

Whatever the amounts of the increases may be, we must face the problem of reconciling potential expenditures with potential revenues, and this problem is of concern to the average Canadian citizen.

We might search for clues regarding the relationship of expenditures and revenues in the last treasury statement. In September proper, as I understand it, our revenues rose by \$21.5 million. We saved \$20 million in defence spending, and \$30 million in a kind of temporary technical saving in our transfer payments to provinces. Yet, because of the previous increase in commitments and the natural growth factors in expenditures, such as the family allowances, which went up by \$4.6 million, and Veterans Affairs, which went up by \$4.8 million, the net result on balance was that we had a monthly surplus of only \$6.7 million, which, if continued for twelve months without other significant changes, would give us a probable annual surplus of some \$80 million.

Putting it another way, for the six months from April to September 1957 total revenues went up by \$100 million to \$2,476,100,000, but the expenditures rose by \$144,600,000. That is, there was a differential of \$44.5 million between the expenditures and the revenues as far as increases are concerned.

So, what is the pattern? Our expenditures are rising faster before the full yearly impact of the last budget's changes and before the impact of probable expenditure increases I have tried to indicate.

What I am trying to say is that care and caution are needed as we attempt to assess all the financing implications of the legislation inferred from the Speech from the Throne and now in the process of presentation to Parliament.

Will this legislation and other probable developments I have indicated increase still more the rising curve of expenditures? Will we at the same time maintain our expenditures for urgently needed defence preparedness?

What about repayments on our national indebtedness? Will the slowing down of the rate of increase in our gross national income bring a further relative differential between the faster rising expenditures and the slower rising revenues? Will the downward trend in surplus during the first six months of the current fiscal year, which dropped by \$41,300,000, be accelerated? What, then, is likely to happen to the \$152 million surplus estimated by the former administration for 1957-58?

In raising these budgetary problems I would not like to leave the inference that I am opposed to legislation which proposes to

make additional expenditures for worthy national purposes, especially for those in favour of which there appears to be a majority consensus of Canadian public opinion.

When I express concern about the budgetary procurement of the necessary funds I am, however, mindful of the statement in the Speech from the Throne which makes reference to "changes in certain of the taxing statutes". Will these taxation changes turn out to be in fact substantial reductions in the tax burden? It remains to be seen whether taxation reductions will be a reasonably prominent activity of the present Parliament.

I come now to the problem of dominion-provincial fiscal relations in the financial area. All Canadians will follow with sympathetic interest the deliberations of the planned November conference of federal-provincial representatives, hoping that new understandings of the problems involved may bring realistic and still more satisfactory agreements involving the allocation of taxation powers and revenues.

I believe that most Canadians find centralized tax collection efficient, equitable and fair. They do not favour interprovincial differences in tax rates or a multiplicity of tax-collecting bodies. They recognize that our commercial and industrial institutions are at present concentrated in two provinces, and they favour the principle of equalizing interprovincial inequalities of *per capita* income through redistributive public spending. I believe we have accepted the concepts of the average national standard of public services and the average provincial *per capita* tax burden, despite the fact that we find both yardsticks hard to define and difficult to equate. I believe that the average Canadian wants the federal Government to do something about inter-class income redistribution and counter-cyclical fiscal policies, in order to dampen or level out economic fluctuations. I believe that we do want to provide for cyclical stability of provincial income by arranging for a kind of built-in stabilizer in any tax rental agreement. For us in Manitoba this stabilizing factor is very important.

I have ventured to express these few generalizations because I am a firm believer in the basic principles of the present tax-rental agreements as worked out by the former administration. I am thinking especially of the income corrective factor which is part and parcel of the equalization grant structure so important to the six less financially-favoured provinces. The formula for tax sharing tentatively suggested by Ontario—the so-called 15-15-50 formula—