CANADA

BUDGET SPEECH

DELIVERED BY

HON. J. L. RALSTON

MINISTER OF FINANCE

MEMBER FOR PRINCE, PRINCE EDWARD ISLAND

IN THE

HOUSE OF COMMONS

JUNE 24, 1940

OTTAWA
J. O. PATENAUDE, I.S.O.
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1940

INDEX

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APPENDIX

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THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. J. L. RALSTON (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, I rise to my allotted task to-day with a sense of heavy responsibility. This budget is being delivered at the most critical hour in history. The Hun is hammering at the gate. Backed by almost incredible weight of mechanized power, he has operated with cold-blooded ruthlessness. He has violated every principle of the law of nations. He has overrun one after another of the democratic countries of Europe. He has brought our gallant ally France to her knees. At this very moment the enemy of mankind stands with naked sword at the threshold of Britain herself.

For the first time in a thousand years the world has been made to realize that a new "Dark Ages" may not be the figment of a wild imagination. The incredible has indeed happened. Europe, the fine flower of western culture, is threatened with the blight of barbarism. All the things we hold dear—the democratic way of life, the Christian ideal, these age-old tenets of human relationships, fair dealing, justice, and brotherhood are threatened with destruction by those who would shut the gates of mercy on mankind.

We know now only too well that we are paying the price of long years of wishful thinking. There is no doubt that all of us in the democratic countries, governments and peoples alike, have been blinded to the stark potentialities of force and evil. Fortunately, at last, I believe, our eyes are opened and we see clearly. And if we do, it is not too late. For no one and no event can shake my conviction that in the long run truth must triumph over falsehood, good over evil, justice over might.

Obviously, the message which I must bring to-day cannot be a pleasant one. I come to you to collect part of the price to which I have referred. Nor can I be dogmatic or definitive in the proposals I make. We live from day to day—indeed, from hour to hour—and our plans must be subject to change in the light of new circumstances.

In dealing with specific measures, we have had to take into account a multitude of unusual facts and factors. Again, in determining the magnitude of the aggregate burden to be imposed upon the Canadian people, we have had to weigh many conflicting influences and to form a judgment as to how far we could go at the present time without setting up adverse factors which would tend to defeat some of the very objectives we are trying to reach. There will, I am sure, be those who will think that I have not gone far enough and probably those who will contend that I have gone too far. Still others will differ with me on details of specific measures. All that I can say is that I have spared no pains to ascertain the relevant facts, to weigh the merits of various measures and proposals, and to reach conclusions in the light of the supreme emergency which faces us to-day.

I.

ECONOMIC AND FINANCIAL REVIEW

Before coming to my budget forecast for the current fiscal year and the tax changes I recommend, you will expect me to review the economic and financial events and policies of the first nine months of war. To make it as concise as possible I shall limit myself to a discussion of factors which give the setting for, and determine the principles underlying, the measures which the government has to propose.

Principles of War Finance

In the first war budget of last September, my colleague, the Minister of National Revenue, who delivered the budget speech, laid down the broad principle of the government's policy of war finance. "We believe it is the part of wisdom," he said, "to follow as far as may be practicable a pay-as-you-go policy." Events which have happened since, and particularly those of the last few weeks, have not detracted from the wisdom of that policy, but rather have reinforced the need for a vigorous effort to apply it in every possible way.

The general policy was elaborated further as consisting of two parts: that appropriate to an initial period of quietness and hesitation, and that suitable for a second period in which rising business activity and expanding income had acquired momentum.

In the initial period of the war in which business was expected to be hesitant, if not actually depressed, the appropriate financial policy was declared to be one which would facilitate the expansion of national income and the drawing into employment of our full man-power. In order to ensure that out of rising incomes increased revenues would begin to flow to the government for the financing of the war, certain excise taxes, chiefly on luxuries, were levied, and moderate increases were imposed in the personal and the corporation income taxes. The increases in income tax were payable only after the close of the fiscal year and therefore would have a relatively slight effect in curtailing purchases by consumers. Furthermore, in order that uncertainty might be removed and that business firms might begin to adjust themselves to the war conditions, the outlines of a new and heavy excess profits tax were announced.

These new or increased taxes were not designed to provide immediately for any large part of our heavily increased expenditures. It was also specifically indicated that our initial borrowing operations to provide part of the funds to cover the inevitable deficit in this early period would probably be of a very short-term character, so as to promote the immediate expansion of productive activity. In harmony with this same point of view, it was emphasized that while the magnitude of the new burdens thrust upon us would make it imperative to do everything possible to conserve our resources and to economize on any expenditures not urgently needed in the national interest, nevertheless it would be "penny wise, pound foolish" to curtail expenditures so suddenly and so drastically as to aggravate seriously the unemployment problem before the stimulating effects of our war expenditures and of foreign purchases in our markets had acquired real momentum.

The initial period of quietness and hesitation, it was felt, would be of relatively short duration and would be followed by the second period during which increasing business activity, expanding production and rising national income had acquired momentum. While perhaps starting slowly, this advance would accelerate under the pressure of war orders from ourselves and our allies until gradually our economy would approach a state of full employment of its labour, capital equipment and material resources. As this second stage developed, certain modifications of financial policy would be called for. Thus it was stated that as business activities increased and idle workers were reemployed, the resulting larger incomes would necessarily become subject to heavier taxation for the purpose of ensuring that the increase in our national income was largely diverted to war needs instead of being disbursed in increased personal consumption and private investment. For the same reason, borrowings from the savings of our citizens and genuine economies in normal governmental services not urgently needed in war time, were indicated as appropriate for this second period.

Financing Operations

In accordance with the declared policies, the government made its first financing in the form of a short-term banking operation which was definitely expansionist in character. This was a loan of $200 million arranged with the banks in November, 1939, on the security of two-year notes at a rate of two per cent. It will be recalled that of this amount $92 million was used to repatriate Canadian securities held in London. This gave the United Kingdom a substantial supply of Canadian dollars which was used to purchase Canadian foodstuffs, raw materials and war supplies.

This borrowing from the chartered banks was facilitated by appropriate monetary policy. Between August and November, the Bank of Canada's assets increased by approximately $107 million as a result of the purchase of securities and the increase in the value of its gold and foreign exchange reserves. This provided cash to meet the enlarged public demand for notes in circulation and to increase the cash reserves of the chartered banks by $33 million.

With this increase in cash reserves, the chartered banks were enabled to increase their total Canadian deposits by approximately $306 million. In the same period, they increased their current loans by approximately $147 million, mainly to finance the large wheat crop, and added to their net holdings of securities by $158 million.

Thus, financial and monetary policy accorded with the declared intention to facilitate in the initial period an increase in business activity and an expansion of national income.

By the middle of January it became apparent that business had acquired sufficient momentum to justify going to the public for a loan out of savings. We therefore offered our first war loan in the form of 3¼ per cent twelve-year bonds callable by lot during the last five years. Very careful preparation had been made for the campaign and the success of the loan was even greater than we had expected. Of the total subscriptions of $375 million we allotted $200 million to cash subscribers, and $50 million to subscribers who desired to convert their holdings of one of our issues which was to mature on March 1st. It was particularly noteworthy that there were over 178 thousand individual cash subscriptions to this loan and that out of that number more than 121 thousand were for amounts of $500 and less. This result was made possible by the nation-wide cooperation of institutions and individuals and, above all, by the united and enthusiastic support of the Canadian people as a whole.

Even this January borrowing was to a considerable extent expansionist in character in that it converted into government expenditures a considerable amount of idle bank savings. However, the number of small subscriptions and of arrangements made by employees of industrial firms for the purchase of bonds by instalments is convincing evidence that a surprising portion of the subscriptions represented new savings out of increasing incomes.

Passing over one or two financial operations of smaller magnitude for refunding purposes, I come to a further major step in our borrowing operations, namely, the inauguration of our war savings certificates programme on May 27th. These certificates are issued in small denominations for the purpose of facilitating regular savings and contributions to Canada's war effort by persons of moderate and small means. Supplemented as they are by war savings stamps in the denomination of 25 cents they enable all of our people to take some part in Canada's war work while at the same time acquiring the habit of thrift and building up a "nest egg" for the contingencies that may lie ahead. Unlike our periodic war loan campaigns, the sale of these certificates and stamps involves a steady effort which will produce a continual stream of funds, even more important in its influence that the actual amount of money itself. The campaign has involved a vast amount of preparatory and organizing work, and I express now our sincere appreciation of the unstinting help and support being given by patriotic citizens, organizations and business firms throughout the country. You will be interested to know that not a cent of commission is being paid to the postmasters, banks, financial institutions and commercial organizations which are selling these obligations, and the citizens who are organizing and sustaining this project both at headquarters in Ottawa and throughout the dominion are giving their services voluntarily.

Business Conditions

Turning now to general business conditions, there is one respect in which the business forecast made by the Minister of National Revenue last September has proved to have been unduly conservative. The fact that the results were better than he forecast was, I really think, due, at least in considerable measure, to the effectiveness of the policies which were promptly adopted. The stagnation in business which he contemplated as probable during the first few months of war was not in fact realized. It is true that for the first few weeks financial and commodity markets were upset by the shock of war and business itself was retarded by uncertainty and the disruption of certain established channels of trade. But the financial policies outlined in the September budget and the institution of foreign exchange control on September 16th restored confidence to financial markets and prevented the dumping of securities and the export of capital which might otherwise have produced serious disorganization. The prompt establishment of other controls through various war agencies, such as the Wartime Prices and Trade Board, the War Supply Board and the Agricultural Supplies Board, also made its contribution to the restoration of confidence and the rapid adjustment of trade and industry to the new war-time conditions.

There were various economic factors which also worked to improve conditions. The large wheat crop of last year, for which the initial price guaranteed by the government was realized by the producers immediately upon delivery, gave a very important stimulus to business generally. Almost equally important was the phenomenal rise during the first four months of war of Canadian exports to the United States. Our neighbour to the south experienced an intense forward-buying boom and in that we shared through greatly increased exports. Initial war orders were important in contributing to the early expansion of the textile, boot and shoe, and iron and steel industries particularly.

At the turn of the year, however, business activity in the United States receded very sharply. Seldom has there been in that country in so short a space of time so sharp a contraction in production. Under ordinary circumstances, Canadian trade and industry would have shown a similar, if less intense, recession. But as a matter of fact, while the rapid increase in Canadian business activity was slowed down somewhat, the cumulative increase in war orders and the recovery in Canadian exports to Britain, which had been abnormally low in October and November, largely offset the influence of the United States recession. Business activity in Canada flattened out in February and March but generally did not recede. In recent weeks the tempo of United States business has increased sharply and there are already indications that Canadian exports to that country are responding to a more active market. The stimulus to our business which has resulted from these exports is supplementing and reinforcing the expansion due to the acceleration of war expenditures here.

The record of the flow of business which I have outlined is clearly visible in the index of the physical volume of business in Canada. That index stood at 125 in August last, had increased to 139 in January, and stood at 137 in March-April. The increase over the same period in industrial production taken by itself was even more pronounced. A definite increase in consumers' incomes was shown in the rise of retail sales which by December had reached the highest figure since 1930, and, if allowance were made for to-day's lower price level as compared with 1930, retail sales last December would probably be found to have been the highest on record.

These retail sales have continued to be considerably higher than last year. Each month since last September, sales of automobiles have been greatly ahead of the corresponding month of the previous year. For the first four months of war, there was a marked hesitation in construction activity but since January construction has increased and through April and May the value of contracts let was 76 per cent above the value for the same two months of 1939.

Employment

According to the preliminary estimate of the Dominion Bureau of Statistics, over one hundred thousand idle wage earners had been drawn into employment during the twelve months to April, 1940. The fall in the number of employable persons on urban relief rolls has lagged behind this increase in employment, but since last November the numbers on urban relief rolls have been lower than those for the corresponding months of the previous year and on the whole the reduction has been accelerating. We have no comprehensive statistics which would indicate changes in the amount of the incomes of wage and salary earners. There are however, abundant indications that as a result of elimination of short time, earnings for overtime work, an increase in the number of earners per family and increases in wage rates, total wage and salary earnings are rising rapidly.

These are days when no one can predict what the future will disclose. However, if there is no serious interruption in our export trade, the increasingly great numbers of men and amounts of materials being employed in war production will lead to a substantial increase in our national income, that is to say, the aggregate of the incomes of all the people of this country. The heightened tempo of business in the United States will also make an important contribution to the same end.

National Income and Financial Policy

On the basis calculated by the Royal Commission on Dominion-Provincial Relations our national income for the calendar year 1939 was in the vicinity of \$3,800 million. Using the same method of computation we consider that our national income for the fiscal year 1940-41 will not likely be less than \$4,500 million. We must see to it that by far the greater part of that increase is used for war purposes.

I need hardly say that our war effort is not in any sense to be limited by such financial calculations or by what we can comfortably accomplish. We must make the maximum effort of which this country is capable. Financial provision can be made and will be made for whatever it is physically possible for us to produce or to procure in the way of war services, supplies and materials. The limits of our effort are not fiscal; if there are any such limits they are physical, mental and moral—by that I mean the physical limits of our resources and the mental and moral capacity of Canadians to bear burdens and make sacrifices.

However, in obtaining whatever it is possible for our man-power, equipment and resources to produce or procure, it is certainly wise to adopt the most intelligent means of financing that effort. Plans already laid and approved by this house call for defence expenditures of \$700 million. As I shall later explain, such a figure can only be provisional and not in any sense a limit. What concerns us this afternoon is to choose and determine what seem the wisest financial methods of paying for the maximum effort which is physically possible.

If an appropriate financial policy is not followed the ultimate result will inevitably be that the government will be frustrated in its attempt to procure goods for war purposes by the competition of consumers who seek to spend their increased buying power to satisfy civilian wants. In that event, also, the familiar spiral of rising prices, then rising wages and costs, and then prices rising still further would begin to work. Prices would rise more rapidly than wages and salaries, and, by this indirect, hidden and most inequitable process, the civilian population and particularly the wage and salary earners and the receivers of fixed incomes, would be forced to curtail their consumption not only of luxuries but of comforts and necessaries as well. Eventually in such a process our entire economic life would be disorganized; a hectic period characterized by feverish speculation, waste and extravagance would develop; and a collapse of the inflationary structure would be as inevitable as it was at the close of the last war.

The government's financial and economic policies have been so designed as to try to safeguard against that type of situation. They have been evolved with the aim to avoid unjustified price increases or speculative excesses, to keep our economy functioning as effectually as possible and to secure the necessary diversions of man-power, equipment and materials to war purposes in a way which would be the least dangerous to the economy and the most equitable as between different individuals and groups.

