General Wholesale Price Index.....	+1.9	+0.3
Consumer Price Index.....	+1.8	+1.8
Price of U.S. Dollar.....	+0.9	—
G.N.E. Implicit Price Index.....	+1.8	+2.3

—=no change

The general stability in unit wage-costs in manufacturing, supported by the lack of significant pressure in other price aggregates, has continued to be a source of strength in Canada's international competitive position. Table 25 shows the changes recorded in wages and prices in Canada and six major competitors in world markets, during the two years ending second quarter 1964. These changes continue a trend of similar annual magnitudes, in which over a period of three or more years, when the Canadian dollar moved to a lower level, only the U.S. has recorded greater stability than Canada. Rising prices and costs in other countries are improving the price and profit situation for Canadian producers competing both abroad and in domestic markets.

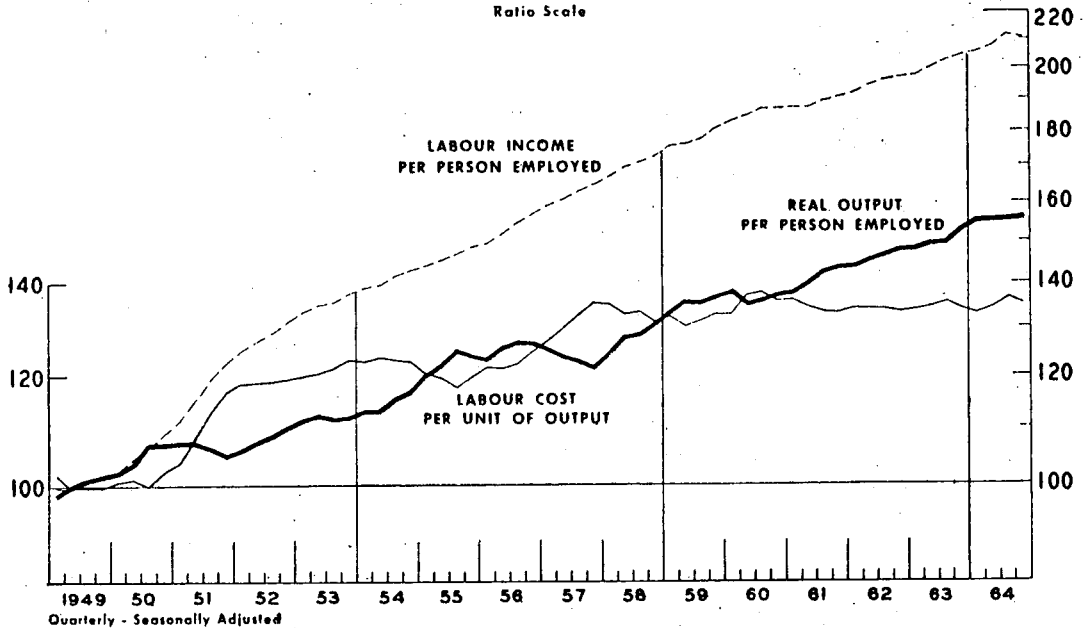
TABLE 25
CHANGES IN PRICES AND WAGES OVER THE TWO YEARS
ENDING 2ND QUARTER 1964 UNLESS SPECIFIED
(Percentage changes)

	Consumer Price Index	Wholesale Prices	Hourly Earnings in Mfg.
Canada.....	+3.7 ⁽¹⁾	+1.2 ⁽¹⁾	+7.2 ⁽¹⁾
U.S.....	+2.6	-0.1	+6.6 ⁽¹⁾
U.K.....	+4.4	+4.9	+8.6
Germany.....	+5.0	+2.0	+14.9
France.....	+8.3	+4.4	+16.7 ⁽¹⁾
Japan.....	+11.6	+1.8	+22.0
Italy.....	+13.5	+8.4	+33.1

⁽¹⁾Third quarter comparisons.

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

Index 1949=100
Ratio Scale



BALANCE OF INTERNATIONAL PAYMENTS

The deficit on Canada's external current account in 1964 of \$453 million compares with that of \$557 million incurred in 1963. The outturn for the year as a whole obscures some substantial changes in the size of the deficit during the course of the year, partly as a result of the timing of export deliveries of large orders of wheat, and partly as a result of some special factors affecting the timing of imports. The net effect of all this was a much lower deficit (on a seasonally adjusted basis) in the middle quarters of the year and higher deficits in the first and last quarters of 1964, as compared with the year as a whole.

It is particularly difficult to assess Canada's external position in 1964 simply in terms of the outturn on current account. The most obvious (but by no means the only) special factor operating in 1964 was the completion of the exceptional export of wheat and flour to the Soviet Union, begun in the previous year. Subtraction of the value of these shipments from Canadian exports would imply current account deficits of about \$750 million in both 1963 and 1964. Not only is this, in itself, some improvement on the deficit of \$874 million incurred in 1962; but even as between 1963 and 1964 it represents some relative reduction of the deficit when measured against rising national income, previous cyclical expansions, and a pattern of demand more heavily influenced by investment. Moreover, the contract with the Soviet Union was only one, though the largest, of a number of such contracts with the countries of Eastern Europe, and Communist China; and the earnings involved cannot simply be deducted from the export side of the balance sheet, since they will both have provided the means of payment, and generated demand, for additional imports. Therefore, when the balance of payments is referred to as "ex-wheat" or "ex-Russian wheat" in the following analysis, it must be remembered that this is simply a statement of actual levels of performance, and not of what would have happened in the absence of any special wheat sales.

There was a rise in the surplus on merchandise trade in 1964, which came about as exports increased by 16 per cent, while imports grew by 15 per cent. In all, this led to a surplus amounting to \$700 million, in contrast to a surplus of \$503 million in 1963. Non-wheat exports rose by 16 per cent, rising more or less steadily throughout the year, following a very sharp upsurge in the latter part of 1963 and the early months of 1964. Imports, by contrast, after rising sharply throughout 1963 and into the early part of 1964, declined about mid-year and did not show any pronounced trend thereafter. The levels of imports in the early part of the year were associated with heavy purchases of machinery. The fourth quarter level of imports was affected by automobile strikes in the United States which held down the import of automobiles and parts.

The major improvement on merchandise trade account in 1964 was partly offset by a widening of the deficit on non-merchandise account which amounted to \$93 million. Within the non-merchandise account, an improvement on freight and shipping transactions associated with movements on trade account was more than offset by other items. Travel expenditures swung by \$72 million from a small surplus in 1963 to a small deficit in 1964. It would appear that, in this sector, the impact of devaluation has probably worked itself out; the swing likely also reflects rising levels of personal income in Canada, reductions in air fares to Europe, and poor weather during the summer of 1964 in Canada. Net out-payments of interest and dividends rose for the fourth successive year. The deficit on miscellaneous current transactions (such as business services) increased slightly. As a result, the total non-merchandise deficit rose again to \$1,153 million in 1964, or to approximately the same level as in 1961, after being about \$100 million less in the intervening two years.

TABLE 26
INTERNATIONAL PAYMENTS: CURRENT ACCOUNT

	1959	1960	1961	1962	1963	1964
	(Millions of dollars)					
Current Receipts—						
Merchandise exports (adjusted).....	5,150	5,392	5,889	6,380	7,082	8,238
Gold available for export.....	148	162	162	155	154	144
Travel expenditures.....	391	420	482	562	609	661
Interest and dividends.....	182	173	209	202	223	287
Freight and shipping.....	420	442	486	509	560	642
Inheritances and immigrants' funds.....	109	102	103	124	149	166
Other current receipts.....	392	419	403	451	449	468
Total Current Receipts.....	6,792	7,110	7,734	8,383	9,226	10,606
Current Payments—						
Merchandise imports (adjusted).....	5,572	5,540	5,716	6,203	6,579	7,538
Travel expenditures.....	598	627	642	605	589	713
Interest and dividends.....	671	653	770	794	869	960
Freight and shipping.....	525	533	568	595	641	703
Inheritances and emigrants' funds.....	165	181	174	175	182	191
Official contributions.....	72	61	56	36	61	68
Other current payments.....	693	758	790	849	862	886
Total Current Payments.....	8,296	8,353	8,716	9,257	9,783	11,059
Balance on Merchandise Trade.....	-422	-148	+173	+177	+503	+700
Balance on other Transactions.....	-1,082	-1,095	-1,155	-1,051	-1,060	-1,153
Current Account Balance.....	-1,504	-1,243	-982	-874	-557	-453

On the capital side, the inflow of long-term capital which had been substantially reduced in the latter part of 1963, rose markedly in the course of 1964. Following an outflow of \$37 million in the first quarter, there were inflows of \$116 million, \$171 million and \$477 million in the second, third and fourth quarters of 1964. Largely accounting for this increase were substantial receipts from the delivery of new issues of Canadian securities. Some of these issues resulted from deliveries contracted for earlier, and from the "backlog" which arose in the course of the year, pending the enactment of the Interest Equalization Tax in the United States, and the accompanying "Canadian exemption" for new issues.

Movements of short-term capital during 1964 were important. In the first and second quarters there were inflows of \$338 million and \$108 million respectively, which were reversed by outflows of \$230 million and \$127 million in the third and fourth quarters. In the first quarter the net balance on long-term and short-term capital was not large enough to offset the deficit on current account and consequently, Canada's official holdings of gold and foreign exchange decreased by \$127 million. In the second, third and fourth quarters, official reserves increased by \$62 million, \$97 million and \$54 million. Canada's net position in the International Monetary Fund, that is the net resources provided by Canada to the IMF, increased by \$277 million over the year. Of this amount \$213 million represented the liquidation of an obligation to repay. The remaining \$64 million represented Canada's creditor position in the IMF and under the General Arrangements to Borrow, which arose from drawings of Canadian currency by other members.

TABLE 27
SUMMARY OF BALANCE OF PAYMENTS
(not seasonally adjusted)

	1963				1964			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
Merchandise Trade Balance.....	+ 74	+ 74	+151	+204	+ 33	+149	+356	+162
Deficit on Non-Merchandise Transactions..	-322	-278	-135	-325	-376	-305	-141	-331
Current Account Balance.....	-248	-204	+ 16	-121	-343	-156	+215	-169
Capital Movements (+ = inflow) (- = outflow)								
Long-Term Forms.....	+375	+209	+ 33	- 4	- 37	+116	+171	+477
Short-Term Forms.....	- 61	+106	-108	+153	+338	+108	-230	-127
Sub-total.....	+ 66	+111	- 59	+ 28	- 42	+ 68	+156	+181
Change in official holdings of gold and foreign exchange expressed in Canadian dollars (+ = increase) (- = decrease)	+ 66	+111	-145	+ 28	-127	+ 62	+ 97	+ 54
Net International Monetary Fund position..	+ 86	...	+ 85	+ 6	+ 59	+127
	+ 66	+111	- 59	+ 28	- 42	+ 68	+156	+181

A more detailed exposition of these developments follows.

CURRENT ACCOUNT

With some renewed growth in the size of the non-merchandise deficit, the overall improvement on current account in 1964 was wholly due to the increased surplus on merchandise trade.

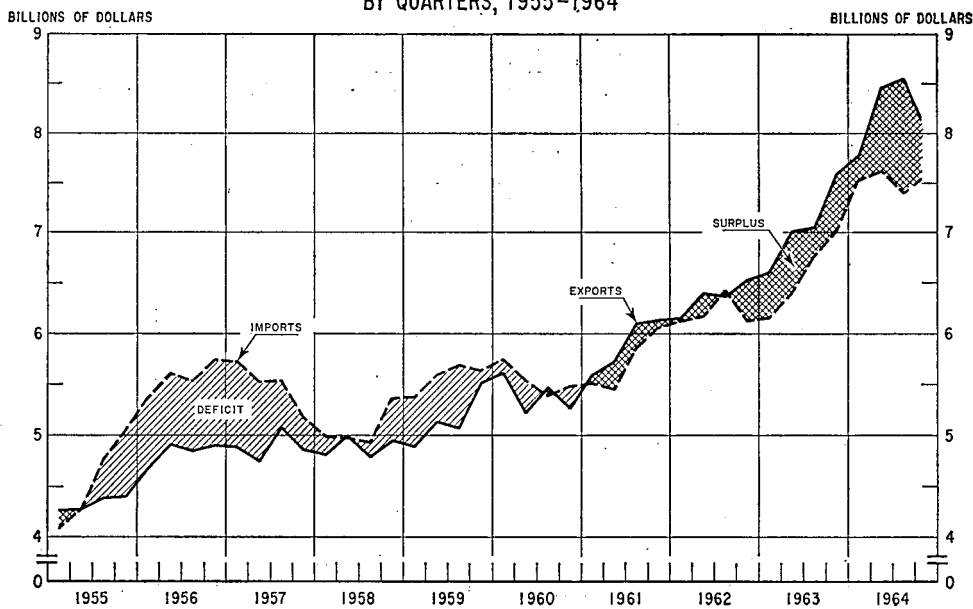
TABLE 28

**BALANCE OF PAYMENTS ON CURRENT ACCOUNT: MERCHANDISE
AND NON-MERCHANDISE BALANCE 1946-1964**

	Merchandise Trade	Non- Merchandise Trade	Current Account Balance
	(Millions of dollars)		
1946.....	+571	-208	+363
1947.....	+188	-139	+ 49
1948.....	+432	+ 19	+451
1949.....	+293	-116	+177
1950.....	+ 10	-344	-334
1951.....	-147	-370	-517
1952.....	+489	-325	+164
1953.....	- 58	-385	-443
1954.....	+ 13	-445	-432
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.....	+177	-1,051	-874
1963.....	+503	-1,060	-557
1964.....	+700	-1,153	-453

From a peak deficit of \$728 million on merchandise trade in the strong investment year of 1956, there has now been a swing of about \$1.4 billion to a surplus of \$700 million in 1964, although the latter year is affected by the special shipments of wheat under the Russian contract. Simple deduction from exports of the wheat sales under the Russian contract would still leave merchandise surpluses of approximately \$300 million in 1963 and \$400 million in 1964. The deficit on non-merchandise transactions rose in 1964, although it has not varied

**IMPORTS AND EXPORTS OF MERCHANDISE⁽¹⁾
BY QUARTERS, 1955-1964**



by much more than \$50 million around an average of \$1,100 million for the past six years. A substantial part of the increase was accounted for by a reversal of an earlier improvement on travel account, and most of the remainder by increased net payments of interest and dividends to non-residents. A modest improvement on freight and shipping and inheritances and migrants' funds was largely offset by lower production of gold for export and by higher official contributions. There was a slightly higher deficit on other non-merchandise transactions.

In 1964, total merchandise exports including re-exports were 16.3 per cent higher than in 1963. For all goods other than wheat, the increase in 1964 was 16 per cent; excluding the special shipments of wheat and flour to the Soviet Union, but including all other wheat, exports of which increased moderately, the rise was 15 per cent. By any of these standards, the improvement in exports outweighed the 14.6 per cent rise in imports in 1964.

On a quarterly basis, and allowing for seasonal factors, the improvement in the merchandise surplus gathered momentum very strongly during the first three quarters of the year, in contrast to the relatively level pattern shown in 1963. In the first quarter of 1964, imports of goods were already more than 14 per cent up on the average for 1963, in response to the heavy investment expenditures undertaken in that quarter. They then rose only slightly from the first to the second quarter, and fell back again in the third. There was some increase in the fourth quarter, although the automobile strikes in the United States held down the level of imports of automobiles and parts. Since wheat sales in particular raised exports substantially in both the second and third quarters, the trade surplus was running at an annual rate of well over a billion dollars by the third quarter, more than four times the level in the first. The completion of the special wheat sales to Russia in the third quarter and the increase in imports in the fourth led to a reduction in the merchandise surplus in the final quarter of the year from the exceptionally high level reached in the third quarter.

Apart from the special wheat sales, the pattern of export performance in 1964 was chiefly influenced by steady growth in most of the major traditional exports, and quite striking advances in some of the newer export sectors, especially manufactured goods. Between 1963 and 1964, exports of newsprint, lumber and woodpulp together rose by just over 10 per cent, those of nickel in ores, concentrates and scrap by 11 per cent, and those of aluminum, nickel and copper as metals, with their alloys, by rather more than 9 per cent. The value of crude petroleum shipments rose by nearly 12 per cent. These exports continued to account for well over 40 per cent of non-wheat domestic exports in 1964; but none showed as dramatic an increase as iron ores and concentrates, which rose by more than 32 per cent, or manufactured goods, which increased by more than 41 per cent.

A part of the growth in exports of manufactured goods was accounted for by aircraft and parts, exports of which were 130 per cent higher in 1964 than in 1963. Since payment for such items as aircraft and ships tends to be spread out over the duration of the construction contracts, the effects of changes in such exports on Canada's balance of payments in any one year are normally much less than the crude trade figures suggest. In 1964 there were also further substantial increases in exports of agricultural machinery, locomotives, automobiles, engines and parts, and measuring, testing and data processing equipment; and these far outweighed a slight decline in exports of radio, television and radar equipment. Some of these exports of highly processed manufactured goods were financed by export credits, which have increased in importance in recent years.

TABLE 29
MERCHANDISE EXPORTS BY COMMODITY GROUPS 1961 AND 1964*

	Farm and Fish Products	Forest Products	Metals and Minerals	Chem- icals and Ferti- lizers	Other Manu- factured and Miscel- laneous	Re- Exports	Total
1961 million dollars.....	1,301	1,623	1,861	251	719	140	5,896
% of total.....	22.1	27.5	31.6	4.3	12.2	2.4	100.0
1964 million dollars.....	1,937	1,970	2,389	302	1,341	201	8,140
% of total..... (year ending Sept. 30)	23.8	24.2	29.3	3.7	16.5	2.5	100.0
% Increase 1964 over 1961....	48.9	21.4	28.4	20.3	86.5	43.6	38.1

*Trade of Canada basis, excluding "Special Transactions—Non-Trade".

As in 1963, imports of automobile parts continued to rise strongly over the year as a whole in 1964, and there was also renewed growth in imports of complete automobiles. Farm equipment, tractors, non-farm machinery in general, and steel plate, sheet and strip were all imported in substantially higher volume than in the previous year; but there was a 3 per cent fall in the value of imports of crude petroleum in the first nine months of the year.

In terms of geographical areas, well over half the improvement in the favourable balance on merchandise trade with overseas countries was offset by an increase in the deficit with the United States: In 1964, the surplus with the United Kingdom increased by \$138 million, or 28 per cent, and that with other overseas countries expanded 76 per cent, rising to \$871 million partly, but not entirely, as a result of special sales of wheat; the surplus with these other overseas countries on items other than the wheat shipped to the Soviet Union rose from over \$300 million in 1963 to roughly \$565 million in 1964. The deficit with the United States, on the other hand, increased by 65 per cent, rising by \$317 million to \$805 million.

TABLE 30
GEOGRAPHICAL DISTRIBUTION OF MERCHANDISE AND NON-MERCHANDISE
BALANCES

	United States		United Kingdom		Other Countries		All Countries	
	1963	1964	1963	1964	1963	1964	1963	1964
	(Millions of dollars)							
Merch. Exports (adjusted).....	3,970	4,397	1,017	1,218	2,095	2,623	7,082	8,238
Merch. Imports (adjusted).....	4,458	5,202	521	584	1,600	1,752	6,579	7,538
Trade Balance.....	-488	-805	+496	+634	+495	+871	+503	+700
Non-merch. receipts.....	1,507	1,589	279	355	358	424	2,144	2,368
Non-merch. payments.....	2,202	2,443	375	417	627	661	3,204	3,521
Non-merch. balance.....	-695	-854	-96	-62	-269	-237	-1,060	-1,153
Total current receipts.....	5,477	5,986	1,296	1,573	2,453	3,047	9,226	10,606
Total current payments.....	6,660	7,645	896	1,001	2,227	2,413	9,783	11,059
Current account balance.....	-1,183	-1,659	+400	+572	+226	+634	-557	-453

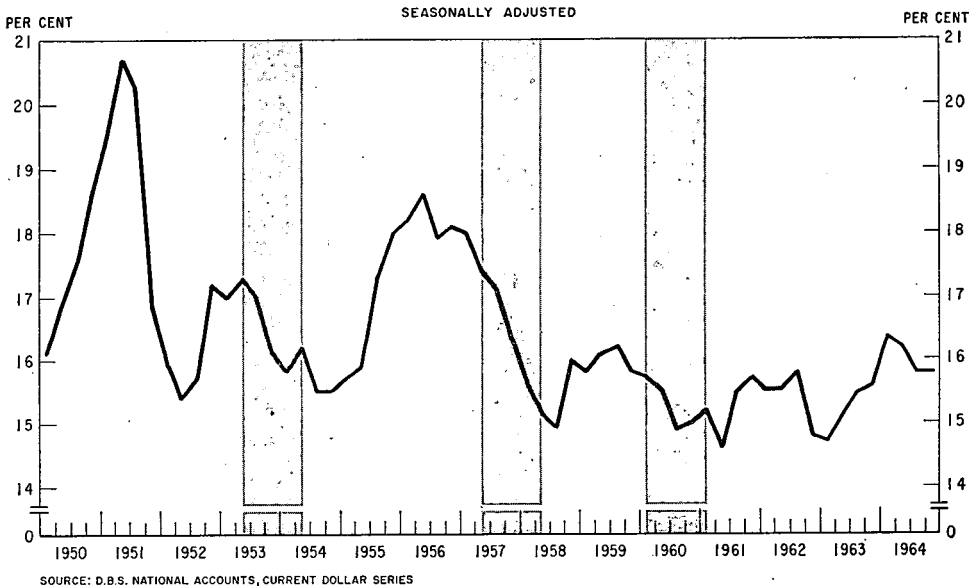
On non-merchandise account, the increase of \$93 million in the overall deficit in 1964 was more than accounted for by transactions with the United States, on which the deficit increased from \$695 to \$854 million, while there was a smaller deficit with the United Kingdom and a fall of \$32 million in that with all other countries.

There appears to have been a deterioration in Canada's terms of trade in merchandise, as the export price index rose by 1.7 per cent in 1964, as against a rise of 2.7 per cent in the first nine months in the import price index. The strengthening of export prices derived in part from strong rises in world prices for non-ferrous metals during 1964; although these have since fallen back in most cases, and much of Canadian export trade in this sector is based on longer term negotiated contracts rather than on world market prices, the general level of metal prices is now significantly higher than during the late fifties and early sixties.

Nevertheless, by far the greatest part of the rise in Canadian export earnings in 1964 was due to the higher physical volume of merchandise shipped.

In contrast to the experience of previous postwar business expansions, the merchandise account has not deteriorated; indeed there has been a fairly steady improvement in the merchandise balance. Although the share of merchandise imports in Gross National Expenditure rose in 1964 to around the level reached at the peak of the previous expansion, in 1959, it was well below the earlier peak ratios of 1951 and 1956.

IMPORTS OF GOODS AS A PERCENTAGE OF GROSS NATIONAL PRODUCT



While it is not possible to quantify the effect of the 1962 devaluation and subsequent relative stability in costs and prices upon Canada's current external transactions, it seems clear that their impact upon the merchandise account has been substantial and significant.

Canada's commercial and industrial policies, as well, have combined to improve her competitive position. This has brought about not only continued expansion of total exports (to which the level of economic activity in Canada's foreign markets also made a major contribution) but also their diversification, and especially a further marked rise in exports of manufactures.

TABLE 31
BALANCE ON TRAVEL ACCOUNT
All Countries

	Receipts	Payments	Balance
	(Millions of dollars)		
1953.....	302	365	-63
1954.....	305	389	-84
1955.....	328	449	-121
1956.....	337	498	-161
1957.....	363	525	-162
1958.....	349	542	-193
1959.....	391	598	-207
1960.....	420	627	-207
1961.....	482	642	-160
1962.....	562	605	-43
1963.....	609	589	+20
1964.....	661	713	-52

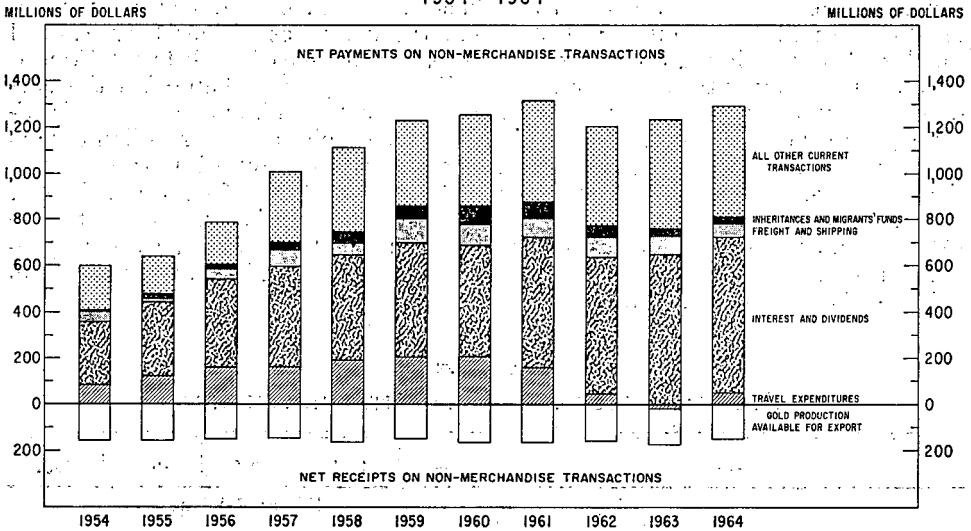
Apart from travel expenditures, which have already been described, the deterioration on non-merchandise account as a whole in 1964 was due to increased net payments of interest and dividends to non-residents. The gross outflow on this account rose from \$869 million in 1963 to \$960 million in 1964, or by 10 per cent; income on Canadian investments abroad rose from \$223 million to \$287 million at the same time, or by 29 per cent, but as a result of the preponderance of outpayments in this account the deficit widened by \$27 million, or over 4 per cent. Official contributions rose from \$61 million in 1963 to \$68 million in 1964.

TABLE 32
NON-MERCHANDISE ACCOUNT
(Seasonally adjusted at annual rates)
(National Accounts Basis)

	Receipts	Payments	Balance
	(Millions of dollars)		
1Q 1963.....	1,948	2,920	-972
2Q 1963.....	1,968	2,932	-964
3Q 1963.....	1,992	3,076	-1,084
4Q 1963.....	2,072	3,160	-1,088
1Q 1964.....	2,192	3,312	-1,120
2Q 1964.....	2,124	3,200	-1,076
3Q 1964.....	2,184	3,308	-1,124
4Q 1964.....	2,308	3,500	-1,192

BALANCE ON NON-MERCHANDISE TRANSACTIONS

1954-1964



CAPITAL ACCOUNT

For the year 1964 as a whole there was a net capital inflow of about \$800 million. The bulk of this net inflow was in the form of long-term capital, largely arising from sales of Canadian bonds. The amount of direct investment inflow remained at the relatively low level it had reached in 1963. Short-term capital inflows amounted to slightly less than \$90 million for the year as a whole.

In the course of the year the movements of capital in long and short-term forms displayed sharp fluctuations. The announcement of the proposed Interest Equalization Tax in the United States in July 1963 had put a considerable strain on Canadian financial markets. Even with the exemption from the tax proposed for new issues of Canadian securities, the uncertainties pending the disposition of the legislation and their effect on financial markets had virtually caused the closing of the market for new issues in the United States for Canadian borrowers. By the fourth quarter of 1963, inflows of long-term capital in the form of direct investment and transactions in Canadian securities had also virtually disappeared. This trend continued through the first quarter of 1964. Subsequent to this, the net inflow of long-term capital increased substantially as deliveries on previously arranged new issues were received in larger amounts in the second quarter and some new issues began to be placed. In the last half of the year, the inflow of long-term capital was considerably above that of the first half. In particular the passage of the Interest Equalization Tax and the granting of the Canadian exemption were associated with a substantial increase in inflow from new issues which had been building up in anticipation of the passage of the Bill.

Movements of short-term capital in 1964 exhibited a different pattern with substantial inflows in the first half of the year being followed by outflows in the second half.

On balance, the total capital inflow in the first quarter of 1964 was not sufficient to cover the deficit on current account, and there was a decline in foreign exchange holdings. In the second quarter, the inflow of capital covered a smaller current account deficit and there was some increase in exchange holdings. In the third quarter, although the net movement of long and short-term

capital was outward, the seasonally high current account position (which was in surplus) more than offset the capital outflow. In that quarter there was an increase in exchange holdings and a reduction in Canadian dollar holdings of the IMF. In the final quarter of the year, the deliveries of long-term capital which had been building up in anticipation of the passage of the Interest Equalization Tax, along with other forms of capital inflow, more than offset the current account deficit and there was an increase of \$54 million in Canada's official holdings of gold and foreign exchange. IMF holdings of Canadian dollars were also reduced further. For the year as a whole, the capital inflow was sufficient to cover the current account deficit. Official holdings of gold and foreign exchange reserves increased by \$86 million and Canadian liabilities to the IMF amounting to \$213 million were eliminated. In addition, Canada provided resources amounting to \$64 million through the IMF to countries in balance of payments difficulties.

TABLE 33
INTERNATIONAL PAYMENTS: CAPITAL MOVEMENTS

	1960	1961	1962	1963	1964
	(Millions of dollars)				
Direct investment in Canada.....	+650	+520	+495	+240	+165
Direct investment abroad.....	- 50	- 75	-109	-110	- 90
Canadian securities—					
Trade in outstanding bonds and debentures.....	+ 3	+ 61	+ 64	+ 39	+ 77
Trade in outstanding common and preference stocks.....	+ 51	+ 39	-116	-169	- 97
New issues.....	+447	+538	+728	+968	+1,053
Retirements.....	-265	-300	-320	-335	-357
Foreign securities (total).....	- 19	- 34	- 65	+ 23	- 57
Loans and capital subscriptions by Gov't of Canada—					
Advances, etc.....	- 11	- 8	- 22	- 18	- 10
Repayments to Canada.....	+ 32	+ 37	+129	+ 25	+ 9
Columbia River Treaty, net ⁽¹⁾	-	-	-	-	+ 54
Long-term capital transactions not included elsewhere.....	+ 62	+132	-116	- 50	- 20
Change in Canadian dollar assets of foreigners—					
Deposits.....	+ 79	+ 34	- 13	+ 40	+ 25
Government of Canada demand liabilities ⁽²⁾	- 12	- 2	- 4	+ 1	-
Canadian treasury bills.....	+ 56	- 58	+ 4	- 27	- 16
Canadian commercial paper.....				- 23	- 12
Canadian finance paper.....	+ 70	+100	+133	+ 52	+169
Canadian finance company obligations not included elsewhere.....				+ 69	+ 68
Bank balances and other short-term funds abroad.....	- 60	+140	+ 93	-255	-499
All other transactions.....	+171	+148	+148	+233	+354
Net Capital Movements excluding monetary items shown below.....	+1,204	+1,272	+1,029	+703	+816
Official monetary movements in the form of:					
Change in official holdings of gold and foreign exchange.....	- 39	+229	+537	+ 60	+ 86
Change in net International Monetary Fund position.....	-	+ 61	-378	+ 86	+277
Other special international financial assistance..	-	-	- 4	-	-

⁽¹⁾See reference to Columbia River Treaty on page 55.

⁽²⁾Demand notes of international investment agencies other than the International Monetary Fund, Trust and Deposit Account of U.S. Government with Government of Canada.

TABLE 34
INTERNATIONAL PAYMENTS: QUARTERLY CAPITAL MOVEMENTS

	1963				1964			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	(Millions of dollars)							
Direct investment in Canada.....	+67	+50	+60	+63	+50	+10	+30	+75
Direct investment abroad.....	-22	-37	-21	-30	-40	-45	-	-5
Canadian securities—								
Trade in outstanding bonds and debentures.....	+23	+27	-7	-4	+4	+14	+37	+22
Trade in outstanding common and preference stocks.....	-56	-44	-27	-42	-44	-8	-5	-40
New issues.....	+408	+394	+100	+66	+142	+313	+100	+498
Retirements.....	-52	-173	-40	-70	-109	-96	-58	-94
Foreign securities (total).....	+4	+24	-3	-2	-6	-36	-5	-10
Loans and capital subscriptions by Government of Canada:								
Advances, etc.....	-	-	-8	-10	-2	-	-	-8
Repayments to Canada.....	-	+6	-	+19	+4	+2	+1	+2
Columbia River Treaty, net ⁽¹⁾	-	-	-	-	-	-	+54	-
Long-term capital transactions not included elsewhere.....	+3	-38	-21	+6	-36	-38	+17	+37
Change in Canadian dollar assets of foreigners:								
Deposits.....	-29	+38	-12	+43	+19	-9	-37	+52
Government of Canada demand liabilities ⁽²⁾	-	-3	-	+4	-	-3	-	+3
Canadian treasury bills.....	+9	-17	+18	-37	+4	+14	-16	-18
Canadian commercial paper.....	-39	+15	-11	+12	+27	-20	-19	-
Canadian finance paper.....	+9	-1	+12	+32	+67	+84	+7	+11
Canadian finance company obligations not included elsewhere.....	-4	+26	+14	+33	+32	+35	-2	+3
Bank balances and other short-term funds abroad.....	-62	-81	-137	+25	+154	-125	-160	-368
All other transactions.....	+55	+129	+8	+41	+35	+132	-3	+190
Net Capital Movement excluding monetary items shown below.....	+314	+315	-75	+149	+301	+224	-59	+350
Official monetary movements in the form of:								
Change in official holdings of gold and foreign exchange.....	+66	+111	-145	+28	-127	+62	+97	+54
Change in net International Monetary Fund position.....	-	-	+86	-	+85	+5	+59	+127

⁽¹⁾ See reference to Columbia River Treaty on page 55.

