

collected locally, the income taxes, corporation taxes, and the taxes on the broad segment of commerce, services and industries that serve these people. So, there is a factor of return to the Government for the price it pays from these sources. In other words, the Government has a vested interest to the extent of buying products made in Canada.

Senator CROLL: Are you saying that the Government is not aware of that and is not practising it to the full?

Mr. NEEDLES: I am saying the Government is aware of it, and we think they are going very nicely forward on it. We also say that as skills, knowledge and experience come along, and as greater implementation is put into effect, it will do a continuing better job. We are pleased with the progress made at this time. It is very important because of the big volume involved, and we want to impress the point strongly.

Senator CROLL: The other question is this: In the briefs that we have had before us considerable emphasis is placed on the reduction of corporation and personal income taxes. I am sure that no one around this table would be in disagreement with that. Those of you who are acquainted with the Government expenditures are fully aware of the two segments of spending, namely, social security payments and defence. Are you prepared to say that the Government expenditures are not out of line? And, in what field would you recommend Government expenditures be cut in order to bring about a better state of affairs and perhaps to reduce corporation and personal income taxes? I believe the social service payments and defence costs take perhaps three-quarters of our budget.

Mr. NEEDLES: We believe there should be continuing action to reduce Government expenditures in all areas, and the study being made by the commission is, we think, a very valuable approach to it. On the other hand, it is not necessary that a reduction of Government revenues will result from reduced corporation and income taxes, because if the result is what we hope it will be, namely, increased production and increased profits, then the dollar amount might be equal, even though the percentage be less.

Senator CROLL: What percentage of the budget is not fixed?

Mr. FLYNN: As I understand it, I think approximately a third of the budget is for defence, a third for transfer payments, and a third for the general administration of the Government and for debt.

Senator CROLL: What you are suggesting is a reduction in that one-third of budget expenditures which is unfixed. Let me get that clear. I take it you are not suggesting at the moment that we are spending too much for defence? You may think it may not be the right kind of defence, but that is another matter.

Mr. FLYNN: I think that question is under study in another place, is it not?

Senator CROLL: But is it suggested that in these two areas I mentioned, we are spending too much money? Usually we have divided our expenditures into thirds: one-third for defence, one-third for social services and one-third for general administration. I am asking you now, in what area can we operate? I suggest to you it can only apply to the administrative costs portion.

Mr. FLYNN: That obviously would be the most fruitful area. But I think in view of Canada's position in the world today, we should also watch the other segments as far as possible to see that they do not rise, and that prices do not force us out of world markets. I do think that with lower rates of taxation we should be able to produce more at lower cost, and make ourselves more competitive in world markets. We would hope that it would increase production in this country, and as a result increase employment; at the same