We recognize clearly that we still have unemployed man-power and resources, that mobilizing them into productive work will expand the national income, and that by expansion of the national income we can add enormously to the magnitude of our war effort. Consequently our policies have been and are being directed to the end of producing soundly the maximum possible increase in our national income in the shortest possible time.

I have already told you of the part played by our financial policy thus far. My colleague, the Minister of Munitions and Supply (Mr. Howe), has already given you some indication of the steps which he has taken to organize the industrial resources of this country, to meet the expanding war demands of ourselves and our allies. In this connection the measures which he is taking are expanding daily.

In the relief estimates which have been tabled there is provision for the rehabilitation of unemployed workers and the technical training of young men and women.

There is every likelihood in my opinion that the expenditure of $700 million, and more, for war purposes plus the very large amounts which the United Kingdom is spending in this country will bring us before very long to the point when everyone able and willing to work and not needed for military service will find an opportunity for productive employment.

Already we can see evidence that shortages have appeared in certain types of skilled labour. To overcome this obstacle we must have the cooperation of Canadian employers in providing the necessary apprenticeship and other training, and of our labour organizations in facilitating the necessary entrance of young men into their trades. We must not allow bottlenecks to develop and retard our armament programme in this supreme emergency. Plans are under way to meet such possible dangers, and the government is confident that it can count upon the hearty cooperation of both employers and employees in thus promoting the maximum efficiency of our war effort. Maximum efficiency, maximum production, maximum speed, must be the supreme objective of all of us to-day.

I have only touched upon some of the measures that have been taken to increase the national income. To the extent that we can increase the national income, we can increase our war power without crippling sacrifice in our standard of living. Some reduction in personal consumption there must necessarily be, and it can easily be made by those of us who are above the minimum standard of living.

To sum up: In the measures which I shall propose we are endeavouring to ensure that at least a very large proportion of the increase in national income shall be diverted to war purposes while, at the same time, leaving sufficient stimulus to bring the country as rapidly as possible to the maximum use of its labour, its plant and its resources. In this connection it will be seen that many of our tax proposals will not require immediate payment and that much of the planned-for increase in revenue will not be called for during the present fiscal year.

Foreign Exchange and Financial Policy

One feature of our economic activity since the outbreak of war, which is of special concern and deserves special mention here, is the great increase in our imports. Most of these increased imports have had to come from countries outside the British Empire, mainly because Britain herself, pressed by her own needs, has been unable to supply them.

In normal times we are able to use any excess receipts from our trade with one country to meet any deficits in our trade with another. At this time, however, when Britain has such vital need of gold and United States dollars to purchase planes and other war equipment, we cannot expect her to settle all her trade balance with us in gold or foreign exchange. Consequently, while there has been, since the war began, a substantial increase in our favourable balance of trade with the United Kingdom, a very large proportion of the surplus sterling exchange which we obtain and which formerly we were able to convert into United States dollars in order to meet any adverse balance of payments with that country can no longer be so converted.

Since the United Kingdom could not supply us with goods to pay for all her purchases here, and since, as I have just explained, the sterling with which she was able to pay for these purchases could not be converted into dollars in the normal way, other measures were necessary. The Canadian government undertook to buy and use this sterling in buying Canadian securities from Britain and thus to provide our exporters with Canadian dollars in payment of their exports. While such purchases of Canadian securities held in London will strengthen our long-run financial position on international account, nevertheless two immediate problems face us. In the first place, our domestic market must absorb new securities to a corresponding amount. In the second place, the fact that the surplus sterling arising from our trade with Britain cannot be converted into United States dollars and must be used up by repatriation of securities means that our increased sales to Britain do not help us, as they would in normal times, to pay for the heavy imports of which I have spoken from non-empire countries. The result is that we must find from some other source the United States dollars needed to pay for the greater part of our imports from that country.

To illustrate this exchange problem, let me give in a little more detail the trend of our war-time import and export trade. Comparing the eight months of war ending April, 1940 with the corresponding eight months ending April 1939, Canadian imports from non-Empire countries increased by $171 million, while our exports for the same period to non-Empire countries increased by only $86 million. In other words, an adverse merchandise balance of only $18 million in the 1938-39 period had increased to an adverse balance of $102 million in the 1939-40 period. These figures cover only merchandise trade. There are, of course, other important items which increase our net credits in our accounts with non-Empire countries, namely, the export of gold, the expenditures of tourists in Canada, and the curtailment, due to the prompt establishment and efficient operation of the Foreign Exchange Control Board, of the export of capital from Canada. There has also been a small but encouraging inflow of capital from the United States. Nevertheless, it is obvious from an examination of these trade figures that rising business activity and expanding consumer expenditures in conjunction with failure of Empire sources of supply have led to a very great increase in our adverse balance with non-Empire countries.

More recently, and despite the utmost care in selecting as far as possible Canadian sources of supply, the government's war orders have contributed directly and indirectly to this increase in imports from hard currency countries. It is apparent that already there has developed, between consumers and private business on the one hand, and the government and firms supplying government orders on the other, an active competition for foreign exchange with which to purchase imports. The problem of policy thus posed is not one of maintaining an exchange rate. The powers of the Foreign Exchange Control Board are quite adequate to do that. The problem is to ensure that, in handling the supply of foreign exchange which may be, from time to time, available, war requirements shall take priority over other requirements, and that to some degree also the requirements of industries which are exporting goods and therefore assisting us to acquire foreign exchange, shall take priority over the requirements of domestic trade. I have dealt with this aspect of our exchange position at some length because it furnishes the background for some of the proposals which we intend to make.

But before I leave this subject of foreign exchange I should say just a word regarding our system of foreign exchange control. Within a week of our declaration of war, the Foreign Exchange Control Board was established and given the necessary powers subject to the direction of the Minister of Finance, to regulate all foreign exchange transactions between residents of Canada and the outside world. Detailed plans for the establishment and operation of such a board has been prepared in advance, in case it should be needed, and, once the need was apparent, the Board swung into effective action very quickly. The Board immediately took over as its initial resources the exchange fund which was created under the Exchange Fund Act of 1935. Subsequently on April 30th an order was made requiring all Canadian residents to sell their holdings of foreign exchange to the Foreign Exchange Control Board before the first of June. Those who in complying with the order could demonstrate a need for foreign balances in order to carry on their normal business transactions, such as commercial and insurance companies doing business abroad, have been permitted by the Board to retain such amounts as are considered necessary for this purpose. The private holdings of foreign exchange so transferred to the Board were of course purchased at the official rates in Canadian dollars. At the same time as these private balances were purchased, the government, by appropriate orders and transactions arranged to have the holdings of the Board further increased by the transfer to the Board by the Bank of Canada of the Bank's gold reserves, also its reserves of foreign exchange over and above its short-term requirements and necessary working balances. The reason for all these transactions was the advisability of having all our liquid foreign resources centralized with, and managed by, the agency at present charged with the management of our foreign exchange transactions. Without going into details I can say that the main policy which has been followed by the Board has been to restrict movements of capital out of Canada to the minimum while at the same time interfering as little as possible with import and export trade, the tourist trade, the payment of interest and dividends and the flow of normal, current business transactions. In carrying out its work, the Board has received general and wholehearted cooperation from the people and business organizations of this country and, I may add, from the business organizations of the United States.

II

GOVERNMENT ACCOUNTS, 1939-40

I turn now, Mr. Speaker, to the government accounts for the fiscal year which closed on March 31. Following the procedure which was initiated last year by my predecessor, Mr. Dunning, I do not propose to weary the house with any extensive recital of the details of our revenues and expenditures, our direct and indirect liabilities, our active investments and our financing operations during the past year. All of these details I shall, when I conclude, table in the form of a white paper, in order that the house and the country may have a comprehensive record of our financial transactions during the year. As was the case last year, the white paper will be published as an appendix to the budget speech and therefore will be readily accessible. This procedure enables me to confine my remarks to summarized results rather than to burdensome details.

Revenues

At the time of the September, 1939, budget, it was estimated that the total revenues for the fiscal year 1939-40 would be $516 million, including $21 million to be derived from new and increased taxes. Because business expanded more rapidly than was anticipated, the yield of both our old and new taxes has exceeded our expectations. It is now estimated that when our books for the year are closed, our total revenue will amount to $562 million. (This includes, it is true, a bookkeeping item of $20 million of credits to non-active accounts for which offsetting or contra items appear on the expenditure side of the statement.) The figure which I have given for total revenues represents an increase of nearly $47 million over the previous all-time record revenue which was received during the fiscal year 1937-38.

Dealing particularly with revenue from taxes, let me say that of the September, 1939, tax increases, only the luxury taxes were effective in the past fiscal year. Actual collections under the increased rates of the personal and corporation income taxes would not be made until the present fiscal year. The same is true of the excess profits tax. Nevertheless, tax revenues for the fiscal year 1939-40 are estimated to have been $468 million as compared with $436 million in the previous fiscal year. This increase in tax revenue, to which practically all taxes, except the income tax, contributed, was the result of increasing business activity and, in some cases, of increases in rates. Receipts from the income tax reflected the rates and the incomes of the calendar year 1938, and not the results of the accelerated business in 1939 which will be realized in the income taxes to be paid in the present fiscal year. Tax revenue from the first of September, 1939, to March 31, 1940, was $51 million in excess of the amount collected in the same period in 1938-39. This is a striking confirmation of the fact that the period which was expected to be commercially quiet and hesitant at the start at least, turned out in fact to be one of extremely active business and consumer buying.

Expenditures

Turning now to expenditures: In the September 1939 Budget, total expenditures for the year would, it was estimated, aggregate approximately $651 million, not including the two items of capitalized defence expenditures and further losses in the marketing of wheat. Our total expenditures for last year are now estimated at $681 million. This includes all our defence expenditures and in addition a further $27 million incurred in wheat marketing. Once the war had begun, it seemed that conservative accounting could no longer justify the capitalization of defence expenditures as provided for in last year's estimates, and all such items have been charged to war expenditures. Furthermore, while at the close of the fiscal year there still remained unsold a small amount of wheat of the 1938 crop, it was clear that the losses of the Canadian Wheat

Board in respect of the marketing of that crop would amount to at least $52 million. Therefore, an advance of this amount was made to the Board and this enabled the Board to pay off guaranteed bank advances to that amount in respect of 1938 wheat. As provision had already been made in the accounts of the year 1938-39 for setting up a reserve of $25 million in respect of possible losses in marketing this wheat, the difference between this sum and the advance of $52 million made to the Board, namely, $27 million, has as already indicated been included in the 1939-40 expenditures. When we add to our estimated expenditure of $651 million these two items of $27 million of capitalized defence expenditures and $27 million more for wheat losses, you will note that if we had spent what we estimated the total expenditure would have been $705 million. It will be seen, therefore, that since our actual aggregate expenditures were only $681 million we have done considerably better than was expected last September.

The figure of $681 million which I have given as representing our aggregate expenditures for the year may be broken down by main categories of expenditure as follows (using round numbers):

Ordinary expenditures	$398,000,000
Capital expenditures	7,000,000
Losses on and non-active advances to government-owned enterprises	42,000,000
War expenditures	118,000,000
Other special expenditures including unemployment relief and wheat losses	89,000,000
Other charges	26,000,000

In the above item of "other special expenditures", the amount for unemployment relief, relief works and western drought area relief totalled $62 million as compared with $47 million during the preceding year. This includes a net expenditure of $7·5 million under the Prairie Farm Assistance Act.

Under "government-owned enterprises", the main item of expenditure was the net income deficit of the Canadian National Railway, which amounted to slightly over $40 million as compared with $54 million for the preceding year. This substantial decrease is a reflection of improved business conditions and heavier traffic movement, particularly during the latter part of the year. A fact to be noted with considerable satisfaction is that while operating revenues increased by 11·8 per cent, the heavier traffic was carried with an increase in operating expenses of only 3·8 per cent.

Over-all Deficit

The net result of the year's receipts and outgoings is that, because our revenues were about $46 million greater and our expenditures about $24 million smaller than were anticipated, our over-all deficit for the year will be about $70 million less than was expected. However, the actual deficit will still approximate $118 million, as compared with $51 million in 1938-39.

Net Debt

As a result of the over-all deficit of $118 million, the net debt of the Dominion rose to approximately $3,270,980,000 as at March 31, 1940. Gross liabilities at that date are estimated at $4,028,573,000. On the other side of the balance sheet, offsetting these liabilities in part, the Dominion had active assets, including cash on hand, sinking funds, and active loans and investments, amounting to $757,593,000.

Contingent Liabilities

At the close of the fiscal year there was outstanding unmatured direct funded debt (including treasury bills) amounting to $3,695,685,000, of which $67,196,000 were held in sinking funds against certain issues payable in London. Bonds and debenture stocks bearing the guarantee of the Dominion and outstanding in the hands of the public aggregated $1,084,479,000 as at March 31, 1940. These guaranteed securities were decreased by $987,000 during the year. There are also outstanding certain other contingent liabilities arising out of guarantees given under relief acts and various other statutes. These are fully set out in the white paper which is being placed on *Hansard*.

It will also be of interest to hon. members to know that as at March 31st last the average rate of interest on the Dominion direct funded debt (including treasury bills) was 3·40 per cent as compared with 3·52 per cent on March 31, 1939 and 5·02 per cent on March 31, 1930.

III

BUDGET FORECAST, 1940-41 AND PROPOSALS

I now come, Mr. Speaker, to what is by far the most difficult part of my task. It is quite possible with reasonable assurance to analyse recent economic trends, to describe our fiscal policies and outline our financial operations for a year which has passed. But it is an entirely different matter, particularly under present circumstances, to forecast the future and to evolve and propose the measures which may be best calculated to meet conditions probably more unforeseeable than those of any period in our history. That, however, is a responsibility which one in my position must take and my task only differs in degree from that of my predecessors.

Estimate of Expenditures

On the expenditure side, the estimates already tabled provide for a total expenditure on non-war activities of government of $448 million. As you know, these estimates represent a combination of the ordinary main estimates, the supplementary estimates and the special supplementary estimates which have been presented to the house in recent years. My hope is that it will not be necessary to ask parliament for any supplementary estimates for peace-time services of government, unless this parliament approves new undertakings not contemplated when our estimates were prepared.

Just here may I divert for a moment or two to mention the matter of economies in governmental peace-time expenditures. These are important because they release funds for war purposes.