⁽²⁾ Demand notes of international investment agencies other than the International Monetary Fund, Trust and Deposit Account of U.S. Government with Government of Canada.

Direct investment in Canada during 1964 amounted to \$165 million or \$75 million less than in 1963. The levels of capital inflow for direct investment in Canada in these two years were substantially below the levels reached during the decade 1953 to 1962. Over that ten year period, new direct investments in Canada, and the acquisition of existing businesses and refinancing, had aggregated close to \$5.0 billion with more than half of these investments going into the petroleum, natural gas and mining industries.

Industrially, the largest part of the inflow for direct investment in 1964 was attracted by manufacturing enterprises, petroleum and natural gas industries. The outflow of capital for direct investment abroad amounted to \$90 million in 1964, compared with an outflow of \$110 million during 1963.

The volume of new issues of Canadian securities had been substantially reduced in the second half of 1963 and the first quarter of 1964. Proceeds of new issues, including deliveries of issues placed earlier, increased during the second quarter to \$313 million. Following the enactment of the Interest Equalization Tax in early September and the granting of the Canadian exemption, there was a substantial increase in new issues abroad in the second half of 1964. As indicated in Table 35, new issues of Canadian bonds offered in the United States rose in the third quarter, and preceded a very large inflow in the fourth quarter. Towards the middle of the fourth quarter, long-term interest rates in Canada declined and the Canadian-U.S. interest rate differentials narrowed. A substantial reduction in the volume of new contracts arranged occurred late in the quarter.

TABLE 35
NEW ISSUES OF CANADIAN BONDS SOLD TO UNITED STATES RESIDENTS

Period	Offerings	Deliveries	Un-delivered ⁽¹⁾
(Millions of dollars)			
1963—			
1Q.....	512	394	451
2Q.....	126	368	209
3Q.....	30	92	147
4Q.....	30	50	127
1964—			
1Q.....	96	130	93
2Q.....	236	289	40
3Q.....	293	87	246
4Q.....	305	484	67

⁽¹⁾At end of period.

Retirements of Canadian securities in 1964 amounted to \$357 million. Since 1961, international transactions have involved substantial capital outflows for the retirements of Canadian securities held abroad. In that four year period, retirements of Canadian securities have amounted annually to approximately \$330 million or some \$100 million more each year than during the period 1958 to 1960.

During the decade 1952 to 1961, trade in outstanding Canadian stocks had resulted in average net sales by Canadians of approximately \$100 million annually. Since the first quarter of 1962 trade in outstanding Canadian stocks has resulted in net repurchases by Canadians of \$382 million. In the course of 1964, net repurchases of Canadian outstanding common and preference stocks declined from previous years' levels. However, the gross volume of trade in Canadian stocks, which had declined markedly in the second half of 1963, increased in 1964.

The net inflow of capital, resulting from trade in outstanding Canadian bonds and debentures, totalled \$77 million in 1964 compared with \$39 million in 1963. Gross trade in outstanding bonds and debentures, which had been substantially reduced in 1963, remained at low levels in the course of 1964.

TABLE 36

TRADE IN OUTSTANDING CANADIAN SECURITIES BETWEEN CANADA
AND ALL COUNTRIES

Period	Canadian Bonds and Debentures			Canadian Common and Preference Stocks			Total		
	Sales To	Purchases From	Net	Sales To	Purchases From	Net	Sales To	Purchases From	Net
(Millions of dollars)									
1962—									
1Q.....	225	228	- 3	250	263	- 13	475	491	- 16
2Q.....	192	188	+ 4	191	236	- 45	383	424	- 41
3Q.....	121	82	+ 39	114	140	- 26	235	222	+ 13
4Q.....	162	138	+ 24	138	170	- 32	300	308	- 8
1963—									
1Q.....	67	44	+ 23	124	180	- 56	191	224	- 33
2Q.....	85	58	+ 27	131	175	- 44	216	233	- 17
3Q.....	39	46	- 7	75	102	- 27	114	148	- 34
4Q.....	48	52	- 4	85	127	- 42	133	179	- 46
1964—									
1Q.....	38	34	+ 4	107	151	- 44	145	185	- 40
2Q.....	62	48	+ 14	164	172	- 8	226	220	+ 6
3Q.....	58	21	+ 37	137	142	- 5	195	163	+ 32
4Q.....	69	47	+ 22	127	167	- 40	196	214	- 18

+ = capital inflow
- = capital outflow

There were also some marked changes between 1963 and 1964 in transactions in foreign securities. Following a net inflow of \$23 million in these transactions, in the course of 1963, there was a net outflow of \$57 million in 1964. A swing of \$82 million in net trade in outstanding foreign securities (from an inflow of \$42 million to an outflow of \$40 million) largely accounted for this development. Sales of outstanding foreign securities in 1964 amounted to \$515 million, an increase of \$85 million from 1963. Purchases from foreigners rose to \$555 million from \$388 million in 1963.

TABLE 37

TRADE IN OUTSTANDING FOREIGN SECURITIES BETWEEN CANADA
AND ALL COUNTRIES

	Sales To	Purchases From	Net
	(Millions of dollars)		
1962—			
1Q.....	92	120	- 28
2Q.....	97	130	- 33
3Q.....	86	91	- 5
4Q.....	81	83	- 2
1963—			
1Q.....	80	75	+ 5
2Q.....	133	111	+ 22
3Q.....	88	92	- 4
4Q.....	129	110	+ 19
1964—			
1Q.....	122	126	- 4
2Q.....	149	178	- 29
3Q.....	119	121	- 2
4Q.....	125	130	- 5

+ = capital inflow
- = capital outflow

As a special financial arrangement between Canada and the United States in accordance with the Columbia River Treaty, Canada received an amount equivalent to Canadian \$273.9 million as payment for its share of the first thirty years' production of downstream benefits. All but Canadian \$53.9 million of this amount was invested by the Minister of Finance in medium-term non-marketable United States securities, amounting to US \$203.9 million and maturing as follows:

COLUMBIA RIVER TREATY
OFFICIAL HOLDINGS OF MEDIUM-TERM NON-MARKETABLE
UNITED STATES GOVERNMENT SECURITIES

U.S. \$ million

4% maturing	November 1, 1965.....	\$30.0 million
4½% "	November 1, 1966.....	30.0
4½% "	November 1, 1967.....	30.0
4½% "	November 1, 1968.....	30.0
4½% "	November 1, 1969.....	30.0
4½% "	November 1, 1970.....	30.0
4½% "	November 1, 1971.....	23.9

Upon their maturity, the proceeds of these funds are expected to be taken into the Exchange Fund Account. The equivalent of \$53.9 million, corresponding to the difference between the receipts of \$273.9 million and the holdings of \$220 million in medium-term non-marketable United States securities in the hands of the Minister of Finance, was made available directly to the province of British Columbia for the purpose of retirement of foreign-held debt and represented an inflow of capital in the course of the third quarter.

Other long-term capital movements produced a net outflow of \$20 million in 1964. These were more than accounted for by loans and advances under Government programmes related to the financing of Canadian exports.

Sharp fluctuations took place during the course of 1964 in the movements of short-term capital. In the January-June period there was a net inflow of \$446 million which was substantially offset by outflows of \$230 million in the third quarter and \$127 million in the fourth quarter. Bank balances and other short-term funds held abroad were substantially reduced in the first quarter from the record total of some \$2 billion at the end of 1963. In the subsequent quarters these balances, including foreign currency deposits in the form of swap deposits by holders of Canadian dollars, increased substantially. The net outflow for the year as a whole was \$499 million.

Net sales of Canadian finance company paper and other Canadian finance company obligations⁽¹⁾ in the first half of the year amounted to \$218 million. In the third quarter these inflows declined markedly and in the last half there was a net inflow of \$19 million. Other short-term capital movements in 1964 represented a net inflow of \$351 million.

Reference has been made earlier in this section to the geographical composition of Canada's current account balance. These data showed that Canada's deficit on current account with the world as a whole was more than accounted for by transactions with the United States, where there were deficits on both merchandise and non-merchandise account. To some extent, these deficits with the United States were offset by current transactions with the rest of the world, in which a net surplus was earned by virtue of a favourable balance on merchandise trade which exceeded a deficit on non-merchandise trade.

It is of considerable interest to examine the pattern of capital movements discussed above, in the context of financing the current account deficits incurred on a geographic basis.

⁽¹⁾ Bank loans, intercompany accounts, notes, etc.

Although there are fluctuations from year to year in the size of the different components of current and capital account transactions with Canada's major trading partners, the general pattern has been unchanged over the past decade and more. Briefly, the inflow of capital from the United States to Canada has fallen short of the sum needed to finance the current account deficit incurred in transactions with the United States, and usually by a wide margin. The difference has been made up by the transfer to the United States of receipts of foreign exchange arising from current and capital transactions with the rest of the world and from gold newly produced in Canada. Any residual difference between current and capital transactions has, of course, been reflected in changes in Canada's official exchange reserves.

The following table demonstrates this broad pattern in terms of total flows from 1953 to 1962, and for the particular years 1962 and 1963. Complete data for 1964 are not yet available. Data relating to the current account only are presented in Table 30.

TABLE 38
FINANCING OF CANADA'S BILATERAL ACCOUNT WITH THE UNITED STATES
(Millions of dollars)

	1953-1962 Total	1962	1963
Transactions with U.S. (excluding international financial agencies)			
Current account deficit (exc. gold).....	-13,777	-1,277	-1,337
Capital inflow from U.S.....	+8,679	+1,093*	+895
Net amount to be financed by other transactions...	-5,098	-184	-442
Other transactions—			
Current account surplus with rest of world.....	+2,111	+248	+626
Net capital movement from (+) or to (-) rest of world**	+2,185	+318	-278
New gold production available for export.....	+1,538	+155	+154
Increase (-) in Canadian holdings of gold and foreign exchange.....	-736	-537	-60
Total financing.....	+5,098	+184	+442

* Including \$3 million accounted for by exchange transactions in connection with special bilateral assistance.

** Includes changes in Canada's International Monetary Fund position.

The large volume of both current and capital transactions between Canada and the United States reflects their geographic proximity, the similarity of their institutions, the close network of commercial and financial inter-relationships between them, and the absence of restriction on bilateral flows of capital between their major financial markets.

This payments relationship between Canada and the United States is particularly significant in relation to the current discussion of the U.S. balance of payments situation. Over the past years (as indeed over virtually the whole post-war period) Canada has been a net provider of dollars to the United States economy.

From the end of December 1963 to the end of April 1964, official holdings of gold and foreign exchange declined by US\$114 million. Between May and the end of the year, official reserves rose by US\$193 million to US\$2,674.3 million at year end, so that for the year as a whole, official reserves were higher by some US\$79 million. Monthly totals of reserves are shown in Table 39.

TABLE 39
OFFICIAL HOLDINGS OF GOLD AND FOREIGN EXCHANGE

End of Period	Gold	U.S. Dollars	Total
	(Millions of U.S. dollars)		
1963—June.....	754.6	1,937.0	2,691.6
July.....	762.0	1,739.0	2,501.0
August.....	767.8	1,702.7	2,470.5
September.....	774.7	1,793.6	2,568.3
October.....	784.4	1,797.0	2,581.4
November.....	799.5	1,831.5	2,631.0
December.....	817.2	1,777.8	2,595.0
1964—January.....	836.7	1,745.7	2,582.4
February.....	849.7	1,692.6	2,542.3
March.....	871.0	1,594.5	2,465.5
April.....	892.2	1,588.9	2,481.1
May.....	910.1	1,599.3	2,509.4
June.....	931.3	1,602.6	2,533.9
July.....	948.8	1,585.1	2,533.9
August.....	969.0	1,606.9	2,575.9
September.....	989.6	1,634.9	2,624.5
October.....	1,001.1	1,685.5	2,686.6
November.....	1,007.4	1,736.0	2,743.4
December.....	1,025.7	1,648.6	2,674.3
1965—January.....	1,036.0	1,632.2	2,668.2
February.....	1,040.6	1,608.1	2,648.7

During 1964, the holdings of Canadian dollars by the International Monetary Fund declined by US\$241 million to US\$367.5 million. Canada's transactions with the IMF involved net repayments to the Fund to the extent of US\$166 million. This was partly offset by gold sales to Canada by the IMF of US\$9 million and borrowings from Canada of the equivalent of US\$15 million in Canadian dollars under the General Arrangements to Borrow. Other member countries drew from the International Monetary Fund the equivalent of US\$99 million in Canadian dollars.

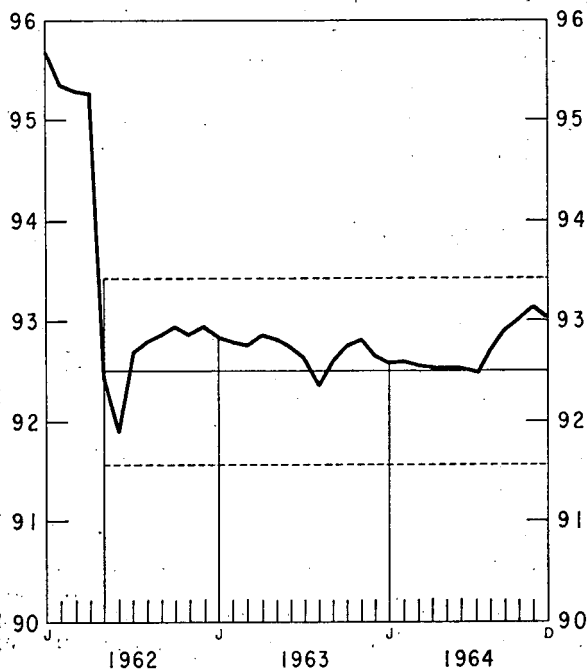
CHANGES IN IMF HOLDINGS OF CANADIAN DOLLARS DURING 1964

	US\$ million
IMF holdings of Canadian dollars at the end of 1963.....	608.5
(minus) Repurchases by Canada (net).....	166.0
Drawings of Canadian dollars by other countries.....	99.0 265.0
(plus) Gold sales to Canada by the IMF.....	9.0
Borrowings from Canada under the General Arrangements to Borrow.....	15.0 24.0
Net change during 1964.....	-241.0
IMF holdings of Canadian dollars at the end of 1964.....	367.5

The movements in the value of the Canadian dollar expressed in U.S. dollars are shown in the accompanying chart.

CANADIAN DOLLAR IN UNITED STATES FUNDS

AVERAGE NOON RATES
U. S. CENTS PER UNIT



The rate of the Canadian dollar moved in a very narrow range around its par value during the first seven months of the year. There followed a period of strength in the Canadian dollar as the rate moved steadily higher toward its upper limit in mid-November. This movement was related to the seasonal strength in the current account of the balance of payments. It was reinforced by heavy capital inflows following the enactment in September of the U.S. Interest Equalization Tax together with the exemption for Canadian new issues. The spot rate remained close to its upper limit for the remainder of the year and was 93.13 cents U.S. (U.S. \$1.00 = Cdn \$1.07 $\frac{3}{8}$) at the end of 1964.

In the early part of the year, the Exchange Fund, in an effort to avoid a heavy capital inflow induced by the widening of the forward discount on the U.S. dollar, engaged in forward market operations. The forward discount on the U.S. dollar had been affected by transactions involving the covering of forward commitments arising from the substantial export order of wheat from the U.S.S.R. At the year end, forward commitments of the Exchange Fund were negligible.

DISPOSITION AND SOURCE OF SAVING

The nation's savings, which in the economic framework of the national accounting system are equivalent to the additions made to the nation's capital assets, rose by 15.8 per cent in 1964. Personal saving represented 24.3 per cent

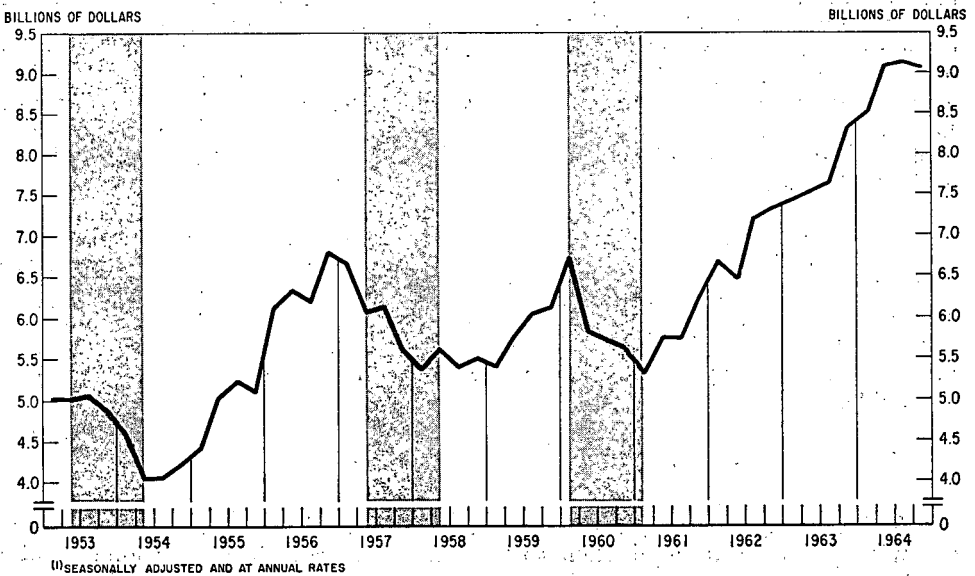
of the total and business sector saving accounted for the balance. The government sector as a whole, on a National Accounts basis, was in near-balance in 1964. This means that the government sector neither contributed to nor was a net user of total national saving.

The nation's investment, which represents that part of output which is not currently consumed, consists of increases in domestic physical assets such as housing, business plant and equipment, and inventories. In addition, the nation's claims on the resources of other countries properly count as additions to its wealth, and increases in claims by other countries must be counted as a deduction. Hence, the surplus or deficit on current international account is counted as part of national investment, a deficit being regarded as a negative item.

The disposition of saving in 1964, shown in Table 41, was dominated by the marked increase in business gross fixed capital formation. Business gross fixed capital formation represents capital spending in the non-government sector, as government sector purchases of capital goods, on a National Accounts basis, are treated as current expenditure in the year the investment occurs. As a result of this treatment, capital formation on a National Accounts basis is below the capital investment total as reported in the Private and Public Investment Outlook surveys and discussed elsewhere in these pages. Business gross fixed capital formation in 1964 amounted to \$8,968 million, some 18.1 per cent above the 1963 total.

Inventory movements in 1964, which are part of total domestic investment, consisted of a moderate buildup in business inventories, partly offset by a decline in farm inventories (associated with record wheat exports). The buildup of total inventories in 1964 was slightly below that of 1963. In the same period, there was some slight narrowing of the deficit on international current account.

NATIONAL SAVINGS, BY QUARTERS, 1953-1964⁽¹⁾



The distribution of saving among the various sectors continued the long-term trend in which the share of the business sector in the total of gross saving has been gradually increasing, due in part to higher levels of capital consumption allowances. This is a reflection of the capital investment record of the post-war years, as a result of which the proportion of capital to labour used in the productive process has been rising. This, of course, is the material basis of growth and the rise in output per worker and real incomes. Rising capital investment expenditures are accompanied by rising capital consumption allowances over time, and these allowances, as enterprises build up reserves for new capital outlays in the future, now form the largest single item on the saving side of the account.

The movement of national saving as a whole in recent years is shown in the chart on Page 59. The association of rising levels of saving with rising levels of economic activity and incomes is shown clearly on the chart, the shaded areas indicating the periods of recession which have been recorded during the past decade.

The changes in 1964 in both saving and investment were of somewhat greater magnitude than the changes which were recorded a year earlier.

TABLE 40
CHANGES IN TOTAL NATIONAL INVESTMENT AND SAVING

(NATIONAL ACCOUNTS BASIS)

(Billions of dollars)

	1963 1962	1964 1963
Domestic Investment.....	+0.5	+1.1
Reduction in Current Account Deficit.....	+0.3	+0.1
	+0.8	+1.2
Personal Net Saving.....	+0.2	-0.3
Business Gross Saving.....	+0.4	+0.8
Federal Government Reduction in Deficit.....	+0.3	+0.6
Provincial-Municipal Governments Increase (-) or Reduction (+) in Deficit.....	-	-
	+0.8	+1.2

(Totals may not add due to rounding)

The shift in the position of the total government sector from a deficit of \$632 million to approximate balance contributed substantially to the overall increase in national saving, and was a reflection of the increase in revenues, particularly at the federal level, discussed elsewhere. Business gross saving increased not only on account of the growth in capital consumption allowances mentioned above, but because undistributed profits were considerably higher in 1964 than in 1963. As indicated in an earlier section, personal net saving in 1964 grew less rapidly than in 1963, when changes in farm inventories are included, but somewhat more rapidly with farm inventories excluded.

TABLE 41

DISPOSITION OF SAVING

(Millions of dollars, seasonally adjusted at annual rates)

	1963	1964
Business Gross Fixed Capital Formation.....	7,591	8,968
Value of Physical Change in Inventories.....	491	380
Surplus (+) or deficit (-) on current account with non-residents.....	-524	-428
Residual error.....	182	45
Total.....	7,740	8,965

TABLE 42

SOURCES OF SAVING

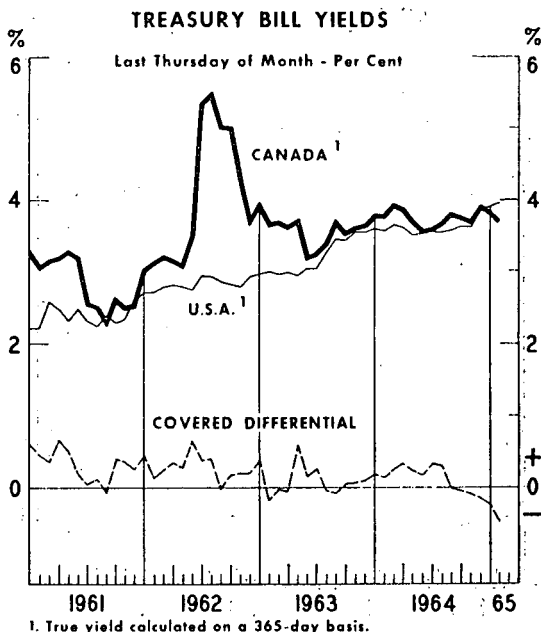
(Millions of dollars, seasonally adjusted at annual rates)

	1963	1964
Personal Saving.....	2,466	2,181
Business Gross Saving, Total.....	6,283	6,969
(a) Undistributed corporation profits.....	973	1,252
(b) Capital consumption allowances and miscellaneous valuation adjustments.....	5,172	5,607
(c) Adjustments on grain transactions.....	138	110
Inventory Valuation Adjustment.....	-195	-121
Government surplus (+) or deficit (-).....	-632	-20
Federal.....	-292	+328
Provincial and Municipal.....	-340	-348
Residual error.....	-182	-44
Total.....	7,740	8,965

CAPITAL MARKETS

The capital markets of Canada, including those for securities and bank loans, provided a greater volume of financing in 1964 than in the previous year. Notwithstanding this greater demand for funds and some serious uncertainties concerning market conditions which occurred during the year, interest rates were relatively stable in 1964 and were at a lower level at the end of the year than at the beginning. This performance in the fourth year of the current period of economic expansion is significant, reflecting a monetary policy which was effective in sustaining the rate of economic growth without permitting slackness in credit conditions together with a creditable degree of resilience in the capital markets.

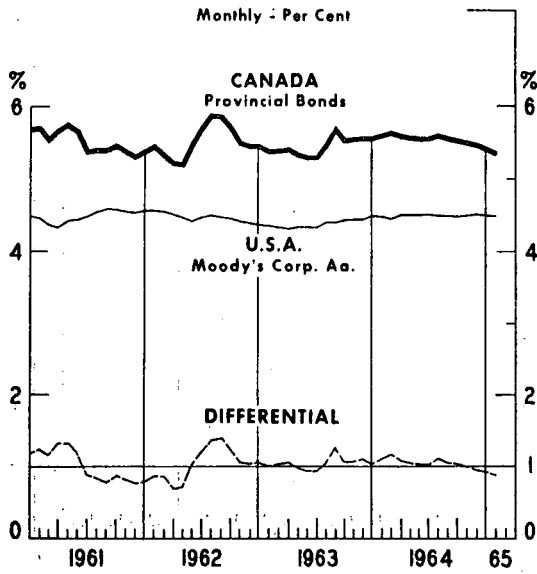
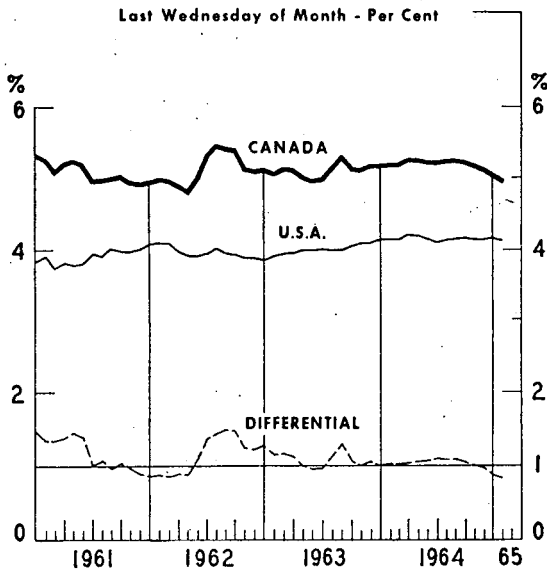
During the year net new issues of securities (including finance company paper) by Canadian borrowers on all markets, both domestic and external, totalled \$3,069 million compared with \$2,801 million in 1963. Net new issues of Government of Canada securities in 1964 were \$457 million, as compared with \$827 million in 1963. Table 44 indicates that in 1964 Government Accounts made



net purchases of Government of Canada securities of \$253 million, diminishing by that amount the impact of Government of Canada financing on the securities market, while in 1963 net sales of \$154 million of securities from Government Accounts increased the impact on the market resulting from the large increase in net new issues in that year. Thus the net market impact of Government of Canada financing was \$204 million in 1964 compared with \$981 million in 1963. Net borrowings by provincial and municipal governments were slightly higher than in 1963. Apart from the marked reduction in net borrowing by the Government of Canada, the dominant feature in the capital markets in 1964 was the corporate demand for new money. Net new issues of corporate bonds, continuing the upward trend in recent years, totalled \$698 million compared with \$555 million in 1963. Furthermore, whereas in 1963 there occurred a net retirement of \$55 million in corporate stock, net new issues of corporate stock in 1964 amounted to \$265 million. This increase in demand for funds by corporations reflected a substantial increase in fixed capital expenditures and a buildup of inventories to levels somewhat higher than in 1963. This demand was met in part by a considerable rise in the level of loans to businesses in the chartered banks. In 1964, loans by the chartered banks to businesses and instalment finance companies increased by \$572 million compared with an increase of \$334 million during 1963.

Total money supply increased by slightly less than 6 per cent in 1964, while the money supply in the hands of the general public rose by a little over 7 per cent. Total general loans by the chartered banks increased during the year, however, by over 15 per cent, with a substantial increase of 25 per cent in personal loans and an increase of 13 per cent in business loans. In accommodating this strong demand for loans the chartered banks sold \$223 million in Government of Canada securities. The liquidity position of other financial intermediaries, together with central bank operations, enabled the market to absorb this liquidation by the banks. The more liquid assets of the chartered banks declined from 35.4 per cent to 31.9 per cent. The more liquid assets of the chartered banks comprised their cash reserves, day-to-day loans to investment dealers, call loans, Government of Canada securities, and net foreign assets.

LONG-TERM BOND YIELDS

LONG-TERM
GOVERNMENT BOND YIELD AVERAGES¹

1. Average of yields on all outstanding issues due or callable in 10 years or more.

TABLE 43
NET CHANGES IN SECURITIES⁽¹⁾ AND BANK LOANS⁽²⁾ OUTSTANDING FOR CALENDAR YEARS

	1961	1962	1963	1964	1963		1964	
					1st half	2nd half	1st half	2nd half
	(Millions of dollars)							
Government of Canada Securities	889	812	827	457	105	722	-289	746
Provincial Governments Securities ⁽³⁾	936	695	893	928	611	283	570	358
Bank loans	-83	-16	19	-18	-2	20	-20	2
Sub-total	853	679	912	910	609	303	550	360
Municipal Governments Securities	320	236	406	428	215	191	247	181
Bank loans	30	-3	57	62	33	24	1	61
Sub-total	350	233	463	490	248	215	248	242
Total Governments	2,092	1,724	2,202	1,857	962	1,240	509	1,348
Private Canadian Borrowers								
Corporate Bonds	359	416	555	698	467	88	333	365
Corporate Stocks	249	341	-55	265	-213	158	109	158
Finance Company Paper	-51	179	174	292	136	38	355	-63
Bank loans to Business and Instalment Finance Companies	205	526	334	572	110	224	452	120
Call and Day-to-day Loans	34	138	-84	5	-200	116	-78	83
Other Bank Loans ⁽⁴⁾	182	225	234	417	16	218	161	256
Total Private	978	1,825	1,158	2,249	316	842	1,332	919
Grand Total	3,070	3,549	3,360	4,106	1,278	2,082	1,841	2,267

⁽¹⁾Includes Canadian and foreign pay issues.

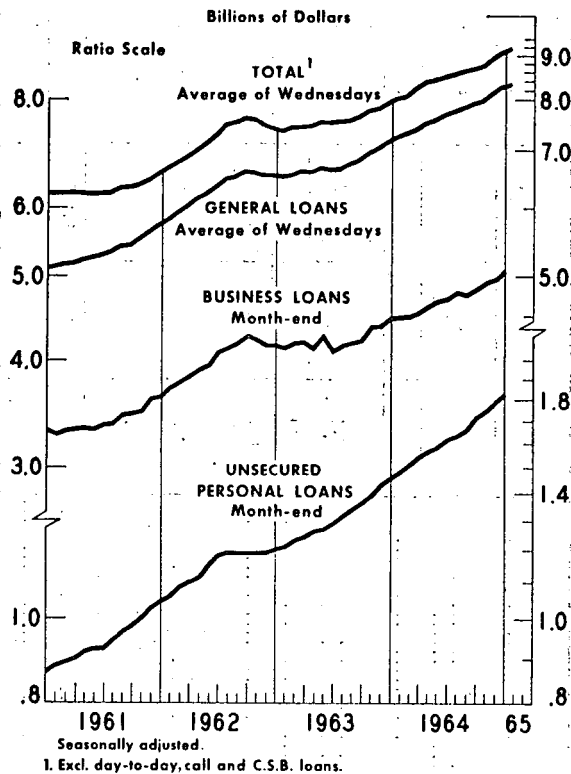
⁽²⁾Includes only Canadian dollar bank loans.

⁽³⁾Includes securities guaranteed by provinces.

⁽⁴⁾Insured mortgage loans and all other chartered bank loans in Canadian currency not included elsewhere.

The volume of net new issues of securities, other than by the Government of Canada, was notably high in the first half of 1964. With the U.S. market for new Canadian issues restricted during this period by the uncertainty surrounding the U.S. Interest Equalization Tax, approximately four-fifths of such new issues were payable in Canadian dollars and were mainly absorbed by the Canadian market. In the last half of the year the situation changed considerably. Issues payable in U.S. dollars which had been delayed pending clarification of the Interest Equalization Tax, (the impact of which is described in some detail in the section on the Balance of Payments), were taken up by the U.S. market and the general demand for Canadian securities by U.S. investors increased. This was particularly evident in the fourth quarter of the year when net new issues payable in U.S. dollars amounted to \$434 million. Because of these significant purchases of new issues by investors in the U.S., the pressure of new borrowings on the Canadian market was eased. Long-term bond yields declined by $\frac{1}{4}$ of 1 per cent.

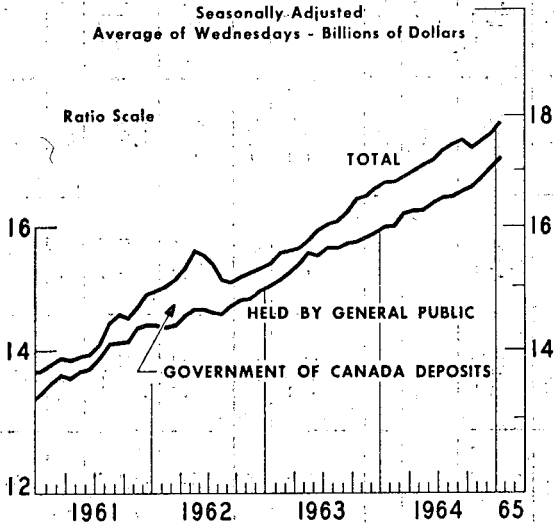
CHARTERED BANK LOANS



One other significant external factor affected the Canadian market in 1964. On November 23, the Bank of England, reacting to a sharp decline in its gold and foreign exchange holdings, increased the Bank Rate from 5 per cent to 7 per cent; The U.S. followed this action with a $\frac{1}{2}$ of 1 per cent increase to 4 per cent in the discount rates of the Federal Reserve Banks and the Bank of Canada increased its Bank Rate from 4 per cent to $4\frac{1}{4}$ per cent. The Governor of the Bank of Canada stated at the time that the Bank wished to eliminate uncertainty in Canadian financial markets following changes in Bank Rates in the United Kingdom and the United States and described the new rate as one which was appropriate to

the needs of the domestic Canadian economy and Canada's international financial position. The main impact of the Bank Rate change was felt in the very short-term market. Treasury bill yields had fluctuated during the year between 3.50 per cent and 3.90 per cent. The Bank Rate change consolidated the trading area in the upper end of this range. Long-term yields rose initially but after a very short period they returned to the levels prevailing before the Bank Rate change and by the end of the year had fallen below these levels.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS



An unusual but anticipated complication during the year was the U.S. payment to Canada under the Columbia River Agreement and the consequent payment to the Province of British Columbia of Canadian \$220 million as well as U.S. \$50 million. Despite the magnitude of these payments to Canada and from the federal government to the province, their impact on the securities markets and the banking system was negligible. The Columbia River payments are described in detail in the preceding section on the Balance of Payments.

