

Defence expenditures; magnitude and consequences

27. The Prime Minister said that it was important to form some estimate at the present time of the probable size of defence expenditures in the immediate future and of the consequences in terms of fiscal policy and in connection with other matters.

It appeared that defence expenditures in 1950-51 would amount to the original \$425 million plus \$100 million under the accelerated programme. There would also have to be an item for replacement of equipment transferred to North Atlantic countries at an early date, although it seemed doubtful how much could be done in this connection in the next six months. For 1951-52, the basic figure could be taken as \$650 million, representing \$425 million original plus \$225 million under the accelerated programme. This was before any addition of a contribution to the North Atlantic Organization, so that the total figure might be expected to come to about \$850 million, representing an addition of something in the vicinity of \$400 million over the expenditures originally planned.

Owing to the continued high level of economic activity and the increase in prices that had taken place, it seemed probable that the budget for the current year might cover the added expenditures for 1950-51 without producing a deficit. In the next fiscal year, however, the increase in expenditures would have to be met through a diminution in other government expenditures together with an increase in taxes. It was important that deficit financing should be avoided.

28. The Minister of Finance expressed the hope that part of the new costs could be met by a curtailment of other government expenditures, partly current but particularly those on capital account. As an indication of the types of measures that could produce additional revenues of the magnitude required, it was estimated that an increase in corporation income tax of 7 percent would produce \$115 million to \$120 million and of 10 percent, \$160 million to \$170 million; a surcharge of 5 percent personal income tax would produce about \$20 million to \$25 million; re-imposition of the former commodity taxes on

000054

Privy Council Office
Bureau du Conseil privé

RG 2, A5a,
Vol. 2646

National Archives of Canada
Archives nationales du Canada