If you will compare the figure I have given with the corresponding total of the estimated expenditures for the preceding fiscal year, you will find a reduction of over $77 million. That very large reduction reflects not only improvement in the operations of the national railways and in the relief situation but it is also the result of a good deal of painstaking examination and re-examination in all government departments in order to obtain the maximum economies in our departmental activities as well as to reduce or eliminate services which however justifiable in peace-time ought not to be regarded as absolutely vital in war-time. Our war effort has unquestioned priority; and the tremendous financial burden it will involve and the drain it will cause on the man-power, equipment and resources of the country make it vitally imperative that all governmental authorities—not only dominion, but—if I may go beyond federal bounds—provincial and municipal as well, should appraise with a sense of national responsibility the justification for the dollars proposed to be spent on normal activities. Every such dollar must, directly or indirectly, come out of the pockets of the people. And it ought almost to go without saying that to provide the enormous sums which must be spent by the Dominion this year for defence, the ordinary expenditures of governments—all governments—in Canada must be decreased if they are not to restrict the amount that can be devoted to the driving task of defeating Nazism. In the federal field, I have had the effective cooperation of my colleagues and their departmental officers in achieving the economies I have reported. The premiers or provincial treasurers of several of the provinces have discussed this problem with me and I have also had the opportunity of conferring with a number at least of the mayors of our cities and towns on the same subject. The attitude of them all was so instantly and definitely cooperative as to convince me that all that is necessary is that the position be understood to make certain that the response by all governmental authorities will be just as unhesitating and just as reassuring.

The chief difficulty which all governments face in reducing ordinary expenditures is the fact that usually so small a proportion of these expenditures is controllable and there is the further fact that significant reductions in these controllable expenditures involve throwing out of work large numbers of employees, many of them of long service and some without superannuation privileges of any kind. To give an example, the expenditures under our main estimates last year amounted roughly to $400 million. Of this amount $260 million represented what were regarded as absolutely uncontrollable expenditures; and by that I mean war pensions, old age pensions, subsidies to provinces, interest on funded debt, et cetera. This left only $140 million out of which savings might be made and of this amount $80 million was for salaries and wages. So that, apart from discharging government employees, there was only the sum of $60 million covered by those main estimates which might be subjected to reductions.

Fortunately, the development of the war programme has made, and will increasingly make possible the absorption of such persons in war activities. For some time we have had an inter-departmental committee at work to examine into and provide for the transfer of such personnel. As the house knows, there have been eliminated during the present year all ordinary public works of a capital character; but the opportunities for employment resulting from the war programme will make possible, and the demands of the war programme will, I believe, make it necessary that labour and resources should be released from the construction of these public works, most of which have in recent years been provided for primarily to alleviate unemployment.

With that interjection on economies I return to my forecast.

To our estimated expenditure for normal purposes of $448 million must be added whatever will have to be spent during the year for war purposes. Parliament has already approved a war appropriation amounting to the sum of $700 million, more than four times what was spent in the corresponding fiscal year of the last war.

Combining these two figures gives us a total of $1,148 million. But even this huge sum may not, and almost certainly will not, represent the total of our expenditures for the current fiscal year. Events are moving with lightning speed. Plans are having to be reshaped and extended almost daily, and no man can foretell what we will be called upon to provide in the next nine months. As you know, since the War Appropriation Act was passed with its grant of $700 million for war purposes, we have made heavy additional commitments and these are constantly having to be added to. There will be some offsetting factors to these new obligations. There were some commitments in our earlier estimates which may not be required due to possible alterations in military formations which depend on the nature of the duties for which they may be needed. There will be certain modifications because in some cases the estimates were based on a rate of replacements assumed to be required by active warfare in France. There will be other items which will be superseded by the emergent measures of the last few weeks.

There are many factors which make even approximate calculation very difficult, but to give the house the roughest sort of idea, I would think that we are already committed for probably another $150 to $200 million for the fiscal year, and that such reductions as may take place in our original estimates due to changes in plans will probably be more than offset by further undertakings.

Estimates of Revenues

Turning now to make a forecast of our revenue, our estimate is that, assuming a continuance of present trends and no serious interruption of our export trade, our total revenues for the present fiscal year on the basis of our existing tax structure will amount to approximately $650 million. This estimate is made up as follows:

Tax revenue		
Customs duties	$132,000,000	
Excise duties	83,000,000	
Sales tax	170,000,000	
Other excise taxes	30,000,000	
Income taxes	166,000,000	
Excess profits tax (to be superseded)	nil	
Bank note circulation and insurance companies taxes	2,000,000	
Total tax revenue		$583,000,000
Non-tax revenue		
Post office receipts	$ 37,500,000	
Interest on investments	13,500,000	
Miscellaneous	16,000,000	
Total non-tax revenue		$ 67,000,000
Total ordinary revenue		$650,000,000

Questions to be Answered

Our ordinary expenditures and the amount already authorized by parliament for war purposes total, as I have said, $1,148 million. We are faced, therefore, with a probable deficit, on the basis of our present tax structure, of at least $498 million plus an indeterminate amount which may easily bring that deficit up to $700 million. Consequently, it is necessary to answer boldly and realistically two questions:

First, what part of this probable deficit is to be met by taxation, and what part by borrowing?

The same question can be put in different terms. How can we take out of the rising national money income of this country funds for the purposes of war as rapidly as, but not more rapidly than, resources, equipment and labour can be diverted for those purposes? Or, at what rate should this diversion of funds be accomplished so that the output of our industry and of our man-power shall be expanded to the limit?

The second question which has to be answered is: How can the budgetary policy of the government help to conserve foreign exchange?

Neither the house nor the people of this country will expect financial miracles. They have a right, however, to expect that the financial measures recommended shall be appropriate to the critical situation in which the country finds itself and shall ensure a mobilization on the economic front which will achieve the very maximum effort of which this country is capable.

Proposals for Conserving Exchange

To answer the second question first:

I now outline the fiscal measures for promoting the conservation of foreign exchange. There will be two measures submitted with that definite purpose in view.

First, it is proposed that a war exchange tax of 10 per cent shall be imposed on the value for duty purposes of all imports, free and dutiable, from non-Empire countries. The tax will be subject to drawback for export as in the case of customs duties.

The government is aware that there may possibly arise the odd case of real hardship where materials or parts used by Canadian producers will be subject to this tax while the finished products, entering tax free under the British preferential tariff, will actually compete with the Canadian-made finished product to such an extent that the 10 per cent exchange tax may make it impracticable commercially for the manufacturer of the finished product to continue production. Such cases if they are established can be dealt with under existing machinery relating to the remission of taxes. They will, it is safe to predict, be very few because the apparent trade advantage given to imports from Great Britain by this tax is small in comparison with the handicaps which the higher costs of war-time production in Britain and of ocean transportation will impose on such imports.

Though the purpose of this tax is primarily to conserve exchange, it is estimated that it will be productive of considerable revenue. The estimate is that in the first full year of operation it will yield $65 million, of which $50 million will be collected in the present fiscal year.

As this is intended as an exchange tax and not a protective duty, power will be taken to prevent unjustified increases in prices as a result of this tax. The policing of price increases will be under the war-time prices and trade board and any attempt to take advantage of the tax to increase prices other than to the extent justified by an increase, resulting from the tax, in the cost of raw materials or parts entering into the product, can be dealt with by appropriate measures applicable to the industry or the individual as the case may be. It would merely add to the post-war problems of adjustment if industry made plans for permanent production in Canada on the assumption that this special exchange tax would be permanent.

The other exchange measure relates to automobiles, both imported and domestic. It is proposed that, in place of the present small excise tax on automobiles of 5 per cent on the value in excess of $650, there be substituted a heavier tax on new passenger automobiles, steeply graded so as to be, it is expected, virtually prohibitive of the purchase of higher priced cars. It is this class of automobile which accounts for the major part of our imports of finished cars, and in so far as they are produced in Canada, they require the importation of parts and materials in higher proportion than the lower priced cars. This tax will effectively help to prevent the drain on our foreign exchange which these imports cause. The proposed rates of excise tax to be imposed on the manufacturers' price of Canadian-made automobiles and on the duty-paid price of imported automobiles are as follows:

On the value up to $700	10 per cent
On the excess over $700 and up to $900	20 per cent
On the excess over $900 and up to $1,200	40 per cent
On the excess over $1,200	80 per cent

This tax, which is on sales by manufacturers and importers, will extend to cover also sales by dealers of new and unused cars now in dealers' hands.

It can hardly be argued that there is any undue sacrifice imposed on the Canadian citizen in asking him to postpone the purchase of higher priced cars for the duration of the war.

But the tax is not limited to higher priced cars; it falls, in a decreasing scale, on lower priced cars most of which are made in Canada but have a certain percentage of imported content. Productive capacity in Canada, and I believe also in the United States, will be more and more taken up with work on war equipment. Our production of automobiles will necessarily therefore be restricted if war work is to have priority. While not at the moment cutting off all production of passenger cars, this tax will, it is believed, restrain the demand and tend to keep it in balance with lowered production without causing the increase in price which might result from curtailed productive capacity and unrestrained demand. It is expected that any surplus of labour either in manufacturing establishments or in garages occasioned by this tax will be absorbed by war needs for the production and servicing of mechanical transport and other equipment.

Here again, then, the primary purposes of the tax are to save exchange and to release productive capacity for war purposes without dislocation of industry. Revenue is only incidental and will be comparatively small. It is anticipated that in the first full year of taxation it will yield $3,500,000 in revenue, of which $1,500,000 will be collected in the present fiscal year.

In addition to these two substantive measures of a fiscal character for conserving exchange the government through the policies of the Department of Munitions and Supply and through the operation of administrators appointed under the Wartime Prices and Trade Board, is also endeavouring to save foreign exchange in its own operations, and it may, from time to time, in respect of certain classes of civilian imports, take other measures of a non-fiscal character for the purpose of meeting this vital need as circumstances seem to require.

I should add here that there is one important way in which our supplies of foreign exchange may be increased. Canada is fortunate in the strength and extent of her gold mining industry which in the last eight years has shown such a rapid expansion. Further expansion of output is the most immediate and important means at hand for directly augmenting our supplies of foreign exchange, and I think I can appeal with confidence to those engaged in producing gold to put forward every effort to increase their production as rapidly as possible.

In this connection I am glad to acknowledge assurances already from a number of important companies that it will be their policy to step up production as far and as fast as conditions permit. I realize that the rate of increase which is practicable will vary with the differing conditions at different mines, but I feel sure that the directors of each enterprise in the industry will review their situation and adjust their production policy in the light of the present need.

Even larger than our gold as a source of foreign exchange is the tourist industry that Canada has built up over many years. This year, the government provided for an increased appropriation to promote the expansion of this activity, but its effects may be at least partly offset by misinformation and misunderstandings regarding recent regulations and by unfounded rumours that have been circulated. Nearly every Canadian can help to increase our receipts of foreign exchange by stamping out these mischievous rumours and by encouraging our friends in the United States to visit us in Canada. This country is ready and anxious "to be a good host to a good neighbour".

We all should take particular pleasure in seeing that friendly visitors to this country are treated with the courtesy and cordial interest due to good and sympathetic neighbours, and that they are made to feel that we appreciate their coming. At no time have our friends from south of the border been more welcome, and we shall do everything we can to see that their coming to us and their stay with us is made as convenient and comfortable and enjoyable as it possibly can be. We want them to go back with the happiest recollections of their neighbourly visit to Canada.

The result of the two fiscal measures which I have outlined, namely, the war exchange tax and the automobile tax, will not be to reduce our total imports of merchandise from non-Empire countries, of which the chief is, of course, the United States. As a matter of fact, these imports will, due to our war requirements, be greater than ever, but the important result of these measures will be that out of the total supply of foreign exchange which we can obtain by the export of our products, by the export of gold, by the sale of our tourist services, the maximum possible amount shall be made available for those purchases abroad of industrial materials, machinery and instruments of war which the imperious needs of war dictate.

As I have explained, these proposals for conserving exchange are dictated by the conditions of the present emergency. Needless to say, we regret that the exigencies of war make any such restrictive action necessary, and our fervent hope and firm resolve are that at the earliest possible moment we may be able to return to the long-run policy of this government, which is that of the progressive lowering of trade barriers and the encouragement of trade not only with the United States but with all peaceful nations. The government remains in fullest accord with the trade agreements programme in which Canada has cooperated with the United States, Great Britain and other countries, and has no intention or desire to alter by these emergency measures the permanent channels of trade.

The war exchange tax is peculiarly an emergency measure. It is of the type provided for by the war clause of the Canada-United States Trade Agreement, and action is taken under that clause. The operation of this proposed measure will, accordingly, end with the war.

Excess Profits Tax

I now come to the measures designed primarily for revenue. The first one is a new Excess Profits Tax Act. At the brief session of last September, parliament enacted a statute of this type. Under that legislation, a business to which the tax applied had the option to be taxed on either of two bases. Under option A, the tax was graduated according to the rate of return on capital. Under option B, the tax was fifty per cent of the excess of profits in the taxable year over those of a four-year pre-war base period. The tax was payable only in respect of profits of the year 1940 and fiscal years ending after March 31, 1940. Up to the present, no taxes have been collected under this act because the tax is not payable until four months after the end of a firm's fiscal year.

As I have already stated, this act was quickly drafted and placed on the statute book last fall in order to indicate one of the forms of war taxation which the government was adopting. In the brief time available it was impossible to give this form of taxation, new to Canada, the intensive and detailed study required to envisage its application under the varying conditions existing here. On further examination one main feature which appeared to be undesirable was the right of the taxpayer to choose between the two options. In the light of actual conditions it was found that many established firms would pay little or no tax, while others which had not been in business prior to the war, or had been operating in a depressed industry, or were undergoing rapid expansion, would be subject to what appeared to be unwarranted discrimination. There were many other situations both of substance and administration which required review. And so since the passing of the act in September the measure has been thoroughly overhauled and, as I intimated publicly over four months ago, very extensive amendments will be proposed and we have decided to recast the whole act. The new measure will be much more drastic but at the same time its application as between various industries and firms will be far more equitable.

I shall not attempt to summarize all the changes to be effected by the bill which will be submitted, but I should outline some of the main features of our proposals:

(1) Option A will be dropped altogether and we will instead rely wholly on the general principle of the British act which was also the principle followed in option B of the old act. On this basis we will increase the tax from 50 per cent to 75 per cent on the excess of profits in any taxable year over those earned in the base or standard period.

(2) In order to ensure that no profitable business will escape taxation, it is proposed that in no case of an incorporated company shall the excess profits tax, when combined with the corporate income tax, be less than 30 per cent of the company's total profits, whether or not such profits exceed pre-war profits. It will be remembered that the corporation income tax is 18 per cent.