An indication of the relationship of Canadian bill and bond market yields to those in the United States can be seen in the charts on pages 62 and 63. Canadian treasury bill yields on both a covered and uncovered basis have remained very close to U.S. bill yields during 1964. Indeed at the end of the year, U.S. bill rates were higher than those obtainable in Canada. Canadian long-term bond yields moved closer to U.S. yields in the last half of the year, reducing the spread from close to 1 per cent to around 0.85 per cent. This spread was continuing to narrow at the end of the year.

TABLE 44
NET INCREASE IN HOLDINGS OF CERTAIN FINANCIAL ASSETS CLASSIFIED BY HOLDERS FOR CALENDAR YEARS

	1961	1962	1963	1964	1963		1964	
					1st half	2nd half	1st half	2nd half
	(Millions of dollars)							
Chartered banks and Bank of Canada								
Canadian securities.....	940	-262	761	-146	477	284	-186	40
Chartered bank loans.....	368	870	560	1,038	-43	602	516	522
Total	1,308	608	1,321	892	434	886	330	562
Non-bank holders								
Currency and bank deposits ⁽¹⁾	1,257	520	1,389	1,000	391	997	310	690
Other net liabilities of banking system ⁽²⁾	51	88	-68	-108	43	-111	20	-128
<i>Sub-total</i> ⁽³⁾	<i>1,308</i>	<i>608</i>	<i>1,321</i>	<i>892</i>	<i>434</i>	<i>886</i>	<i>330</i>	<i>562</i>
Canadian securities.....	1,762	2,941	2,039	3,214	844	1,196	1,511	1,705
Total	3,070	3,549	3,360	4,106	1,278	2,082	1,841	2,267
of which:								
Government of Canada								
Chartered bank and Bank of Canada deposits ⁽¹⁾	84	-23	357	-199	-101	457	-134	-65
Government of Canada securities held in Gov't accounts...	-222	26	-154	253	-226	72	-102	355
Total	-138	3	203	54	-327	529	-236	290
Public in Canada ⁽⁴⁾								
Government of Canada securities.....	237	1,026	150	412	-238	388	42	370
Other Canadian securities.....	1,467	1,529	1,515	1,721	781	734	1,186	537
<i>Sub-total: Canadian securities</i>	<i>1,704</i>	<i>2,555</i>	<i>1,665</i>	<i>2,133</i>	<i>543</i>	<i>1,122</i>	<i>1,228</i>	<i>907</i>
Currency and chartered bank deposits ⁽¹⁾	1,134	577	993	1,168	481	512	438	730
Other net liabilities of banking system.....	51	88	-68	-108	43	-111	20	-128
Total	2,889	3,220	2,590	3,193	1,067	1,523	1,686	1,509
Non-Residents								
Government of Canada securities ⁽⁵⁾	6	123	113	-4	143	-30	15	-19
Other Canadian securities.....	274	237	415	833	384	31	370	463
<i>Sub-total: Canadian securities</i>	<i>280</i>	<i>360</i>	<i>528</i>	<i>829</i>	<i>527</i>	<i>1</i>	<i>385</i>	<i>444</i>
Canadian bank deposits.....	39	-34	39	30	11	29	6	-24
Total	319	326	567	859	538	30	391	468

⁽¹⁾Includes only Canadian dollar deposits.

⁽²⁾Balancing item.

⁽³⁾Equals total holdings of securities and loans by banking system as above.

⁽⁴⁾Excludes holdings by chartered banks.

⁽⁵⁾Includes treasury bills.

MORTGAGE MARKET

The flow of funds into mortgages increased substantially in 1964. The major area accounting for the increase was conventional mortgage loans which in 1964 were 35 per cent higher than in 1963. Mortgage loans approved under the National Housing Act moved up 6 per cent in 1964 compared with the previous year. Despite this greater demand for mortgage loans, rates on such loans moved slightly lower through the year.

TABLE 45

FLOW OF INSTITUTIONAL MORTGAGE FUNDS 1963-1964

	1963	1964
	(Millions of dollars)	
Mortgage Loans Approved under the National Housing Act		
CMHC Direct Loans		
Single.....	253	312
Multiple.....	49	65
Total CMHC.....	302	377
NHA Loans Through Approved Lenders		
Single.....	281	178
Multiple.....	104	175
Total Approved Lenders.....	385	353
Total under NHA.....	687	730
Conventional Mortgage Loans		
New Buildings		
Single.....	249	294
Multiple.....	403	518
<i>Sub-total New Conventional.....</i>	<i>652</i>	<i>812</i>
Existing Buildings		
Single ⁽¹⁾	304	444
Multiple.....	126	196
<i>Sub-total Existing Conventional.....</i>	<i>430</i>	<i>640</i>
Other ⁽²⁾	373	507
Total Conventional.....	1,455	1,959

⁽¹⁾ The figures on existing single dwellings do not include the top part of any 83½% mortgages made.

⁽²⁾ This category includes commercial and industrial mortgages.

SOURCE: Central Mortgage and Housing Corporation.

Total N.H.A. loans, which include C.M.H.C. direct loans and loans by approved lenders, totalled \$730 million in 1964, \$43 million higher than in 1963. N.H.A. loans made by approved lenders declined by \$32 million during the year, despite a substantial increase in their loans for rental accommodation, particularly multiple dwellings. In the face of the heavy demand for loans and the reduced supply of funds from approved lenders to owner applicants and builders, C.M.H.C. increased its direct loans by \$75 million in 1964 to \$377 million.

Conventional mortgage loans were especially strong in 1964, increasing by over \$500 million, compared with 1963, to a total of \$1,959 million. Loans on new multiple dwellings, existing single dwellings, and commercial and industrial building showed particularly significant advances over 1963. The increase in loans on existing houses has occurred following improved mortgage facilities offered by lending institutions and particularly the arrangements introduced in 1964 for loans of $83\frac{1}{2}$ per cent of appraised value at a cost usually about $\frac{1}{4}$ of 1 per cent above the conventional mortgage rate.

The conventional mortgage rate tended to move below 7 per cent early in the year and loans for buildings in favoured locations and for multiple structures were financed at $6\frac{3}{4}$ per cent. This easier condition prevailed at the end of the year.

Since 1961, C.M.H.C. has offered at public auctions blocks of N.H.A. mortgages from its own portfolio. The purpose of these auctions has been to provide a supply of mortgages to encourage the development of a secondary mortgage market in Canada and to assist in financing its own direct lending. A by-product of the auctions has been a reduction by CMHC in its requirements for cash from Government sources. Bids at these auctions have been competitive. The gradual development of a secondary market is indicated by the fact that, whereas at the end of 1955 only 0.8 per cent of N.H.A. approved mortgages were held by other than approved lenders, at the end of 1964 the proportion was 9.5 per cent. This compares with a figure of 8.5 per cent at the end of 1963.

The following tabulation outlines the results of the four auctions that were held in 1964:

Date	Allotted		Average Prices Paid at Auctions		Yields to Maturity		NHA Rate	Average Yield on Govt. Long-term Bonds
	6%	$6\frac{1}{4}$ - $6\frac{1}{2}$ %	6%	$6\frac{1}{4}$ - $6\frac{1}{2}$ %	6%	$6\frac{1}{4}$ - $6\frac{1}{2}$ %		
	(Millions of dollars)							
Feb. 25.....	17.250	7.750	97.69	102.64	6.36	6.39	$6\frac{1}{4}$	5.20
May 20.....	14.750	10.250	97.85	100.97*	6.33	6.37	$6\frac{1}{4}$	5.26
Sept. 23.....	16.500	8.500	99.24	101.00	6.12	6.36	$6\frac{1}{4}$	5.24
Dec. 15.....	16.000	9.000	98.24	100.96	6.27	6.37	$6\frac{1}{4}$	5.06

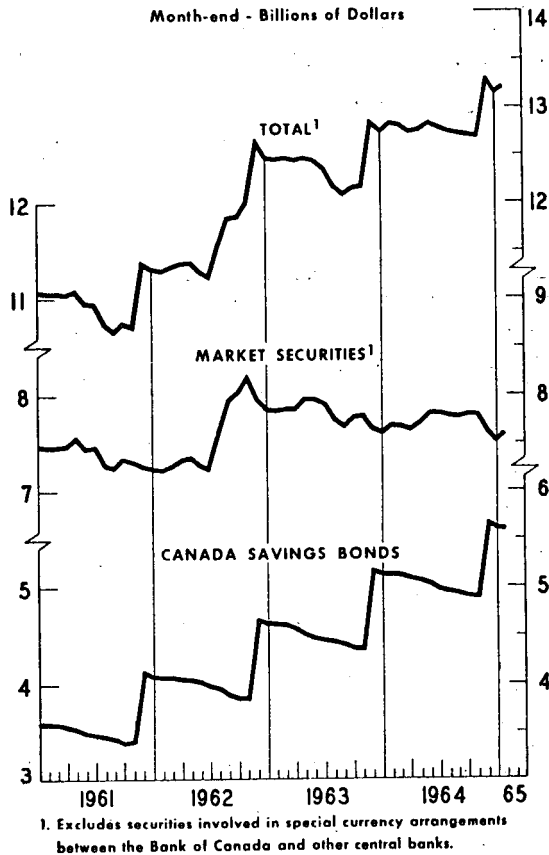
* $6\frac{1}{4}$ % mortgages were offered in this and subsequent auctions.

FEDERAL GOVERNMENT DEBT OPERATIONS

In the Budget Speech in March 1964 a budgetary deficit of \$455 million was forecast and total cash requirements were estimated to be \$895 million. It was stated that "over-all borrowing requirements in the coming year will be about \$750 million taking into account the fact that present cash balances are on the high side". These requirements included the \$220 million payment in connection with the Columbia River Treaty described earlier, and also assumed, as is customary, a neutral position vis-à-vis the Exchange Fund.

In addition to these cash requirements, the Government had to refund \$1,950 million in market issues maturing during the fiscal year 1964-65. This figure does not include the regular weekly issues of three and six month treasury bills.

GENERAL PUBLIC HOLDINGS OF GOVERNMENT OF CANADA SECURITIES



As the year progressed it became apparent that the budgetary deficit would be lower, mainly as a result of higher Government revenues than had been originally forecast. However, at the same time non-budgetary cash requirements increased, partly as a result of the need to finance the requirements of the Exchange Fund. The increase of \$253 million in holdings of securities by Government Accounts constituted a further use of cash. Taking into account these diverging movements it appears that cash requirements will be about the same as was originally forecast in last year's budget.

Table 46 indicates the projected changes in Government securities outstanding for the fiscal year. It is expected that the balance of the cash requirement will be financed by a decline in cash balances. Sales of Canada Savings Bonds will have accounted for considerably more than the net total of new money raised in the capital markets and there will have been a net rundown of \$273 million in the outstanding amount of all marketable bonds and treasury bills.

TABLE 46

SUMMARY OF PROJECTED CHANGES IN GOVERNMENT SECURITIES DIRECT AND
GUARANTEED OUTSTANDING FOR THE YEAR ENDING MARCH 31, 1965
(Millions of dollars)

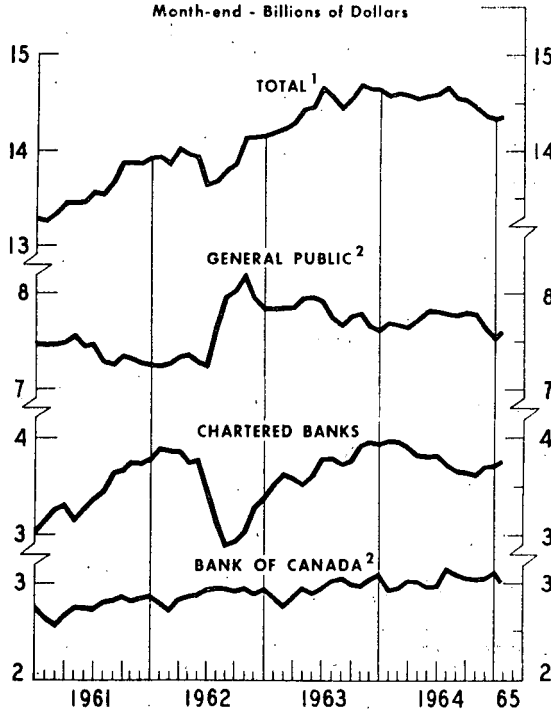
	Increase	Decrease
Treasury Bills—weekly.....	10	
—1 yr. due April 24/64.....		100
Canada Savings Bonds.....	475	
Unemployment Insurance Fund.....	17	
Market Issues.....		183 ⁽¹⁾
	502	283
	—283	
	219	

⁽¹⁾Excludes \$3 million of debt which matured in previous years but was redeemed in 1964-65.

Debt management policies have been directed towards supporting monetary and fiscal policies in influencing the performance of the economy. In the early part of the current economic expansion the aim of financial policy had been to facilitate

DISTRIBUTION OF
GOVERNMENT OF CANADA
MARKET SECURITIES

Month-end - Billions of Dollars



1. Excludes holdings of Government accounts

2. Excludes changes in connection with special currency arrangements between the Bank of Canada and other central banks

economic expansion. To this end nearly all new issues offered had been of a short or medium term in order to provide somewhat greater liquidity in the economy. As the economic expansion moved to a firmer base, more attention was paid to extending the term of the debt, while taking care not to inhibit economic growth. Table 47 contains details of the marketable Government of Canada bonds issued during the fiscal year 1964-65. The chief interest in the table lies in the choice of maturities for the refundings. During the calendar year 1964 three long-term issues totalling \$175 million were offered. The last offering of long bonds was made in mid-June for delivery on July 1. Since that date, although the market has been receptive and economic circumstances appropriate, it has been felt desirable to avoid issuing bonds which might at the same time prove attractive to U.S. investors and provide competition in the domestic market for provinces and municipalities at the long end of the market. Since July 1, some worthwhile extension of term has been accomplished by offering two sizeable medium-term issues. The average term to maturity of Government of Canada marketable securities declined by one month during calendar 1964 to 7 years 9 months. The decline during 1963 had been six months.

Certain techniques which had been introduced in previous years were continued in 1964. Where possible, new issues consisted of additions to outstanding issues. This was done in nine issues in 1964. The purpose was to promote broader and more active trading markets and to provide greater flexibility in future debt management operations. In the issue of May 1, 1964 another advance refunding of the 3 $\frac{3}{4}$ % Bonds due September 1, 1965 was made in the amount of \$250 million. In a further effort to reduce the amount of this issue in the hands of the general public, the Bank of Canada has offered to the public newly issued bonds in exchange for the 3 $\frac{3}{4}$ % Bonds due September 1, 1965, and at times new issues were designed to aid this operation. As part of the advance refunding program to bring the amount of the 3 $\frac{3}{4}$ % Bonds outstanding to a readily manageable size for refunding purposes upon the maturity of the issue, \$175 million of the bonds held by the Government of Canada in the Securities Investment Account were cancelled on January 29, 1965 followed by a further cancellation of \$125 million on March 25, 1965.

Government cash balances were maintained in the range of \$800-\$1,000 million for most of fiscal 1964-65. These balances permitted the Government greater flexibility in conducting its debt management operations and facilitated monetary policy.

TABLE 47

DETAILS OF NEW ISSUES AND RETIREMENTS OF GOVERNMENT OF CANADA
DIRECT AND GUARANTEED MARKET BONDS FROM JANUARY 1, 1964 TO MARCH 31, 1965

Date of Issue	Maturing Bonds	Amount (\$ millions par value)	New Bonds	Amount (\$ millions par value)	Net Change in Amount Outstanding	Term of New Bonds	Price at Issue (%)	Yield at Issue (%)	Commission to declare (%)
1964									
Feb. 1	3½% Feb. 1, 1964	365	3½ Feb. 1, 1965 3½ Feb. 1, 1966 4½ Jan. 15, 1968 5 June 1, 1988	65 105 130 50	-15	1 year 2 years 3 yrs. 11½ mos. 24 yrs. 4 mos.	99.15 98.10 98.25 96.25	4.38 4.50 4.74 5.27	0.10 0.15 0.25 0.75
May 1	4% May 1, 1964	360	3½ July 1, 1965 4½ Dec. 15, 1966 5 July 1, 1969 5½ May 1, 1990	200 50 75 75	+40	1 yr. 2 mos. 2 yrs. 1½ mos. 5 yrs. 2 mos. 26 years	98.90 99.65 99.75 98.63	4.47 4.64 5.05 5.35	0.10 0.15 0.25 0.75
	3½% Sept. 1, 1965	250	5 July 1, 1969	250	0	5 yrs. 2 mos.	99.75	5.05	—
July 1	3½% July 1, 1964	175	3½ July 1, 1965 5½ May 1, 1990	200 50	+75	1 year 24 yrs. 10 mos.	99.25 99.25	4.27 5.30	0.10 0.75
Oct. 1	3½% Oct. 1, 1964	435	3½ Dec. 1, 1965 3½ Oct. 1, 1967 5 Oct. 1, 1968	200 75 125	-35	1 yr. 2 mos. 3 years 4 years	98.85 97.25 100.00	4.52 4.74 5.00	0.10 0.15 0.20
Dec. 1	4% Dec. 1, 1964	240	3½ Dec. 1, 1965 5 June 1, 1971	125 350		1 year 6 yrs. 6 mos.	99.20 100.00	4.33 5.00	0.10 0.25
Dec. 15	3½% Dec. 15, 1964 C.N.R. 5½% Dec. 15, 1964	225 8	— —	— —	+2				
Jan. 29	3½% Sept. 1, 1965	175	—	—	-175				
Feb. 1	3½% Feb. 1, 1965	415	3½ May 1, 1966 5 Oct. 1, 1973	175 275	+35	1 yr. 3 mos. 8 yrs. 8 mos.	99.20 100.00	4.16 5.00	0.10 0.25
Mar. 25	3½% Sept. 1, 1965	125	—	—	-125				
Totals (fiscal year 1964-65)		2,408		2,225	-183				

PART II REVIEW OF GOVERNMENT ACCOUNTS 1964-65

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PART II
REVIEW OF GOVERNMENT ACCOUNTS
1964-65

INTRODUCTION

This Part of the Budget Papers presents in summary form a review of the accounts of the Government of Canada for the fiscal year 1964-65. The fiscal year of the government ends on March 31, but under the provisions of section 35 of the Financial Administration Act, for thirty days after the end of each fiscal year, payments for the discharge of debts properly applicable to the old year may be made and charged to that year. Consequently the books must remain open for some time after the fiscal year-end to take into account these payments and to record various adjusting entries. The figures used in this report are based on eleven months actual and one month estimated. The final figures when they become available next July or August will vary to some extent from those given in the following pages.

**HIGHLIGHTS OF THE GOVERNMENT'S FINANCIAL
OPERATIONS DURING 1964-65**

This section outlines the financial operations of the government giving a brief summary of the budgetary and non-budgetary transactions, the unmatured debt transactions and the changes in the cash position and the debt position during 1964-65. More detailed explanations of these transactions are given in subsequent sections of this Part.

The following table summarizes the budgetary and non-budgetary transactions for 1964-65 with comparative figures for 1963-64 and indicates how these transactions affect the government's cash balances:

TABLE 1
(in millions of dollars)

SUMMARY OF BUDGETARY AND NON-BUDGETARY TRANSACTIONS AND CHANGES IN CASH POSITION	Fiscal year ended March 31	
	1965 (estimated)	1964
Budgetary transactions—		
Revenue—		
Tax.....	6,338	5,533
Non-tax.....	798	720
	<u>7,136</u>	<u>6,253</u>
Expenditure—		
Defence.....	1,581	1,723
Non-defence.....	5,638	5,149
	<u>7,219</u>	<u>6,872</u>
Deficit (—).....	<u>-83</u>	<u>-619</u>
Non-budgetary transactions (excluding unmatured debt transactions)—		
Receipts and credits—		
Repayments of advances to exchange fund.....		135
Repayment of temporary loans to old age security fund.....	64	
Repayment of other loans, investments and advances.....	50	262
Net annuity, insurance and pension account receipts.....	553	384
Other.....	188	198
	<u>855</u>	<u>979</u>
Disbursements and charges—		
Temporary loans to old age security fund.....		58
Decrease in non-interest-bearing notes payable on demand.....	219	170
Other loans, investments and advances.....	706	319
Advances to exchange fund.....	20	
Other.....	255	95
	<u>1,200</u>	<u>642</u>
Net amount available from or required for (—) non-budgetary transactions.....	<u>-345</u>	<u>337</u>
Overall cash requirements to be financed by increase in unmatured debt or decrease in cash balances.....	-428	-282
Net increase in unmatured debt outstanding in the hands of the public.....	277	734
Net increase or decrease (—) in Receiver General bank balances.....	-151	452

Budgetary transactions

The budgetary revenue, expenditure and deficit as forecast in the budget speech of March 16, 1964 and the figures as now estimated for the fiscal year 1964-65 are shown in the following table:

TABLE 2
(in millions of dollars)

BUDGETARY TRANSACTIONS FOR FISCAL YEAR 1964-65	Budget forecast March 16, 1964	Actual (estimated)	Increase or decrease (—) compared with March 16, 1964 forecast	
			Amount	Per cent
Revenue.....	6,700.0	7,136.0	436.0	6.5
Expenditure.....	7,155.0	7,219.0	64.0	0.9
Deficit.....	455.0	83.0	-372.0	

Revenue

Budgetary revenue of the government in the fiscal year 1964-65 is estimated at \$7,136 million. This is \$436 million or 6½ per cent more than the March 16, 1964 budget forecast and \$883 million or 14 per cent more than the total of \$6,253 million collected in 1963-64.

Tax revenue accounts for \$805 million and non-tax revenue for \$78 million of the increase over 1963-64 receipts.

The yield from personal income tax, corporation income tax and the tax on dividends, interest, etc., going abroad is \$513 million more than collections in 1963-64. The increase is due to the higher level of personal incomes during the year, higher corporate profits, the acceleration during the fiscal year of the payment period for corporation income taxes and to higher dividends paid to non-residents in 1964.

Receipts from the sales tax are \$247 million more in 1964-65 due in part to the imposition, effective June 14, 1963, of a 4 per cent sales tax on building materials and production machinery and equipment (increased to 8 per cent effective April 1, 1964). Receipts from customs import duties are \$36 million more due to the greater volume and value of imports during 1964-65.

Expenditure

Budgetary expenditure of the government in 1964-65 is estimated at \$7,219 million, \$64 million or almost one per cent higher than forecast and \$347 million or 5 per cent higher than expenditures in 1963-64.

Defence expenditure at \$1,581 million is 22 per cent of total budgetary expenditure, compared with \$1,723 million or 25 per cent in 1963-64 and is again the largest category.

Civil or non-defence expenditure at \$5,638 million compares with \$5,149 million in 1963-64, an increase of \$489 million. The main changes are increases of \$95 million in fiscal, subsidy and other payments to provinces, \$55 million in public debt charges, \$38 million in contributions to the provinces under the Hospital Insurance and Diagnostic Services Act, \$25 million in payments by the external aid office for economic, technical, education and other assistance, \$35 million in contributions to provinces under terms of the Trans-Canada Highway Act and \$14 million under the winter house building program and a decrease of \$65 million in the net operating loss of the agricultural stabilization board. The increase also includes a payment of \$27 million to The St. Lawrence Seaway Authority in respect of the accumulated Welland Canal deficit incurred by the authority for the calendar years 1959 to 1964 inclusive and \$27 million in youth allowances effective from September 1964.

Deficit

Expenditure of \$7,219 million exceeds revenue of \$7,136 million resulting in a deficit of \$83 million compared with a deficit of \$455 million as forecast on March 16, 1964 and the deficit of \$619 million in 1963-64.

Non-budgetary transactions (excluding unmatured debt transactions)

Non-budgetary transactions are those which increase or decrease the government's asset and liability accounts and do not enter into the calculation of the annual budgetary surplus or deficit.

In 1964-65 estimated net disbursements and charges of \$1,200 million exceed net receipts and credits of \$855 million resulting in a net requirement of \$345 million. In 1963-64 net receipts and credits totalled \$979 million, net disbursements and charges totalled \$642 million, resulting in net receipts of \$337 million.

Old age security fund

Receipts by the fund during 1964-65 are estimated at \$953 million and exceed estimated payments of \$889 million from the fund by \$64 million. In 1963-64 payments were \$808 million and receipts were \$750 million.

The excess of \$64 million of receipts over payments reduced outstanding temporary loans by the Minister of Finance to \$36 million at March 31, 1965.

The transactions in the account during 1964-65 compared with those for 1963-64 are as follows:

	Fiscal year ended March 31	
	1965 (estimated)	1964
	(in millions of dollars)	
Tax receipts.....	953	750
Pension payments.....	889	808
Excess of receipts over payments or payments over receipts (-)	64	-58
Temporary loans by the Minister of Finance carried forward.	-100	-42
Temporary loans by the Minister of Finance outstanding at fiscal year-end.....	36	100

Unmatured debt transactions

Unmatured debt transactions in 1964-65 reflect an increase of \$277 million in unmaturred debt outstanding in the hands of the public compared with an increase of \$734 million in 1963-64.

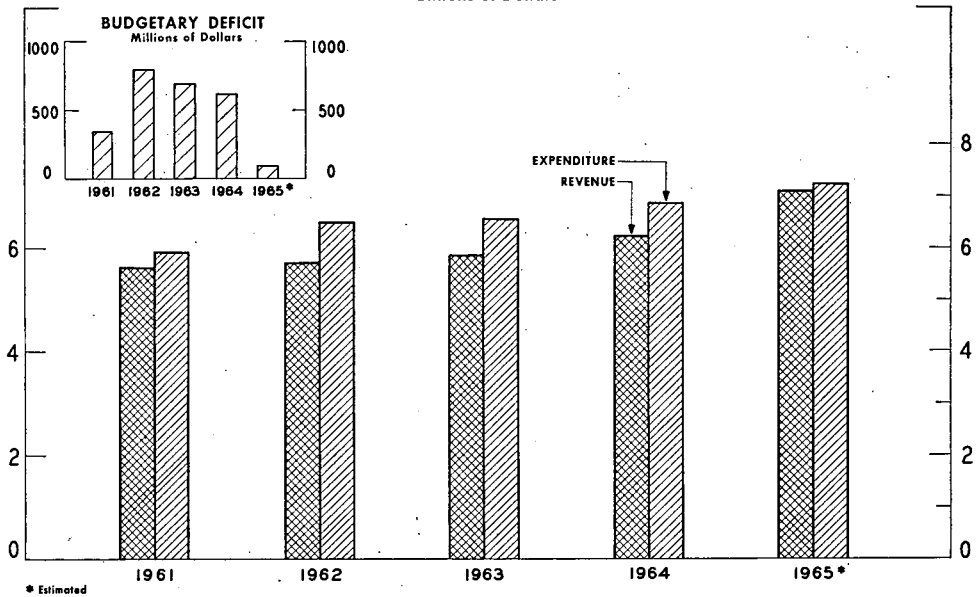
Cash position

Receiver General bank balances were \$678 million at March 31, 1965, a decrease of \$151 million from the March 31, 1964 total. The decrease in cash balances is the result of the non-budgetary requirements of \$345 million plus the budgetary deficit of \$83 million partly offset by the increase of \$277 million in unmaturred debt outstanding in the hands of the public.

Debt position

As a result of these budgetary and non-budgetary transactions the gross public debt increased by \$724 million to \$26,648 million, net recorded assets by \$245 million to \$11,099 million and net debt by \$479 million to \$15,549 million at March 31, 1965. The increase in net debt reflects the budgetary deficit of \$83 million plus an adjustment of \$396 million in respect of prior years transactions. The adjustment of \$396 million covers the write-off to net debt, upon parliamentary approval, of the unamortized portion of the actuarial deficiency in the public service superannuation account of \$277 million and \$119 million in respect of an actuarial evaluation of the account as at December 31, 1962 as calculated by the Department of Insurance.

BUDGETARY REVENUE AND EXPENDITURE
Fiscal Years Ended March 31
Billions of Dollars



THE BUDGETARY ACCOUNTS

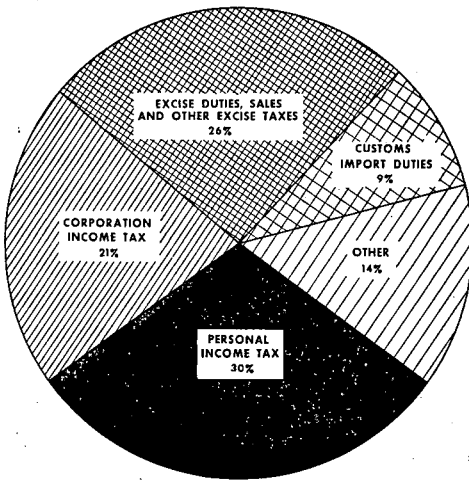
Estimated total revenue at \$7,136 million for 1964-65 is \$883 million more than the total in the previous year. Estimated total expenditure of \$7,219 million is \$347 million more than the total for 1963-64. The estimated deficit is \$83 million compared with \$619 million in the previous year.

TABLE 3
BUDGETARY REVENUE, EXPENDITURE AND DEFICIT
(in millions of dollars)

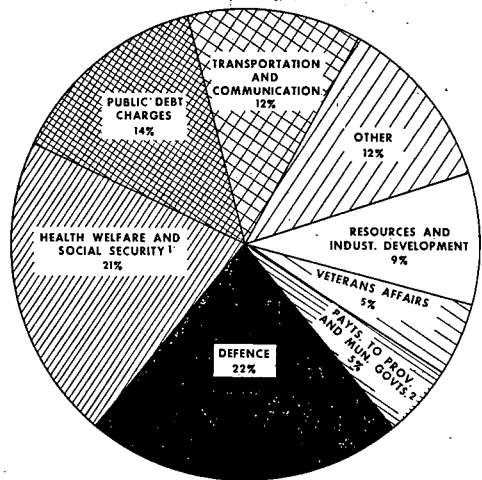
Fiscal year ended March 31	Budgetary revenue	Budgetary expenditure	Surplus or deficit (-)
1956.....	4,400.0	4,433.1	-33.1
1957.....	5,106.5	4,849.0	257.5
1958.....	5,048.8	5,087.4	-38.6
1959.....	4,754.7	5,364.0	-609.3
1960.....	5,289.8	5,702.9	-413.1
1961.....	5,617.7	5,953.1	-340.4
1962.....	5,729.6	6,520.6	-791.0
1963.....	5,878.7	6,570.3	-691.6
1964.....	6,253.2	6,872.4	-619.2
1965 (estimated).....	7,136.0	7,219.0	-83.0

BUDGETARY REVENUE BY MAJOR SOURCE

For Fiscal Year Ended March 31, 1965
Estimated



BUDGETARY EXPENDITURE BY MAJOR FUNCTION



1. Does not include payments out of old age security fund.

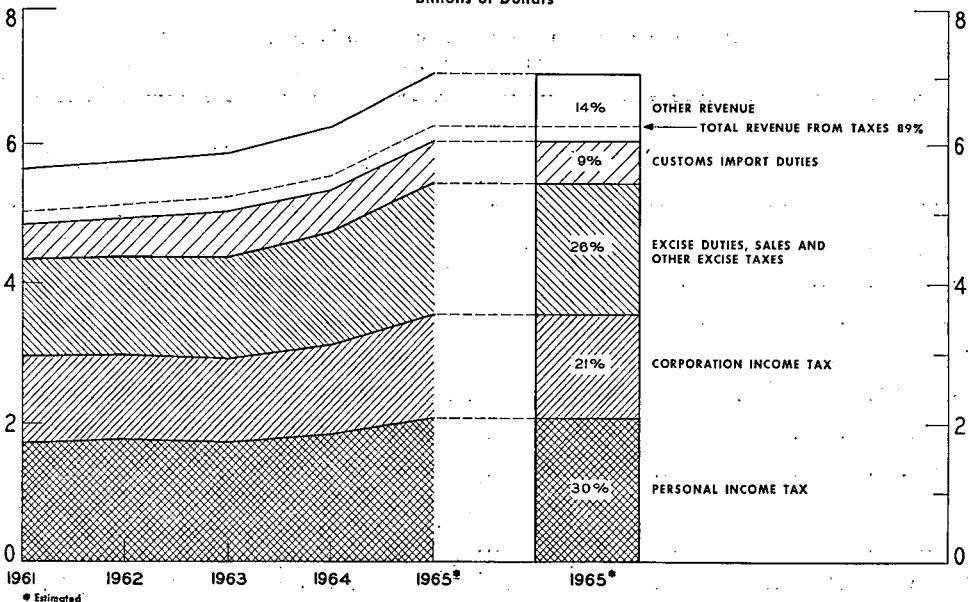
2. Does not include those payments made to provincial and municipal governments for specific purposes.

REVENUE

Budgetary revenue in 1964-65 is \$7,136 million, \$883 million or 14 per cent over the total of \$6,253 million received in 1963-64. Tax revenue is \$6,338 million accounting for 89 per cent of the total revenue for the fiscal year and non-tax revenue at \$798 million accounting for 11 per cent.

