

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....

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 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... 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. 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 12.5 per cent, except for the higher incomes....

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.

EFFECT OF TAX CHANGES

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 the 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....