The same result is achieved in the case of unincorporated businesses by provision that the excess profits tax shall never be less than 12 per cent of the total profits, whether or not such profits exceed pre-war profits.

(3) There will be a number of provisions for adjusting the base or standard profits in the case of newly established businesses, businesses whose capital employed or whose scale of operations has been or is rapidly expanding, and businesses operating in depressed industries whose base years show losses or abnormally small profits.

(4) In order that firms may not receive discriminatory treatment because their fiscal years happen to end on different dates it will be recommended that the tax in respect of all businesses shall apply to profits earned on and after the same date, namely, January 1, 1940, regardless of the expiry date of their fiscal year.

(5) The tax will not apply to businesses whose profits are not in excess of $5,000, and allowance will be made for drawings in lieu of salaries not in excess of $5,000 by sole proprietors or partners.

(6) To assist in carrying out these provisions fairly and realistically, the appointment of a board of referees will be proposed:

(7) In connection with the gold mining and the oil producing industries a different basis of adjusting base or standard profits appears necessary to deal with new and expanding companies. In the present emergency, as I stressed a little earlier, it is considered desirable to encourage the development of these natural resources, particularly because of their effect in directly increasing our supplies of hard currency exchange or in decreasing our requirements therefor.

These industries also require the risking, and very often the losing, of large amounts of capital in exploratory and development work before production commences. The results obtained from these expenditures are inherently erratic, depending on the possibility of a "lucky strike." If a "strike" is eventually made, increases in the scale of production or recovery are not closely related to increases in the amount of capital employed.

Consequently, for the purpose of adjusting standard profits in the case of expanding operations, the basis used will be not capital employed but number of units of output. In the case of a new development, standard profits will be calculated by taking into account the number of units of output in the taxable year and the average price of the product during the base period.

All companies in the gold mining or oil producing industries (except companies exempted temporarily from corporate income tax under section 89 of the Income War Tax Act) will, however, as in the case of all other companies, pay in excess profits tax and corporate income tax combined a minimum of 30 per cent of the total profits, whether or not such profits exceed pre-war profits.

You can readily appreciate how difficult it is to forecast the yield of a tax such as this, but our rough estimate is that in a full year's operation the excess profits tax will yield about $100 million, of which approximately $25 million will be collected during the current fiscal year.

Personal Income Tax

The next revenue measures proposed apply to individuals. They are:

First, sharp increases in the personal income tax by a revision upwards of rates throughout the whole range of taxable incomes and a lowering of exemptions;

Second, an over-riding flat rate tax, collectable at the source in most cases, in respect of all taxable incomes and including lower incomes than those covered by the income tax itself.

I will deal first with our proposals relating to personal income tax. This is the tax which in principle most nearly approximates ability to pay. We realize that increases in indirect taxes disguise the burdens imposed by the war but they are much more likely to distribute these burdens harshly and unfairly. While increases in such taxes may eventually be necessary, we are striving in this budget to deal with the situation (except in the case of particular commodities or where exchange considerations make special measures necessary) by a direct call on our citizens graded according to their means and responsibilities. We believe that a straightforward assessment of the contribution to the common cause will be loyally accepted and paid as a small price for the preservation of our liberties. Following out that principle, the government has, therefore, decided to submit not an increase in the sales tax but heavy increases in the direct tax on individual incomes.

In establishing the new rates, we have been limited by two insistent considerations. It would be popular, if it were practicable and possible, to pay the stupendous costs of war by imposing taxes only on those earning higher incomes. The stubborn fact is there is not enough income in the so-called higher brackets to produce more than a small fraction of the necessary revenue.

On the basis of 1938-39 figures, the latest which are available, the total of all incomes above $50,000 was only $35 million, and, under present rates, the tax on these would amount to $20·5 million leaving only $14·5 million available for provincial and municipal taxes and any further taxation by the dominion—to say nothing of living expenses and personal obligations. Similarly, in the group from $25,000 to $50,000, the aggregate income was only $32 million, of which taxes at the present rates would take about $10·8 million, leaving only $21·2 million. Finally, it has to be noted that the total assessed income of all persons liable to income tax in the year 1938-39 was only $730 million, and if we took from all these people the whole of their incomes in excess of $2,000 a year we should obtain only $144·5 million more than we would get on these incomes at existing tax rates. When we compare these disappointing amounts of aggregate income available in these various income brackets, however drastically we might tax it, with the $700 millions and upwards of war expenditure, to say nothing of the further expenditures of $448 million on ordinary account, it is clear that we cannot go far to meet the costs of the war simply by taxing large incomes, or even those of moderate size.

The second consideration is that the dominion is not the only taxing authority levying steeply graduated rates on large incomes. Every province in Canada, except Nova Scotia and New Brunswick, now levies income taxes and in certain cities taxpayers must pay municipal income taxes as well as provincial income taxes. Ontario, Manitoba, and Prince Edward Island are the only provinces which allow, as a deduction from income, the tax paid to the dominion. All these authorities tax at different rates. This means that unless we are prepared to be entirely arbitrary and unfair and to set up schedules of rates which when added to the rates imposed by other taxing authorities would be nothing short of fantastic, the dominion must, in fixing its schedule of rates, take cognizance of the highest schedule of rates effective in any province. This is but an instance of the chaotic situation in the fiscal systems of Canada to which the Sirois report has drawn attention and which, I regret to say, appears to be getting worse rather than better.

There will, however, be no class in the community which will not recognize the necessity of bearing some part of the war burden. In the past our exempton limits have been considerate, to say the least. No income tax whatever has been paid by the single person receiving less than $1,000 per year or by the married person receiving less than $2,000 per year. In addition, the married person got a further exemption of $400 for each child. Our rates of tax in the low and middle income groups have been low, very low indeed as compared with the rates on comparable incomes in the United Kingdom. While the increases in rates I have to propose will be substantial when expressed as a percentage of the comparatively low taxes formerly paid, the increase in the dollar amount per individual is not unduly large and will, I am confident, not be regarded as an undue burden when contributed to meet the situation which faces us all.

It is proposed that exemptions under the graduated Income Tax—that is, our present personal income tax act—which, as I have said, are at present $1,000 for single persons and $2,000 for married persons, be reduced to $750 and $1,500 respectively. The exemption for each dependent child is left, as at present, at $400. Under the proposed rates, the taxpayer, on the first $250 in excess of the exemption, will pay 6 per cent instead of the present initial rate of 3 per cent. On the next $750 of income the proposed rate is 8 per cent, and on the next $1,000 in excess of exemptions 12 per cent, and so on upwards. In the past dependence on indirect taxation has left incomes which were just above the exemption limits taxable at very low rates, and, hence, the increases are necessarily proportionately greater on the groups receiving incomes between the exemption limit and, say, $10,000, than on those receiving higher incomes. Nevertheless, the rates on high incomes, already steeply graduated, have also been increased as much as we consider they can practicably be increased, having regard to the taxes levied on these same incomes by certain provinces and municipalities.

I may add that we have at the same time simplified the structure of income tax rates by doing away with the old 5 per cent surtax and the 20 per cent war surtax imposed last fall and substituting therefor a schedule of higher rates throughout the whole range of incomes.

National Defence Tax

I come now to the second revenue measure applicable to individuals—and I think I should deal with this measure and then give the house illustrations of how the two measures combined work out in connection with individual incomes:

To supplement the graduated income tax we propose a national defence tax at a flat rate applicable to all incomes above $600 for single persons and above $1,200 for married persons. The rate of tax for married persons will be 2 per cent if the income exceeds $1,200, and for single persons the rate will be 3 per cent if the income exceeds $1,200 and 2 per cent if the income exceeds $600 and is not more than $1,200. But there is a proviso that in no case will the income of the taxpayer be reduced below $600 or $1,200 as the case may be. For dependent children, a deduction from tax equal to the rate of 2 per cent on the usual $400 exemption for each dependent child is to be allowed. Thus, a married person with an income of $1,400 and three dependent children would be liable to a tax of $28 (2 per cent of $1,400) minus $24 in tax credits for children, leaving $4 as the tax payable.

As far as it is administratively practicable this tax will be collected at the source. Thus employers will deduct the tax from the employee's earnings when the pay is at the rate of $600 per year in the case of unmarried employees and $1,200 per year in the case of married employees, and companies will deduct the tax from dividends and interest on registered corporate bonds. In cases where the full amount payable has not been deducted and in all other cases where the annual income amounts to or exceeds the minimum amounts of $600 or $1,200, as the case may be, the taxpayer is required to make a return as in the case of the graduated income tax.

It is recognized that there will be a good deal of additional work for employers and their staffs in making deductions and returns, and provision will be made toward reimbursing employers for expenses so incurred. Employers, however, can by their cooperation and interest help greatly in working out the methods to be adopted and in making the system operate efficiently and fairly and with a minimum of inconvenience both to their employees and to themselves. I feel sure that under the circumstances we can count upon the full cooperation of employers in this additional task which they are called on to perform in the national interest at this time.

Tax Examples

It might be useful if I now gave a few examples showing how the new income tax rates taken along with the national defence tax which I have briefly described will affect certain classes of taxpayers. Let us take the case of the single person, with no dependents, earning $800 a year. Under our existing income tax law he would not pay any income tax since he is at present exempt up to $1,000. Under the legislation just proposed, however, the $800 single man will be required to pay the national defence tax of 2 per cent of his total earnings which is $16, and under the income tax he would pay 6 per cent on the amount of his income in excess of $750, which is the new exemption figure for income tax purposes. This income tax would thus amount to $3 (6 per cent of $50). Consequently, his total tax per year would be $19 where previously he paid no tax.

A single man with no dependents earning $1,500 would pay $100 under the new proposals where he now pays only $18.

A married man with no dependents earning $2,000 is at present just on the exemption line, and pays no tax. Under the new set-up his tax bill will be $75.

Perhaps some hon. members would be interested in knowing how the new measures will affect the position of a married man with an income of $4,000 a year. Under our existing tax he pays $84; under the new measures he will pay $355. If he has two children he will pay $223 under these new taxes compared to $45.60 under the present tax. A single man with the same income now pays $144, and under the new measures he will pay $525.

To illustrate the effect of the changes in the case of higher incomes, a married man, with no dependents, having an income of $20,000, pays $3,112 under the present tax, and will pay $6,530 under the new taxes. With an income of $200,000 he pays the dominion $103,698 under the present rates, and under the new taxes he will pay $119,430 or 59·7 per cent of his income. Adding provincial and in certain cases municipal income taxes as well, we find that the latter married man with no dependents, if he lives in Ontario, will pay $129,679 or 64·8 per cent of his total income; if he lives in Montreal, he will pay $149,516 or 74·8 per cent of his total income; and if he lives in British Columbia, he will pay $170,425 or 85·2 per cent of his total income.

Let me give a few additional illustrations to show the relative burden of our new rates as compared with the British income tax rates. Take a married man with no dependents living in Ontario. If he receives an income of $1,000, he will pay no tax in Canada—that is, he is under the exemption limits provided for by the national defence tax ($1,200 for married men) and by the regular income tax ($1,500 for married men)—while his British cousin in like circumstances would pay $14.31. If his income is $1,500, he will pay 33 per cent of the amount he would pay in Britain; if it is $4,000, he will pay 46 per cent of the British tax; if it is $10,000 he will pay 71 per cent of the British tax; if it is $200,000 he will pay 86 per cent of the British tax; and finally, if he should have an income of $500,000, he will pay 94 per cent of what he would have to pay in Britain. If he happened to live in certain other provinces, his total tax would be a considerably higher percentage of the comparable British tax and in the higher brackets of income would in some cases exceed the United Kingdom tax. Thus, a married man with no dependents and an income of $50,000, living in Quebec, would pay 107 per cent of the British tax, and if he were living in British Columbia he would pay 114 per cent of the British tax. If his income were $200,000 he would pay 99 per cent of the British tax if he lived in Quebec, and 113 per cent of such tax if he lived in British Columbia.

It is anticipated that the increases in the income tax will contribute $58 million of new revenue in a full year of operation, but none of this will be available in the current fiscal year. It is estimated that the national defence tax will provide $35 million additional revenue in a full year but only $20 million in the current fiscal year. To make it quite clear let me emphasize that this national defence tax is the only direct tax imposed by the dominion on unmarried persons with incomes from $600 up to $750 per year and on married persons with incomes from $1,200 up to $1,500 per year. On incomes of $750 and up in the case of single persons and of $1,500 and up in the case of married persons, both the income tax and the national defence tax apply.

For the convenience of hon. members, I shall now table a statement showing for a number of different incomes the amount of tax payable to the dominion under the existing income tax, the amount payable under the new income tax rates and the national defence tax combined, the total amount payable to the dominion combined with the amount payable in each of the several provinces where income taxes are imposed, and the percentage of the British tax which a man living in Ontario would pay in dominion and provincial taxes combined:

3804—4½

INCOME TAX COMPARISONS

(Married Persons with No Dependents)

Income	Present Dom. Tax	New Dom. Tax with Nat. Def. Tax	New Dominion Tax Plus National Defence Tax Plus Income Tax Payable in							United Kingdom Tax (£1=$4.45)	New Dom. Tax with Nat. Def. Tax and Ont. Tax as % of U.K. Tax
			B.C.	Alta.	Sask.	Manitoba	Ontario	Prov. Que. and Montreal	P.E.I.		
	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	%
$ 1,500	....	30 00	35 00	30 00	30 00	45 00	30 00	30 00	32 50	141 00	21·3
2,000	....	75 00	85 00	85 00	86 50	103 90	75 00	83 75	85 73	328 50	22·8
3,000	36 00	195 00	225 00	230 00	236 50	251 70	207 97	228 75	227 30	703 50	29·5
4,000	84 00	355 00	415 00	425 00	427 00	440 55	384 50	437 50	416 87	1,078 50	35·7
5,000	144 00	555 00	655 00	670 00	667 50	678 34	603 62	714 25	653 83	1,453 50	41·5
10,000	781 20	2,170 00	2,675 00	2,660 00	2,658 25	2,532 60	2,336 35	2,859 50	2,475 10	3,550 07	65·8
15,000	1,789 20	4,330 00	5,590 00	5,445 00	5,450 88	4,996 60	4,643 35	5,740 50	4,816 00	5,993 83	77·5
20,000	3,112 20	6,530 00	8,895 00	8,555 00	8,546 00	7,582 70	7,030 90	8,675 50	7,413 40	8,715 07	80·7
30,000	6,514 20	11,200 00	15,375 00	15,900 00	15,443 05	13,230 40	12,175 00	14,910 00	12,652 00	14,796 31	82·3
50,000	14,351 40	21,610 00	30,605 00	32,310 00	30,937 15	25,980 09	23,721 80	28,823 50	24,424 00	26,943 19	88·0
75,000	25,880 40	36,065 00	52,060 00	54,265 00	52,928 53	43,298 12	39,561 55	48,162 75	39,983 50	46,216 94	85·6
100,000	39,299 40	51,520 00	74,515 00	77,220 00	77,232 40	61,586 54	56,382 20	68,424 00	56,443 00	66,547 56	84·7
150,000	70,043 40	84,475 00	121,470 00	125,175 00	129,597 18	100,168 37	92,044 00	107,770 00	91,202 50	108,265 69	85·0
200,000	103,698 00	119,430 00	170,425 00	175,130 00	183,977 18	140,711 25	129,679 75	149,516 00	127,762 00	150,765 69	86·0
500,000	334,656 00	357,235 00	492,230 00	502,935 00	538,332 18	407,257 58	381,103 30	433,682 00	372,386 50	405,765 69	93·9

Other Tax Proposals

It is on the foregoing taxes that we depend for the bulk of the necessary increase in revenue, but there are a number of other changes, some of which will contribute substantial sums to the treasury and some of which are proposed largely as readjustments of unsatisfactory situations.