BUDGETARY REVENUE BY SOURCE

Fiscal Years Ended March 31
Billions of Dollars



The more important items are increases of \$243 million in personal income tax collections, \$251 million in corporation income tax collections and \$247 million in sales tax receipts.

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

Source	Fiscal year ended March 31				Increase or decrease (—)	
	1965 (estimated)		1964		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
Tax revenue—						
Income tax—						
Personal ⁽¹⁾	2,108.0	29.5	1,865.1	29.8	242.9	13.0
Corporation ⁽¹⁾	1,510.0	21.2	1,259.0	20.1	251.0	19.9
On dividends, interest, etc., going abroad.....	144.0	2.0	124.5	2.0	19.5	15.7
Excise taxes—						
Sales ⁽¹⁾⁽²⁾	1,193.0	16.7	946.1	15.1	246.9	26.1
Other.....	270.0	3.8	273.4	4.4	—3.4	—1.2
Customs import duties.....	617.0	8.6	581.4	9.3	35.6	6.1
Excise duties.....	406.0	5.7	393.3	6.3	12.7	3.2
Estate tax.....	89.7	1.3	90.6	1.5	—0.9	—1.0
Other taxes.....	0.3		0.1		0.2	200.0
	6,338.0	88.8	5,533.5	88.5	804.5	14.5
Non-tax revenue—						
Return on investments.....	414.0	5.8	366.4	5.9	47.6	13.0
Post office—net postal revenue.....	234.0	3.3	200.7	3.2	33.3	16.6
Other non-tax revenue.....	150.0	2.1	152.6	2.4	—2.6	—1.7
	798.0	11.2	719.7	11.5	78.3	10.9
Total budgetary revenue.....	7,136.0	100.0	6,253.2	100.0	882.8	14.1

1964-65
(estimated) 1963-64

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

Personal income tax.....	432.0	302.6
Corporation income tax.....	143.0	115.7
Sales tax.....	378.0	331.8
	953.0	750.1

⁽²⁾Net after deduction of refunds and drawbacks.

TAX REVENUE

Federal-provincial fiscal arrangements

Under fiscal arrangements, that commenced in 1962, the federal government withdrew in part from the field of direct taxation and left the vacated area to the provinces. The federal government offered to collect provincial income taxes without charge, provided that the provincial personal income tax was expressed as a percentage of the federal personal income tax otherwise payable and the provincial corporation income tax applied to taxable income calculated in the same way as for federal income tax purposes. To allow for the imposition of the provincial income taxes, the Income Tax Act was amended to abate the federal income tax otherwise payable by individuals in all provinces by 16 per cent in 1962, 17 per cent in 1963 and by 18 per cent in 1964. This tax is to be abated by 21 and 24 per cent in 1965 and 1966 respectively in all provinces other than Quebec and it is proposed to abate the federal tax in Quebec by 44 per cent in 1965 and by 47 per cent in 1966. The federal corporation income tax rates are abated by 9 percentage points for taxable income earned in a province other than Quebec and by 10 percentage points for taxable income earned in Quebec. The federal government has entered into tax-collection agreements under which it collects the provincial personal income taxes for all provinces except Quebec and the provincial corporation income taxes for all provinces except 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 each imposed their personal income tax at a rate exceeding the federal abatement by 6 percentage points and their corporation income tax at the rate of 10 instead of 9 per cent of the taxable income of corporations in 1962, 1963 and 1964.

Under these collection agreements, payments are made monthly to the provinces based on an estimate of the provinces' tax revenue. When the actual amounts of assessed returns are established, usually in the month of December following the end of the fiscal year, adjustments are made with the provinces.

Under the 1962-67 fiscal arrangements, the federal government agreed to abate its estate tax by 50 per cent in the fiscal years 1962-63 and 1963-64, and by 75 per cent in the fiscal years 1964-65, 1965-66 and 1966-67 in any province that imposed its own succession duties. To a province that did not wish to re-enter the succession duty field the federal government agreed to pay 50 per cent of the federal estate tax revenue in 1962-63 and 1963-64 and 75 per cent in 1964-65, 1965-66 and 1966-67. During 1962-63, Quebec and Ontario collected their own succession duties while the other provinces received a payment in lieu of imposing duties. Starting in 1963-64, British Columbia imposed its own succession duties. When the abatement was raised to 75 per cent in 1964-65, British Columbia increased its rates accordingly but Quebec and Ontario accepted in lieu of the extra abatement a payment equivalent to 25 per cent of the federal estate tax in those provinces.

Tax on personal income

In 1964-65 the largest source of government revenue is again the personal income tax. The yield (excluding the old age security tax) is \$2,108 million or 30 per cent of all budgetary revenue. The increase of \$243 million or 13 per cent over 1963-64 collections is due principally to the higher level of personal incomes during the year. In addition to the federal revenue, \$362 million was allocated to the provincial tax collection agreements account under the terms of the Federal-Provincial Fiscal Arrangements Act. In 1963-64 federal revenue from this source was \$1,865 million and \$287 million was allocated to the provincial tax collection agreements account.

The tax on personal incomes levied under the Old Age Security Act and credited to the old age security fund is \$432 million compared with \$303 million in 1963-64.

Corporation income tax

The corporation income tax is the second largest source of government revenue. The yield (excluding the old age security tax) is \$1,510 million or 21 per cent of budgetary revenue. The increase of \$251 million or 20 per cent over 1963-64 collections is due mainly to higher corporate profits for the calendar year 1963 upon which corporation income tax collections in 1964-65 are largely based and to the effect during the fiscal year of legislation passed in 1963 which moved forward the payment period for corporation income taxes. In addition to the federal revenue, \$124 million was allocated to the provincial tax collection agreements account under the terms of the Federal-Provincial Fiscal Agreements Act. In 1963-64 federal revenue from this source was \$1,259 million and \$97 million was allocated to the provincial tax collection agreements account.

The tax on incomes of corporations levied under the Old Age Security Act and credited to the old age security fund is \$143 million compared with \$116 million in 1963-64.

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 1964-65 are \$144 million, an increase of \$20 million or 16 per cent over the 1963-64 total. The increase reflects higher dividends paid to non-residents in 1964.

Excise taxes

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

From a revenue standpoint the general sales tax is the most important tax levied under the Excise Tax Act. Receipts therefrom (excluding the old age security tax) are \$1,193 million or about 26 per cent higher than in the previous fiscal year. The increase reflects the imposition, effective June 14, 1963, of a 4 per cent sales tax on building materials and production machinery and equipment and the subsequent increase in the rate of the tax to 8 per cent effective April 1, 1964.

The tax on sales levied under the Old Age Security Act and credited to the old age security fund is \$378 million and includes the 3 per cent tax on building materials and production machinery and equipment effective January 1, 1965.

The yield from excise taxes levied under the Excise Tax Act, other than the general sales tax, at \$270 million is \$3 million less than in 1963-64.

Customs import duties

Receipts from this source are \$617 million compared with \$581 million in 1963-64. The increase of \$36 million or 6 per cent reflects the greater volume and value of imports during 1964-65.

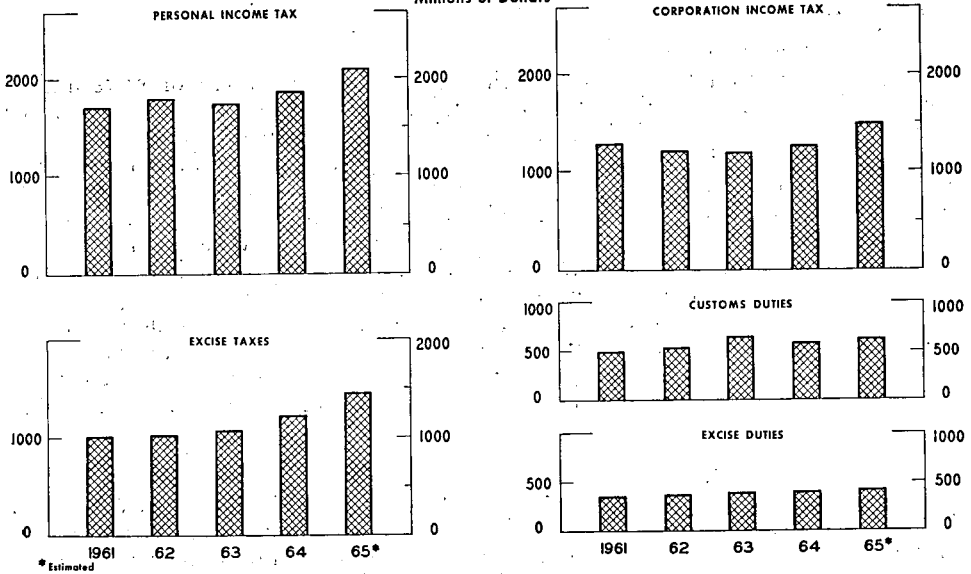
Excise duties

Excise duties are levied on alcoholic beverages, other than wines, and tobacco products. (Additional taxes on tobacco products are levied under the Excise Tax Act.) Net receipts in 1964-65 are \$406 million compared with \$393 million in 1963-64.

Gross receipts of \$241 million from duties on alcoholic beverages (\$135 million in respect of spirits and \$106 million in respect of beer) and \$171 million from duties on tobacco products have been reduced by refunds and drawbacks of \$6 million. Comparable figures in 1963-64 were \$232 million, \$166 million and \$5 million.

PRINCIPAL SOURCES OF TAX REVENUE

Fiscal Years Ended March 31
Millions of Dollars



Estate tax

Revenue in this category is derived under the Estate Tax Act. Net receipts of \$90 million are \$1 million less than in 1963-64. The increase in revenue attributable to growth in the size of estates was more than offset by the effect of the entry of the Province of British Columbia into this field in 1963 and the increased abatement allowed to estates in that province in 1964-65.

Other taxes

Revenue under this heading during the fiscal year is \$300 thousand compared with \$100 thousand in 1963-64.

NON-TAX REVENUE

Non-tax revenue is \$798 million, an increase of \$78 million or 11 per cent over the 1963-64 total.

TABLE 5
(in millions of dollars)

Non-Tax Revenue	Fiscal year ended March 31		Increase or decrease (-)	
	1965 (estimated)	1964	Amount	Per cent
Return on investments.....	414.0	366.4	47.6	13.0
Post office—net postal revenue.....	234.0	200.7	33.3	16.6
Refunds of previous years' expenditure.....	21.0	26.9	-5.9	-21.9
Services and service fees.....	53.0	51.3	1.7	3.3
Proceeds from sales.....	24.0	28.5	-4.5	-15.8
Privileges, licences and permits.....	30.0	27.2	2.8	10.3
Bullion and coinage.....	12.0	9.7	2.3	23.7
Premium, discount and exchange.....	0.2	0.2		
Other.....	9.8	8.8	1.0	11.4
	798.0	719.7	78.3	10.9

Return on investments

These receipts, in an amount of \$414 million, consist of income derived from loans and advances made by the government and from investments by the government in productive or earning assets. In 1963-64 receipts were \$366 million.

TABLE 6
(in millions of dollars)

RETURN ON INVESTMENTS	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Loans to, and investments in, Crown corporations—			
Bank of Canada—profits.....	128.0	116.4	11.6
Canadian National Railways.....	12.7	13.0	-0.3
Canadian Overseas Telecommunication Corporation.....	2.9	2.6	0.3
Central Mortgage and Housing Corporation.....	90.5	85.5	5.0
Eldorado Mining and Refining Limited.....	1.5	2.0	-0.5
Export Credits Insurance Corporation.....	2.1	1.1	1.0
Farm Credit Corporation.....	14.0	10.9	3.1
National Capital Commission.....	2.6	2.3	0.3
National Harbours Board.....	3.6	3.4	0.2
Northern Canada Power Commission.....	2.5	1.6	0.9
Northern Ontario Pipe Line Crown Corporation.....	0.7	1.6	-0.9
Polymer Corporation Limited.....	3.8	3.5	0.3
The St. Lawrence Seaway Authority.....	42.8	2.6	40.2
Miscellaneous.....	0.9	0.5	0.4
	308.6	247.0	61.6
Other loans and investments—			
United Kingdom.....	1.2	21.1	-19.9
Other national governments.....	5.9	5.1	0.8
Provincial governments.....	0.7	1.3	-0.6
Soldier and general land settlement loans and veterans land act advances.....	7.2	7.4	-0.2
Exchange fund account.....	62.0	62.6	-0.6
Securities investment account.....	3.5	1.4	2.1
Sinking fund and other investments held for retirement of unmaturred debt.....	1.7	0.3	1.4
Interest-bearing deposits with chartered banks.....	17.8	13.7	4.1
Profit on bond exchange.....	0.9	2.7	-1.8
Unemployment Insurance Commission.....	0.2	0.2	
Miscellaneous.....	4.3	3.6	0.7
	105.4	119.4	-14.0
	414.0	366.4	47.6

Receipts from Crown corporations at \$309 million are \$62 million more than in the previous year. The main changes are increases of \$12 million in the Bank of Canada profits paid to the government and \$40 million in payments by The St. Lawrence Seaway Authority in respect of deferred interest.

The yield from other loans and investments of \$105 million compares with \$119 million in 1963-64. The decrease of \$14 million is more than accounted for by a reduction of \$20 million in interest received on the loan to the United Kingdom caused by the deferment of the interest payment due December 31 1964.

Post office revenue

Gross post office receipts are \$268 million but authorized disbursements from revenue for salaries and rent allowances, other allowances and commissions 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 \$34 million, brings net revenue to \$234 million. In the previous fiscal year gross revenue was \$236 million, authorized disbursements were \$35

million and net revenue was \$201 million. The increase of \$33 million in net post office receipts is due mainly to increases in several postal rates and in the volume of mail.

TABLE 7
(in millions of dollars)

POST OFFICE REVENUE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Postage—			
In Canada.....	249.7	219.3	30.4
From foreign countries.....	4.5	4.4	0.1
Commission on money orders.....	9.3	8.4	0.9
Rental of post office boxes.....	2.2	2.1	0.1
Other.....	1.8	1.6	0.2
	<i>267.5</i>	<i>235.8</i>	<i>31.7</i>
Less—			
Salaries and allowances at semi-staff and revenue offices.....	—28.8	—30.0	1.2
Transit charges on foreign correspondence.....	—1.3	—1.8	0.5
Other.....	—3.4	—3.3	—0.1
	<i>—35.5</i>	<i>—35.1</i>	<i>1.6</i>
	234.0	200.7	33.3

As costs of operating the Post Office Department during 1964–65 (excluding the \$34 million charged to revenue) amount to \$211 million, net revenue exceeds costs by \$23 million. However, in making this comparison, it should 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 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.

Refunds of previous years' expenditure

Refunds in 1964–65 of expenditures made in prior years are \$21 million, a decrease of \$6 million from the comparable total for 1963–64.

The Department of National Defence received \$12 million due mainly to refunds of \$3 million on defence contracts and a refund of \$5 million from Canadianair Limited of federal sales tax paid by the department, and the Department of Veterans Affairs received \$2 million in refunds of veterans' pensions, allowances and re-establishment credits.

Services and service fees

Revenue at \$53 million during 1964–65 is \$2 million more than the previous fiscal year.

The Department of Transport received \$20 million, including aircraft landing fees of \$11 million, marine steamers earnings of \$4 million, harbour dues and wharfage of \$2 million and air-ground radio service fees of \$2 million; the Royal Canadian Mounted Police received \$15 million for police services mainly to provinces and municipalities; the Department of Agriculture received \$8 million, of which \$5 million was for services in connection with the inspection, weighing, storage and elevation of grain and \$1 million for race track supervision; the Department of National Health and Welfare received \$5 million, due mainly to a reimbursement of \$3 million by the provinces for treatment of Indians in federal government hospitals; and the Department of Trade and Commerce received \$2 million mainly from weights and measures and electricity and gas inspection fees.

Proceeds from sales

Receipts of \$24 million from this source are \$5 million less than the total for 1963-64.

The Department of Defence Production received \$9 million mainly from the sale of surplus Crown assets and Central Mortgage and Housing Corporation received \$5 million from the sale of properties.

Privileges, licences and permits

Revenue from this category totals \$30 million for 1964-65, \$3 million more than receipts of \$27 million in 1963-64.

The Department of Transport received \$13 million mainly for rentals, concessions and radio licence fees; the Department of Northern Affairs and National Resources received \$4 million, of which \$1 million was in respect of oil and gas and \$1 million for transient motor vehicle licences; the Department of Justice received \$3 million for copyright, patent and trademark fees; and the Department of Public Works received \$2 million for rental of public buildings and sites.

Bullion and coinage

Revenue of \$12 million derived from the operations of the Royal Canadian Mint consists mainly of a net gain on coinage. Small amounts are also obtained from gold refining charges, handling charges and gain on gold refining. In 1963-64 revenue from this source was \$10 million.

Other non-tax revenue

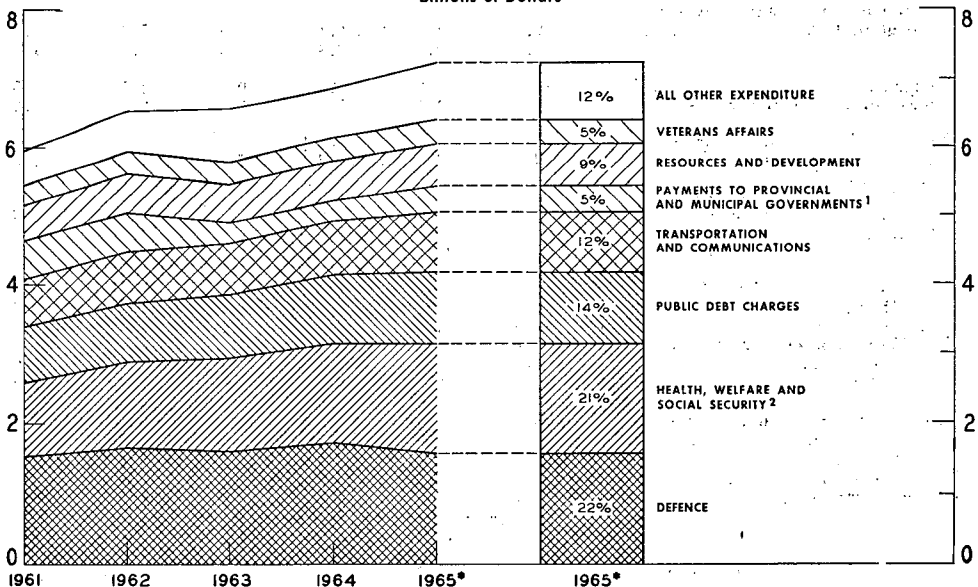
Other non-tax revenue in the amount of \$10 million for 1964-65 is \$1 million more than in 1963-64.

EXPENDITURE

Budgetary expenditure is estimated at \$7,219 million for 1964-65, \$347 million or 5 per cent higher than in 1963-64.

BUDGETARY EXPENDITURE, 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 expenditure in the year in which they were paid.

* Estimated

TABLE 8

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

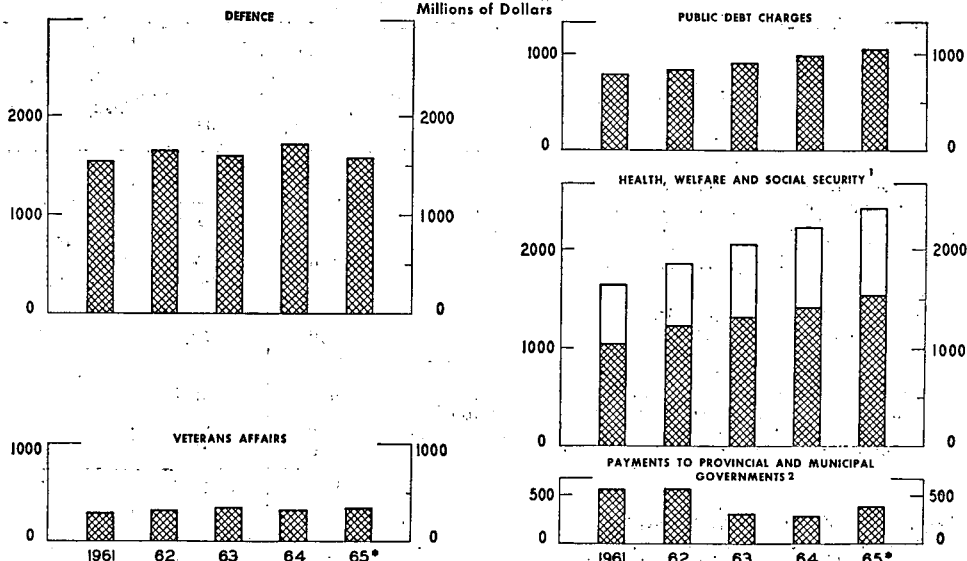
	Fiscal year ended March 31				Increase or decrease (—)	
	1965 (estimated)		1964		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
Defence expenditure—						
National Defence.....	1,539.0	21.3	1,683.5	24.5	—144.5	—8.6
Defence Production ⁽¹⁾	22.0	0.3	20.6	0.3	1.4	6.8
Industry ⁽¹⁾	20.0	0.3	19.0	0.3	1.0	5.3
	1,581.0	21.9	1,723.1	25.1	—142.1	—8.2
Non-defence expenditure—						
Agriculture.....	168.0	2.3	225.7	3.3	—57.7	—25.6
Atomic Energy.....	47.0	0.7	45.9	0.7	1.1	2.4
Canadian Broadcasting Corporation...	88.0	1.2	87.6	1.3	0.4	0.5
Central Mortgage and Housing Cor- poration.....	14.0	0.2	13.5	0.2	0.5	3.7
Citizenship and Immigration.....	83.0	1.1	71.5	1.0	11.5	16.1
External Affairs.....	128.0	1.8	97.0	1.4	31.0	32.0
Finance—						
Public debt charges.....	1,048.2	14.5	993.7	14.5	54.5	5.5
Fiscal, subsidy and other payments to provinces.....	349.7	4.8	254.3	3.7	95.4	37.5
Government's contribution to the public service superannuation account.....	55.6	0.8	54.0	0.8	1.6	3.0
Other.....	120.5	1.7	104.4	1.5	16.1	15.4
	1,574.0	21.8	1,406.4	20.5	167.6	11.9
Fisheries.....	26.0	0.4	23.7	0.3	2.3	9.7
Forestry.....	50.0	0.7	41.8	0.6	8.2	19.6
Justice.....	54.0	0.7	41.0	0.6	13.0	31.7
Labour.....	168.0	2.3	172.3	2.5	—4.3	—2.5
Unemployment Insurance Act ad- ministration and government's contribution.....	116.0	1.6	108.1	1.5	7.9	7.3
	284.0	3.9	280.4	4.0	3.6	1.3
Legislation.....	14.0	0.2	12.9	0.2	1.1	8.5
Mines and Technical Surveys.....	77.0	1.1	67.8	1.0	9.2	13.6
National Health and Welfare—						
Family allowances.....	546.2	7.6	538.3	7.8	7.9	1.5
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	430.0	5.9	392.2	5.7	37.8	9.6
Other.....	324.8	4.5	273.4	4.0	51.4	18.8
	1,301.0	18.0	1,203.9	17.5	97.1	8.1
National Research Council, including the Medical Research Council.....	57.0	0.8	47.3	0.7	9.7	20.5
National Revenue.....	87.0	1.2	83.0	1.2	4.0	4.8
Northern Affairs and National Resources.....	85.0	1.2	77.3	1.1	7.7	10.0
Post Office.....	211.0	2.9	206.9	3.0	4.1	2.0
Public Works.....	213.0	3.0	154.8	2.2	58.2	37.6
Royal Canadian Mounted Police.....	75.0	1.0	66.9	1.0	8.1	12.1
Trade and Commerce.....	72.0	1.0	72.5	1.1	—0.5	—0.7
Transport.....	475.0	6.6	423.3	6.2	51.7	12.2
Veterans Affairs.....	353.0	4.9	333.7	4.9	19.3	5.8
Other Departments.....	102.0	1.4	64.5	0.9	37.5	58.1
	5,638.0	78.1	5,149.3	74.9	488.7	9.5
Total budgetary expenditure....	7,219.0	100.0	6,872.4	100.0	346.6	5.0

⁽¹⁾ Does not include non-defence expenditure which is included in "All Other Departments".

PRINCIPAL CLASSES OF BUDGETARY EXPENDITURE

Fiscal Years Ended March 31

Millions of Dollars



1. The unshaded areas of the columns in the chart for health, welfare and social security represent pension payments out of old age security fund not charged to budgetary expenditure in the year in which they were paid.

2. Does not include those payments made to provincial and municipal governments for specific purposes.

* Estimated

DEFENCE EXPENDITURE

Expenditures of the Department of National Defence and defence expenditures of the Department of Defence Production and the Department of Industry are again the largest category of government expenditure. The total of \$1,581 million for 1964-65 is 22 per cent of the aggregate budgetary expenditure of the government for the year and is \$142 million less than the total of \$1,723 million for 1963-64 when it was 25 per cent of total expenditure.

National Defence

Expenditures of the Department of National Defence are \$1,539 million compared with \$1,684 million in 1963-64.

Expenditures for air services are \$655 million compared with \$701 million in the previous fiscal year, for army services \$434 million compared with \$453 million, for naval services \$273 million compared with \$298 million and for inspection services \$7 million, approximately the same as in the previous year.

The government's contribution to the Canadian forces superannuation account, of an amount equal to 1½ times the contributions of permanent services personnel, is \$59 million, \$1 million less than that in the previous year. A further amount of \$15 million, equal to one fifth of the actuarial deficiency of \$75 million arising out of pay increases, will be charged to budgetary expenditure in 1964-65 upon parliamentary approval.

The expenditure of \$15 million is due to a special contribution of \$75 million credited to the Canadian forces superannuation account and charged to "deferred charges—unamortized portions of actuarial deficiencies" to provide for additional liabilities due to an actuarial evaluation arising out of pay increases. Actuarial deficiencies arising out of pay increases authorized in 1964-65 and subsequent years are to be amortized over a five year period commencing in the year in which the increase is authorized.

Defence research and development costs at \$57 million compare with \$46 million in 1963-64.

TABLE 9
(in millions of dollars)

DEFENCE EXPENDITURE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Department of National Defence—			
Naval services.....	273.0	298.0	—25.0
Army services.....	434.0	452.7	—18.7
Air services.....	655.0	700.8	—45.8
Inspection services.....	7.0	7.3	—0.3
	1,369.0	1,458.8	—89.8
Canadian forces superannuation account—			
Government's contribution.....	59.0	59.7	—0.7
Amortization of deferred charges.....	15.0		15.0
Special government contribution.....		76.5	—76.5
Defence research and development.....	57.0	46.1	10.9
Mutual aid to NATO countries including contributions towards military costs of NATO.....	27.0	28.9	—1.9
Administration and general.....	12.0	13.5	—1.5
	1,539.0	1,683.5	—144.5
Department of Defence Production ⁽¹⁾ —			
Canadian Arsenals Limited.....	4.6	4.5	0.1
Defence Construction (1951) Limited.....	2.4	2.5	—0.1
Production capacity and capital assistance.....	1.0	1.2	—0.2
Administration and general.....	14.0	12.4	1.6
	22.0	20.6	1.4
Department of Industry ⁽¹⁾ —			
Technological capability.....	20.0	19.0	1.0
	1,581.0	1,723.1	—142.1

⁽¹⁾See also under "All Other Departments" at the end of this section.

Mutual aid to NATO countries including contributions towards military costs of NATO at \$27 million is \$2 million less than in 1963–64.

Defence Production

Defence expenditures of the Department of Defence Production including those for Canadian Arsenals Limited and Defence Construction (1951) Limited total \$22 million compared with \$21 million in 1963–64.

Industry

Defence expenditures of the Department of Industry are \$20 million, an increase of \$1 million over the previous year. The increase is due to higher outlays in connection with the government program instituted in 1959–60 of supporting selected defence development programs in order to sustain technological capability in Canada's industry.

Cash outlays for defence

In addition to these budgetary expenditures for defence, there are other cash outlays which must be considered in arriving at the cost of Canada's defence program.

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 are credited to

a special account to be used for the procurement of materiel. In 1964-65 credits to, and cash outlays from, the account are each less than \$500 thousand. The balance in the account at March 31, 1965 is \$1 million, approximately the same as at the previous fiscal year-end.

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 charged to the Department of National Defence or sold to defence contractors for use in the manufacture of defence equipment. During 1964-65 purchases of \$85 million exceeded proceeds from sales of \$84 million bringing the balance in the account at March 31, 1965 to \$29 million.

TABLE 10
(in millions of dollars)

CASH OUTLAYS FOR DEFENCE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Budgetary expenditures—			
Department of National Defence.....	1,539.0	1,683.5	-144.5
Department of Defence Production ⁽¹⁾	22.0	20.6	1.4
Department of Industry ⁽¹⁾	20.0	19.0	1.0
	1,581.0	1,723.1	-142.1
Disbursements for—			
Defence production revolving fund (net).....	1.4	-11.3	12.7
Replacement of materiel account—sec. 11, National Defence Act (net).....		0.1	-0.1
	1.4	-11.2	12.6
Net cash outlay for defence.....	1,582.4	1,711.9	-129.5

⁽¹⁾See also under "All Other Departments" at the end of this section.

NON-DEFENCE EXPENDITURE

Agriculture

The expenditures of the Department of Agriculture amount to \$168 million, a decrease of \$58 million from the 1963-64 total of \$226 million.

A decrease of \$65 million in the operating loss of the agricultural stabilization board is offset in part by increases of \$4 million in land rehabilitation, irrigation and water storage projects and \$3 million in production and marketing costs.

The decrease in the operating loss of the agricultural stabilization board is due mainly to the fact that the 1963-64 loss included an inventory adjustment of \$51 million.

Outlays for production and marketing are \$42 million, an increase of \$3 million over the 1963-64 expenditures.

Research expenditures at \$29 million compare with \$28 million in the previous year.

Expenditures for land rehabilitation, irrigation and water storage projects total \$28 million, an increase of \$4 million over the 1963-64 outlays.

TABLE 11
(in millions of dollars)

AGRICULTURE	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Agricultural stabilization board—net operating loss.....	57.0	122.2	-65.2
Production and marketing—			
Animal and animal products.....	17.3	16.2	1.1
Plant and plant products.....	8.7	7.0	1.7
Health of animals.....	13.3	13.2	0.1
Administration and general.....	2.4	2.1	0.3
	41.7	38.5	3.2
Board of grain commissioners.....	6.8	6.7	0.1
Land rehabilitation, irrigation and water storage projects.....	27.5	23.7	3.8
Research.....	28.9	27.6	1.3
Prairie farm emergency fund—deficit.....	0.4	1.1	-0.7
Agricultural products board—net operating loss.....	0.3	1.0	-0.7
Farm credit corporation—net operating loss.....	1.5	1.1	0.4
Administration and general.....	3.9	3.8	0.1
	168.0	225.7	-57.7

Atomic Energy

Budgetary expenditures in respect of Atomic Energy of Canada Limited and the Atomic Energy Control Board are \$47 million compared with \$46 million in 1963-64.

During the fiscal year 1964-65, Atomic Energy of Canada Limited received \$46 million from the Government of Canada in respect of its research program. Of this amount \$35 million is for current operation and maintenance and \$11 million for construction or acquisition of buildings, works, land and equipment. In 1963-64 the company received \$45 million of which \$31 million was for current operation and maintenance and \$14 million for construction or acquisition.

TABLE 12
(in millions of dollars)

ATOMIC ENERGY	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Atomic Energy of Canada Limited—			
Research program—			
Current operation and maintenance.....	35.0	31.4	3.6
Construction or acquisition of buildings, works, land and equipment.....	10.5	13.5	-3.0
	45.5	44.9	0.6
Atomic Energy Control Board—			
Grants for research.....	1.4	0.9	0.5
Administration.....	0.1	0.1	
	1.5	1.0	0.5
	47.0	45.9	1.1

Atomic Energy of Canada Limited also received \$5 million which is charged to expenditures of the external aid office of the Department of External Affairs on behalf of the Government of India for information and design data on nuclear power stations.

Canadian Broadcasting Corporation

Payments of \$88 million by the government to the Canadian Broadcasting Corporation and charged to budgetary expenditure are approximately the same amount as in 1963-64.

Grants for net operating requirements are \$86 million, \$8 million more than in 1963-64. There are no grants for capital requirements in 1964-65 compared with \$7 million in 1963-64.

In addition loans of \$14 million were made to the corporation for capital expenditure.

TABLE 13
(in millions of dollars)

CANADIAN BROADCASTING CORPORATION	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Grants in respect of national broadcasting service—			
Net operating requirements.....	85.9	78.4	7.5
Capital requirements.....	85.9	7.3	-7.3
	2.1	85.7	0.2
International broadcasting service.....		1.9	0.2
	88.0	87.6	0.4

Central Mortgage and Housing Corporation

The budgetary expenditures of the government in respect of Central Mortgage and Housing Corporation at \$14 million are approximately the same as in 1963-64.

Loans in the amount of \$7 million, originally made to municipalities and municipal sewerage corporations, were forgiven by Central Mortgage and Housing Corporation pursuant to section 36G of the National Housing Act and will be written off to budgetary expenditure upon parliamentary approval.

Contributions of \$4 million to municipalities to assist in clearance, re-planning, rehabilitation and modernization of blighted or sub-standard areas are approximately the same as in 1963-64.

