

reduction in defence outlays. Non-defence expenditures rose slightly as a result of offsetting changes: increases included a 7-p.c. rise in wages and salaries and a doubling of payments from the Colombo Plan Fund; decreases were registered in non-defence investment and in the changes in inventories of the Agricultural Stabilization Board. Transfer payments to persons increased by 4 p.c. to a total of \$3,829,000,000. The larger part of the increase occurred at the provincial-municipal level, reflecting higher payments under the hospital insurance programs, larger grants to universities and increased social assistance payments.

Meanwhile, the expansion of activity in the economy was reflected in advances in all major components of government revenue. Indirect taxes rose by over  $5\frac{1}{2}$  p.c., the largest contribution to the increase occurring at the provincial-municipal level. Provincial revenues rose as a result of higher volume of sales or upward revisions of tax rates or both. The gain in property taxes accounted for most of the rise at the municipal level, the year-to-year change being about the same as had occurred in previous years. Federal indirect taxes rose by 2 p.c. but the total masks offsetting changes in the components. Federal excise taxes rose sharply, partly as a result of the imposition of the 4-p.c. sales tax on building materials and production machinery and equipment effective in June 1963, but revenues from customs import duties declined as a result of the elimination in the first quarter of 1963 of the last of the temporary emergency surcharges imposed in mid-1962.

Personal and corporate direct tax revenues contributed almost as much as indirect taxes to the rise in total revenue. Both the federal and provincial governments shared in the rise in direct taxes, although unevenly; the federal share of personal direct taxes rose by 5 p.c. and of the corporate income taxes by  $6\frac{1}{2}$  p.c. compared with 14 p.c. and 6 p.c. for the provinces. The sharper increase in the provincial income tax collections was partly attributable to the fact that, under the terms of the federal-provincial fiscal arrangement that became effective in 1962, the federal share of the taxes on personal incomes dropped slightly, the difference going to the participating provinces. In addition, British Columbia imposed its own succession duties in April 1963, thus contributing to a sharp increase in this component at the provincial level.

Investment income accruing to government rose by  $7\frac{1}{2}$  p.c., the largest increase occurring in trading profits of government enterprises and in interest on government-held public funds. At the federal level, investment income increased by 10 p.c., reflecting mainly increases in profits of the Bank of Canada, earnings of the Exchange Fund Account and interest on government-held public funds. Increased trading profits of liquor commissions and higher interest income were responsible for most of the increases at the provincial-municipal level.

Because of the greater increase in revenue than in expenditure, the total deficit for 1963 amounted to \$735,000,000, a decline of \$86,000,000 from 1962. The 1962 federal deficit of \$543,000,000 was almost halved to \$278,000,000 in 1963 but the provincial-municipal deficit increased from \$278,000,000 to \$457,000,000. It should be noted that in 1962 the federal deficit was irregularly high by about \$75,000,000 and the provincial-municipal deficit correspondingly low, as a consequence of the introduction in 1962 of the new tax collection arrangements.

**Income Flows.**—All major shares of national income were up in 1963 when the level reached \$32,553,000,000, an amount 7 p.c. higher than in 1962. This rise was paralleled by an almost 7-p.c. gain in labour income which totalled \$21,550,000,000. Reflecting gains in both wage rates and labour inputs, the increase was broadly based, occurring in all