Smokers' supplies are again made the subject of tax increases. It is proposed that the excise tax on matches shall be increased from three-quarters of a cent to one cent per hundred. It is further proposed that the excise tax on cigarettes weighing less than two and a half pounds per thousand shall be raised to $6 from the present rate of $5. The rate on manufactured tobacco is to be increased from 25 cents to 35 cents per pound. To prevent a substantial decline in the revenue from cigarettes and cut tobacco because of these high rates, it has been necessary to impose a tax of 10 cents a pound on the sale of raw leaf tobacco and to increase the tax on cigarette papers and tubes from 2 cents to 5 cents per hundred. The tax on raw leaf tobacco will only apply on sales to consumers. The grower may sell to the merchant or dealer or manufacturer without tax. The rates under the Special War Revenue Act on cigars will also be increased. It is estimated that in a full year these new or increased rates will yield $15,540,000 of new revenue, of which $11,680,000 will fall in during the present fiscal year.

It is proposed that the present excise tax on automobile tires and tubes shall be increased from 2 cents and 3 cents per pound respectively to 5 cents and it is anticipated that from this change $1,100,000 in revenue will be derived in a full year and $825,000 in the current year.

It is proposed that a new excise tax of 10 per cent will be imposed on radios, radio tubes, cameras and phonographs. While this is in the class of sumptuary taxes there is the further consideration that the resources used in the production of most of these products are of a type suitable for producing war supplies and it is expected that such manufacturing capacity as may be affected by any lessening or lack of increase in demand due to this tax will prove useful in war work. It is estimated that the approximate yield of this tax will be $1,500,000 in the full year and $1,100,000 in the current fiscal year.

There are proposed also a number of readjustments in taxes. Since the sales tax on dressed and dyed furs is imposed at the initial point of processing and not on the finished fur garment, it is proposed that the rate be 12 per cent rather than 8 per cent as at present in order more nearly to equalize this tax with the 8 per cent sales tax which is imposed on finished cloth garments. The present exemptions under the sales tax for home canners and for farmer florists are to be restricted to fixed quotas so as to facilitate administration in confining the benefit of the exemptions to bona fide farmers. The tax on carbonic acid gas which last September was proposed to secure revenue from the soft drink trade is to be increased from 2 cents to 5 cents per pound. These revisions, it is estimated, will yield $550,000 in the full year, and $415,000 in the current fiscal year.

In addition to the major features of the budget programme which I have outlined, there will also be found in the resolutions a number of proposed amendments to our taxing statutes which either involve tax changes of a minor nature or are designed to remove anomalies and facilitate administration. For instance, in the income tax resolutions there will be a provision for clarifying and extending the definition of income to cover payments made to life annuitants under purchased annuity contracts, and the exemption now accorded to dominion government and like annuities up to $1,200 per year will be removed in respect of all new contracts. Also in order to prevent evasion of either the income tax or the excess profits tax it is proposed to give power to the treasury board to rule in any specific case that a transaction or reorganization has been of a specious character designed to avoid or minimize taxes and that therefore the taxpayer should be assessed without regard thereto.

With regard to the customs tariff: five reports from the tariff board will to-day be laid on the table. The reports on cyanides and firebrick and the two on aircraft arise out of the reference made to the tariff board on December 5, 1938. This reference instructed the board to revise the whole of the drawback schedule. The items now being reported upon relate to industries connected with our war effort. The report on the radio industry reiterates most of the recommendations made in the earlier report on this subject presented to parliament during the first session of 1939 and provides for the widening of the scope of the existing tariff items covering parts and materials of radio receiving sets and radio tubes.

Tariff Proposals

The tariff changes to be announced to-day, implement the recommendations of the tariff board as shown in the reports now tabled and apart from these affect only five commodities. One of the amendments proposed provides for duty-free entry of sodium nitrates, regardless of the purpose for which imported. This material is now being used in connection with the production of alloys for steel but the existing duty-free provision did not cover this use. Material for use in the manufacture of nicotine sprays will henceforth be admitted duty free. Forgings for the manufacture of scissors and shears will be admitted at the special rates now applicable to blanks for knives, forks and spoons. The proposed amendment of the item covering dressed lumber permanently removes an anomaly temporarily taken care of by an item due to expire on July 1, 1940. The only other tariff change provided for continues the reduced rates of duty that have applied for several years to imports of rayon fabric now being used in the manufacture of certain rubber tires.

The measure enacted during the special session last September, providing for additional duties of customs, is being amended. The additional duty on manufactured tobacco of all descriptions, except cigars, cigarettes and snuff, is increased from 5 cents per pound to 15 cents per pound, and the additional duty on cigarettes is increased from $1 to $2 per thousand. These increases are necessary to correspond with the additional excise duties which I have announced as applicable to domestic tobacco items.

In the case of tea, while no change is being made in the actual rates of additional duties imposed last September, the value brackets are being lowered to bring a greater quantity of the imports of tea within the scope of the tax of 7½ cents per pound. Previously the lowest rate of tax, 5 cents per pound, was allowed where the value was less than 35 cents per pound. Under the proposed change only tea valued at less than 22½ cents per pound will be entitled to the low 5 cents per pound rate. The two remaining value brackets are also reduced accordingly.

Estimated Yield of New Taxes

I may summarize the results of the new and increased taxes which we are recommending by stating that we expect them to produce an increase in revenue of approximately $280 million for a full year. Of this total it is expected that about $110 million will be paid into the treasury during the balance of the current fiscal year. The house will realize how difficult it is under present conditions to predict with any degree of precision the yield of some of these new taxes. But I give below the results of such estimates as we have been able to make:

	Full year	Balance of current fiscal year
Excess profits tax	$100,000,000	$ 25,000,000
Graduated personal income tax	58,000,000	nil
National defence tax	35,000,000	20,000,000
War exchange tax	65,000,000	50,000,000
Automobile excise tax	3,500,000	1,500,000
Taxes on tobacco and smokers' supplies	15,500,000	11,700,000
Taxes on radios, radio tubes, cameras and phonographs	1,500,000	1,100,000
Taxes on tires and tubes	1,100,000	800,000
Other excise taxes	500,000	400,000
	$280,100,000	$110,500,000

SUMMARY

Earlier this afternoon I estimated $650 million as the probable revenue for the present year without increases in taxes. Adding the $110 million which we expect to receive as a result of these new taxes, we get a total estimated revenue of $760 million. This may be increased somewhat as a result of prepayment of taxes because a number of individuals and corporations have already reported that they intend to make instalment payments in advance on account of their taxes which will not be due until next April. We can therefore take the figure of $760 million as a conservative estimate of our aggregate revenues.

Taking our expenditures at $1,148 million, our over-all deficit for the year would amount to $388 million, but that assumes that our war expenditures will not exceed the $700 million war appropriation already voted by parliament. There are still the further war commitments already made which I have roughly estimated at another $150 million to $200 million, and these will not be all. This means that in spite of the very heavy increase in taxes which I have proposed, it is not safe to count on an over-all deficit less than from $550 million to $600 million. This will be a staggering deficit, larger indeed than our total governmental expenditures during the depression years.

Whatever the total deficit may be, it will have to be met by borrowing except to the extent of cash on hand. We shall also have to raise funds to continue the repatriation programme which I have already described.

If we assume that the amount on this account will be of the order of $200 million, we may conclude that our total cash requirements for the year will be roughly of the order of $750 million to $800 million. However, we began the year with cash in hand of approximately $187 million and as a result of the sale of war savings certificates and stamps we expect to raise during the balance of the year approximately $50 million. This would leave approximately $550 million to $600 million to be raised by the issue of new long-term loans. These are impressive sums but I know that they are not beyond the capacity of our markets to absorb under the conditions of expanding business and rising national income which I believe we have every reason to expect. I repeat, the limits of our war programme are not fiscal, but physical, mental and moral.

In the foregoing calculations I have, you will note, included in revenue only the yield of the new and increased taxes which we expect to be actually paid into the treasury before March 31st, namely, $110 million. But all our tax proposals relate to incomes, profits or transactions that will be earned or made during the current fiscal year. Not for the purpose of government accounting but in order to learn the answer to the question which I posed earlier this afternoon as to the relative reliance we intend to place on taxation and borrowing, it would be appropriate to take into account the total yield of our new or increased taxes, whether or not the proceeds will be actually received before the end of the fiscal year. On this basis we would add to the $650 million estimated as the probable total revenue from our existing tax structure during the year, the whole $280 million which is the expected yield of the new or increased taxes which I have proposed, making a total of $930 million instead of $760 million. This would mean that if our total war expenditures should amount to $900 million, the programme which we are proposing is designed to secure for such war expenditures from tax revenues the sum of $482 million (that is, the difference between the figure of $930 million I have just given and $448 million of anticipated government expenditures on non-war activities). As compared with this $482 million, there would be left a gap of $418 million to be financed by borrowing or by cash already in hand. I think the house will agree that a very serious effort is being made to carry the pay-as-you-go policy as far as is practicable. Of course, this comparison of the relative amounts to be provided by taxation and by borrowing will be less favourable if our war expenditures exceed $900 million.

Conclusion

It is natural, Mr. Speaker, that comparisons should be made between the new tax rates and rates previously levied, and such comparisons will reveal great increases, particularly in income taxes, corporation and personal. But there are some other considerations which should be remembered. In the first place, we have not, in the lower and middle brackets at least, come near to the levels of income tax imposed in the United Kingdom. In the second place, there is every likelihood that during the present fiscal year our national income may be expected to show a very substantial increase. The government will be pouring into the income stream many hundreds of millions of dollars, while much of the taxes payable under the measures we propose will not be withdrawn from incomes until late this year or in some cases until next year. Thirdly, with rising incomes, taxes even of this degree of severity can be borne without deprivation, and their imposition at this time will avoid the necessity of still heavier increases in taxation in the days after the war when incomes may be falling.

Fourthly, to those who may have any fear of the effects of these taxes on business in this country, I say that businessmen and individuals alike must strain every nerve to meet the needs of this hour. The taxes herein imposed on business are heavy taxes, but for the most part they fall on profits, and the more we can find practical means of paying as we go, the more we will improve the long-run outlook for business as well as individual prosperity in this country.

The proposals, Mr. Speaker, which I have outlined are an attempt to help to meet the crisis in terms of taxation. They bear upon all classes in the community. If the taxation provisions are the most drastic which have ever been imposed upon this country, they are certainly no more drastic than the present hour and the present need demand. The future may well demand still more.

I ask those who think that they are too drastic to bring both their common sense and their idealism to the rescue of their opinions. Common sense will ask them what will become of their property or incomes if Germany and Italy should conquer the British empire. Idealism will teach them that money and material things are as nothing compared with the freedom and the dignity which it alone can bring as a benediction to the life of man.

At this time everything which we treasure and the survival of the things of the spirit and mind and soul which are the most precious of all, will depend upon the willingness and the capacity of men of our blood and kith and kin to endure and to die.

We who remember our fathers and know our sons have no cowardly doubts or weak misgivings.

I will not dishonour the word sacrifice by applying it to anything except the gift of life itself. But, knowing the Canadian people, I am confident that they will shrink from no contribution to insure to the soldiers and sailors and airmen of Britain and Canada all the machines and equipment which can be produced or procured.

The overwhelming majority of men and women of the sturdy races which make up Canadian citizenship are at their best in days of trial.

A farmer offers me the total proceeds of his four-hundred acre wheat crop, and all the increases of his live stock for Canada's war chest.

The wife of a small wage earner begs me to place a heavy income tax on her own small income.

A small industrial firm agrees to give all its profits for the duration of the war.

A veteran of 1914, with a disability pension of $47 a month as the sole income of a family of five, sends me all he has to give, a collection of old coins, and the caretaker of one of our militia armouries sends me $20 each month.

With such examples to challenge and inspire us, I cannot believe that any man in Canada will complain about his burden, or by greed, panic or selfish fear, betray his Canadian citizenship in the hour of Canada's need.

Britain is giving her blood, her treasure, her all. We proudly share her courage, her sacrifice and her unshakeable resolution. Britain will not fall. Freedom will not perish, and Canada will fail neither the commonwealth nor the cause.