TABLE 14
(in millions of dollars)

CENTRAL MORTGAGE AND HOUSING CORPORATION	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Loans forgiven by the corporation.....	7.0	5.8	1.2
Contributions to municipalities to assist in clearance, replanning, etc.....	4.0	3.8	0.2
Losses sustained—			
Federal-provincial projects.....	1.4	1.4	
Sale of mortgages.....	0.4	1.0	-0.6
	1.8	2.4	-0.6
Housing research and community planning.....	1.2	1.1	0.1
Construction of national defence housing.....		0.4	-0.4
	14.0	13.5	0.5

Citizenship and Immigration

Expenditures of the Department of Citizenship and Immigration (which includes Indian affairs) in the amount of \$83 million are \$12 million more than the 1963-64 total.

Indian affairs expenditures are \$65 million, \$10 million more than the previous fiscal year due to increases of \$5 million in respect of education, \$3 million for welfare, \$2 million in administration and general costs and \$1 million for Indian agencies and a decrease of \$1 million for economic development.

Immigration expenditures of \$15 million are \$1 million higher than in the previous year.

TABLE 15
(in millions of dollars)

CITIZENSHIP AND IMMIGRATION	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Indian affairs—			
Education.....	35.8	31.3	4.5
Welfare.....	17.0	13.6	3.4
Indian agencies.....	6.4	5.7	0.7
Economic development.....	2.6	3.5	-0.9
Administration and general.....	3.5	1.5	2.0
	65.3	65.6	9.7
Immigration.....	14.6	13.2	1.4
Citizenship.....	1.9	1.6	0.3
Administration and general.....	1.2	1.1	0.1
	83.0	71.5	11.5

External Affairs

Expenditures of the Department of External Affairs are \$128 million for 1964-65, \$31 million more than the previous year's total due mainly to outlays of \$77 million by the external aid office which are \$26 million more than in 1963-64.

TABLE 16
(in millions of dollars)

EXTERNAL AFFAIRS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
External aid office—			
Economic, technical, education and other assistance—			
Colombo plan.....	48.5	41.5	7.0
Grant to India re purchase of wheat.....	7.0		7.0
Miscellaneous.....	20.9	9.6	11.3
Administration.....	1.0	0.6	0.4
	77.4	51.7	25.7
Representation abroad.....	17.5	16.5	1.0
Contributions to international multilateral economic and special aid programs.....	9.7	7.6	2.1
Assessment for membership in international (including com- monwealth) organizations.....	9.5	8.7	0.8
Other payments to international organizations and programs.....	1.0	2.9	-1.9
Administration and general.....	12.9	9.6	3.3
	128.0	97.0	31.0

Included in the expenditures of the external aid office is a payment of \$5 million to Atomic Energy of Canada Limited on behalf of the Government of India for information and design data on nuclear power stations:

Finance

Expenditures for the Department of Finance are \$1,574 million compared with \$1,406 million in 1963-64.

The main changes resulting in the net increase of \$168 million are increases of \$95 million in payments to provinces and \$55 million in public debt charges.

TABLE 17
(in millions of dollars)

FINANCE	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Public debt charges.....	1,048.2	993.7	54.5
Fiscal subsidy and other payments to provinces.....	349.7	254.3	95.4
Public service superannuation account—			
Government's contribution.....	55.6	54.0	1.6
Amortization of deferred charges.....	10.0	31.5	10.0
	65.6	84.0	11.6
Grants to municipalities in lieu of taxes on federal property..	34.0	31.5	2.5
Grants to universities—			
Payments to the Canadian Universities Foundation....	27.1	26.8	0.3
Office of the Comptroller of the Treasury.....	25.0	23.8	1.2
Government's share of medical-surgical insurance premiums.	9.3	9.3	
Government's contribution as an employer to the unemployment insurance fund.....	0.8	0.8	
Municipal development and loan board—forgiveness of indebtedness.....	2.5		2.5
Administration and general.....	11.8	12.2	-0.4
	1,574.0	1,406.4	167.6

Public debt charges

Public debt charges are again the third largest item of budgetary expenditure being surpassed only by those for defence and those for health, welfare and social security.

TABLE 18
(in millions of dollars)

INTEREST AND OTHER PUBLIC DEBT CHARGES	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Interest on public debt—			
Unmatured debt including treasury bills—			
Payable in Canada.....	781.0	745.3	35.7
Payable in London.....		0.3	-0.3
Payable in New York.....	16.0	16.4	-0.4
	797.0	762.0	35.0
Other liabilities—			
Annuity, insurance and pension accounts.....	208.0	189.4	18.6
Deposit and trust accounts.....	3.0	3.1	-0.1
	211.0	192.5	18.5
Total interest on public debt.....	1,008.0	954.5	53.5
Other public debt charges—			
Annual amortization of bond discounts and commissions	37.0	36.3	0.7
Cost of issuing new loans.....	1.9	1.9	
Servicing of public debt.....	1.3	1.0	0.3
	40.2	39.2	1.0
	1,048.2	993.7	54.5

Public debt charges 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. These charges are \$1,048 million for 1964-65 or 14 per cent of all budgetary expenditures compared with \$994 million or 14 per cent for 1963-64.

Interest on public debt amounts to \$1,008 million of which \$797 million is in respect of unmatured debt and \$211 million in respect of other liabilities. In 1963-64 the comparable amounts were \$955 million, \$762 million and \$193 million respectively.

The increase of \$35 million in interest on unmatured debt is due to an increase in unmatured debt. The increase in interest on other liabilities is due mainly to increases of \$6 million in respect of the public service superannuation account and \$8 million in respect of the Canadian forces superannuation account.

Other public debt charges at \$40 million are \$1 million higher than in 1963-64, mainly attributable to annual amortization of bond discounts and commissions.

When considering the magnitude of these public debt charges and the burden they place upon the public treasury, it must be borne in mind that a substantial portion of the debt is attributable to, or is invested in, productive or earning assets. Therefore, in calculating the *net* burden of the government's annual interest charges, the income derived from loans, investments and other productive assets must be taken into account. For 1964-65 this income totals \$414 million as shown in the non-tax revenue section under the heading "return on investments". This amount deducted from the gross total of \$1,008 million for interest as shown in the accompanying table leaves a net amount of \$594 million compared with a net of \$588 million in 1963-64. Measured as a percentage of the net debt the burden of the net annual interest charges is 3.82 per cent in 1964-65 compared with 3.90 per cent in 1963-64.

TABLE 19
(in millions of dollars)

NET BURDEN OF ANNUAL INTEREST CHARGES	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Total interest on public debt.....	1,008.0	954.5	53.5
Less return on investments.....	-414.0	-366.4	-47.6
Net interest cost.....	594.0	588.1	5.9
Net interest cost as a percentage of net debt.....	3.82	3.90	

Fiscal, subsidy and other payments to provinces

Payments to provinces in the amount of \$350 million are \$95 million more than in 1963-64.

However, in addition to the above payments, \$486 million in provincial income taxes collected by the federal government on behalf of the provinces has been allocated to the provincial tax collection agreements account under the terms of the Federal-Provincial Fiscal Arrangements Act. A more detailed explanation of these arrangements is given in the tax revenue section of this Part.

TABLE 20
(in millions of dollars)

FISCAL, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Payments under Federal-Provincial Fiscal Arrangements Act	311.7	220.9	90.8
Statutory subsidies	23.6	23.6	
Transfer of certain public utility tax receipts	10.6	9.8	0.8
Crown Corporations (Provincial Taxes and Fees) Act	3.8		3.8
	349.7	254.3	95.4

A summary of payments, by provinces, during 1964-65 is given in the following table:

TABLE 21
(in millions of dollars)

FISCAL, SUBSIDY AND OTHER PAYMENTS TO PROVINCES	Fiscal year ended March 31, 1965 (estimated)				
	Payments under fiscal arrangements	Statutory subsidies	Transfer of certain public utility tax receipts	Crown Corporations (Provincial Taxes and Fees) Act	Total
Newfoundland	37.4	1.7	0.2	0.4	39.7
Nova Scotia	40.3	2.1	0.7	0.2	43.3
Prince Edward Island	9.1	0.6	0.1	(^a)	9.8
New Brunswick	35.9	1.8	(^a)	(^a)	37.7
Quebec	113.2	4.0	5.0	1.7	123.9
Ontario	15.1	4.6	1.1	1.1	21.9
Manitoba	25.5	2.1	0.1	(^a)	27.7
Saskatchewan	25.6	2.1	(^a)	(^a)	27.7
Alberta	9.6	2.9	2.9	(^a)	15.4
British Columbia		1.7	0.5	0.4	2.6
Yukon Territory				(^a)	(^a)
	311.7	23.6	10.6	3.8	349.7

(^a) Less than \$50,000.

Public service superannuation account

The government's contribution to the public service superannuation account, in an amount equal to the estimated current and prior service payments of individuals in 1963-64, is \$56 million in 1964-65. In 1963-64 the government's contribution was \$54 million.

A further amount of \$10 million, equal to one fifth of the actuarial deficiency of \$50 million arising out of pay increases, will be charged to budgetary expenditure in 1964-65 upon parliamentary approval.

The expenditure of \$10 million is due to a special contribution of \$50 million credited to the public service superannuation account and charged to "deferred charges—unamortized portions of actuarial deficiencies" to provide for additional liabilities due to an actuarial evaluation arising out of pay increases. Actuarial deficiencies arising out of pay increases authorized in 1963-64 are to be amortized over a five year period commencing in 1964-65 and those arising out of pay increases authorized in 1964-65 and subsequent years are to be amortized over a five year period commencing in the year in which the increase is authorized.

Municipal development and loan board—forgiveness of indebtedness

The municipal development and loan board, during the fiscal year 1964-65, forgave loans to municipalities in the amount of \$1 million and provided a reserve of \$2 million for forgiveness of indebtedness in accordance with sec. 11 of the Municipal Development and Loan Act.

Fisheries

Expenditures of the Department of Fisheries are \$26 million in 1964-65, an increase of \$2 million over the 1963-64 total.

TABLE 22
(in millions of dollars)

FISHERIES	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Fisheries management and development—			
Conservation and development service.....	7.9	8.0	-0.1
Inspection service.....	2.2	2.2	
Canadian share of the expenses of international com- missions.....	1.3	1.1	0.2
Newfoundland bait service.....	1.0	1.7	-0.7
Other.....	4.6	3.2	1.4
	17.0	16.2	0.8
Fisheries Research Board of Canada.....	7.5	6.2	1.3
Administration and general.....	1.5	1.3	0.2
	26.0	23.7	2.3

Forestry

Expenditures of the Department of Forestry amount to \$50 million in 1964-65 compared with \$42 million in 1963-64.

The increase of \$8 million is due mainly to higher expenditures in respect of land rehabilitation, irrigation and water storage projects under the Maritime Marshland Rehabilitation Act and the Agricultural Rehabilitation and Development Act which are \$10 million in 1964-65 compared with \$5 million in 1963-64.

TABLE 23
(in millions of dollars)

FORESTRY	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Freight assistance and grain storage costs on western feed grains.....	19.5	18.7	0.8
Contributions to the provinces—			
Assistance in forest inventory, reforestation, forest fire protection and forest stand improvement.....	5.3	4.5	0.8
Forest access road construction.....	3.1	3.6	-0.5
	8.4	8.1	0.3
Forest entomology and pathology branch.....	5.5	5.5	
Forest research branch.....	3.1	2.5	0.6
Forest products research branch.....	1.7	1.2	0.5
Land rehabilitation, irrigation and water storage projects...	10.0	4.6	5.4
Administration and general.....	1.8	1.2	0.6
	50.0	41.8	8.2

Justice

Expenditures of the Department of Justice at \$54 million in 1964-65 are \$13 million higher than in 1963-64, due mainly to outlays for construction or acquisition of buildings, works, land and equipment in respect of correctional services.

TABLE 24
(in millions of dollars)

JUSTICE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Legal and other services—			
Judges salaries, allowances and pensions.....	8.6	7.7	0.9
Patents, copyrights and trademarks.....	3.0	2.6	0.4
Administration and general.....	2.9	2.9	
	14.5	13.2	1.3
Correctional services—			
Administration, operation and maintenance.....	25.5	21.8	3.7
Construction and acquisition.....	14.0	6.0	8.0
	39.5	27.8	11.7
	54.0	41.0	13.0

Labour

Expenditures of the Department of Labour, including the Unemployment Insurance Commission, total \$284 million in 1964-65 compared with \$280 million in 1963-64.

TABLE 25
(in millions of dollars)

LABOUR	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Payments to provinces authorized by the Technical and Vocational Training Assistance Act.....	105.0	136.4	-31.4
Municipal winter works incentive program.....	36.9	26.7	10.2
Payments under the Government Employees Compensation Act.....	2.8	2.5	0.3
Winter house building program.....	14.5	0.1	14.4
Payments under the Vocational Rehabilitation of Disabled Persons Act.....	1.9	0.7	1.2
Administration and general.....	6.9	5.9	1.0
	168.0	172.3	-4.3
Unemployment Insurance Commission—			
Government's contribution to the fund.....	62.0	59.3	2.7
Administration and general.....	54.0	48.8	5.2
	116.0	108.1	7.9
	284.0	280.4	3.6

Under the winter house building program payments are made, in accordance with terms and conditions approved by the Governor in Council, of \$500 per dwelling unit substantially built during the periods December 1, 1963 to April 15, 1964 and November 15, 1964 to March 31, 1965. In 1964-65 payments amount to \$15 million compared with less than \$100 thousand in 1963-64.

Payments under the municipal winter works incentive program to provinces and in respect of Indian bands are \$37 million in 1964-65, \$10 million higher than in 1963-64.

Payments of \$105 million to provinces under the Technical and Vocational Training Assistance Act are \$31 million less than the 1963-64 total.

Unemployment Insurance Commission

Administration and general costs of the commission amount to \$54 million compared with \$49 million in 1963-64. The government's contribution to the fund is \$62 million compared with \$59 million in 1963-64.

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

Legislation

Costs of Legislation in 1964-65 at \$14 million are \$1 million more than the 1963-64 total.

TABLE 26
(in millions of dollars)

LEGISLATION	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
House of Commons.....	11.0	10.1	0.9
The Senate.....	2.6	2.5	0.1
Library of Parliament.....	0.4	0.3	0.1
	14.0	12.9	1.1

Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys at \$77 million are \$9 million more than the 1963-64 total.

TABLE 27
(in millions of dollars)

MINES AND TECHNICAL SURVEYS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Dominion coal board.....	23.2	20.6	2.6
Emergency gold mining assistance.....	15.6	15.0	0.6
Field and air surveys.....	6.9	6.7	0.2
Marine surveys and research.....	10.0	7.0	3.0
Geological research.....	7.1	6.6	0.5
Mining and metallurgical investigations and research.....	5.8	5.3	0.5
Research in astronomy and geophysics.....	3.1	2.4	0.7
Polar continental shelf.....	1.6	1.5	0.1
Administration and general.....	3.7	2.7	1.0
	77.0	67.8	9.2

Outlays of \$23 million for the Dominion Coal Board consist mainly of payments in connection with the movement of coal under conditions prescribed by the Governor in Council and to a lesser extent to subventions in respect of eastern coal under agreements entered into pursuant to the Atlantic Provinces Power Development Act. In 1963-64 these payments totalled \$21 million.

Payments of \$16 million under the Emergency Gold Mining Assistance Act are \$1 million higher than in 1963-64.

Outlays of \$10 million for marine surveys and research consist of \$7 million for administration, operation and maintenance and \$3 million for construction or acquisition of buildings, works, land and equipment. In 1963-64 comparable amounts were \$7 million, \$6 million and \$1 million.

National Health and Welfare

Expenditures of the Department of National Health and Welfare are \$1,301 million, an increase of \$97 million over the 1963-64 total.

Welfare services account for \$767 million, an increase of \$51 million over 1963-64 and health services account for \$494 million, an increase of \$42 million.

TABLE 28
(in millions of dollars)

NATIONAL HEALTH AND WELFARE	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Welfare services—			
Family allowances.....	546.2	538.3	7.9
Youth allowances.....	27.2		27.2
Old age assistance.....	45.2	39.2	6.0
Blind persons allowances.....	5.6	5.0	0.6
Disabled persons allowances.....	23.3	20.2	3.1
Unemployment assistance.....	111.0	107.4	3.6
Fitness and amateur sport.....	3.0	1.6	1.4
Other.....	5.3	4.1	1.2
	766.8	715.8	51.0
Health services—			
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	430.0	392.2	37.8
Grants to provinces—			
General health.....	35.5	31.0	4.5
Hospital construction.....	22.0	22.0	
Other.....	6.8	6.9	-0.1
	494.8	452.1	42.2
Medical services.....	33.2	30.6	2.6
Food and drug services.....	4.4	3.4	1.0
Administration and general.....	2.3	2.0	0.3
	1,301.0	1,203.9	97.1

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 of age and \$8 in the age group 10 to 15. Children of immigrants receive family assistance at the same rates during their first year of residence in Canada from appropriations of the Department of Citizenship and Immigration.

In 1964-65 payments of \$546 million account for 8 per cent of all budgetary expenditure compared with \$538 million and 8 per cent in 1963-64. The increase of \$8 million reflects the increase in the number of children in the eligible age groups.

TABLE 29
(in millions of dollars)

FAMILY ALLOWANCES PAYMENTS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Newfoundland.....	16.9	16.7	0.2
Nova Scotia.....	21.8	21.8	
Prince Edward Island.....	3.3	3.3	
New Brunswick.....	19.1	19.2	-0.1
Quebec.....	164.1	162.2	1.9
Ontario.....	179.0	175.5	3.5
Manitoba.....	26.0	25.7	0.3
Saskatchewan.....	26.9	26.7	0.2
Alberta.....	42.1	41.2	0.9
British Columbia.....	45.7	44.7	1.0
Northwest and Yukon Territories.....	1.3	1.3	
	546.2	538.3	7.9

Youth allowances

An Act to provide for the payment of Youth Allowances was given Royal Assent on July 16, 1964.

Under provisions of this act payments of \$10 per month are payable in respect of all persons resident in Canada who have attained the age of 16 years and have not attained the age of 18 years who are in full time attendance at a school or university or are by reason of mental or physical infirmity precluded from attending school or university. Payments were effective from September 1964. During 1964-65 payments amount to \$27 million.

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 \$75 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 \$75 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 \$75 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 \$75 per month for allowances to disabled persons in need 18 years of age or over. In 1964-65 payments for old age assistance of \$45 million, for disabled persons allowances of \$23 million and for blind persons allowances of \$6 million compare with \$39 million, \$20 million and \$5 million respectively in 1963-64.

These increases resulted from 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 \$65 to \$75 per month, effective December 1, 1963.

Under the Unemployment Assistance Act, the Minister may, with the approval of the Governor in Council, enter into an agreement with any province for the payment by Canada to the province of contributions not exceeding 50 per cent of unemployment assistance costs in the province. All provinces have signed agreements with the federal government. Contributions in 1964-65 in the amount of \$111 million compare with \$107 million in 1963-64.

The following table presents a distribution of these payments to provinces for 1964-65:

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, 1965 (estimated)			
	Old age assistance	Disabled persons allowances	Blind persons allowances	Unemployment assistance
Newfoundland.....	2.2	0.8	0.3	4.8
Nova Scotia.....	2.3	1.4	0.5	1.9
Prince Edward Island.....	0.5	0.4	0.1	0.3
New Brunswick.....	2.3	1.0	0.4	1.8
Quebec.....	16.7	9.1	1.9	40.5
Ontario.....	10.5	7.3	1.2	25.4
Manitoba.....	2.4	0.7	0.3	5.3
Saskatchewan.....	2.3	0.8	0.2	4.9
Alberta.....	2.9	0.8	0.3	8.8
British Columbia.....	3.0	1.0	0.4	17.2
Northwest and Yukon Territories.....	0.1	(1)	(1)	0.1
	45.2	23.3	5.6	111.0

(1) Less than \$50,000.

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

Contributions of \$430 million to the provinces under the Hospital Insurance and Diagnostic Services Act are \$38 million higher than the 1963-64 total of \$392 million.

TABLE 31
(in millions of dollars)

GOVERNMENT'S CONTRIBUTIONS UNDER THE HOSPITAL INSURANCE AND DIAGNOSTIC SERVICES ACT	Fiscal year ended March 31		Increase
	1965 (estimated)	1964	
Newfoundland.....	9.9	8.7	1.2
Nova Scotia.....	15.2	15.2	
Prince Edward Island.....	2.1	1.9	0.2
New Brunswick.....	14.2	12.6	1.6
Quebec.....	123.2	113.9	9.3
Ontario.....	152.1	136.0	16.1
Manitoba.....	20.6	19.7	0.9
Saskatchewan.....	23.0	21.3	1.7
Alberta.....	32.9	28.3	4.6
British Columbia.....	35.9	33.7	2.2
Northwest and Yukon Territories.....	0.9	0.9	
	430.0	392.2	37.8

General health grants and hospital construction grants to provinces

Grants to provinces for general health services total \$36 million and for hospital construction \$22 million in 1964-65 compared with \$31 million and \$22 million respectively in 1963-64.

TABLE 32
(in millions of dollars)

GENERAL HEALTH GRANTS AND HOSPITAL CONSTRUCTION GRANTS	Fiscal year ended March 31, 1965 (estimated)		
	General health grants	Hospital construction grants	Total
Newfoundland.....	1.0	0.5	1.5
Nova Scotia.....	1.7	0.9	2.6
Prince Edward Island.....	0.3	(1)	0.3
New Brunswick.....	1.3	1.0	2.3
Quebec.....	10.6	6.0	16.6
Ontario.....	10.7	6.9	17.6
Manitoba.....	2.0	1.1	3.1
Saskatchewan.....	1.8	1.2	3.0
Alberta.....	2.7	2.5	5.2
British Columbia.....	3.3	1.9	5.2
Northwest and Yukon Territories.....	0.1	(1)	0.1
	35.5	22.0	57.5

(1) Less than \$50,000.

National Research Council, including the Medical Research Council

Expenditures of the National Research Council, including the Medical Research Council, are \$57 million compared with \$47 million for 1963-64. An increase of \$6 million in scholarships and grants in aid of research account for most of the change.

TABLE 33
(in millions of dollars)

NATIONAL RESEARCH COUNCIL, INCLUDING THE MEDICAL RESEARCH COUNCIL	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Scholarships and grants in aid of research.....	23.6	17.7	5.9
Construction or acquisition of buildings, works, land and equipment.....	4.8	4.4	0.4
Assistance towards research in industry.....	2.2	1.6	0.6
Administration and general.....	26.4	23.6	2.8
	57.0	47.3	9.7

National Revenue

Expenditures of the Department of National Revenue amount to \$87 million, an increase of \$4 million over the 1963-64 total.

TABLE 34
(in millions of dollars)

NATIONAL REVENUE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Customs and excise division.....	44.0	42.3	1.7
Taxation division.....	42.7	40.5	2.2
Income tax appeal board.....	0.3	0.2	0.1
	87.0	83.0	4.0

Northern Affairs and National Resources

Expenditures of the Department of Northern Affairs and National Resources at \$85 million are \$8 million more than 1963-64 expenditures.

TABLE 35
(in millions of dollars)

NORTHERN AFFAIRS AND NATIONAL RESOURCES	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Northern administration branch.....	35.1	34.1	1.0
National parks branch.....	27.2	23.0	4.2
Water resources branch.....	12.3	10.3	2.0
Contributions to the provinces to assist in the development of roads leading to resources.....	8.6	8.1	0.5
Administration and general.....	1.8	1.8	
	85.0	77.3	7.7

Expenditures in respect of the national parks branch increased by \$4 million due mainly to an increase of \$3 million in construction costs.

The increase of \$2 million in expenditures of the water resources branch was due to an increase of \$1 million in administration costs and \$1 million in contributions to provinces towards the construction of dams and other works to assist in the conservation and control of water resources in accordance with agreements entered into between Canada and the provinces.

Post Office

Costs of the Post Office Department charged to budgetary expenditure are \$211 million compared with \$207 million in 1963-64.

TABLE 36
(in millions of dollars)

POST OFFICE	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
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.....	136.0	135.6	0.4
Transportation—movement of mail by land, air and water.....	68.8	65.9	2.9
Financial services.....	3.5	3.3	0.2
Administration and general.....	2.7	2.1	0.6
	211.0	206.9	4.1
Charged to revenue—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub- offices and other disbursements.....	33.5	35.1	-1.6
	244.5	242.0	2.5

Costs of operations at \$136 million are approximately the same as in the previous year and costs of movement of mail are \$3 million more than in 1963-64.

Remuneration of postmasters and staffs at revenue and semi-staff offices and certain other authorized disbursements are paid from revenue. These payments at \$34 million (\$1 million less than in 1963-64) bring gross post office expenditures to \$245 million in 1964-65.

Public Works

Expenditures of the Department of Public Works amount to \$213 million, \$58 million more than in 1963-64.

TABLE 37
(in millions of dollars)

PUBLIC WORKS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Accommodation services—			
Maintenance and operation of public buildings and grounds—			
Ottawa and Hull.....	20.2	18.8	1.4
Other than Ottawa and Hull.....	31.0	27.5	3.5
Office furniture and furnishings.....	2.3	1.8	0.5
Acquisition of equipment and furnishings other than office furnishings.....	1.6	0.6	1.0
Construction, acquisition, major repairs, etc. of public buildings—			
Ottawa.....	12.4	11.4	1.0
Other than Ottawa.....	17.6	14.2	3.4
	85.1	74.3	10.8
Harbours and rivers engineering services—			
Operation and maintenance.....	6.6	6.8	-0.2
Construction or acquisition of equipment.....	0.7	0.4	0.3
Construction, acquisition, major repairs, etc. of harbour and river works.....	20.9	16.4	4.5
	28.2	23.6	4.6
Roads, bridges and other engineering services—			
Operation and maintenance.....	0.4	0.4	
International, interprovincial and other bridges.....	2.8	2.6	0.2
Northwest highway system.....	9.3	0.1	9.2
Trans-Canada highway—			
Contributions to provinces under terms of the Trans-Canada Highway Act.....	74.1	39.2	34.9
Construction through national parks.....	0.2	2.1	-1.9
	86.8	44.4	42.4
Testing laboratories.....	1.1	1.0	0.1
Administration and general.....	11.8	11.5	0.3
	213.0	154.8	58.2

Accommodation services

Expenditures for these services are \$85 million, \$11 million higher than the 1963-64 total.

Maintenance and operation of public buildings, etc. at \$53 million are \$5 million higher, acquisition of equipment, etc. at \$2 million are \$1 million higher and construction or acquisition of buildings, etc. at \$30 million are \$4 million higher than in 1963-64.

Harbours and rivers engineering services

Expenditures for these services total \$28 million, \$5 million higher than in 1963-64 due mainly to an increase in costs of construction or acquisition, etc. of harbour and river works which are \$21 million compared with \$16 million in the previous year.

Roads, bridges and other engineering services

Expenditures for these services total \$87 million, \$42 million higher than in 1963-64.

Contributions to provinces in respect of the trans-Canada highway of \$74 million are \$35 million higher, outlays of \$9 million in respect of the north-west highway system are \$9 million higher and costs of constructing the trans-Canada highway through national parks at \$200 thousand are \$2 million lower than in 1963-64.

Royal Canadian Mounted Police

Expenditures of the Royal Canadian Mounted Police are \$75 million in 1964-65 compared with \$67 million in 1963-64. Arising from these expenditures are receipts of \$15 million, which are credited to revenue, for policing certain provinces, territories and municipalities. In 1963-64 the same amount was received and credited to revenue.

Included in the headquarters administration costs is an amount of \$700 thousand, equal to one fifth of the actuarial deficiency of \$3½ million in the Royal Canadian Mounted Police superannuation account due to an actuarial evaluation arising out of pay increases, which will be charged to budgetary expenditure in 1964-65 upon parliamentary approval.

TABLE 38
(in millions of dollars)

ROYAL CANADIAN MOUNTED POLICE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Land, air and training divisions.....	56.1	49.6	6.5
Headquarters administration and national police services...	9.6	8.4	1.2
Pensions and other benefits.....	4.2	4.0	0.2
Government's contribution to Royal Canadian Mounted Police superannuation account.....	3.1	3.1	
Marine services.....	2.0	1.8	0.2
	75.0	66.9	8.1

Trade and Commerce

Expenditures of the Department of Trade and Commerce at \$72 million are approximately the same as in 1963-64. The main change is a decrease of \$6 million in the carrying costs of temporary wheat reserves which is more than offset by small increases in the other categories.

TABLE 39
(in millions of dollars)

TRADE AND COMMERCE	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Canadian Wheat Board—			
Carrying costs of temporary wheat reserves	34.0	39.6	—5.6
Prairie Grain Advance Payments Act	0.6	0.9	—0.3
	<i>34.6</i>	<i>40.5</i>	<i>—5.9</i>
Dominion Bureau of Statistics	13.5	12.3	1.2
Trade commissioner service	6.8	6.3	0.5
Canadian government travel bureau	5.0	3.9	1.1
Standards Branch	3.3	3.0	0.3
National Energy Board	0.7	0.6	0.1
Administration and general	8.1	5.9	2.2
	72.0	72.5	—0.5

Transport

Expenditures of the Department of Transport are \$475 million, an increase of \$52 million over 1963–64 expenditures of \$423 million.

Air services

Outlays for air services at \$136 million are \$15 million higher than the 1963–64 total due mainly to an increase of \$9 million in the expenditures of the telecommunications and electronics branch of which \$4 million is in construction or acquisition of buildings, etc. with respect to the satellite communications ground station and \$3 million is in administration, operation and maintenance and an increase of \$4 million in the expenditures of the civil aviation branch of which \$1 million was for the purchase of property for the extension of the Vancouver international airport.

Railway and steamship services

Expenditures for these services are \$106 million compared with \$99 million in 1963–64.

Cost of construction or acquisition of buildings, works and land, etc. are \$10 million, \$9 million higher than 1963–64 costs; the subsidy in respect of a railway to Great Slave Lake is \$25 million, \$3 million higher than in 1963–64; and payments under the Maritime Freight Rates Act are \$15 million, \$2 million higher than in 1963–64.

Outlays in respect of the Victoria Bridge, Montreal are \$1 million due to the discontinuance of tolls. In 1963–64 expenditures totalled \$7 million of which \$4 million reflected the discontinuance of the collection of tolls and \$3 million was for rail diversion.

The charge of \$39 million to budgetary expenditures in 1964–65 to cover the 1964 operating deficit of the Canadian National Railways is \$4 million less than the charge of \$43 million in 1963–64 to cover the railway's 1963 operating deficit.

Board of Transport Commissioners

Expenditures in respect of the board amount to \$84 million in 1964–65 compared with \$82 million in 1963–64.

Included are \$70 million in payments to the railways for the maintenance of the rates of freight traffic compared with \$68 million in 1963–64, \$7 million in

each year in payments to the railways for maintenance of trackage and \$5 million in each year in contributions to the railway grade crossing fund.

Marine services

Expenditures for marine services of \$64 million are approximately the same as in 1963-64. These include \$37 million in respect of the Canadian coast guard, \$2 million higher than in 1963-64 and \$11 million in respect of aids to navigation which in 1963-64 cost \$13 million.

Canadian Maritime Commission

Expenditures of the commission in the amount of \$41 million are \$9 million less than in 1963-64 due mainly to a reduction from \$40 million in 1963-64 to \$32 million in 1964-65 in capital subsidies for the construction of commercial and fishing vessels.

TABLE 40
(in millions of dollars)

TRANSPORT	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Air services—			
Civil aviation branch.....	66.2	62.5	3.7
Telecommunications and electronics branch.....	41.0	32.3	8.7
Meteorological branch.....	22.5	20.6	1.9
Administration.....	6.3	5.7	0.6
	136.0	121.1	14.9
Railway and steamship services—			
Railway to Great Slave Lake.....	25.0	21.7	3.3
Maritime Freight Rates Act—			
Difference between tariffs and normal tolls.....	15.1	13.4	1.7
Victoria Bridge.....	0.8	6.7	-5.9
Construction or acquisition.....	10.3	1.4	8.9
Deficits—			
Canadian National Railways.....	38.7	43.0	-4.3
Newfoundland ferry and terminals.....	11.0	8.6	2.4
Prince Edward Island car ferry and terminals.....	4.1	3.3	0.8
Yarmouth, N.S.—Bar Harbour, Maine, U.S.A. ferry service.....	0.3	0.2	0.1
Other.....	0.7	0.4	0.3
	106.0	98.7	7.3
Board of Transport Commissioners for Canada—			
Payments to the railways for the maintenance of the rates of freight traffic.....	70.4	68.1	2.3
Maintenance of trackage.....	7.0	7.0	
Contributions to the railway grade crossing fund.....	5.1	5.1	
Administration and general.....	1.5	1.4	0.1
	84.0	81.6	2.4
Marine services—			
Canadian coast guard.....	36.9	35.4	1.5
Aids to navigation.....	11.1	12.6	-1.5
Marine regulations.....	3.3	3.4	-0.1
Ship channel services—St. Lawrence and Saguenay rivers	3.2	7.1	-3.9
Canals.....	8.1	4.4	3.7
Administration and general.....	1.4	1.2	0.2
	64.0	64.1	-0.1
Canadian Maritime Commission.....	41.2	49.8	-8.6
National Harbours Board.....	8.2	0.3	7.9
Canals and works entrusted to The St. Lawrence Seaway Authority.....	30.0	3.0	27.0
Administration and general.....	5.6	4.7	0.9
	475.0	423.3	51.7

National Harbours Board

Non-active advances to the board in 1964-65 total \$8 million compared with \$300 thousand in 1963-64. The increase is due mainly to advances of \$7 million to cover expenditures in connection with the 1967 World Exhibition.

