

The decline in industrial activity in the United States had come to an end and production and employment was beginning to move forward again. This was also true in Canada, through our increased exports to the United States. At the same time the European demand for our exports of forest products, minerals, chemicals and the like was well maintained. Of course the output of the basic resource industries - and the employment in them - continued to grow throughout the recession phase, and have gone on growing since then.

New capital investment always a great provider of jobs and incomes - had slumped a little in 1954 from its high level of 1953 but was beginning to grow again by the spring of this year.

This was the broad picture as I saw it when planning the budget. I therefore estimated that, barring unforeseen events, 1955 would see a national output of at least \$25½ billion or 6 per cent more than last year. Many people at that time thought that this was over-optimistic, but were kind enough to say that a first budget was entitled to be.

With this in prospect, I might have decided that the question of budget policy had almost decided itself. With a higher national product, there would be an automatic increase in revenues on the basis of existing tax rates, and the forecast revenues would just about balance the expenditures.

But there were other things to consider.

First and foremost, there was the question of tax rates. I happen to have said on another occasion that when taxes are high, we run the risk of diminishing the initiative and enterprise on which we all depend for a healthy and expanding economy. And I also believed that a reduction in certain kinds of tax would help increase consumer spending and encourage a larger amount of investment and enterprise, and thereby reinforce the expansion that was already going on. I therefore felt that our tax policy should be based, not on the immediate prospects, but on the longer-run prospects of the economy.

Looking at the revenues that would result from the probable growth of the economy during the year, it was apparent that the existing tax rates would begin to produce a surplus, perhaps beginning about the end of the fiscal year. This would be the case if the total production was to increase enough to make up for the ground that had been lost in 1954, and to increase still further by the normal annual growth of two or three per cent. Since I felt that we could reasonably expect the Canadian economy to reach this position in about a year, or at least be in sight of reaching it, I felt that the tax policy for the year ahead of us should anticipate this condition right now when it would do the most good.

Consequently, I recommended to Parliament certain important tax reductions.

However, I did not suggest that the economy would average this higher level of production throughout the whole of the next fiscal year and I said that consequently, there would be a deficit for the coming year as a whole.