RESOLUTIONS

Mr. Speaker, I beg to give notice that when we are in committee of ways and means I shall move the following resolutions:

INCOME WAR TAX ACT

Resolved, that it is expedient to amend the Income War Tax Act and to provide:—

1. That the rates of tax applicable to persons other than corporations shall be increased to the rates of tax set forth in the following schedule:

A.—Rates of Tax Applicable to Persons other than Corporations and Joint Stock Companies

On the first $250 of net income or any portion thereof in excess of exemptions 6 per centum or

$15 upon net income of $250; and 8 per cent upon the amount by which the income exceeds $250 and does not exceed $1,000 or

$75 upon net income of $1,000; and 12 per centum upon the amount by which the income exceeds $1,000 and does not exceed $2,000 or

$195 upon net income of $2,000; and 16 per centum upon the amount by which the income exceeds $2,000 and does not exceed $3,000 or

$355 upon net income of $3,000; and 20 per centum upon the amount by which the income exceeds $3,000 and does not exceed $4,000 or

$555 upon net income of $4,000; and 24 per centum upon the amount by which the income exceeds $4,000 and does not exceed $5,000 or

$795 upon net income of $5,000; and 27 per centum upon the amount by which the income exceeds $5,000 and does not exceed $6,000 or

$1,065 upon net income of $6,000; and 30 per centum upon the amount by which the income exceeds $6,000 and does not exceed $7,000 or

$1,365 upon net income of $7,000; and 33 per centum upon the amount by which the income exceeds $7,000 and does not exceed $8,000 or

$1,695 upon net income of $8,000; and 35 per centum upon the amount by which the income exceeds $8,000 and does not exceed $9,000 or

$2,045 upon net income of $9,000; and 37 per centum upon the amount by which the income exceeds $9,000 and does not exceed $10,000 or

$2,415 upon net income of $10,000; and 39 per centum upon the amount by which the income exceeds $10,000 and does not exceed $20,000 or

$6,315 upon net income of $20,000; and 41 per centum upon the amount by which the income exceeds $20,000 and does not exceed $30,000 or

$10,415 upon net income of $30,000; and 44 per centum upon the amount by which the income exceeds $30,000 and does not exceed $40,000 or

$14,815 upon net income of $40,000; and 47 per centum upon the amount by which the income exceeds $40,000 and does not exceed $50,000 or

$19,515 upon net income of $50,000; and 50 per centum upon the amount by which the income exceeds $50,000 and does not exceed $75,000 or

$32,015 upon net income of $75,000; and 53 per centum upon the amount by which the income exceeds $75,000 and does not exceed $100,000 or

$45,265 upon net income of $100,000; and 56 per centum upon the amount by which the income exceeds $100,000 and does not exceed $150,000 or

$73,265 upon net income of $150,000; and 59 per centum upon the amount by which the income exceeds $150,000 and does not exceed $200,000 or

$102,765 upon net income of $200,000; and 63 per centum upon the amount by which the income exceeds $200,000 and does not exceed $300,000 or

$165,765 upon net income of $300,000; and 67 per centum upon the amount by which the income exceeds $300,000 and does not exceed $400,000 or

$232,765 upon net income of $400,000; and 72 per centum upon the amount by which the income exceeds $400,000 and does not exceed $500,000 or

$304,765 upon net income of $500,000; and 78 per centum upon the amount by which the income exceeds $500,000.

2. That the additional rate of tax applicable to all persons other than corporations and joint stock companies in receipt of income in excess of $5,000 in the amount of five per centum, be repealed.

3. That the war surtax of twenty per centum as enacted by sections two, three and four of chapter 6 of the 1939 statutes (second session), be repealed.

4. That the statutory exemption of a married person and other persons with dependent relatives as set forth in paragraph (c) of subsection 1 of section five of the act be reduced from $2,000 to $1,500.

5. That the statutory exemptions of all other persons except corporations, be reduced from $1,000 to $750.

6. That a tax of five per centum be imposed upon Canadian residents with respect to all interest or dividends paid or payable by Canadian debtors in a currency which is at a premium in excess of five per centum in terms of Canadian funds.

7. (a) That the income accrued or earned during the life of any deceased person shall, when paid, be taxable income in the hands of his executors or trustees.

(b) That income received by executors or trustees and capitalized shall be taxable income of such executors or trustees.

8. (a) That the qualifications of personal corporations as set forth in the act shall be extended to include revenue derived from the hire of chattels or from charter party fees.

(b) That a company shall not be deemed to be a personal corporation if it carries on an active commercial or industrial business.

9. That as a means of insuring the collection of tax from non-resident transient persons who earn salary, fees, commissions or other remuneration in Canada, there shall be withheld an amount of fifteen per centum of such remuneration as a credit against the tax found due upon the filing of the income tax return of such person.

10. That the rate of tax applicable to rents and royalties payable to non-residents of Canada shall be on the gross amount thereof, and in the case of non-resident corporations the rate shall be fifteen per centum, and in the case of non-resident persons other than corporations the rate shall be five per centum, and the Canadian debtor shall withhold such tax before making payment to the non-resident.

11. That the rate of tax applicable to corporations shall be eighteen per centum (in the case of consolidated returns twenty per centum) on the profits of the year 1940, and in the case of fiscal periods ending in 1940 prior to December 31, the said rate shall apply to that proportion of the profits thereof which the number of days of the said fiscal period in the year 1940 bears to the total number of days of such fiscal period.

12. That the section of the act in respect of depreciation be amended to provide for the elimination of duplicate depreciation in respect of assets after their transference to persons who have substantially the same equity or interest in the said assets after their transfer as they had before the transfer.

13. That the distribution of otherwise tax free profits of a family corporation made after 31st December, 1942, shall render such profits so distributed liable to income tax.

14. That the act be amended to prevent evasion by giving power to the treasury board to direct that a taxpayer be assessed without regard to any transaction or reorganization which in the opinion of the treasury board, is of a specious character designed to avoid or minimize tax, whether any such transaction or reorganization was entered into with persons or corporations resident outside or within Canada.

15. That in order to prevent evasion the Minister of National Revenue (hereinafter called the minister) shall have power to determine what are reasonable disbursements for advertising, repairs, salaries and other operating and administrative expenses.

16. That the amount paid by proprietors of a business, other than a corporation, by virtue of the Excess Profits Tax Act shall be allowed as a deduction from their incomes for purposes of income tax in proportion to their interests in the said business.

17. (1) That the definition of income be clarified and extended to cover the amount of annuity payments made to life annuitants under purchased annuity contracts.

(2) That the exemption now accorded to dominion government annuities and like annuities sold by provincial governments and insurance companies shall not apply in respect of all contracts issued subsequent to June 24, 1940, nor to contracts or extensions of contracts made since that date to holders of options or contractual rights in existence at that date.

(3) That purchasers of annuities be entitled to deduct the annual amounts paid out by them in purchasing annuity contracts not to exceed $300 per year.

18. (1) That in addition to the income tax there be imposed a national defence tax on all persons in respect of their income,

(a) in the case of married persons, of two per centum on the total net income if the income exceeds $1,200 per year;

(b) in the case of single persons, of two per centum on the total net income if the income exceeds $600 and does not exceed $1,200 per year; or three per centum if the said income exceeds $1,200 per year.

Provided, however, that if the effect of such tax would be to reduce the income of any person below the relevant amount specified above, then to the extent it would so reduce the income the tax shall not be exigible;

Provided, further, that there shall be allowed a tax credit on an amount of $400 at a rate equal to two per centum in respect of each dependent child or grandchild, brother or sister of the taxpayer under twenty-one years of age, and each child, grandchild, brother, sister, parent, or grandparent over twenty-one years of age dependent on account of mental or physical infirmity and resident in Canada;

(2) That every employer be required to deduct the tax imposed in respect of earnings of the employee earned or accruing due during and after July, 1940;

(3) That every employer remit the tax collected at the source on the sixteenth day of September, 1940, and on the fifteenth day of each month thereafter;

(4) That incorporated companies paying interest on bonds or other like obligations registered as to interest, or paying dividends, irrespective of the amount, to persons on record in their office or that of their agents, be required to deduct and collect the taxes imposed from each payment made to residents of Canada, paid in the case of interest, and declared and paid in the case of dividends, after the twenty-fourth day of June, 1940;

(5) That each incorporated company remit the tax collected at the source in respect of interest and dividends on or before the fifteenth day of the month immediately following the date of payment, the first remittance however to be made on the sixteenth day of September, 1940;

(6) That every person liable to taxation in respect of whom the deduction of the national defence tax on the full income has not been made be required, on or before the thirtieth day of April in each year, to deliver to the minister a return of his total income during the preceding year and pay the tax as in the Income War Tax Act provided;

(7) That the national defence tax be applicable to the income of 1940 and all subsequent years except that in respect of the income of the year 1940 the tax shall be imposed only on one-half of the income if the income for the whole year exceeds the relevant amount specified in resolution No. 18(1);

(8) That the income of the following persons shall not, except as in this resolution provided, be liable to the national defence tax

(a) incorporated companies;

(b) persons and institutions mentioned in paragraphs (a) to (i) inclusive and in paragraphs (p) and (q) of section four of the Income War Tax Act;

(c) members of the Canadian naval, military and air forces shall be exempt from tax while such members are on active service beyond Canada or are on active service in Canada and whose duties are of such a character as are required normally to be performed afloat or in air craft, but only to the extent of their service pay and allowances.

19. That the resolutions numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, 15, 16, 17 and 18 hereof shall be applicable to the income of the 1940 taxation period and fiscal periods ending therein and of all subsequent periods.

20. That the resolution numbered 10 hereof be applicable to payments made after the 24th June, 1940.

EXCESS PROFITS TAX ACT

Resolved, that it is expedient to reenact the Excess Profits Tax Act and to provide:

1. That the option of using rates "A" be deleted, and that the excess profits be the difference between the profits of the year of taxation and the profits of the standard or base period.

2. That the standard profits be determined with reference to the average profits of the standard or base period being the years, 1936, 1937, 1938 and 1939, except as provided in resolution 5 hereof.

3. That the rate of tax on the excess profits be increased from fifty per centum to seventy-five per centum.

4. That on all profits a minimum tax be paid by every taxpayer under the Excess Profits Tax Act, such minimum to be a tax of twelve per centum on the total profits of the business before deducting income tax, and to be payable in all cases unless the tax provided in resolution 3 hereof is greater than the said minimum tax, in which case only the greater shall be paid.

5. That a board of referees (hereinafter called the board) be established with discretionary power, subject to the approval of the Minister of National Revenue (hereinafter called the minister), to ascertain a standard of profits for new businesses or businesses depressed during the standard period subject to the following:

(a) in the case of a business depressed during the standard period the minister may direct that the board ascertain a standard of profits at an amount which they think just, being a return of not less than five nor more than ten per centum of the capital employed;

(b) in the case of a new business other than that of the operation of a gold mine or an oil well, if it has been commenced since January 1st, 1938, the minister may direct that the board ascertain a standard of profits at an amount which they think just, provided that the said amount represents a rate of return on the capital employed by the taxpayer equal to the average rate of return of taxpayers in similar circumstances engaged in the same or analogous classes of business;

(c) in the case of a taxpayer engaged in the operation of a gold mine or an oil well which has come into production since January 1st, 1938, the minister may direct that the board ascertain a standard of profits at such an amount which they think just on the basis of a presumed volume of production during the standard period equal to the volume of production in the taxation year and a presumed selling price for the product during the standard period equal to the average selling price of the said product during the standard period.

6. That the minister may adjust the standard profits so as to ensure the comparison of like with like, in the following cases:

(a) where the accounting period in the taxation year is longer or shorter than the standard accounting period;

(b) where the capital employed in the taxation year has been substantially increased or decreased over that of the standard period by the contribution or withdrawal of capital;

(c) in the case of gold mines and oil wells where the volume of production in the taxation year has been substantially increased or decreased over that of the standard period.

7. That there be exempted from the tax imposed under the said act:

(a) small businesses where the profits before any salary or drawings by proprietors or shareholders do not exceed five thousand dollars per annum;

(b) personal corporations which act solely as investment-holding agencies of individual Canadian taxpayers;

(c) non-resident-owned investment corporations.

8. That sole proprietorships or partnerships be allowed to claim as a deduction such reasonable amount for salaries paid to the proprietor, or partners as the minister may determine, not to exceed five thousand dollars per year for each.

9. That in the case of a taxpayer who acquired a business as a going concern since January 1st, 1938, the minister may direct that the standard profits of the predecessor may be added to those of the taxpayer if the minister is satisfied that the trade or business of the predecessor and the taxpayer is not substantially different.

10. That the definition of average profits during the standard period be revised to provide that only the profits of the standard period shall be taken into account when determining the average of the years during the standard period when the taxpayer was in business.

11. That, in order to prevent evasion, power be given the minister to:

(a) disallow the deduction of disbursements by the taxpayer which the minister in his discretion may determine to be in excess of what is reasonable and normal for the business;

(b) assess without regard to specious transactions or reorganizations which the treasury board has found to have no reasonable business purpose other than that of avoidance or minimization of taxation.

12. That capital be redefined having regard to the cost price of the assets presently employed by the taxpayer less depreciation or depletion thereof, and deducting borrowed money and debts, with a proviso that non-productive

assets, assets not actually employed in the production of profits, and assets producing tax-exempt income, shall not be included.

13. That there be allowed a tax credit in respect of the amount of excess profits tax or similar tax paid to the government of the United Kingdom or to the governments of other members of the British commonwealth of nations or to the governments of allies of the United Kingdom, if such governments allow a reciprocal credit for Canadian-paid excess profits tax.

14. That the act shall apply to the profits of the year 1940, and in the case of a fiscal period ending in 1940 prior to December 31, that the act shall apply to that proportion of the profits thereof which the number of days of the said fiscal period in the year 1940 bears to the total number of days of such fiscal period.

SPECIAL WAR REVENUE ACT

Resolved, that it is expedient to introduce a measure to amend The Special War Revenue Act, and the amendments thereto and to provide,

1. That section seventy-six of the said act be repealed and the following substituted therefor:—

"76. (1) Except as hereinafter provided, every manufacturer and every importer of matches shall affix to every package of matches manufactured by him or imported into Canada, an adhesive or other stamp of the value of one cent for each one hundred matches or fraction of one hundred matches contained in such package.

(2) When matches are put up in packages containing not more than fifty matches and not less than thirty-one matches each, the tax shall be payable at the rate of one-half of one cent for each package, and when matches are put up in packages containing not more than thirty and not less than twenty-six matches each, the tax shall be payable at the rate of three-tenths of one cent for each package, and when matches are put up in packages containing not more than twenty-five and not less than twenty-one matches each, the tax shall be payable at the rate of one-fourth of one cent for each package and when matches are put up in packages containing less than twenty-one matches each, the tax shall be payable at the rate of one-fifth of one cent per package.

(3) No manufacturer or importer shall sell or import matches unless they are in packages."

2. That subsection one of section seventy-seven A of the said act be amended by providing that the excise tax on packets of cigarette papers be increased from two cents to five cents for each one hundred leaves or fraction thereof contained in such packet.

3. That subsection two of section seventy-seven A of the said act be amended by providing that the excise tax on packages of cigarette paper tubes be increased from two cents to five cents for each one hundred cigarette paper tubes or fraction thereof contained in each such package.

4. That subsection four of section eighty-six of the said act be amended by increasing the tax from eight per cent to twelve per cent upon the current market value of all furs dressed and/or dyed in Canada.