Canals and works entrusted to The St. Lawrence Seaway Authority

The increase in this account is due to a payment of \$27 million to The St. Lawrence Seaway Authority to reimburse the authority in respect of the accumulated Welland canal deficit incurred by the authority for the calendar years 1959 to 1964. As provided for by The St. Lawrence Seaway Authority Act the Welland canal was transferred from the Department of Transport to The St. Lawrence Seaway Authority for operation and management effective April 1, 1959.

Veterans Affairs

Expenditures of the Department of Veterans Affairs at \$353 million are \$19 million higher than 1963-64 expenditures.

TABLE 41
(in millions of dollars)

VETERANS AFFAIRS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Welfare services, allowances and other benefits—			
War veterans allowances.....	97.0	86.7	10.3
Other benefits including treatment allowances.....	5.5	5.2	0.3
War service gratuities and re-establishment credits.....	0.5	0.5	
Administration and general.....	4.0	4.0	
	107.0	96.4	10.6
Pensions—			
Disability or death.....	179.3	173.2	6.1
Administration and general.....	2.7	2.6	0.1
	182.0	175.8	6.2
Treatment services.....	48.7	46.4	2.3
Soldier settlement and veterans land act—			
Provision for reserve for conditional benefits.....	3.1	3.2	—0.1
Administration and general.....	4.5	4.5	
	7.6	7.7	—0.1
Administration and general.....	7.7	7.4	0.3
	353.0	333.7	19.3

War veterans allowances of \$97 million are \$10 million higher than in 1963-64, pensions of \$179 million for disability or death are \$6 million higher and costs of \$49 million for treatment services are \$2 million higher.

All Other Departments

Expenditures of the departments not dealt with individually amount to \$102 million, an increase of \$38 million over the total for 1963-64.

TABLE 42
(in millions of dollars)

ALL OTHER DEPARTMENTS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Atlantic Development Board.....	4.4	0.2	4.2
Auditor General's Office.....	1.6	1.3	0.3
Board of Broadcast Governors.....	0.4	0.3	0.1
Canadian Corporation for the 1967 World Exhibition.....	23.0	1.1	21.9
Office of the Chief Electoral Officer.....	0.6	11.9	-11.3
Civil Service Commission.....	6.4	5.2	1.2
Defence Production ⁽¹⁾	2.4	1.9	0.5
Economic Council of Canada.....	0.9	0.2	0.7
Emergency Measures Organization.....	8.0	6.9	1.1
Governor General and Lieutenant-Governors.....	0.7	0.5	0.2
Industry ⁽¹⁾	3.2	0.7	2.5
Insurance.....	1.5	1.4	0.1
National Capital Commission.....	9.9	12.2	-2.3
National Film Board.....	6.4	5.8	0.6
National Gallery of Canada.....	1.3	1.1	0.2
Privy Council.....	4.5	2.9	1.6
Public Archives and National Library.....	1.5	1.1	0.4
Public Printing and Stationery.....	2.8	2.2	0.6
Office of the Representation Commissioner.....	0.2	⁽²⁾	0.2
Secretary of State.....	22.3	7.6	14.7
	102.0	64.5	37.5

⁽¹⁾See also under defence expenditures at the beginning of this section.

⁽²⁾Less than \$50,000.

Expenditures of the National Capital Commission which in previous years were included in the expenditures of the Department of Public Works and the Canadian Corporation for the 1967 World Exhibition which in the previous year were included in the Department of Trade and Commerce are now included as separate headings under "All Other Departments".

The increase of \$22 million in expenditures of the Canadian Corporation for the 1967 World Exhibition is due to an expenditure of \$6 million for the federal share of the cost of construction of an ice control structure and an increase of \$16 million in advances to the corporation. The increase of \$15 million in the expenditures of the Department of the Secretary of State is due mainly to a grant of \$10 million to be made, upon parliamentary approval, to the Canada Council for the purposes of the arts, humanities and social sciences. The decrease of \$11 million in expenditures of the Office of the Chief Electoral Officer is due to a reduction in costs for elections.

ASSET AND LIABILITY ACCOUNTS

The assets and liabilities of the Government of Canada at March 31, 1965, the comparable balances at March 31, 1964 and the changes in each category during 1964-65, are shown in condensed form in the following table.

TABLE 43
SUMMARY OF ASSETS AND LIABILITIES OF CANADA
(in millions of dollars)

	Balance at March 31		Increase or decrease (-)
	1965 (estimated)	1964	
LIABILITIES			
Current and demand liabilities.....	1,521.5	1,620.0	-98.5
Deposit and trust accounts.....	237.2	196.5	40.7
Annuity, insurance and pension accounts.....	5,684.0	5,131.0	553.0
Undisbursed balances of appropriations to special accounts...	105.7	111.6	-5.9
Deferred credits.....	110.8	119.4	-8.6
Suspense accounts.....	6.0	5.1	0.9
Unmatured debt.....	18,982.7	18,740.1	242.6
Total liabilities.....	26,647.9	25,923.7	724.2
ASSETS			
Current assets.....	1,294.6	1,287.1	7.5
Advances to the exchange fund account.....	2,621.0	2,601.0	20.0
Sinking fund and other investments held for retirement of unmatured debt.....	6.0		6.0
Loans to, and investments in, Crown corporations.....	5,007.5	4,584.2	423.3
Loans to national governments.....	1,207.0	1,195.7	11.3
Other loans and investments.....	1,160.1	1,197.8	-37.7
Securities held in trust.....	39.0	38.9	0.1
Deferred charges—			
Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	60.0		60.0
Public service superannuation account.....	39.8	276.7	-236.9
Royal Canadian Mounted Police superannuation account.....	2.9		2.9
Unamortized loan flotation costs.....	112.1	123.7	-11.6
	214.8	400.4	-185.6
Suspense accounts.....		0.1	-0.1
Capital assets.....	(1)	(1)	
Inactive loans and investments.....	94.8	94.8	
Total recorded assets.....	11,644.8	11,400.0	244.8
Less reserve for losses on realization of assets.....	-546.4	-546.4	
Net recorded assets.....	11,098.4	10,853.6	244.8
Net debt, represented by excess of liabilities over net re- corded assets.....	15,549.5	15,070.1	(2)479.4

(1) Shown at nominal value of \$1.

(2) Reflecting the budgetary deficit of \$83 million plus an adjustment of \$396.4 million in respect of prior years' transactions.

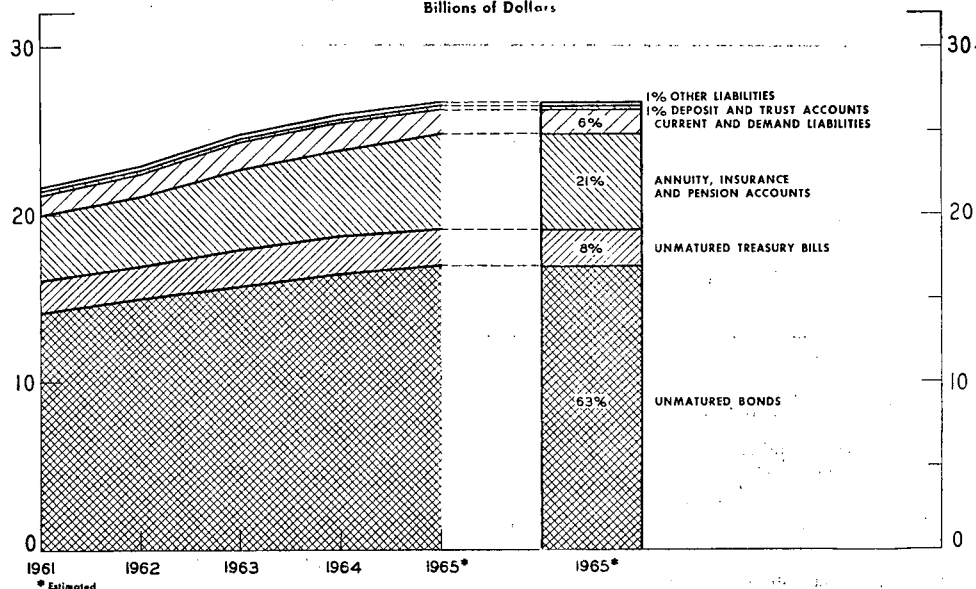
SUMMARY

The gross liabilities of the government are estimated at \$26,648 million as at March 31, 1965 compared with \$25,924 million at March 31, 1964. The main items effecting the increase of \$724 million are increases of \$553 million in annuity, insurance and pension accounts, \$243 million in unmaturing debt and a decrease of \$99 million in current and demand liabilities.

Net recorded assets are estimated at \$11,099 million as at March 31, 1965, an increase of \$245 million over the total at March 31, 1964. The main changes are increases of \$423 million in loans to, and investments in, Crown corporations and a decrease of \$186 million in deferred charges.

The net debt of Canada, or the excess of liabilities over net recorded assets, in the amount of \$15,549 million is \$479 million higher than the total of \$15,070 million at March 31, 1964. The increase reflects the budgetary deficit of \$83 million plus a charge to net debt of \$277 million in respect of the unamortized portion of the actuarial deficiency in the public service superannuation account and \$119 million in respect of an actuarial evaluation of that account as at December 31, 1962 as calculated by the Department of Insurance.

TOTAL LIABILITIES
Fiscal Years Ended March 31
Billions of Dollars



LIABILITY ACCOUNTS

Current and demand liabilities

These consist of obligations of the government payable currently or on demand.

During 1964-65 a net decrease of \$99 million in these obligations brought the total at March 31, 1965 to \$1,522 million.

The main changes during 1964-65 are a decrease of \$219 million in non-interest-bearing notes payable on demand and increases of \$20 million in outstanding treasury cheques and \$73 million in accounts payable.

Non-interest-bearing notes are those portions of Canada's equities in the capital of certain international agencies which are not covered by cash or gold. Notes in respect of the international monetary fund in the amount of \$345 million are \$221 million less than at March 31, 1964 and notes in respect of the international development association in the amount of \$23 million are \$2 million more.

TABLE 44
(in millions of dollars)

CURRENT AND DEMAND LIABILITIES	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Outstanding treasury cheques.....	340.1	319.9	20.2
Accounts payable.....	415.2	342.7	72.5
Non-interest-bearing notes payable to—			
The international development association.....	22.9	21.0	1.9
The international monetary fund.....	345.0	566.0	-221.0
	567.9	587.0	-219.1
Matured debt outstanding.....	21.3	26.8	-5.5
Interest due and outstanding.....	104.0	91.9	12.1
Interest accrued.....	235.0	216.0	19.0
Post office—outstanding money orders.....	33.0	30.5	2.5
Outstanding letter of credit cheques.....	4.0	4.1	-0.1
Other current liabilities.....	1.0	1.1	-0.1
	1,521.5	1,620.0	-98.5

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 45
(in millions of dollars)

DEPOSIT AND TRUST ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Indian trust funds.....	30.1	29.2	0.9
Guarantee deposits—			
National Revenue.....	5.0	4.9	0.1
Northern Affairs and National Resources.....	20.0	22.4	-2.4
	25.0	27.3	-2.3
Post office savings bank.....	23.0	24.6	-1.6
Crown corporations deposits—			
Atomic Energy of Canada Limited.....	5.0		5.0
Crown Assets Disposal Corporation.....	0.5	0.4	0.1
Eldorado Mining and Refining Limited.....	11.2	13.2	-2.0
Export Credits Insurance Corporation.....	10.0		10.0
	26.7	13.6	13.1
Canadian Pension Commission—administration trust fund...	14.0	13.5	0.5
National Harbours Board—special accounts.....	12.4	13.3	-0.9
Instalment purchase of bonds, public service.....	11.0	12.5	-1.5
Contractors holdbacks.....	7.0	8.6	-1.6
Contractors securities—sundry departments—			
Bonds.....	4.0	6.0	-2.0
Cash.....	1.0	1.4	-0.4
Certified cheques.....		0.6	-0.6
	5.0	8.0	-3.0
Army benevolent fund.....	6.0	5.8	0.2
Canadian Arsenals Limited pension fund.....	1.0	1.4	-0.4
Central Mortgage and Housing Corporation.....		1.0	-1.0
Common school funds—Ontario and Quebec.....	3.0	2.7	0.3
Emergency gold mining assistance—holdbacks.....	2.3	2.2	0.1
Immigration guarantee fund.....	1.4	1.1	0.3
National Research Council—special fund.....	2.3	2.3	
Northwest Territories revenue account.....	2.4	2.4	
Permanent services deferred pay.....	4.0	3.7	0.3
Provincial tax collection agreements account ⁽¹⁾	42.0		42.0
Royal Canadian Mint—prepayments.....	1.0	2.5	-1.5
Veterans land act trust account—general.....	5.0	4.3	0.7
United States of America.....	1.6	5.1	-3.5
Veterans care trust fund.....	3.0	2.7	0.3
Other.....	8.0	8.7	-0.7
	237.2	196.5	40.7

⁽¹⁾ Included in the asset category "other loans and investments" at March 31, 1964.

There was a net increase of \$41 million during 1964-65 bringing the total to \$237 million at March 31, 1965.

The main changes are a credit balance of \$42 million in the provincial tax collection agreements account (at March 31, 1964 this account reflected a debit balance of \$10 million which was included in the asset category "other loans and investments") and an increase of \$13 million in Crown corporations deposits, partly offset by a decrease of \$4 million in the United States of America account and \$3 million in contractors securities.

Annuity, insurance and pension accounts

Recorded herein are moneys held in the consolidated revenue fund to the credit of various annuity, insurance and pension accounts.

During 1964-65 an increase of \$553 million brought the total balance to \$5,684 million at March 31, 1965. The main changes are increases of \$304 million in the public service superannuation account and \$218 million in the Canadian forces superannuation account.

TABLE 46
(in millions of dollars)

ANNUITY, INSURANCE AND PENSION ACCOUNTS	Balance at March 31		Increase or decrease(-)
	1965 (estimated)	1964	
Unemployment insurance fund.....	56.3	16.8	39.5
Less investment in bonds and accrued interest.....	-43.0		-43.0
Uninvested funds on deposit with the government.....	13.3	16.8	-3.5
Public service superannuation account.....	2,160.7	1,856.4	304.3
Canadian forces superannuation account.....	2,039.5	1,821.5	218.0
Government annuities.....	1,302.2	1,284.2	18.0
Royal Canadian Mounted Police superannuation account.....	55.8	46.0	9.8
Other.....	112.5	106.1	6.4
	5,684.0	5,131.0	553.0

Unemployment insurance fund

The balance in the fund at March 31, 1965 was \$56 million (of which \$17 million represents a liability for unredeemed warrants and deposits from employers) and consists of \$43 million invested in special government bonds (plus accrued interest) and \$13 million on deposit with the Receiver General. The balance in this fund at March 31, 1964 was \$17 million consisting of cash deposits with the government. However, there was a liability of \$16 million for unredeemed warrants and deposits from employers.

Receipts of \$373 million during the fiscal year include employee and employer contributions of \$309 million, the government's contribution of \$62 million and \$2 million in interest from investments. As benefit payments totalled \$334 million, receipts exceeded payments from the fund by \$39 million during 1964-65. Receipts during 1963-64 totalled \$357 million and included employee and employer contributions of \$297 million, the government's contribution of \$59 million and \$1 million in income from investments. Benefit payments during 1963-64 totalled \$366 million resulting in a deficit for the year of \$9 million.

TABLE 47
(in millions of dollars)

UNEMPLOYMENT INSURANCE FUND	Fiscal year ended March 31				
	1961	1962	1963	1964	1965 (estimated)
Revenue—					
Contributions—					
Employee and employer ⁽¹⁾	275.2	277.8	286.4	296.6	308.7
Government ⁽²⁾	55.1	55.5	57.3	59.3	61.6
Net income from investments.....	2.7	6.2	2.5	1.1	2.5
Other income.....	0.1	0.1	0.1	0.1	0.1
	333.1	339.6	346.3	357.1	372.9
Expenditure—					
Benefit payments.....	-513.9	-454.7	-403.2	-365.7	-333.8
Interest on loans.....	-0.4	-3.0		-0.2	-0.2
Excess of revenue over expenditure or expenditure over revenue (-).....	-181.2	-118.1	-56.9	-8.8	38.9
Balance at credit of fund at fiscal year-end.....	184.7	66.6	9.7	0.9	39.8
Government loans.....	67.0				
Unredeemed benefit warrants and deposits from employers.....	12.9	11.6	16.7	15.9	16.5
	264.6	78.2	26.4	16.8	56.3
Investment in bonds and accrued interest.....	-247.0	-63.6	-11.8		-43.0
Balance on deposit with the government.....	17.6	14.6	14.6	16.8	13.3

⁽¹⁾ Contributions by employees and employers are on an equal basis.

⁽²⁾ Government contribution is equal to 20 per cent of the combined employee-employer contributions.

Government annuities account

There was an increase of \$18 million in this account during the year bringing the balance to \$1,302 million at March 31, 1965. Receipts of \$78 million include \$27 million from premiums and \$51 million in interest from the government. Disbursements of \$60 million consist mainly of vested annuity and commuted value payments and refunds of premiums. In 1963-64 receipts amounted to \$78 million and disbursements were \$58 million.

Public service superannuation account

The balance of \$2,161 million in this account at March 31, 1965 is \$304 million higher than the balance at the previous fiscal year-end.

Receipts of \$367 million consist of a credit of \$119 million to this account in 1964-65 to bring the balance in the account into line with an actuarial evaluation as at December 31, 1962 as calculated by the Department of Insurance, a credit of \$50 million in respect of salary revisions made in 1963-64 and 1964-65, contributions of \$61 million by individuals, \$56 million by the government, \$3 million by certain Crown corporations and interest of \$78 million credited to the account by the government. Contributions by the government and Crown corporations are equal to the estimated current and prior service payments of individuals in 1963-64. Interest at 4 per cent per annum is credited to the account quarterly and is computed quarterly on the outstanding balance at the end of the previous quarter.

The credit of \$50 million to the fund to provide for additional liabilities due to an actuarial evaluation arising out of pay increases was charged to "deferred charges—unamortized portions of actuarial deficiencies". Actuarial

deficiencies arising out of pay increases authorized in 1963-64 are to be amortized over a five year period commencing in 1964-65 and those arising out of pay increases authorized in 1964-65 and subsequent years are to be amortized over a five year period commencing in the year in which the increase is authorized.

Disbursements totalled \$62 million and included \$51 million in annuities and \$11 million in withdrawals of contributions.

In 1963-64 receipts totalled \$189 million and disbursements totalled \$57 million.

Canadian forces superannuation account

The balance of \$2,040 million at March 31, 1965 reflects an increase of \$218 million during the fiscal year.

Receipts of \$247 million include \$39 million in contributions by personnel, \$59 million in regular contributions by the government, \$74 million in interest credited by the government and a credit of \$75 million in respect of additional liabilities due to an actuarial evaluation resulting from increased rates of pay. Regular government contributions are made at the rate of one and two-thirds times the current and prior service contributions by personnel. Interest at 4 per cent per annum is credited to the account quarterly and is computed quarterly on the outstanding balance at the end of the previous quarter.

The credit of \$75 million to the fund to provide for additional liabilities arising out of pay increases was charged to "deferred charges—unamortized portions of actuarial deficiencies". Actuarial deficiencies arising out of pay increases authorized in 1964-65 and subsequent years are to be amortized over a five year period commencing in the year in which the increase is authorized.

Disbursements of \$29 million include \$18 million in pensions and retiring allowances and \$11 million in cash termination allowances and return of contributions.

In 1963-64 receipts were \$239 million and disbursements were \$23 million.

Royal Canadian Mounted Police superannuation account

The balance of \$56 million in this account at March 31, 1965 is \$10 million over the total of \$46 million at the end of the previous fiscal year.

Receipts of \$11 million consist of \$2 million in contributions by personnel, \$3 million in contributions by the government, \$2 million in interest credited to the account by the government and a credit of \$3½ million in respect of additional liabilities resulting from increased rates of pay.

The credit of \$3½ million to the fund to provide for additional liabilities due to an actuarial evaluation arising out of pay increases was charged to "deferred charges—unamortized portions of actuarial deficiencies". Actuarial deficiencies arising out of pay increases authorized in 1964-65 and subsequent years are to be amortized over a five year period commencing in the year in which the increase is authorized.

Disbursements are due mainly to annuities and allowances of \$400 thousand and cash termination allowances and return of contributions of \$200 thousand.

In 1963-64 receipts were \$9 million and disbursements were \$600 thousand.

Old age security fund

Under the Old Age Security Act, as amended, pensions of \$75 per month are paid, without a means test, from the old age security fund to all eligible persons seventy years of age or over.

During 1964-65 receipts of \$953 million exceeded pension payments of \$889 million by \$64 million. Receipts consist of \$432 million from the 4 per cent tax on personal income (maximum \$120), \$378 million from the 3 per cent sales tax and \$143 million from the 3 per cent tax on corporation profits.

During the year temporary loans from the Minister of Finance were reduced by \$64 million to \$36 million at March 31, 1965.

In 1963-64 pension payments of \$808 million exceeded receipts of \$750 million requiring temporary loans of \$58 million from the Minister of Finance. Loans to the fund at March 31, 1964 totalled \$100 million.

TABLE 48
(in millions of dollars)

OLD AGE SECURITY FUND	Fiscal year ended March 31				
	1961	1962	1963	1964	1965 (estimated)
Tax receipts—					
Sales tax.....	270.2	284.9	302.2	331.8	378.0
Personal income tax.....	229.4	259.0	273.7	302.6	432.0
Corporation income tax.....	103.5	100.1	115.2	115.7	143.0
Total tax receipts.....	603.1	644.0	691.1	750.1	953.0
Pension payments.....	-592.4	-625.1	-734.4	-808.4	-889.0
Excess of receipts over payments.....	10.7	18.9	-43.3	-58.3	64.0
Temporary loans brought forward.....	-28.0	-17.3		-41.7	-100.0
Balance in fund brought forward.....			1.6		
Temporary loans from the Minister of Finance to cover deficit in fund.....	17.3		41.7	100.0	36.0
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 49
(in millions of dollars)

OLD AGE SECURITY PAYMENTS	Fiscal year ended March 31		Increase
	1965 (estimated)	1964	
Newfoundland.....	16.8	15.4	1.4
Nova Scotia.....	40.4	37.1	3.3
Prince Edward Island.....	7.1	6.5	0.6
New Brunswick.....	29.7	27.2	2.5
Quebec.....	190.9	172.0	18.9
Ontario.....	323.5	292.5	31.0
Manitoba.....	53.4	48.9	4.5
Saskatchewan.....	55.1	50.8	4.3
Alberta.....	60.1	54.8	5.3
British Columbia.....	111.4	102.6	8.8
Northwest and Yukon Territories.....	0.6	0.6	
	889.0	808.4	80.6

Undisbursed balances of appropriations to special accounts

These special accounts record the undisbursed balances of appropriations 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. A net decrease of \$6 million in these accounts during the fiscal year brought the balance at March 31, 1965 to \$106 million.

During the fiscal year a grant of \$49 million was credited to the Colombo plan fund and charged to budgetary expenditure. Disbursements of \$44 million result in a balance of \$89 million in the fund at March 31, 1965. In 1963-64 there was a grant of \$42 million and disbursements were \$43 million.

TABLE 50
(in millions of dollars)

UNDISBURSED BALANCES OF APPROPRIATIONS TO SPECIAL ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Colombo plan fund.....	89.0	84.5	4.5
Railway grade crossing fund.....	9.6	17.6	—8.0
National capital fund.....	(1)	6.4	—6.4
Centennial of confederation fund.....	7.0	3.0	4.0
Other.....	0.1	0.1	
	105.7	111.6	—5.9

(1) Less than \$50,000.

The balance of \$10 million in the railway grade crossing fund at March 31, 1965 is \$8 million less than at the previous fiscal year-end. The decrease is the result of disbursements of \$13 million exceeding the amount of \$5 million credited to the fund and charged to budgetary expenditure.

The balance in the national capital fund is less than \$50 thousand compared with \$6 million at the previous fiscal year-end. Disbursements of \$11 million from the fund exceed credits of \$5 million by the government.

The balance in the centennial of confederation fund was \$7 million at March 31, 1965, an increase of \$4 million over the balance at the previous fiscal year-end. During 1964-65 an amount of \$4 million was credited to the fund and charged to budgetary expenditure. No disbursements were made from the fund during 1964-65.

Deferred credits

Recorded in these accounts are amounts due the government in respect of which payment is deferred. These are contra accounts to corresponding items under the asset categories: "loans to, and investments in, Crown corporations", "loans to national governments", and "other loans and investments". A net decrease of \$9 million in these accounts during the fiscal year brought the balance at March 31, 1965 to \$111 million.

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", decreased by \$25 million during the year bringing the balance at March 31, 1965 to \$39 million. See the asset account for explanation of decrease.

TABLE 51
(in millions of dollars)

DEFERRED CREDITS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Deferred interest—			
The St. Lawrence Seaway Authority.....	39.0	63.8	—24.8
United Kingdom Financial Agreement Act, 1946.....	63.8	44.2	19.6
Northern Canada Power Commission.....	2.0	1.6	0.4
	104.8	109.6	—4.8
Balances receivable under agreements of sale of Crown assets.	3.0	4.7	—1.7
Crown Assets Disposal Corporation—government equity....	3.0	5.1	—2.1
	110.8	119.4	—8.6

Deferred interest in respect of the loan under the United Kingdom Financial Agreement Act, 1946, which is a contra account to a corresponding item in "loans to national governments", increased by \$20 million during the year bringing the balance at March 31, 1965 to \$64 million. See the asset account for explanation of increase.

Balances receivable under agreements of sale of Crown assets are contra accounts to corresponding items under the asset category "other loans and investments". During the year payments of \$2 million leave an outstanding balance of \$3 million at March 31, 1965. There were no new agreements of sale during the year.

The government equity in the agency account of Crown assets disposal corporation is a contra account to a corresponding asset account under "other loans and investments". The balance in the account at March 31, 1965 was \$3 million, a decrease of \$2 million from the total at the previous fiscal year-end.

Suspense accounts

These consist of balances where some uncertainty as to disposition exists.

A net increase of \$1 million during 1964–65 brought the outstanding balances to \$6 million at March 31, 1965.

The replacement of materiel account, which was 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 procurement of replacement materiel. During 1964–65 credits to and disbursements from the account were approximately \$500 thousand each resulting in the balance of \$1 million remaining approximately the same as at March 31, 1964.

TABLE 52
(in millions of dollars)

SUSPENSE ACCOUNTS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Replacement of materiel, sec. 11, National Defence Act.....	1.0	1.0	
Unclaimed cheques.....	1.0	1.3	—0.3
Other.....	4.0	2.8	1.2
	6.0	5.1	0.9

Unmatured debt

Unmatured debt at March 31, 1965 totalled \$18,983 million, \$243 million more than at the end of the previous fiscal year. Obligations payable in Canada were \$18,607 million and those payable in New York were \$376 million. At March 31, 1964 unmatured debt consisted of \$18,364 million payable in Canada and \$376 million payable in New York.

TABLE 53
(in millions of dollars)

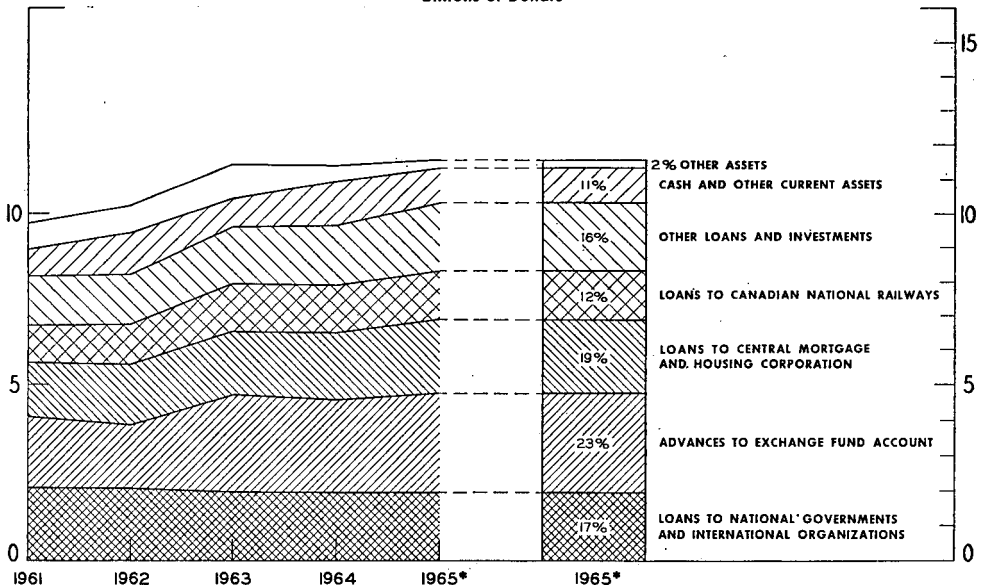
UNMATURED DEBT	Balance at March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Payable in Canada—			
Marketable bonds.....	10,866.3	11,041.4	-175.1
Non-marketable bonds—			
Canada savings bonds.....	5,557.0	5,092.3	464.7
Unemployment Insurance Commission.....	43.0	43.0	43.0
	16,466.3	16,133.7	332.6
Treasury bills.....	2,140.0	2,230.0	-90.0
	18,606.3	18,363.7	242.6
Payable in New York ⁽¹⁾	⁽²⁾ 376.4	⁽²⁾ 376.4	
	18,982.7	18,740.1	242.6

(1) Marketable bonds.

(2) Converted at the official parity rate of \$1 U.S. = \$1.08108 Canadian.

Details of the various loan issues, maturities, redemptions and cancellations resulting in the net increase are described more fully in the section "The Public Debt".

TOTAL ASSETS¹
Fiscal Years Ended March 31
Billions of Dollars



ASSET ACCOUNTS

Current assets

These accounts consist of working capital advances and revolving funds, the security investment account and various cash accounts.

Total current assets at \$1,295 million reflect an increase of \$8 million during 1964-65. The main changes are a new account of \$219 million in investments in special United States of America securities—Columbia River Treaty and decreases of \$151 million in cash in current and special deposits, \$38 million in the agricultural commodities stabilization account and \$40 million in the securities investment account.

TABLE 54
(in millions of dollars)

CURRENT ASSETS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Cash in current and special deposits ⁽¹⁾	678.0	829.0	-151.0
Cash in hands of collectors and in transit.....	169.0	155.6	13.4
Departmental working capital advances and revolving funds—			
Agricultural commodities stabilization account.....	26.0	64.0	-38.0
Defence production revolving fund.....	29.2	27.8	1.4
Royal Canadian Mint.....	20.0	29.4	-9.4
Miscellaneous departmental imprest and advance ac- counts.....	17.0	17.0	
Stockpiling of uranium concentrates.....	24.3	13.5	10.8
Other.....	17.0	17.1	-0.1
	133.5	168.8	-35.3
Securities investment account.....	59.9	99.9	-40.0
Investments in special United States of America securities— Columbia River Treaty.....	219.4		219.4
Moneys received after March 31 but applicable to the current year.....	17.0	17.0	
Post Office—cash on hand and in transit.....	17.5	16.5	1.0
Bank of Canada settlement account re outstanding treasury cheques.....	0.3	0.3	
	1,294.6	1,287.1	7.5

⁽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, 1964 and March 31, 1965.

The agricultural commodities stabilization account records the operations of the Agricultural Stabilization Board. The board's operations resulted in a net decrease of \$38 million during 1964-65 bringing the balance at March 31, 1965 to \$26 million.

The balances of \$20 million in the Royal Canadian Mint bullion and coinage accounts at March 31, 1965 are \$9 million less than at the previous fiscal year-end.

The stockpiling of uranium concentrates account records the acquisition of uranium concentrates in accordance with contracts entered into with the approval of the Governor in Council by the Eldorado Mining and Refining Limited on behalf of Her Majesty in the right of Canada with certain mining companies. During 1964-65 this account increased by \$11 million to a balance of \$24 million at March 31, 1965.

"Investments in special United States of America securities—Columbia River Treaty" is a new account which records special securities issued by the Government of the United States of America in connection with the terms of

the Treaty between the Governments of the United States and Canada and the agreement between the Governments of Canada and the Province of British Columbia. The balance in the account at March 31, 1965 was \$219 million.

The securities investment account decreased \$40 million during 1964-65 to a balance of \$60 million at March 31, 1965.

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 \$699 million and repayments to \$679 million, an increase of \$20 million resulting in a balance of \$2,621 million at March 31, 1965.

During 1963-64 advances were \$840 million, repayments were \$975 million bringing outstanding advances at March 31, 1964 to \$2,601 million.

Sinking fund and other investments held for retirement of unmatured debt

Holdings in this account totalled \$6 million at March 31, 1965 compared with a nil balance at the end of the previous fiscal year. These consist of \$4 million of the 2 $\frac{3}{4}$ per cent loan due September 1, 1974 and \$2 million of the 2 $\frac{3}{4}$ per cent loan due September 15, 1975, both issued in New York.

Loans to, and investments in, Crown corporations

Loans and investments in this category amounted to \$5,008 million, an increase of \$423 million over the total at March 31, 1964.

