

The Budget—Hon. D. M. Fleming

With revenues estimated at \$5,892 million and expenditures at \$5,880 million and assuming no change in our existing tax laws, I should expect a surplus of \$12 million for the coming year.

During the coming year I expect the old age security fund to show a small surplus of revenue over expenditure for the first time since the fund was inaugurated on January 1, 1951. Between January 1, 1951 and March 31, 1960, the old age security fund has experienced deficits totalling \$630 million. Of this amount over \$500 million has been paid off out of general tax revenues and about \$100 million was charged in 1954 to our balance sheet reserve against active assets. There remains outstanding now a deficit incurred during the past 12 months of \$24 million. Revenues to the fund from the current 3-3-3 formula in 1960-61 will be about \$630 million; pension payments after making provision for certain amendments forecast in the speech from the throne will exceed \$590 million. If these expectations are realized the prospective surplus will be sufficient to extinguish the presently remaining deficit in the fund.

Before proceeding to discuss the tax policy appropriate to our present and prospective circumstances, I should like to refer briefly to our non-budgetary transactions and our cash requirements for 1960-61. In addition to the expenditures for administrative and other governmental services that are included in our budgetary accounts, we pay out each year substantial amounts of cash as loans to or investments in a wide variety of essential public undertakings. These outlays are not considered as budgetary expenditures as the principal is usually repaid, and, in almost every case, they earn interest or produce revenue for the government.

Against this, we receive each year large amounts of cash that are not recorded as budgetary revenue. For the most part, these consist of repayments of loans made in previous years and moneys received by the government as net premiums, contributions and earnings in connection with annuities, insurance or pension funds.

During 1960-61 we shall probably require about \$290 million for housing loans, including new and existing commitments, about \$150 million for C.N.R. and T.C.A. capital investment and refunding, and perhaps as much as \$100 million for other non-budgetary purposes such as the St. Lawrence seaway authority, the national harbours board, the farm credit corporation and other crown companies. Against this we shall probably have somewhat more than \$300 million available from the repayment of loans and from

the transactions in our various annuity, insurance and superannuation accounts. Thus the net cash required for all these non-budgetary transactions, excluding the exchange fund requirements, which cannot be forecast, will be of the order of \$225 million. With a prospective budget surplus of \$12 million, our net cash requirements, including those of the C.N.R. will be about \$210 million as compared with \$900 million during the year just ended and \$1,273 million in 1958-59.

TAX POLICY

As I said a year ago, and as I have repeated in this house and elsewhere on a number of subsequent occasions, sound budget policies must be flexible and adapted to changing economic conditions. The onset of the 1957 recession called for lower taxes, higher expenditures and heavier capital commitments in order to offset the downward trends in the private sector of the economy and the decline in the external demand for some of our basic products; and I put such proposals before the house in December, 1957 and again in June, 1958.

The fiscal policies we followed during our first year in office had a major influence in reducing both the depth and the duration of the recession, and by the third quarter of 1958 the low point of the recession had been passed and the forces of expansion began to gather momentum. By the spring of 1959 recovery was well on the way, and in my budget speech a year ago I recommended to this house policies which were designed to bring us back to a position of budgetary balance as soon as the economy had recovered the losses of the recession and was moving firmly forward and upward to new record achievements in production, employment and investment.

The position we have now reached, with its sound prospect of a fully balanced budget, represents the fruits of carefully designed policies carried forward over the past 18 months. This is not something that has just happened. It is the result of considered aims and efforts. It began with the great conversion loan of the summer of 1958 which made possible a policy of sound debt management which in turn restored public confidence in government credit and in our determination to control the powerful forces of inflation. It was continued in the expenditure controls and the tax changes of 1959, and is reinforced in this year's program of reduced controllable expenditures balanced by the continued promotion of constructive national development.

I am happy to say that we have reached this goal of a balanced budget without the