5. That the said act be amended by adding thereto after section eighty-eight the following section:—

"88A. (1) In addition to any duty or tax that may be payable under this Act, or any other statute, there shall be imposed, levied and collected a war exchange tax of ten per cent on the value for duty of all goods imported into Canada, payable by the importer or transferee who takes the goods out of bond for consumption at the time when the goods are imported or taken out of warehouse for consumption.

(2) The tax imposed by this section shall not apply to any goods imported into Canada,—

(a) which are entitled to entry under the British preferential tariff, or under trade agreements between Canada and other British countries;

(b) Which are entitled to entry under Customs Tariff items 360, 460, 690, 690a, 696a, 700, 700a, 701, 702, 703a, 704, 705, 705a, 706, 707, 708, 709; or to fish caught by fishermen in vessels registered in Canada or owned by any person domiciled in Canada and the products thereof carried from the fisheries in such vessels.

(3) Where the Wartime Prices and Trade Board reports to the government in council that any producer or producers of goods have taken advantage of the tax imposed by this section to increase the price of such goods by an amount greater than is justified by any increases properly arising from such tax in the cost of materials or parts entering into the production of such goods or to maintain prices of such goods at levels greater than are so justified, the Governor in Council may, upon the recommendation of the said Board, impose upon all or any of the products of any such producer an excise tax at a rate not to exceed ten per cent of the selling price of such products for such period of time as he may determine, remove or reduce customs duties applicable thereto for such period of time as he may determine, fix the prices thereof and/or take such other measures and impose such penalties as he may determine."

6. That the provisions of section eighty of the said act levying taxes on articles manufactured or produced in Canada enumerated in schedules I and II to the said act be amended to provide that the taxes mentioned therein shall apply at the time of delivery.

7. That schedule I to the said act be amended by repealing section one thereof and substituting therefor the following:—

"1. (a) Automobiles adapted or adaptable for passenger use, with seating capacity for not more than ten persons each, valued at

$700 or less	10 per cent.
Over $700 but not more than $900	10 per cent on $700 plus 20 per cent on the amount in excess of $700.
Over $900 but not more than $1,200	10 per cent on $700 plus 20 per cent on $200 plus 40 per cent on the amount in excess of $900.
Over $1,200	10 per cent on $700 plus 20 per cent on $200 plus 40 per cent on $300 plus 80 per cent on the amount in excess of $1,200.

(b) Automobiles adapted or adaptable for passenger use with seating capacity for more than ten persons..................5 per centum

Provided that the tax collected under paragraph (b) above shall in no case exceed $250 per automobile;

Provided further that the tax on automobiles shall apply on the total price charged for such automobiles, which price shall include all charges for accessories, optional equipment, servicing, financing, warranty or any other charge contracted for at time of sale, whether charged for separately or not, but not to include heaters or radios;

Provided further that the tax on automobiles shall apply to any such vehicles in transit to dealers or others;

Provided that if a new and unused automobile is on the twenty-fifth day of June one thousand nine hundred and forty in the hands of a dealer and not delivered to another purchaser the tax shall be paid by such dealer when such automobile is delivered.

Provided further that the tax shall not apply to automobiles imported:—

(i) Under customs tariff items 702, 706, 707 and 708;

(ii) by a bona fide settler on a first arrival;

(iii) by a beneficiary resident in Canada, under the terms of a will of a person dying in a foreign country."

8. That schedule I to the said act be further amended by adding at the end thereof the following section:—

"5. Cameras, phonographs, radios and radio tubes............................10 per centum"

9. That schedule II to the said act be amended by repealing section one thereof and substituting therefor the following:—

"Cigars:—

(a) Valued at not more than forty dollars per thousand, per thousand..................$1

(b) Valued at more than forty dollars per thousand and not more than one hundred and ten dollars per thousand, per thousand......$6

(c) Valued at more than one hundred and ten dollars per thousand and not more than one hundred and fifty dollars per thousand, per thousand.................................$14

(d) Valued at more than one hundred and fifty dollars per thousand and not more than two hundred dollars per thousand, per thousand.................................$20

(e) Valued at more than two hundred dollars per thousand, per thousand................$32

Provided that the value on imported cigars shall be the duty paid value as defined in section seventy-nine of this act; the value on cigars manufactured in Canada shall include the amount of excise duty payable thereon."

10. That schedule II to the said act be further amended by repealing section three thereof and substituting therefor the following:—

"Tires and tubes:—

(a) Tires in whole or in part of rubber for automotive vehicles of all kinds, including trailers or other wheeled attachments used in connection with any of the said vehicles.... ....5 cents per pound

(b) Inner tubes for use in any such tires.. ....5 cents per pound

Provided the tax hereby imposed shall not apply to the goods mentioned herein when used exclusively for the original equipment of such automotive vehicles."

11. That schedule II to the said act be further amended by repealing section four thereof and substituting the following:—

"4. Carbonic acid gas and similar preparations to be used for aerating non-alcoholic beverages..................5 cents per pound."

12. That schedule III to the said act be amended by striking out under the heading of "Farm and Forest," in the eighth and ninth lines the following words:

"farm produce sold by the individual farmer of his own production,"

and substituting therefor the following words:

"farm produce sold by the individual farmer of his own production, not to include canned fruits or vegetables when produced in excess of 10,000 cans of one pound each or their equivalent, per annum, nor flowers, flowering plants or bulbs, when the sales thereof exceed $500 per annum."

13. That any enactment founded on this resolution shall be deemed to have come into force on the twenty-fifth day of June, one thousand nine hundred and forty, and to have applied on all goods imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for which no entry for consumption was made before that day.

EXCISE ACT

Resolved, that it is expedient to introduce a measure to amend the Schedule to the Excise Act, 1934, and to provide:—

1. That the duty of excise on malt syrup as defined by paragraph (c) of section six of the Excise Act, 1934, when imported into Canada and entered for consumption be increased from twenty-one cents per pound to twenty-five cents per pound.

2. That the duty of excise on tobacco of all descriptions manufactured in Canada, except cigarettes, be increased from twenty-five cents per pound to thirty-five cents per pound actual weight.

3. That the duty of excise on cigarettes manufactured in Canada which was formerly $5 per thousand when weighing not more than three pounds per thousand be increased to $6 per thousand when weighing not more than two and one-half pounds per thousand.

4. That the duty of excise on cigarettes manufactured in Canada which was formerly $11 per thousand when weighing more than three pounds per thousand shall now apply to cigarettes weighing more than two and one-half pounds per thousand.

5. That a duty of excise of ten cents per pound actual weight apply on all Canadian raw leaf tobacco when sold for consumption.

6. That any enactment founded on paragraphs one, two, three and four of this resolution shall be deemed to have come into force on the twenty-fifth day of June, one thousand nine hundred and forty, and to have applied to all

goods mentioned therein imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for consumption for which no entry for consumption was made before that day.

7. That any enactment founded on paragraph five of this resolution shall come into force on the first day of August, one thousand nine hundred and forty.

CUSTOMS TARIFF

1. Resolved, that schedule A to the customs tariff, being chapter forty-four of the revised statutes of Canada, 1927, as amended by chapter seventeen of the statutes of 1928, chapter thirty-nine of the statutes of 1929, chapter thirteen of the statutes of 1930 (first session), chapter three of the statutes of 1930 (second session), chapter thirty of the statutes of 1931, chapter forty-one of the statutes of 1932, chapters six and thirty-seven of the statutes of 1932-33, chapters thirty-two and forty-nine of the statutes of 1934, chapter twenty-eight of the statutes of 1935, chapter thirty-one of the statutes of 1936, chapter twenty-six of the statutes of 1937, chapter forty-one of the statutes of 1939 (first session) and chapter two of the statutes of 1939 (second session), be further amended by striking thereout tariff items 209b, 210, 210e, 281a, 281b, sub-division (a) of item 429, 440l, 440m, 440n, 445o, 445p, 505, 505b, 791 and 825, the several enumerations of goods respectively and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said schedule A:

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates: British Preferential Tariff	Present Rates: Intermediate Tariff	Present Rates: General Tariff
208x	Materials, including all parts, entering into the cost of cyanide of potassium and cyanide of sodium, when imported by manufacturers of cyanide of potassium and cyanide of sodium for use in their own factories.	Free	Free	Free	Various	Various	Various
					(subject to 99 p.c. drawback)		
209b	Nicotine; salts of nicotine; non-alcoholic preparations containing nicotine in a free or combined state, for dipping, spraying or fumigating, n.o.p.	Free	Free	10 p.c.	Free	Free	10 p.c.
210	Peroxide of soda; silicate of soda in crystals or in solution; bichromate of soda; sulphide of sodium; nitrite of soda; arseniate, binarseniate, chlorate, bisulphite and stannate of soda; prussiate of soda and sulphite of soda	Free	15 p.c.	20 p.c.	Free	15 p.c.	20 p.c.
210e	Nitrate of soda or cubic nitre	Free	Free	Free	{Free Free	Free 15 p.c.	Free 20 p.c.
281a	Fire brick, n.o.p., of a class or kind not made in Canada, for use exclusively in the construction or repair of a furnace, kiln, or other equipment of a manufacturing establishment	Free	Free	15 p.c.	Free	$12\frac{1}{2}$ p.c.	15 p.c.
					(In part subject to 99 p.c. drawback)		
281b	Fire brick, n.o.p.	5 p.c.	15 p.c.	$22\frac{1}{2}$ p.c.	$7\frac{1}{2}$ p.c.	20 p.c.	$22\frac{1}{2}$ p.c.
					(in part subject to 99 p.c. drawback.)		
429	Cutlery of iron or steel, plated or not:						
	(a) Knife blades or blanks, and table forks, of iron or steel, in the rough, not handled, ground nor otherwise manufactured; spoon blanks of iron or steel, in the flat, not further manufactured than stamped to shape; blanks, of iron or steel, for scissors and shears, in the rough, not ground nor otherwise manufactured	Free	$7\frac{1}{2}$ p.c.	10 p.c.	{Free $17\frac{1}{2}$ p.c.	$7\frac{1}{2}$ p.c. $27\frac{1}{2}$ p.c.	10 p.c. 30 p.c.
440l	Aircraft and complete parts thereof, n.o.p., not including engines, under regulations prescribed by the Minister	Free	25 p.c.	$27\frac{1}{2}$ p.c.	Free	25 p.c.	$27\frac{1}{2}$ p.c.
440m	(i) Unfinished parts of aircraft, n.o.p., not including parts of aircraft engines	Free	15 p.c.	$27\frac{1}{2}$ p.c.	{15 p.c. 10 p.c. 15 p.c. 20 p.c.	25 p.c. $27\frac{1}{2}$ p.c. 30 p.c. $27\frac{1}{2}$ p.c.	$27\frac{1}{2}$ p.c. 35 p.c. 30 p.c. 30 p.

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates: British Preferential Tariff	Present Rates: Intermediate Tariff	Present Rates: General Tariff
440m	(ii) Direct or inertia starters with or without related operating gear and parts thereof; generators; voltage control boxes; batteries; de-icing and anti-icing equipment and parts thereof, not including parts of rubber; vacuum pumps with related operating gear and parts thereof; landing and navigation lights; propellers; hydraulic jacks and pumps and parts thereof; aircraft wheels; aircraft brakes with related operating gear; aircraft tires and tubes; oil coolers; fuel pressure warning devices; exhaust gas analysers; pressure fire extinguishers; primer pumps; instruments excepting fuel contents gauges; bolts, nuts, cocks, turnbuckles, clevis and pins, swaged wires and tie rods; bars, tubes, extrusions and forgings of aluminum, aluminum alloys and magnesium alloys; steel tubing; all of the foregoing when of types and sizes not made in Canada and imported by manufacturers of aircraft for use exclusively in the manufacture in their own factories of the goods enumerated in tariff item 440l, under such regulations as the Minister may prescribe, provided that not less than sixty per centum of the factory cost of production of the aircraft is incurred in the British Empire.	Free	Free	27½ p.c.	Free	25 p.c.	27½ p.c.
440n	Engines, when imported for use only in the equipment of aircraft:	Free	25 p.c.	27½ p.c.	Free	25 p.c.	27½ p.c.
440o	(i) Carburettors, magnetos, distributors, coils and spark plugs and complete parts thereof; all of the foregoing when of a class or kind not made in Canada when imported for use in aircraft engines.	Free	Free	27½ p.c.	Free Free	25 p.c. 12½ p.c. (subject to drawback)	27½ p.c. 15 p.c.
	(ii) Parts, finished or not, n.o.p., for aircraft engines..	Free	7½ p.c.	27½ p.c.	Free Various	25 p.c. Various (subject to drawback)	27½ p.c. Various
445o	Acid-free capacitor tissue and paper, plain and gummed; metal cans, extruded, plated or unplated; automatic record changers; parts for pickups; bias cells and holders; frames, yokes, brackets, pole-pieces, gaskets and field covers, separate or assembled for use in speakers with mounting diameter not exceeding 6⅜ inches; cones, spiders, spider sus-						

	pensions, voice coils and voice coil dust covers, separate or assembled; magnetic structures and parts thereof for permanent magnet speakers; glass dial crystals and scales and metal dials or scales made by the silk-screen process; metal cabinet escutcheons without crystals, plain or finished; high frequency circuit switches and essential components thereof; high frequency iron cores with or without inserts moulded therein; motors and gears for automatic tuning; radio frequency ceramics; raw low loss mica; sheets and punchings of low loss mica; tube shields and parts thereof; vibrators; vulcanized fibre in sheets, rods, strips or tubing; high frequency coil forms and tubing having an outside diameter not exceeding one inch; for use in the manufacture or the repair of the goods enumerated in tariff items 445d, 597a, and other apparatus using radio tubes, or for use in the manufacture of parts therefor......	Free	Free	30 p.c.	{Free. {Free	Free 25 p.c.	30 p.c. 30 p.c.
445p	Ceramic parts; copper alloys for welding; getter and getter assemblies; glass parts; metal bulbs and shells and metal headers; mica parts; mica assemblies; wire snubbers, clips and straps; wire of molybdenum and molybdenum alloy; nickel and nickel alloy tubing, wire, ribbon, screen and strip, coated or not, carbonized or not; metal cathodes; nickel, nickel alloy and nickel plated parts, coated or not, carbonized or not; tungsten and tungsten alloy and zinc wire; leads, spuds and welds; iron parts designed for sealing to glass; hooks and supports; base pins; wire and strip of silver copper, chrome copper, chrome iron or plated iron; top cap assemblies; graphite anodes; heaters and filaments; all the foregoing when imported by manufacturers of radio tubes and parts therefor, for use exclusively in the manufacture of such articles, in their own factories......................................	Free	Free	30 p.c.	{Free {Free	Free 25 p.c.	30 p.c. 30 p.c.
505	Planks, boards, deals and other lumber of wood, not further manufactured than planed, dressed, jointed, tongued or grooved, n.o.p.........................	10 p.c.	10 p.c.	25 p.c.	{17½ p.c. {10 p.c.	22½ p.c. 10 p.c.	25 p.c. 20 p.c.
791	Materials of all kinds for use only in producing or manufacturing preparations provided for in tariff items 209b and 219a, under regulations prescribed by the Minister of National Revenue...............	Free	Free	Free	{Free {Various	Free Various	Free Various
825	Woven cord tire fabric, wholly or in chief part by weight of artificial silk or similar synthetic fibres, not to contain silk nor wool, coated with a rubber composition, when imported prior to July 1st, 1941, by manufacturers of rubber, to be incorporated by them in pneumatic tires, in their own factories......	Free	15 p.c.	25 p.c.	Free	15 p.c.	25 p.c.