TABLE 55
(in millions of dollars)

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS	Balance at March 31		Increase or decrease. (-)
	1965 (estimated)	1964	
Atomic Energy of Canada Limited.....	66.6	53.6	13.0
Bank of Canada.....	5.9	5.9	
Canadian Arsenals Limited.....	7.5	7.5	
Canadian Broadcasting Corporation.....	3.0	3.0	
Canadian Commercial Corporation.....	5.5	5.5	
Canadian National Railways.....	1,430.6	1,405.9	24.7
Air Canada.....	3.6	5.0	-1.4
	1,434.2	1,410.9	23.3
Canadian Overseas Telecommunication Corporation.....	56.3	55.5	0.8
Central Mortgage and Housing Corporation.....	2,137.1	1,916.1	221.0
Eldorado Mining and Refining Limited.....	8.2	8.2	
Export Credits Insurance Corporation.....	92.2	58.4	33.8
Farm Credit Corporation.....	441.3	338.9	102.4
National Capital Commission.....	30.1	21.9	8.2
National Harbours Board.....	200.7	198.1	2.6
Northern Canada Power Commission.....	28.8	22.4	6.4
Polymer Corporation Limited.....	30.0	30.0	
The St. Lawrence Seaway Authority—			
Loans.....	370.4	352.0	18.4
Deferred interest.....	39.0	63.8	-24.8
	409.4	415.8	-6.4
Recovery likely to require parliamentary appropriations—			
Canadian Broadcasting Corporation.....	14.2		14.2
National Capital Commission—Greenbelt.....	34.5	31.1	3.4
	48.7	31.1	17.6
Other Crown Corporations.....	2.0	1.4	0.6
	5,007.5	4,584.2	423.3

Canadian National Railways (including Air Canada)

Outstanding advances to the Canadian National Railways at March 31, 1965 of \$1,434 million were \$23 million more than the total of \$1,411 million at the previous fiscal year-end.

TABLE 56
(in millions of dollars)

ADVANCES TO THE CANADIAN NATIONAL RAILWAYS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Capital Revision Act, 1952—			
Preferred stock.....	1,020.2	995.5	24.7
Twenty-year obligation.....	100.0	100.0	
Financing and Guarantee Act, 1960.....	27.0	27.0	
Financing and Guarantee Act, 1961.....	28.4	28.4	
Refunding Act, 1955.....	238.0	238.0	
Canadian Government Railways.....	17.0	17.0	
Air Canada.....	3.6	5.0	—1.4
	1,434.2	1,410.9	23.3

During the 1964–65 fiscal year the government made available to the company \$68 million and received repayments of \$45 million. In 1963–64 comparable amounts were \$73 million and \$101 million respectively.

TABLE 57
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, THE CANADIAN NATIONAL RAILWAYS	Fiscal year ended March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Advances—			
For interim financing of income deficits—			
Canadian National Railways.....	38.7	43.0	—4.3
Air Canada.....	4.6	5.0	—0.4
Total advances.....	43.3	48.0	—4.7
Purchase of 4 per cent preferred stock (C.N.R. Capital Revision Act, 1952).....	24.7	24.8	—0.1
	68.0	72.8	—4.8
Repayments—			
Advances for capital and refunding purposes.....		—53.7	53.7
Advances for interim financing of income deficits—			
Canadian National Railways.....	—38.7	—43.0	4.3
Air Canada.....	—6.0	—4.5	—1.5
	—44.7	—101.2	56.5
Net increase or decrease (—) during the fiscal year.....	23.3	—28.4	51.7

To assist the company to finance further capital expenditure during the year, the government purchased \$25 million of the 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 \$39 million in respect of its 1964 income deficit which were repaid when the company's income deficit was charged to 1964–65 budgetary expenditure.

At March 31, 1964 temporary loans of \$5 million were outstanding to Air Canada in respect of its 1964 operations. An additional \$1 million was advanced during the year for its 1964 operations. These have been repaid by the company during 1964-65. However, additional loans of \$4 million have been made during 1964-65 in respect of the company's 1965 operations.

Central Mortgage and Housing Corporation

The balance of \$2,137 million in this account at March 31, 1965 is \$221 million higher than at March 31, 1964, and comprises the Crown's investment of \$25 million in the capital of the corporation and \$2,112 million in loans and advances.

Loans and advances to the corporation were \$321 million in 1964-65 and repayments were \$100 million. In 1963-64 advances were \$199 million and repayments were \$86 million.

Advances comprise \$245 million for direct lending and limited dividend housing, \$22 million for federal-provincial projects for housing, \$32 million in respect of municipal sewage treatment and \$22 million for university housing.

Repayments comprise \$100 million of which \$82 million was for direct lending and limited dividend housing, \$14 million for housing and \$4 million in respect of acquisition or construction of real estate.

TABLE 58
(in millions of dollars)

ADVANCES TO, AND REPAYMENTS BY, CENTRAL MORTGAGE AND HOUSING CORPORATION	Fiscal year ended March 31		Increase or decrease (-)
	1965 (estimated)	1964	
Advances—			
Direct lending and limited dividend housing.....	244.7	120.0	124.7
Federal-provincial projects—housing.....	21.7	9.4	12.3
Municipal sewage treatment.....	32.6	48.0	-15.4
University housing.....	22.0	22.0	
	321.0	199.4	121.6
Repayments—			
Direct lending and limited dividend housing.....	-82.0	-68.1	-13.9
Federal-provincial projects—housing.....	-13.8	-3.7	-10.1
Municipal sewage treatment.....	-0.3	-11.7	11.4
University housing.....	-0.2	-0.1	-0.1
Acquisition or construction of real estate.....	-3.7	-2.5	-1.2
	-100.0	-86.1	-13.9
Net increase during the fiscal year.....	221.0	113.3	107.7

Canadian Broadcasting Corporation

There was no change in the advance for working capital during 1964-65, the balance remaining at \$3 million at March 31, 1965.

However, during the year advances to the corporation for the purpose of capital expenditures totalled \$14 million. Recovery of these advances is likely to require parliamentary appropriations in subsequent fiscal years.

Export Credits Insurance Corporation

The balance of \$92 million in this account at March 31, 1965, consisting of \$5 million in capital stock, \$5 million in working capital and \$82 million in loans under section 21a of the Export Credits Insurance Act, reflects an increase of \$34 million over the previous fiscal year-end.

Farm Credit Corporation

The government provides loans to the corporation which makes loans on farm property. The balance of \$441 million in the account at March 31, 1965 consists of the Crown's investment of \$17 million in the capital of the corporation and \$424 million in loans and advances. At March 31, 1964 the balance was \$339 million consisting of capital investment of \$13 million and loans and advances of \$326 million.

The 1964-65 transactions in the account consisted of additional subscriptions by the government of \$4 million to the capital of the corporation, loans and advances of \$111 million and repayments by the corporation of \$13 million.

The St. Lawrence Seaway Authority

Outstanding loans in this account amounted to \$370 million at March 31, 1965, an increase of \$18 million over the previous year-end balance of \$352 million. No repayments were received in 1964-65.

Deferred interest decreased to \$39 million at March 31, 1965 due to a payment of \$43 million offset in part by a charge to the account of \$18 million in respect of the deferment of interest due on December 31, 1964.

The large repayment of deferred interest was made possible by a payment of \$27 million by the Minister of Finance to the authority in respect of the accumulated deficit of the Welland Canal for the calendar years 1959 to 1964 which was charged to Department of Transport expenditures in 1964-65 and a loan of \$13 million, subject to such terms and conditions as the Governor in Council may approve.

National Capital Commission

Loans to acquire property in the "Greenbelt" area increased by \$3 million during the year bringing the balance to \$35 million at March 31, 1965. Recovery of these loans is likely to require parliamentary appropriations in subsequent fiscal years.

Loans to acquire property excluding the "Greenbelt" area increased by \$8 million to \$30 million at March 31, 1965.

Other Crown Corporations

Loans to Atomic Energy of Canada Limited increased by \$13 million during 1964-65, loans to the Canadian Overseas Telecommunication Corporation by \$1 million, loans to the National Harbours Board by \$3 million and loans to the Northern Canada Power Commission by \$6 million.

Loans to national governments

A net increase of \$11 million in this category during 1964-65 brought total balances to \$1,207 million at March 31, 1965 from \$1,196 million at the previous fiscal year-end.

The Government of the United Kingdom deferred the payment of principal and interest due December 31, 1964 on the \$1,185 million loan made under the \$1,250 million credit authorized by the United Kingdom Financial Agreement Act, 1946, the principal outstanding at the close of the year remaining at \$995 million and deferred interest increasing by \$20 million to \$64 million. The

deferment of principal and interest was by an agreement between the Government of Canada and the Government of 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. 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 a repayment of \$2 million during the fiscal year, bringing the balance at March 31, 1965 to \$127 million. The decrease of \$2 million was the regular annual repayment by the Government of Belgium. There were no repayments by the Governments of France and The Netherlands as each of these countries had made advance payments in 1962-63 covering instalments up to and including the 1969 instalment.

Special loans from Canada to Colombo plan countries to finance the purchase of wheat and flour amounted to \$12 million at March 31, 1965, a reduction of \$5 million from the previous fiscal year.

Loans to India for the purchase in Canada of aircraft and associated spare parts, amounting to \$9 million at March 31, 1965, were reduced by a payment of \$1 million during the fiscal year.

TABLE 59
(in millions of dollars)

LOANS TO NATIONAL GOVERNMENTS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Loans to United Kingdom—			
The United Kingdom Financial Agreement Act, 1946...	995.1	995.1	
Deferred interest.....	63.8	44.2	19.6
	1,058.9	1,039.3	19.6
Loans under the Export Credits Insurance Act, Part II—			
Belgium.....	27.7	30.0	-2.3
France.....	67.0	67.0	
The Netherlands.....	32.1	32.1	
	126.8	129.1	-2.3
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada—			
Ceylon.....	0.8	1.1	-0.3
India.....	10.7	15.4	-4.7
	11.5	16.5	-5.0
Miscellaneous loans and advances—			
India—loan for purchase in Canada of aircraft and associated spare parts.....	9.0	10.0	-1.0
France—interim credit—consolidated interest.....	0.7	0.7	
Other.....	0.1	0.1	
	9.8	10.8	-1.0
	1,207.0	1,195.7	11.3

Other loans and investments

Balances in these accounts totalled \$1,160 million at March 31, 1965, a decrease of \$38 million from the previous fiscal year.

Canada's subscriptions to the capital of international organizations are \$8 million higher due to additional subscriptions of \$8 million to the international development association. Working capital advances and loans to international organizations are approximately the same as at the previous fiscal year-end.

Loans to provincial governments were reduced by \$5 million to \$109 million at March 31, 1965. The main items making up the reduction are: a decrease of \$10 million in the provincial tax collection agreements account (at March 31, 1965, this account reflects a credit balance of \$42 million which is recorded in the liability category "deposit and trust accounts"); a decrease to \$13 million in

TABLE 60
(in millions of dollars)

OTHER LOANS AND INVESTMENTS	Balance at March 31		Increase or decrease (—)
	1965 (estimated)	1964	
Subscriptions to capital of, and working capital advances and loans to, international organizations—			
Canada's subscriptions to capital of—			
International bank for reconstruction and development.....	80.5	80.5	
International development association.....	40.7	32.8	7.9
International finance corporation.....	3.5	3.5	
International monetary fund.....	577.3	577.3	
Working capital advances and loans to international organizations.....	8.0	8.0	
	710.0	702.1	7.9
Loans to provincial governments—			
Alberta.....	6.3	6.8	—0.5
British Columbia.....	12.5	15.5	—3.0
Manitoba.....	11.0	11.6	—0.6
New Brunswick.....	39.2	34.4	4.8
Newfoundland.....	0.5	0.5	
Nova Scotia.....	11.4	7.2	4.2
Saskatchewan.....	28.1	27.2	0.9
Provincial tax collection agreements account.....		10.4	—10.4
	109.0	113.6	—4.6
Veterans land act advances.....	255.5	243.3	12.2
Less reserve for conditional benefits—Veterans Land Act, 1942.....	—24.3	—26.3	2.0
	231.2	217.0	14.2
Municipal development and loan board advances.....	9.3		9.3
Less reserve for forgiveness of indebtedness.....	—1.8		—1.8
	7.5		7.5
Miscellaneous—			
Assisted passage scheme (section 69, Immigration Act, R.S. 1952).....	4.0	2.7	1.3
Balances receivable under agreements of sale of Crown assets.....	4.0	6.0	—2.0
City of Montreal—			
Atwater tunnel.....	2.0	1.9	0.1
St. Remi tunnel.....	1.0	1.1	—0.1
City of Whitehorse.....	2.0	2.0	
Construction of dock and rail facilities for Steep Rock Iron Mines Limited.....	1.0	1.3	—0.3
Crown Assets Disposal Corporation—			
Government equity in agency account.....	3.0	5.2	—2.2
Dominion Coal Company Limited.....	4.5	5.0	—0.5
Hamilton Harbour Commissioners.....	2.0	1.5	0.5
Housing projects for Canadian forces.....	19.5	17.9	1.6
Municipal Improvements Assistance Act, 1938.....	1.0	1.1	—0.1
New Westminster Harbour Commission.....	1.0	1.5	—0.5
Northwest Territories.....	4.0	3.2	0.8
Old age security fund—temporary loans.....	36.0	100.0	—64.0
Town of Oromocto Development Corporation.....	1.0	1.2	—0.2
Yukon Territory.....	4.9	4.2	0.7
Recovery likely to require parliamentary appropriations—Town of Oromocto, New Brunswick.....	4.0	3.7	0.3
Other.....	7.5	5.6	1.9
	102.4	165.1	—62.7
	1,160.1	1,197.8	—37.7

loans to British Columbia due to a repayment of \$3 million by the province; an increase to \$39 million in loans to New Brunswick due to new loans during the year of \$9 million partly offset by repayments by the province amounting to \$4 million; and an increase in loans to Nova Scotia to \$11 million due to new loans during the year of \$4 million.

Advances are made by the government under the Veterans Land Act for the acquisition, by the Director, of properties, buildings, materials, live stock, farm equipment and commercial fishing equipment for purposes of the act, for sale to qualified veterans of world war 2 and Korea under sales agreements which carry specified conditional benefits if the terms of such agreements are adhered to by the veteran. Advances during 1964-65 of \$38 million and repayments of \$26 million brought outstanding advances at March 31, 1965 to \$255 million. This is partially offset by a reserve for conditional benefits amounting to \$24 million, resulting in a balance in this account of \$231 million at the year-end.

Under the Municipal Development and Loan Act, assented to on August 2, 1963, advances are made to the Municipal Development and Loan Board to provide financial assistance by way of loans to municipalities to augment or accelerate municipal capital works programs. Where the municipal project in respect of which a loan is made is completed on or before March 31, 1966, the board shall forgive payment by the municipality of 25 per cent of the principal amount of the loan. If a project is not completed as at March 31, 1966, the board shall forgive 25 per cent of that portion of the loan that has been advanced to the municipality as of March 31, 1966. At March 31, 1965 advances totalled \$9 million. These loans are partly offset by a reserve of \$2 million for forgiveness of indebtedness.

Miscellaneous loans and investments in the amount of \$102 million reflect a net decrease of \$63 million from the March 31, 1964 total. The decrease is due mainly to a reduction of \$64 million in temporary loans by the Minister of Finance to cover the deficit in the old age security fund. A payment of \$500 thousand due by the Dominion Coal Company Limited on December 31, 1964 has not been paid and discussions concerning it are proceeding with the company.

Securities held in trust

Recorded herein are the security holdings of various deposit and trust accounts 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, 1965 was \$39 million, approximately the same as at the previous fiscal year-end.

Deferred charges

The balance of \$215 million in this category at March 31, 1965 was \$186 million less than at March 31, 1964, reflecting a net decrease of \$174 million in the unamortized portions of actuarial deficiencies in the superannuation accounts and a decrease of \$12 million in unamortized loan flotation costs.

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 are set up as deferred charges.

During 1964-65 the unamortized portion of the actuarial deficiency in the public service superannuation account was increased by \$119 million as a result of an actuarial evaluation as at December 31, 1962 as calculated by the Department of Insurance and \$50 million as a result of salary revisions made in 1963-64 and 1964-65. However, upon parliamentary approval the unamortized portion

at March 31, 1964 of \$277 million plus the actuarial evaluation of \$119 million will be charged to net debt and \$10 million, representing one fifth of the \$50 million in respect of salary increases, will be charged to budgetary expenditure. These transactions resulted in a net decrease of \$237 million bringing the balance to \$40 million at March 31, 1965.

During 1964-65 the unamortized portion of the actuarial deficiency in the Canadian forces superannuation account was increased by \$75 million as a result of salary revisions, of which one fifth or \$15 million will be charged to budgetary expenditure upon parliamentary approval, leaving a balance of \$60 million in the account at March 31, 1965.

During 1964-65 the unamortized portion of the actuarial deficiency in the Royal Canadian Mounted Police superannuation account was increased by \$3½ million as a result of salary revisions, of which one fifth or \$700 thousand will be charged to budgetary expenditure upon parliamentary approval, leaving a balance of \$3 million at March 31, 1965.

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 at March 31, 1965 of \$112 million is \$12 million less than the previous year-end balance.

TABLE 61
(in millions of dollars)

UNAMORTIZED LOAN FLOTATION COSTS	Fiscal year ended March 31	
	1965 (estimated)	1964
Balance of account at beginning of fiscal year.....	123.7	131.6
New flotation costs to be amortized—		
34% loan May 1, 1964—July 1, 1965.....	3.9	
5% loan May 1, 1964—July 1, 1969.....	0.3	
54% loan May 1, 1964—May 1, 1990.....	2.3	
34% loan Oct. 1, 1964—Dec. 1, 1965.....	3.6	
34% loan Oct. 1, 1964—Oct. 1, 1967.....	2.1	
5% loan Dec. 1, 1964—June 1, 1971.....	0.6	
34% loan Feb. 1, 1965—May 1, 1966.....	1.6	
5% loan Feb. 1, 1965—Oct. 1, 1973.....	0.5	
Adjustments ⁽¹⁾	- 0.3	3.2
Treasury bills discount.....	13.2	13.8
Canada savings bonds—adjustment of previous issues.....	1.4	1.0
Canada savings bonds—new issue.....	10.0	9.6
34% loan June 1, 1963—July 1, 1964.....		1.2
5% loan June 1, 1963—June 1, 1983.....		1.8
34% loan Oct. 1, 1963—Oct. 1, 1964.....		2.0
44% loan Oct. 1, 1963—Apr. 1, 1965.....		0.7
5% loan Oct. 1, 1963—Oct. 1, 1968.....		0.1
34% loan Dec. 15, 1963—Dec. 15, 1964.....		2.1
44% loan Dec. 15, 1963—Dec. 15, 1966.....		0.3
34% loan Feb. 1, 1964—Feb. 1, 1965.....		0.6
34% loan Feb. 1, 1964—Feb. 1, 1966.....		2.2
44% loan Feb. 1, 1964—Jan. 15, 1968.....		2.4
5% loan Feb. 1, 1964—June 1, 1983.....		2.3
	39.2	43.3
Less—		
Amortization applicable to fiscal year—		
Canada savings bonds and general loans.....	-37.0	-36.3
Discount on treasury bills charged to interest on public debt...	-13.8	-14.9
	-50.8	-51.2
Increase or decrease (—) during the year.....	-11.6	-7.9
Balance of account at end of fiscal year.....	112.1	123.7

⁽¹⁾ Adjustments due to cancellations, exchanges, conversions and additional issues of existing loans.

Cost of new loans issued during 1964-65 and charged to the account amounted to \$39 million, of which \$13 million is in respect of treasury bills discounts which will be charged to interest on public debt in 1965-66. Credits to the account were \$51 million of which \$37 million was a charge to the budgetary item "annual amortization costs" and \$14 million (representing discount applicable to 1964-65 on treasury bills sold in 1963-64) was a charge to the budgetary item "interest on public debt".

Suspense accounts

The only item in this category was the cheque adjustment suspense account which reflected unadjusted balances resulting from the reconciliation of payments for redemption of paid cheques with the amount of those cheques as subsequently determined in adjustment of the outstanding cheque account. The balance of \$200 thousand will be charged to net debt in 1964-65 upon parliamentary approval.

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 herein. Included are the loan of \$49 million to China under the Export Credits Insurance Act, loans of \$24 million and \$7 million made to Roumania and Greece in 1919-20 and 1920-21 respectively 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 at March 31, 1965 being \$546 million, unchanged from the end of the previous fiscal year.

NET DEBT

The net debt of Canada, or the excess of liabilities over net recorded assets, amounted to \$15,549 million at March 31, 1965, \$479 million higher than at March 31, 1964. The increase reflects the estimated 1964-65 budgetary deficit of \$83 million plus a charge to net debt, upon parliamentary approval, of \$277 million in respect of the unamortized portion of the actuarial deficiency in the public service superannuation account and \$119 million resulting from an actuarial evaluation of the account as at December 31, 1962 as calculated by the Department of Insurance.

THE CASH POSITION

The government's cash account represents balances of current and special deposits to the credit of the Receiver General of Canada in the Bank of Canada, chartered banks in Canada and certain banks in London, Paris and Bonn. These balances totalled \$678 million at March 31, 1965 compared with \$829 million at March 31, 1964 a decrease of \$151 million.

The cash position of the government is affected not only by budgetary transactions but also by changes in the government's unmatured debt and other non-budgetary transactions. Non-budgetary transactions are those which affect the government's asset and liability accounts and must be taken into account when considering the full scope of the government's financial operations and their effect on the economy of the country.

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 liability side they relate mainly to receipts and payments in connection with the many deposit and trust accounts, and annuity, insurance and pension accounts held or administered by the government.

The following statement summarizes both the budgetary and non-budgetary transactions for 1964-65 and indicates their effect on the government's cash position. For purposes of comparison the corresponding figures for 1963-64 are also shown.

TABLE 62
(in millions of dollars)

CHANGES IN CASH POSITION	Fiscal year ended March 31	
	1965 (estimated)	1964
Budgetary transactions—		
Revenue.....	7,136.0	6,253.2
Expenditure.....	-7,219.0	-6,872.4
Deficit.....	-83.0	-619.2
Non-budgetary transactions (excluding unmatured debt transactions)—		
Receipts and credits (net)—		
Repayments of loans, investments and advances.....	114.6	112.5
Annuity, insurance and pension accounts.....	553.0	384.0
Other.....	187.8	165.2
	855.4	661.7
Disbursements and charges (net)—		
Loans, investments and advances.....	-726.0	-89.7
Other.....	-474.0	-235.3
	-1,200.0	-325.0
Net amount received from, or required for (-), non-budgetary transactions.....	-344.6	336.7
Overall cash requirement (-) to be financed by increase in unmatured debt or decrease in cash balances.....	-427.6	-282.5
Net increase in unmatured debt outstanding in hands of the public—		
Unmatured debt—		
Canada savings bonds.....	464.7	510.2
Market issues.....	-175.1	214.6
Treasury bills.....	-90.0	65.0
Special issues to the Unemployment Insurance Commission...	43.0	-11.5
	242.6	778.3
Securities investment account.....	40.0	-66.4
Sinking fund and other investments.....	-6.0	22.3
	276.6	734.2
Net increase or decrease (-) in Receiver General bank balances...	-151.0	451.7

In 1964-65 a deficit of \$83 million and net requirements of \$345 million for non-budgetary transactions (excluding unmatured debt transactions) resulted in an overall net requirement of \$428 million. As outstanding unmatured debt increased by \$277 million there was a reduction of \$151 million in Receiver General bank balances. In 1963-64 a budgetary deficit of \$619

million and non-budgetary net receipts of \$337 million (excluding unmatured debt transactions) resulted in a net cash requirement of \$282 million and as outstanding unmatured debt increased by \$734 million, Receiver General bank balances increased by \$452 million.

Non-budgetary receipts and credits (excluding unmatured debt transactions)

As shown in the previous table, non-budgetary receipts and credits totalled \$855 million in 1964-65. Further details are presented in the following table:

TABLE 63
(in millions of dollars)

NON-BUDGETARY RECEIPTS AND CREDITS (NET)	Fiscal year ended March 31	
	1965 (estimated)	1964
Repayments of loans, investments and advances—		
Agricultural commodities stabilization account.....	38.0	75.0
Northern Ontario Pipe Line Crown Corporation.....		110.6
The St. Lawrence Seaway Authority.....	6.4	-24.9
Old age security fund.....	64.0	-58.3
Other.....	6.2	10.1
	<i>114.6</i>	<i>112.5</i>
Annuity, insurance and pension accounts—		
Public service superannuation account.....	304.3	132.3
Canadian forces superannuation account.....	218.0	215.7
Other.....	30.7	36.0
	<i>553.0</i>	<i>384.0</i>
Other receipts and credits—		
Outstanding treasury cheques.....	20.2	53.3
Accounts payable.....	72.5	75.3
Provincial tax collection agreements account.....	52.4	-2.7
Unamortized loan flotation costs.....	11.6	7.9
Interest due and outstanding.....	12.1	12.4
Interest accrued.....	19.0	19.0
	<i>187.8</i>	<i>165.2</i>
	<i>855.4</i>	<i>661.7</i>

Non-budgetary disbursements and charges (excluding unmatured debt transactions)

As already indicated, non-budgetary disbursements and charges were \$1,200 million in 1964-65. Further details are presented in the following table:

TABLE 64
(in millions of dollars)

NON-BUDGETARY DISBURSEMENTS AND CHARGES (NET)	Fiscal year ended March 31	
	1965 (estimated)	1964
Loans, investments and advances—		
Atomic Energy of Canada Limited.....	13.0	0.4
Canadian Broadcasting Corporation.....	14.2	
Canadian National Railways (including Air Canada).....	23.3	-28.4
Canadian Overseas Telecommunication Corporation.....	0.8	6.2
Central Mortgage and Housing Corporation.....	221.0	113.3
Export Credits Insurance Corporation.....	33.8	23.4
Farm Credit Corporation.....	102.4	69.9
National Capital Commission.....	11.6	12.1
National Harbours Board.....	2.6	5.5
Northern Canada Power Commission.....	6.4	3.4
Columbia River Development.....	219.4	
Exchange fund.....	20.0	-135.0
National governments.....	11.3	-15.1
Stockpiling of uranium concentrates.....	10.8	13.5
Subscription to international development association.....	7.9	
Loans to provinces.....	5.8	-0.5
Veterans land act advances.....	14.2	21.0
Municipal development and loan board.....	7.5	
	726.0	89.7
Other disbursements and charges—		
Non-interest-bearing notes payable on demand.....	219.1	170.3
Cash in hands of collectors and in transit.....	13.4	21.5
Unamortized portions of actuarial deficiencies—		
Public service superannuation account.....	159.3	
Canadian forces superannuation account.....	60.0	
Royal Canadian Mounted Police superannuation account.....	2.9	
Other.....	19.3	43.5
	474.0	235.8
	1,200.0	325.0

THE PUBLIC DEBT

Gross and net debt

The gross debt of Canada was \$26,648 million at March 31, 1965. Unmatured debt, including treasury bills, in the amount of \$18,983 million accounts for approximately 71 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, amount to \$7,665 million or approximately 29 per cent of the total debt.

The net debt of Canada in the amount of \$15,549 million at March 31, 1965 was \$479 million more than the net debt at March 31, 1964. Total liabilities of \$26,648 million are \$724 million higher and net recorded assets of \$11,099 million are \$245 million higher than the March 31, 1964 totals.

TABLE 65

STATEMENT OF PUBLIC DEBT, UNMATURED DEBT, NET RECORDED ASSETS AND NET DEBT
OF CANADA

(in millions of dollars)

As at March 31	Gross Public Debt			Less net recorded assets	Net debt	Increase in net debt during fiscal year
	Unmatured debt	Other liabilities	Total			
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.....	17,961.8	6,837.4	24,799.2	10,879.5	13,919.7	691.6
1964.....	18,740.1	7,183.6	25,923.7	10,853.6	15,070.1	1,150.4
1965 (estimated).....	18,982.7	7,665.2	26,647.9	11,098.4	15,549.5	479.4

Unmatured debt

The total unmatured debt of Canada at March 31, 1965 was \$18,983 million, reflecting an increase of \$243 million over the previous fiscal year-end balance of \$18,740 million.

The government's holdings of its own securities totalled \$65 million at March 31, 1965, comprising \$59 million in the securities investment account (of which \$31 million is in respect of the employees instalment purchase plan) and \$6 million in the sinking fund and other investments account. This is a decrease of \$14 million from the previous year-end figure when holdings were \$99 million in the securities investment account (of which \$31 million was in respect of the employees instalment purchase plan).

Of the total unmatured debt, \$18,607 million or approximately 98 per cent is payable in Canada and \$376 million in New York. Securities payable in New York have been valued at the official parity rate of \$1 U.S. = \$1.08108 Canadian.

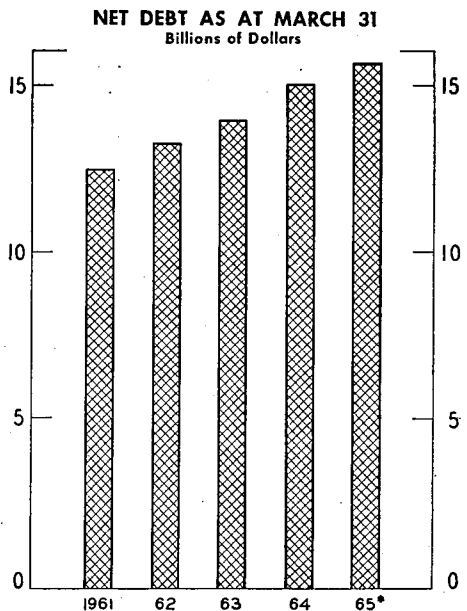
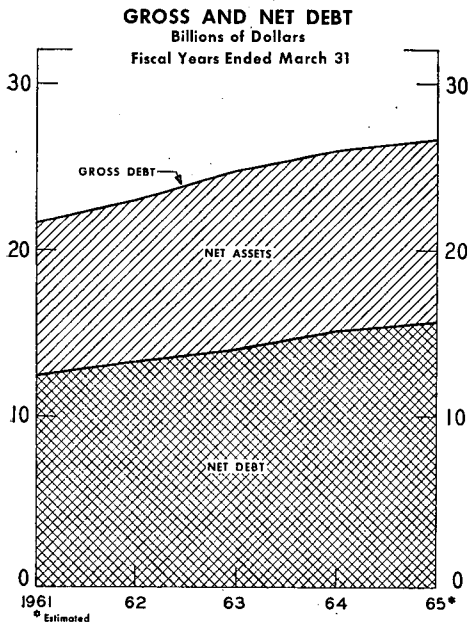


TABLE 66
(in millions of dollars)

UNMATURED DEBT TRANSACTIONS	Fiscal year ended March 31	
	1965 (estimated)	1964
Balance at beginning of year.....	18,740	17,962
New issues—		
For cash—		
Canada savings bonds series 17.....		103
Canada savings bonds series 18.....	103	1,097
Canada savings bonds series 19 (net).....	1,012	
Marketable bonds.....	1,975	1,725
Non-marketable bonds (Unemployment Insurance Commission)	87	66
Weekly treasury bills (net).....	10	65
	3,187	3,066
By renewals and conversions—		
Marketable bonds.....	250	266
Total new issues.....	3,437	3,322
Less—		
Matured marketable bonds.....	-1,850	-1,511
Redeemed non-marketable bonds (Unemployment Insurance Commission).....	-44	-77
Conversions.....	-250	-266
Canada savings bonds redeemed or matured.....	-650	-690
One-year treasury bills.....	-100	
	-2,894	-2,544
Unmatured marketable bonds (purchased and cancelled).....	-300	
	-3,194	-2,544
Increase in unmatured debt.....	243	778
Balance at end of year.....	18,983	18,740

Summary of security issues and maturities, redemptions, conversions and cancellations

During the year ended March 31, 1965 the government issued securities payable in Canada in the principal amount of \$3,437 million (excluding the refunding of treasury bills which mature weekly).

Securities payable in Canada amounting to \$3,194 million matured, were redeemed or cancelled during the year.

During 1964-65 net sales of Canada savings bonds series 19 were \$1,012 million and additional sales of Canada savings bonds series 18 were \$103 million. Redemptions prior to maturity of series 8 to 18 amounted to \$650 million. The net increase for all series was \$465 million and the amount outstanding for all series at March 31, 1965 was \$5,557 million.

Treasury bills outstanding at March 31, 1965 in the amount of \$2,140 million consisted of \$1,360 million in three-month bills and \$780 million in six-month bills.

TABLE 67

DEBT MATURED, REDEEMED OR CANCELLED DURING THE FISCAL YEAR ENDED MARCH 31, 1965 (estimated)

	Matured	Redeemed	Cancelled	Total
	\$	\$	\$	\$
One-year treasury bills.....	100,000,000			100,000,000
4% 1961-64.....	360,000,000			360,000,000
3½% 1963-64.....	175,000,000			175,000,000
3½% 1961-64.....	250,000,000			250,000,000
3½% 1963-64.....	185,000,000			185,000,000
4% 1961-64.....	240,000,000			240,000,000
3½% 1963-64.....	225,000,000			225,000,000
3½% 1962-65.....	350,000,000			350,000,000
3½% 1964-65.....	65,000,000			65,000,000
3½% 1958-65.....			(1)550,000,000	550,000,000
Canada savings bonds S.8-18.....		649,840,300		649,840,300
Unemployment Insurance Commission (non-marketable bonds)—				
4½%.....		43,000,000		43,000,000
4½%.....		1,500,000		1,500,000
	1,950,000,000	694,340,300	550,000,000	3,194,340,300

(1) \$300,000,000 purchased and subsequently cancelled; \$250,000,000 exchanged for 1964-69, 5% loan and subsequently cancelled.

TABLE 68

NEW SECURITIES ISSUED DURING YEAR ENDED MARCH 31, 1965 (estimated)

	Issue price	Yield at price to government	Total amount issued	Amount issued for cash
	\$	per cent	\$	\$
Marketable bonds—				
Loan due July 1, 1965 3½%.....	98.90	4.47	200,000,000	200,000,000
Loan due July 1, 1965 3½%.....	99.25	4.27	200,000,000	200,000,000
Loan due July 1, 1969 5%.....	99.75	5.05	(1)325,000,000	75,000,000
Loan due May 1, 1990 5½%.....	98.63	5.35	75,000,000	75,000,000
Loan due May 1, 1990 5½%.....	99.25	5.30	50,000,000	50,000,000
Loan due Dec. 1, 1965 3½%.....	98.85	4.52	200,000,000	200,000,000
Loan due Dec. 1, 1965 3½%.....	99.20	4.33	125,000,000	125,000,000
Loan due Oct. 1, 1967 3½%.....	97.25	4.74	75,000,000	75,000,000
Loan due June 1, 1971 5%.....	100.00	5.00	350,000,000	350,000,000
Loan due May 1, 1966 3½%.....	99.20	4.16	175,000,000	175,000,000
Loan due Oct 1, 1973 5%.....	100.00	5.00	275,000,000	275,000,000
Loan due Dec. 15, 1966 4½%.....	99.65	4.64	50,000,000	50,000,000
Loan due Oct. 1, 1968 5%.....	100.00	5.00	125,000,000	125,000,000
Non-marketable bonds—				
Unemployment Insurance Commission				
4½%.....	100.00	4.50	43,000,000	43,000,000
Unemployment Insurance Commission				
4½%.....	100.00	4.62	44,500,000	44,500,000
Canada savings bonds Nov. 1, 1963-Nov.				
1, 1975 4½-5½% S.18.....	100.00	(2)5.03	102,463,150	102,463,150
Canada savings bonds Nov. 1, 1964-Nov.				
1, 1974 4½-5½% S.19 (net).....	100.00	(2)5.00	1,012,000,000	1,012,000,000
Weekly treasury bills (net).....	various	various	10,000,000	10,000,000
			3,436,963,150	3,186,963,150

(1) \$250,000,000 issued in exchange for 1958-65, 3½% loan.

(2) If held to maturity.

Interest rates

The average interest rate on the government's unmatured debt did not vary to any great extent in 1964-65. It was 4.32 per cent at March 31, 1965 compared with 4.22 per cent at the end of the previous fiscal year.

The yield on three-month treasury bills at tender on March 25, 1964 was 3.88 per cent. On June 11, 1964 it had dropped to a low of 3.53 per cent and on November 26, 1964 it had risen to a high of 3.87 per cent and was 3.62 per cent on March 25, 1965.

The yield on six-month treasury bills at tender on March 25, 1964 was 4.04 per cent. On June 11, 1964 it had dropped to a low for the year of 3.69 per cent, on November 26, 1964 it had risen to a high of 4.06 per cent and was 3.73 per cent on March 25, 1965.

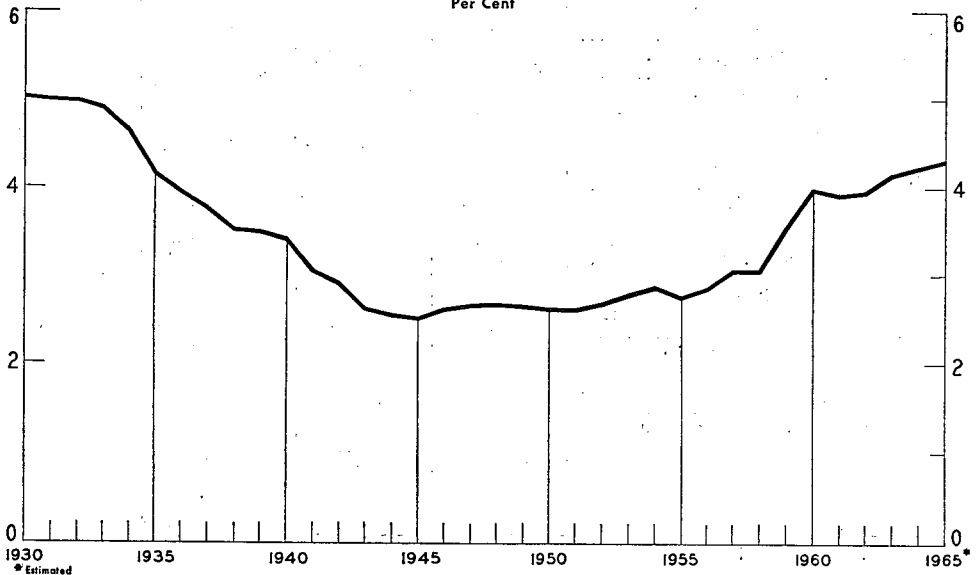
The following table shows the high and low yields together with the yield on the latest issue of three-month and six-month bills for the fiscal years 1960-61 to 1964-65 inclusive:

TABLE 69
TREASURY BILL YIELDS AT TENDER

Fiscal year ended March 31	High per cent	Low per cent	Last issue per cent
Three-month bills—			
1961.....	3.95	1.68	3.21
1962.....	3.34	2.26	3.12
1963.....	5.51	3.04	3.62
1964.....	3.90	3.19	3.88
1965.....	3.87	3.53	(1)3.62
Six-month bills—			
1961.....	4.07	1.99	3.37
1962.....	3.49	2.53	3.29
1963.....	5.74	3.19	3.74
1964.....	4.06	3.30	4.04
1965.....	4.06	3.69	(1)3.73

(1) At tender on March 25, 1965.

AVERAGE INTEREST RATE ON UNMATURED DEBT
As At March 31
Per Cent



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 \$4,200 million at December 31, 1964 compared with \$4,499 million at December 31, 1963.

TABLE 70
SUMMARY OF INDIRECT DEBT OR CONTINGENT LIABILITIES (estimated)

	Amount of guarantee authorized	Amount outstanding
	\$	\$
Railway securities guaranteed as to principal and interest ⁽¹⁾ —		
1. Canadian National 3% due January 3, 1966.....	35,000,000	35,000,000
2. Canadian National 2½% due January 2, 1967.....	50,000,000	50,000,000
3. Canadian National 4½% due April 1, 1967.....	72,300,000	72,300,000
4. Canadian National 5% due May 15, 1968.....	55,800,000	55,800,000
5. Canadian National 2½% due September 15, 1969.....	70,000,000	70,000,000
6. Canadian National 2½% due January 16, 1971.....	40,000,000	40,000,000
7. Canadian National 5½% due December 15, 1971.....	190,561,500	190,561,500
8. Canadian National 3½% due February 1, 1974.....	200,000,000	200,000,000
9. Canadian National 2½% due June 15, 1975, U.S. \$6,000,000.....	6,486,480	6,486,480
10. Canadian National 5% due May 15, 1977.....	84,150,000	84,150,000
11. Canadian National 4% due February 1, 1981.....	300,000,000	300,000,000
12. Canadian National 5½% due January 1, 1985.....	99,500,000	99,500,000
13. Canadian National 5% due October 1, 1987.....	164,500,000	164,500,000
	1,368,297,980	1,368,297,980
Other outstanding guarantees and contingent liabilities—		
14. Deposits maintained by the chartered banks in the Bank of Canada ⁽²⁾	Unstated	875,834,213
15. Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements ⁽³⁾	25,000,000	15,863,475
16. Insured loans made by approved lenders under the National Housing Act, 1954 ⁽³⁾	6,000,000,000	4,200,000,000
17. Liability for insurance and guarantees and other commitments with respect to long-term financing under sections 21 and 21A of the Export Credits Insurance Act ⁽¹⁾	1,000,000,000	466,656,836
18. Loans made by chartered banks under the Farm Improvement Loans Act ⁽⁴⁾	86,400,000	70,900,000
19. Loans made by chartered banks under the Veterans' Business and Professional Loans Act ⁽¹⁾	15,000	15,000
20. Loans made by chartered banks and credit unions under the Fisheries Improvement Loans Act ⁽⁴⁾	2,700,000	200,000
21. Loans made by chartered banks under the Small Businesses Loans Act ⁽¹⁾	37,400,000	9,600,000
22. Loans made by chartered banks under the Canada Student Loans Act ⁽⁴⁾	40,000,000	21,000,000
23. Loans made by chartered banks to the Canadian Wheat Board ⁽¹⁾	416,000,000	49,800,000
		5,709,869,524
24. Loans maintained by approved lending institutions under National Housing Acts prior to 1954 Act.....	Unstated	Indeterminate
25. Guarantees to owners of returns from moderate rental housing projects ⁽⁵⁾	Unstated	Indeterminate

⁽¹⁾As at December 31, 1964.

⁽²⁾As at February 10, 1965.

⁽³⁾As reported (in accordance with Sec. 45, National Housing Regulations) by approved lenders at December 31, 1964.

⁽⁴⁾As at December 31, 1964. Includes contingent liability in respect of alternative payments to non-participating provinces.

⁽⁵⁾Funds totalling \$3,901,429 are held by Central Mortgage and Housing Corporation for the purpose of settling claims. In 1964 rental guarantee contracts totalled \$14,629,600.

SUPPLEMENTARY DETAILED TABLES

REVENUE

EXPENDITURE

ANNUAL CHANGES IN LOANS AND INVESTMENTS

UNMATURED DEBT

STATEMENT OF REVENUE FOR THE LAST FIVE FISCAL YEARS
(in millions of dollars)

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
	\$	\$	\$	\$	\$
TAX REVENUE					
Income tax—					
Personal ⁽¹⁾	1,711.2	1,792.7	1,744.6	1,865.1	2,108.0
Corporation ⁽¹⁾	1,276.6	1,202.0	1,182.8	1,259.0	1,510.0
On dividends, interest, etc., going abroad.....	88.2	112.3	129.2	124.5	144.0
	<i>3,076.0</i>	<i>3,107.0</i>	<i>3,056.6</i>	<i>3,248.6</i>	<i>3,762.0</i>
Excise taxes—					
Sales tax ⁽¹⁾⁽²⁾	720.6	759.7	806.0	946.1	1,193.0
Other excise taxes—					
Automobiles.....	59.6	25.3	(3)	(3)	(3)
Cigarettes, tobacco and cigars.....	193.7	207.6	217.8	226.9	220.0
Electric power export.....	1.6	1.0	0.5	0.1	(3)
Jewellery, watches, ornaments, etc.....	5.9	5.6	5.8	6.4	6.6
Matches and lighters.....	0.8	1.1	1.2	1.3	1.2
Television sets, radios, tubes and phonographs.....	15.9	18.4	19.9	22.0	23.5
Toilet preparations.....	8.4	9.4	10.2	11.1	12.5
Wines.....	3.2	3.3	3.7	3.8	4.1
Sundry commodities.....	1.1	1.1	1.2	1.3	1.4
Interest and penalties.....	0.8	0.7	0.5	0.8	1.0
Less refunds.....	-0.3	-11.0	-0.4	-0.3	-0.3
	<i>290.7</i>	<i>262.5</i>	<i>260.4</i>	<i>273.4</i>	<i>270.0</i>
Customs import duties.....	498.7	534.5	645.0	581.4	617.0
Excise duties—					
Spirits.....	108.5	114.1	122.1	129.4	135.0
Beer.....	91.0	92.7	98.2	102.9	106.0
Cigarettes, tobacco and cigars.....	149.6	160.5	166.5	165.7	171.0
Licences.....	(3)	(3)	(3)	(3)	(3)
Less refunds.....	-4.2	-4.5	-4.9	-4.7	-6.0
	<i>344.9</i>	<i>362.8</i>	<i>381.9</i>	<i>393.3</i>	<i>406.0</i>
Estate tax.....	(4)84.9	(4)84.6	(4)87.1	90.6	89.7
Miscellaneous tax revenue.....	(3)	0.1	(3)	0.1	0.3
Total tax revenue.....	5,015.8	5,111.2	5,237.0	5,533.5	6,338.0
NON-TAX REVENUE					
Return on investments.....	283.8	307.5	311.9	366.4	414.0
Post office—net postal revenue.....	173.6	183.7	192.8	200.7	234.0
Other.....	144.5	127.2	137.0	152.6	150.0
Total non-tax revenue.....	601.9	618.4	641.7	719.7	798.0
Total revenue.....	5,617.7	5,729.6	5,878.7	6,253.2	7,136.0

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

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
Personal income tax.....	229.4	259.0	273.7	302.6	432.0
Corporation income tax.....	103.5	100.1	115.2	115.7	143.0
Sales tax.....	270.2	284.9	302.2	331.8	378.0

⁽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 EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS
(in millions of dollars)

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
	\$	\$	\$	\$	\$
AGRICULTURE—					
Administration and general.....	3.0	4.1	3.3	3.8	3.9
Agricultural commodities stabilization account—net operating loss.....	53.4	22.0	71.8	122.2	57.0
Agricultural products board account— net operating loss.....		4.9	0.9	1.0	0.3
Board of Grain Commissioners.....	6.3	6.5	6.2	6.7	6.8
Farm Credit Corporation—net opera- ting loss.....				1.1	1.5
Prairie farm emergency fund—deficit..	9.2	47.7	7.3	1.1	0.4
Production and marketing.....	35.8	41.5	39.0	38.5	41.7
Contributions to Alberta, Saskatch- ewan and Manitoba—unharvested crops.....	1.4				
Payments to western grain producers	40.5	40.1	0.1		
Rehabilitation and reclamation proj- ects.....	18.7	25.1	27.8	23.7	27.5
Research.....	26.2	26.8	27.0	27.6	28.9
	194.5	218.7	183.4	225.7	168.0
ATLANTIC DEVELOPMENT BOARD.....			(1)	0.2	4.4
ATOMIC ENERGY.....	38.9	34.7	63.2	45.9	47.0
AUDITOR GENERAL'S OFFICE.....	0.9	1.1	1.2	1.3	1.6
BOARD OF BROADCAST GOVERNORS.....	0.3	0.3	0.4	0.3	0.4
CANADIAN BROADCASTING CORPORATION—					
Grants toward the net operating and capital requirements of the radio broadcasting and television services	64.9	76.5	79.0	85.7	85.9
International service.....	1.9	1.7	1.8	1.9	2.1
	66.8	78.2	80.8	87.6	88.0
CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION.....			0.3	1.1	23.0
CENTRAL MORTGAGE AND HOUSING COR- PORATION.....	3.7	5.8	8.7	13.5	14.0
OFFICE OF THE CHIEF ELECTORAL OFFICER..	0.6	0.4	11.8	11.9	0.6
CITIZENSHIP AND IMMIGRATION—					
Administration and general.....	2.4	2.6	2.6	2.7	3.1
Immigration.....	12.2	11.9	12.5	13.2	14.6
Indian affairs.....	46.4	50.4	51.0	55.6	65.3
	61.0	64.9	66.1	71.5	83.0
CIVIL SERVICE COMMISSION.....	4.2	4.7	4.8	5.2	6.4
DEFENCE PRODUCTION—					
Defence expenditures.....	17.5	19.6	21.0	20.6	22.0
Non-defence expenditures.....	2.1	2.1	1.9	1.9	2.4
	19.6	21.7	22.9	22.5	24.4
ECONOMIC COUNCIL OF CANADA.....				0.2	0.9
EMERGENCY MEASURES ORGANIZATION...	3.7	5.1	6.4	6.9	8.0
EXTERNAL AFFAIRS—					
Administration and general.....	35.6	28.9	23.7	28.8	33.1
External aid.....	55.8	53.9	46.5	51.7	77.4
Representation abroad.....	11.6	12.8	15.0	16.5	17.5
	103.0	95.6	85.2	97.0	128.0
FINANCE—					
Administration and general.....	19.1	18.8	31.8	22.3	24.4
Office of the Comptroller of the Treas- ury.....	20.6	22.0	23.3	23.8	25.0
Grants to municipalities in lieu of taxes on federal property.....	24.5	24.7	29.2	31.5	34.0
Grants to universities.....	19.0	19.4	26.3	26.8	27.1

STATEMENT OF EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Continued*

(in millions of dollars)

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
	\$	\$	\$	\$	\$
FINANCE—<i>Concluded</i>					
Public service superannuation account—					
Government's contribution.....	41.4	46.9	51.1	54.0	55.6
Amortization of deferred charges....					10.0
Payments to provinces—					
Statutory subsidies.....	20.7	23.5	23.5	23.6	23.6
Tax-sharing arrangements, 1956 act..	504.9	503.3			
Fiscal arrangements, 1961 act.....			241.8	220.9	311.7
Transfer of certain public utility tax receipts.....	4.2	6.4	10.0	9.8	10.6
Crown Corporations (Provincial Taxes and Fees) Act.....					3.8
Transitional grant to Newfoundland.	0.3				
Additional grants to Newfoundland.	7.7	8.0			
Public debt charges—					
Interest on public debt.....	756.7	802.9	881.6	954.5	1,008.0
Cost of issuing new loans and annual amortization of bond discounts and commissions.....	40.2	35.3	34.6	38.2	38.9
Servicing of public debt.....	0.7	0.8	1.6	1.0	1.3
	1,460.0	1,512.0	1,354.8	1,406.4	1,574.0
FISHERIES.....	19.2	23.1	23.3	23.7	26.0
FORESTRY—					
Administration and general.....	10.3	14.8	16.2	18.5	20.5
Freight assistance and grain storage costs.....	19.2	17.5	14.4	18.7	19.5
Rehabilitation and reclamation projects.....	1.5	1.0	1.2	4.6	10.0
	31.0	33.3	31.8	41.8	50.0
GOVERNOR GENERAL AND LIEUTENANT-GOVERNORS.....	0.4	0.5	0.5	0.5	0.7
INDUSTRY—					
Defence.....	2.9	4.4	8.0	19.0	20.0
Non-defence.....	0.1	0.1	0.4	0.7	3.2
	3.0	4.5	8.4	19.7	23.2
INSURANCE.....	1.3	1.4	1.4	1.4	1.5
JUSTICE—					
Administration and general.....	8.1	8.8	9.1	10.6	11.5
Correctional services.....	19.6	23.8	25.4	27.8	39.5
Patents, copyrights and trade marks..	2.7	2.8	2.5	2.6	3.0
	30.4	35.4	37.0	41.0	54.0
LABOUR—					
Administration and general.....	15.6	31.6	34.9	35.9	63.0
Technical and vocational training assistance payments to provinces.....	8.5	35.7	208.0	136.4	105.0
Unemployment Insurance Commission—					
Administration and general.....	42.1	46.0	48.1	48.8	54.0
Government's contribution.....	55.1	55.6	57.3	59.3	62.0
	121.8	168.9	348.8	280.4	284.0
LEGISLATION—					
House of Commons.....	6.3	6.2	5.9	10.1	11.0
Library of Parliament.....	0.3	0.3	0.4	0.3	0.4
Senate.....	1.9	1.9	1.8	2.5	2.6
	8.5	8.4	8.1	12.9	14.0
MINES AND TECHNICAL SURVEYS—					
Administration and general.....	27.7	35.3	35.5	32.2	38.2
Dominion Coal Board.....	19.3	19.9	20.4	20.6	23.2
Emergency gold mining assistance....	12.1	12.4	15.2	15.0	15.6
	59.1	67.6	71.1	67.8	77.0
NATIONAL CAPITAL COMMISSION.....	6.3	8.7	13.0	12.2	9.9

STATEMENT OF EXPENDITURE BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Continued*

(in millions of dollars)

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
	\$	\$	\$	\$	\$
NATIONAL DEFENCE—					
Defence forces, army, naval and air services.....	1,406.0	1,502.8	1,433.9	1,458.8	1,369.0
Defence research and development....	41.9	40.4	41.1	46.1	57.0
Canadian forces superannuation account—					
Government's contribution.....	40.5	56.0	58.1	59.7	59.0
Special government contribution.....				76.5	
Amortization of deferred charges....					15.0
Mutual aid to NATO countries.....	14.6	11.1	25.0	28.9	27.0
Pensions—payments under Defence Services Pension Act.....	6.7	7.3	7.5	7.9	8.0
Other.....	5.6	5.4	5.5	5.6	4.0
	1,515.3	1,623.0	1,571.1	1,683.5	1,539.0
NATIONAL FILM BOARD.....	4.9	5.1	5.6	5.8	6.4
NATIONAL GALLERY OF CANADA.....	0.9	1.0	1.0	1.1	1.3
NATIONAL HEALTH AND WELFARE—					
Administration and general.....	1.7	1.8	1.9	2.0	2.3
Health services—					
General health grants and hospital construction grants.....	48.0	49.0	50.3	53.0	57.5
Government's contributions under the Hospital Insurance and Diagnostic Services Act.....	189.4	283.9	336.7	392.2	430.0
Other.....	5.6	6.3	6.6	6.9	6.8
Welfare services—					
Family allowances.....	506.2	520.8	531.6	538.3	546.2
Youth allowances.....					27.2
Fitness and amateur sport payments		0.2	1.1	1.6	3.0
Old age assistance, blind persons and disabled persons allowances.....	51.3	51.4	62.7	64.4	74.1
Unemployment assistance.....	51.5	92.0	96.5	107.4	111.0
Other.....	3.3	3.3	3.4	4.1	5.3
Medical services.....	26.8	28.1	28.9	30.6	33.2
Food and drug services.....	2.4	2.5	2.8	3.4	4.4
	886.2	1,039.3	1,122.5	1,203.9	1,301.0
NATIONAL RESEARCH COUNCIL, INCLUDING THE MEDICAL RESEARCH COUNCIL..	34.4	38.8	40.6	47.3	57.0
NATIONAL REVENUE.....	73.4	75.3	78.6	83.0	87.0
NORTHERN AFFAIRS AND NATIONAL RESOURCES.....	70.8	78.4	86.4	77.3	85.0
POST OFFICE.....	178.4	185.0	189.4	206.9	211.0
PRIVY COUNCIL, including Prime Minister's Office.....	1.3	3.5	2.1	2.9	4.5
PUBLIC ARCHIVES AND NATIONAL LIBRARY	0.8	1.0	1.1	1.1	1.5
PUBLIC PRINTING AND STATIONERY—					
Publications.....	1.4	1.9	2.0	2.2	2.8
PUBLIC WORKS—					
Administration and general.....	23.6	15.5	15.7	17.7	25.6
Accommodation services.....	81.7	81.4	71.6	74.3	85.1
Harbours and rivers engineering services.....	36.9	35.8	29.4	23.6	28.2
Trans-Canada highway contributions.	48.7	41.6	33.0	39.2	74.1
	190.9	174.3	149.7	154.8	213.0
OFFICE OF THE REPRESENTATION COMMISSIONER.....				(1)	0.2
ROYAL CANADIAN MOUNTED POLICE.....	56.0	60.5	65.4	66.9	75.0

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

(in millions of dollars)

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
	\$	\$	\$	\$	\$
SECRETARY OF STATE.....	3.0	3.2	4.8	7.6	22.3
TRADE AND COMMERCE—					
Administration and general.....	12.3	14.9	14.5	16.1	18.8
Assistance re storage costs of grain.....	48.2	48.8	35.2	39.6	34.0
Canadian government travel bureau.....	2.7	3.0	3.4	3.9	5.0
Dominion Bureau of Statistics.....	10.4	24.6	11.9	12.3	13.5
National Energy Board.....	0.4	0.4	0.5	0.6	0.7
	74.0	91.7	65.5	72.5	72.0
TRANSPORT—					
Administration and general.....	2.6	5.8	5.9	4.7	5.6
Air services.....	133.9	150.0	136.9	121.1	136.0
Canadian Maritime Commission.....	6.9	10.2	31.0	49.8	41.2
Marine services.....	49.1	48.6	57.8	64.1	64.0
Non-active assets—					
National Harbours Board.....	0.6	4.9	5.2	0.3	8.2
Railway and steamship services.....	5.0	4.6	14.6	30.2	36.8
Maritime Freight Rates Act.....	14.1	12.2	12.9	13.4	15.1
Deficits—					
Canadian National Railways.....	67.5	67.3	48.9	43.0	38.7
Newfoundland ferry and terminals	5.4	7.3	8.2	8.6	11.0
Prince Edward Island car ferry					
and terminals.....	2.6	3.0	3.3	3.3	4.1
Yarmouth—Bar Harbour ferry					
service.....	0.1	0.1	0.2	0.2	0.3
Board of Transport Commissioners....	1.2	1.3	1.3	1.4	1.5
Freight Rates Reduction Act.....	20.4	19.0	20.6		
Payments to the railways for the					
maintenance of the rates of					
freight traffic.....		50.0	50.0	68.1	70.4
Maintenance of trackage.....	7.0	7.0	7.0	7.0	7.0
Contributions to the railway grade					
crossing fund.....	15.0	10.0	5.8	5.1	5.1
Air Canada—deficit.....	2.6	6.5	3.5		
Canals and works entrusted to The St.					
Lawrence Seaway Authority.....	2.4	2.6	2.9	3.0	30.0
	336.4	410.4	416.0	423.3	475.0
VETERANS AFFAIRS—					
Administration and general.....	10.2	10.4	10.3	10.0	10.4
Pensions.....	150.7	177.9	175.9	173.2	179.3
Provision for reserve for conditional					
benefits.....	3.4	3.3	3.2	3.2	3.1
Soldier settlement and veterans land					
acts.....	5.2	4.6	4.6	4.5	4.5
Treatment services.....	50.1	48.1	46.4	46.4	48.7
Welfare services, allowances and other					
benefits.....	72.7	88.9	95.2	96.4	107.0
	292.3	333.2	335.6	333.7	353.0
TOTAL EXPENDITURE.....	5,958.1	6,520.6	6,570.3	6,872.4	7,219.0

⁽¹⁾ Less than \$50,000.

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

(in millions of dollars)

	1960-61	1961-62	1962-63	1963-64	1964-65 (estimated)
	\$	\$	\$	\$	\$
Loans to, and investments in, Crown corporations—					
Air Canada.....	1.3	0.2	-0.4	0.4	-1.4
Atomic Energy of Canada Limited.....	1.5	4.9	-12.5	0.4	13.0
Canadian Broadcasting Corporation.....	3.0				14.2
Canadian Commercial Corporation.....	1.0	3.0	-0.5	-4.0	
Canadian National Railways.....	-116.5	72.3	274.7	-28.8	24.7
Canadian National (West Indies) Steamships Limited.....	-1.0	-0.7	-0.6		
Canadian Overseas Telecommunication Corporation.....	9.1	6.2	11.4	6.2	0.8
Central Mortgage and Housing Corporation....	192.0	190.3	101.8	113.3	221.0
Export Credits Insurance Corporation.....		5.2	19.6	23.4	33.8
Farm Credit Corporation.....	40.1	54.2	59.0	69.9	102.4
National Capital Commission.....	7.4	6.2	9.4	12.1	11.6
National Harbours Board.....	11.4	6.0	13.8	5.5	2.6
Northern Canada Power Commission.....	0.9	-0.3	-7.2	3.4	6.4
Northern Ontario Pipe Line Crown Corporation	2.2	-4.7	-8.4	-110.6	
The St. Lawrence Seaway Authority.....	24.0	(1)28.3	(1)22.7	(1)24.9	(1)-6.4
Other.....	0.1				0.6
	176.5	371.1	482.8	116.1	423.3
Loans to national governments—					
United Kingdom—					
The United Kingdom Financial Agreement Act, 1946.....	-16.7	-17.1	-17.5	-17.8	(2)19.6
Export Credits Insurance Act.....	-15.2	-15.3	-105.9	-2.3	-2.3
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada.....	-3.5	-5.0	-5.0	-5.0	-5.0
Loan to India for the purchase in Canada of aircraft and associated spare parts and equipment.....				10.0	-1.0
Other.....	-0.9	-1.0	-0.6		
	-36.3	-38.4	-129.0	-15.1	11.3
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.....	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	7.9	7.9
Working capital advances and loans to international organizations.....	-0.3	-0.1	6.2	0.2	
Loans to provincial governments.....	-1.1	-0.5	5.8	-0.5	5.8
Provincial tax collection agreements—advances			13.1	-2.7	-10.4
Balances receivable under agreements of sale of Crown assets.....	-3.9	-1.5	-2.3	-2.3	-2.0
Housing projects for Canadian forces.....	0.1	1.9	6.1	5.4	1.6
Municipal development and loan board.....					7.5
Old age security fund.....	-10.7	-17.3	41.7	58.3	-64.0
Unemployment Insurance Commission.....	67.0	-67.0			
Veterans land act advances.....	14.5	11.3	18.6	21.0	14.2
Other.....	0.3	2.5	-0.3	-0.2	1.7
	92.2	-41.8	116.8	87.1	-37.7
Net total of changes in loans and investments..	232.4	290.9	470.6	188.1	396.9

(1) Includes deferred interest.

(2) Deferred interest.

UNMATURED DEBT INCLUDING TREASURY BILLS AS AT MARCH 31, 1965
AND THE ANNUAL INTEREST THEREON (estimated)

		Date of maturity	Rate per cent	Amount of loan	Annual interest
				\$	\$
Payable in Canada—					
Loan of 1962.....	AT 15	1965 Apr. 1	4½	110,000,000	4,675,000
Loan of 1963.....	CT 2	Apr. 1	4½	90,000,000	3,825,000
Loan of 1964.....	CT 10	July 1	3½	400,000,000	14,000,000
Conversion loan 1958.....	T 27	Sept. 1	3½	449,890,600	16,870,898
Canada savings bonds 1953.....	S 8	Nov. 1	3½	(1)45,349,000	1,700,588
Loan of 1964.....	CT 13	Dec. 1	3½	325,000,000	11,375,000
Loan of 1963.....	AT 19	1966 Feb. 1	3½	225,000,000	7,875,000
Loan of 1964.....	CT 7	Feb. 1	3½	105,000,000	3,750,000
Loan of 1965.....	CT 16	May 1	3½	175,000,000	6,125,000
Ninth victory loan.....	P 7	Sept. 1	3	245,202,200	7,356,066
Canada savings bonds 1954.....	S 9	Nov. 1	3½	(1)28,178,000	915,785
Loan of 1961.....	AT 6	Dec. 15	4½	175,000,000	7,875,000
Loan of 1963.....	CT 5	Dec. 15	4½	125,000,000	5,625,000
Loan of 1961.....	AT 9	1967 June 1	4½	275,000,000	11,687,500
Loan of 1962.....	AT 12	Oct. 1	3½	100,000,000	3,750,000
Loan of 1964.....	CT 14	Oct. 1	3½	75,000,000	2,812,500
Canada savings bonds 1955.....	S 10	Nov. 1	3½	(1)26,946,000	875,745
Loan of 1962.....	AT 11	1968 Jan. 15	4½	250,000,000	10,625,000
Loan of 1964.....	CT 8	Jan. 15	4½	130,000,000	5,525,000
Refunding loan 1950.....	P 9	June 15	2½	308,581,000	8,485,977
Loan of 1963.....	CT 3	Oct. 1	5	441,000,000	22,050,000
Canada savings bonds 1959.....	S 14	Nov. 1	5	(1)914,953,000	45,747,650
Loan of 1960.....	T 39	1969 Apr. 1	5½	80,000,000	4,400,000
Loan of 1962.....	AT 16	Apr. 1	5½	100,000,000	5,500,000
Canada savings bonds 1956.....	S 11	May 1	4	(1)48,341,000	1,933,640
Loan of 1964.....	CT 11	July 1	5	325,000,000	16,250,000
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)389,142,000	18,484,245
Canada savings bonds 1960.....	S 15	Nov. 1	5	(1)414,231,000	20,711,550
Loan of 1964.....	CT 15	1971 June 1	5	350,000,000	17,500,000
Canada savings bonds 1961.....	S 16	Nov. 1	4½	(1)342,962,000	15,433,290
Conversion loan 1958.....	T 28	1972 Sept. 1	4½	1,267,203,100	53,856,132
Loan of 1965.....	CT 17	1973 Oct. 1	5	275,000,000	13,750,000
Canada savings bonds 1958.....	S 13	Nov. 1	4½	(1)109,312,000	4,645,760
Canada savings bonds 1964.....	S 19	1974 Nov. 1	4½	(1)1,012,000,000	45,540,000
Loan of 1959.....	T 36	1975 Oct. 1	5½	310,361,000	17,069,855
Canada savings bonds 1963.....	S 18	Nov. 1	4½	(1)940,000,000	42,300,000
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)1,285,536,000	57,849,120
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
Loan of 1963.....	AT 21	1988 June 1	5	100,000,000	5,000,000
Loan of 1964.....	CT 9	June 1	5	50,000,000	2,500,000
Loan of 1964.....	CT 12	1990 May 1	5½	125,000,000	6,562,500
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	1,360,000,000	51,109,850
Six-month treasury bills.....			(2)3.73	780,000,000	30,327,000
Special non-marketable bonds (U.I.C.).....			4½	43,000,000	1,988,750
				18,606,314,850	803,846,257
Payable in New York—					
Loan of 1949.....		1974 Sept. 1	2½	(3)65,087,502	1,789,906
Loan of 1950.....		1975 Sept. 15	2½	(3)41,047,527	1,128,807
Loan of 1962.....		1987 Oct. 15	5	(3)270,270,000	13,513,500
				376,405,029	16,432,213
				18,982,719,879	820,278,470

NOTE—The interest shown is a projection for one year at the annual rates on principal amounts outstanding at March 31, 1965. Where various rates of interest are applicable during the term of a loan the interest rate in effect at March 31, 1965 has been used.

(1) Estimated.

(2) Rate of discount at tender on March 25, 1965.

(3) Conversion rate \$1 U.S.=\$1.08108 Canadian.