2. Resolved, that schedule A to the Customs Tariff, as amended, be further amended by deleting from The Customs Tariff Amendment Act, 1939, being chapter two of the statutes of 1939 (second session), the following enumerations of goods and rates of additional duties of customs:

"Manufactured tobacco of all descriptions except cigars, cigarettes and snuff—5 cents per pound.

Cigarettes weighing not more than three pounds per thousand—$1 per thousand.

Tea, when the value for duty thereof under the provisions of the Customs Act:

(a) is less than 35 cents per pound—5 cents per pound.
(b) is 35 cents or more but less than 45 cents per pound—7½ cents per pound.
(c) is 45 cents or more per pound—10 cents per pound."

and by substituting therefor the following enumerations of goods and rates of additional duties of customs:

"Manufactured tobacco of all descriptions except cigars, cigarettes and snuff—15 cents per pound.

Cigarettes weighing not more than three pounds per thousand—$2 per thousand.

Tea, when the value for duty thereof under the provisions of the Customs Act:

(a) is less than 22½ cents per pound—5 cents per pound.
(b) is 22½ cents or more but less than 30 cents per pound—7½ cents per pound.
(c) is 30 cents or more per pound—10 cents per pound."

3. Resolved, that schedule B to the Customs Tariff be amended by striking thereout tariff items 1042, 1044 and 1063.

4. Resolved, that any enactment founded upon the foregoing resolutions to amend the Customs Tariff or schedules thereto shall be deemed to have come into force on the twenty-fifth day of June, nineteen hundred and forty, and to have applied to all goods mentioned in the foregoing resolutions imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

APPENDIX

TO

THE BUDGET, 1940-41

Budget Papers presented by the
Honourable J. L. Ralston, M.P., for the
information of Parliament on the occasion of the
Budget of 1940-41

A. Review of Government Accounts, 1939-40.

B. Review of Economic and Financial Conditions, 1939-40.

3804—6

DOMINION OF CANADA

A. GOVERNMENT ACCOUNTS, 1939-40

Comparative Summary Statement of Revenues and Expenditures

1. As the final figures for the fiscal year 1939-40 are not as yet available, all statements dealing with revenues, expenditures, investments and balance sheet items are estimated. It is expected that when the books of the year are finally closed, any variations from the figures shown herein will be of slight importance.

2. The following tables show, by main categories and in detail, revenues, expenditures and the increase in net debt for the fiscal year 1939-40, together with comparable figures for the four preceding fiscal years:

3804—6½

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
Tax Revenues—					
Customs import duties	74,004	83,771	93,456	78,751	104,301
Excise duties	44,410	45,957	52,037	51,314	61,032
War tax revenues—					
Banks	1,281	1,210	1,107	1,014	949
Insurance companies	761	775	867	891	926
Income tax	82,710	102,365	120,366	142,026	134,449
Sales tax	77,552	112,832	138,055	122,139	137,446
Manufacturers', importations, stamps, transportation taxes, etc	35,181	39,641	42,764	39,572	28,582
Tax on gold	1,413	—	—	—	—
Total revenue from taxes	317,312	386,551	448,652	435,707	467,685
Non-tax Revenues—					
Canada Grain Act	1,213	1,192	680	1,156	1,711
Canada Gazette	49	48	47	49	55
Canals	890	1,004	1,866	723	762
Casual	4,636	6,276	6,597	7,440	9,373
Chinese revenue	6	7	2	2	2
Electricity	542	646	692	726	715
Fines and forfeitures	295	134	209	211	88
Fisheries	42	56	60	52	54
Gas inspection	91	93	88	84	81
Insurance inspection	147	152	162	172	179
Interest on investments	10,614	11,231	13,120	13,163	13,394
Lands, Parks and Forests	458	478	541	681	677
Marine	222	263	336	377	349
Mariners' fund	187	205	206	211	278
Military college	20	20	20	20	14
Militia pensions revenue	178	187	194	209	233
Ordnance lands	16	15	16	20	18
Patent and copyright fees	455	464	452	442	416
Penitentiaries	68	62	63	82	137
Post Office	32,508	34,275	35,546	35,288	36,729
Premium, discount and exchange	36	—	27	478	7,940
Public Works	251	274	318	297	306
Radio Licences	1,574	(1) 990	—	—	—
R.C.M.P. officers' pensions	11	10	11	11	11
Weights and measures	401	396	393	416	411
Total non-tax revenue	54,910	58,478	61,646	62,310	73,933
Total ordinary revenues	372,222	445,029	510,298	498,017	541,618
Special Receipts—					
Sundry receipts	320	(2) 8,464	3,010	1,256	164
Other credits—					
Refunds on capital account	27	616	1,543	40	21
Credits to non-active accounts	27	45	819	2,858	20,292
Net credit resulting from various adjustments in Railway accounts authorized by Canadian National Railways Capital Revision Act, 1937	—	—	1,023	—	—
Total Special Receipts and Credits	374	9,125	6,395	4,154	20,477
Grand Total Revenue	372,596	454,154	516,693	502,171	562,095

(1) As from November 1936, radio licence fees have been deposited to credit of The Canadian Broadcasting Corporation.

(2) Includes $8,000,000 from Canadian Wheat Board taken into the accounts as an offset, in part, the disbursements in 1935-36 *re* losses on 1930 wheat pool and stabilization operations.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
ORDINARY EXPENDITURE					
Agriculture	9,399	8,741	9,017	9,527	11,817
Auditor General's Office	429	423	463	473	459
Civil Service Commission	259	305	358	370	398
External Affairs, including Office of Prime Minister	1,290	1,341	1,450	1,057	1,228
Finance—					
Interest on Public Debt	134,549	137,410	132,118	127,996	129,315
Cost of Loan Flotations and Annual Amortization of Bond Discounts and Commissions	3,577	3,839	4,555	4,914	4,992
Premium, Discount and Exchange (net)	—	400	—	—	—
Subsidies to Provinces	13,769	13,735	13,735	13,752	13,769
Special Grants to Provinces	3,975	3,225	7,475	7,475	5,475
Other Grants and Contributions	736	540	560	643	660
Civil Pensions and Superannuation	854	787	712	638	574
Government contribution to Superannuation Fund	1,875	2,019	2,065	2,220	2,271
Old Age Pensions, including pensions to blind persons commencing in 1937-38	16,764	21,149	28,653	29,044	29,977
General Expenditure	3,654	3,498	3,573	3,689	3,959
Fisheries	1,710	1,691	1,850	2,036	2,320
Governor General and Lieutenant Governors	219	224	225	226	227
Insurance	163	172	187	194	195
Justice	2,748	2,773	2,790	2,748	2,725
Penitentiaries	2,377	2,372	2,577	2,675	2,941
Labour	660	720	706	788	788
Technical Education	99	76	49	27	31
Government Annuities—					
Payments to maintain reserve	272	541	8,941	—	—
Legislation—					
House of Commons	1,486	1,760	1,516	1,800	1,286
Library of Parliament	76	75	79	72	76
Senate	491	587	536	600	432
General	55	73	57	75	68
Dominion Franchise Office	498	53	76	50	—
Chief Electoral Officer, including elections	1,089	72	45	114	458
Mines and Resources—					
Administration	—	—	(1) 1,491	(1) 184	(1) 180
Immigration and Colonization	1,322	1,313	1,163	1,335	1,338
Indian Affairs	4,869	4,904	4,897	5,305	5,579
Interior	2,930	2,887	—	—	—
Lands, Parks and Forests	—	—	1,910	2,249	2,117
Surveys and Engineering	—	—	933	1,325	1,406
Mines and Geological Survey	1,040	1,135	658	1,340	1,325
Movement of Coal and Subsidies under Domestic Fuel Act	2,103	2,277	2,521	1,921	4,532
National Defence—					
Administration	—	—	—	(2) 409	(1) 166
Militia Service	10,141	11,346	17,221	15,772	5,995
Naval Service	2,380	4,763	4,372	6,590	1,869
Air Service	3,777	5,822	10,018	11,216	4,852
Sundry Services	870	992	1,149	447	310
National Revenue (including Income Tax)	10,963	11,205	11,870	11,899	12,064
Pensions and National Health—					
Administration	—	—	—	(2) 118	(2) 126
Treatment and after-care of returned soldiers	11,060	11,579	12,109	13,453	14,778
Pensions, War and Military	42,790	42,801	42,240	42,181	42,217
Health Division	993	873	957	1,012	1,113

(1) Prior to 1937-38 general administration expenses were not segregated from other expenditures of the respective services of the departments which were amalgamated to form the Department of Mines and Resources. The figures from 1938-39 represent only Departmental Administration, other administration costs being included as in other departments, under the respective services.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—Continued

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
ORDINARY EXPENDITURE—*Concluded*					
Post Office	31,438	31,906	33,762	35,456	36,727
Privy Council	46	45	48	49	59
Public Archives	165	160	170	159	149
Public Printing and Stationery	169	169	161	191	199
Public Works	12,945	14,519	12,382	15,484	13,066
Royal Canadian Mounted Police	6,165	5,901	6,308	6,145	5,667
Secretary of State	705	655	693	730	836
Soldier Settlement	762	806	801	758	621
Trade and Commerce	3,458	5,523	4,070	4,763	4,950
Canada Grain Act	1,848	1,739	1,675	1,847	1,983
Mail Subsidies and Steamship Subventions	2,426	2,120	2,029	1,993	1,907
Transport—					
Administration	—	—	[2] 417	[2] 371	[2] 364
Air Service	—	—	[3] 2,935	[3] 3,457	[3] 3,862
Marine Service	5,857	5,614	4,290	4,271	4,215
Canadian Radio Commission	1,500	878	—	—	—
Canadian Travel Bureau	248	250	250	249	312
Railways and Canals	4,002	3,769	3,661	4,371	3,756
Maritime Freight Rates Act	2,348	2,506	3,183	2,583	2,660
Railway Grade Crossing Fund	128	54	180	187	255
Total ordinary expenditure	372,539	387,112	414,892	413,032	397,996
CAPITAL EXPENDITURE					
Canals	458	52	—	—	—
Railways	287	203	71	26	23
Public Works	5,799	3,237	4,359	5,398	7,006
Total capital expenditure	6,544	3,492	4,430	5,424	7,029
SPECIAL EXPENDITURE					
Unemployment Relief Act, 1930	26	—	—	—	—
Unemployment Relief Act, 1931	26	—	—	—	—
Unemployment Relief Act, 1932	111	—	—	—	—
Unemployment Relief Act, 1933	494	—	—	—	—
Unemployment Relief Act, 1934	1,152	—	—	—	—
Unemployment Relief Act, 1935	48,027	—	—	—	—
Administration—Relief Acts	—	194	378	260	287
Grants-in-aid to Provinces	—	28,930	19,493	17,037	—
Material Aid to Provinces, including municipal improvements projects	—	—	—	—	19,534
Dominion share of joint Dominion-Provincial projects	—	12,692	8,841	6,259	7,147
Dominion Projects	—	23,554	13,913	12,981	24,919
Transportation facilities into mining areas	—	1,221	1,324	1,213	1,121
Railway Maintenance Relief Work	—	2,662	—	—	—
	49,836	69,253	43,949	37,750	53,008
Western Drought Area Relief—					
Direct Relief	—	5,144	11,925	8,869	1,605
Feed and fodder and freight thereon	—	3,517	11,352		
Freight charges on movement of cattle	—	90	—	—	—
Expenses of marketing cattle	—	—	337	—	—
Purchase and distribution of food stuffs	—	—	972	277	—
Prairie Farm Assistance Act, 1939—Net Expenditure	—	—	—	—	7,500
	—	8,751	24,586	9,146	9,105

([2]) Prior to 1937-38 in the case of the Department of Transport and prior to 1938-39 in the case of National Defence and Pensions and National Health general administration expenses were not segregated from other expenditure of the respective services of the departments.

([3]) Prior to 1937-38 expenditures on civil aviation, now the Air Service Branch of the Department of Transport, were included under expenditures for the Air Service Branch of the Department of National Defence.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—Continued

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
SPECIAL EXPENDITURE—*Concluded*					
Public Works Construction Acts	29,581	—	—	—	—
1930 Wheat Crop Equalization Payments Act	6,600	—	—	—	—
Loss on 1930 Wheat Pool and stabilization operations—					
Payment to Canadian Wheat Board of net liability assumed as at Dec. 2, 1935	15,856	—	—	—	—
Loss on 1930 oats pool under guarantee of bank advances to Canadian Co-operative Wheat Producers, Limited	174	—	—	—	—
Provision for reserve against estimated losses on 1938 wheat marketing guarantees	—	—	—	25,000	27,000
	52,211	—	—	25,000	27,000
War Expenditure	—	—	—	—	118,340
Total special expenditure	102,047	78,004	68,535	71,896	207,453
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Fund—					
Canadian National Railway System, ex-eastern lines	41,796	37,449	37,882	48,194	34,851
Eastern Lines	5,625	5,854	4,464	6,120	5,245
Prince Edward Island Car Ferry and Terminals	—	—	—	(1) 388	427
Canadian National Steamships	270	—	—	—	—
National Harbours Board	1,126	250	289	138	94
Trans-Canada Air Lines	—	—	111	818	412
Central Mortgage Bank	—	—	—	—	16
Total charged to consolidated fund	48,817	43,553	42,746	55,658	41,045
Loans and advances non-active—					
Canadian National Steamships	(Cr.) 333	(Cr.) 1,754	104	6	8
National Harbours Board	2,456	2,419	1,983	3,279	1,027
Total non-active advances	2,123	665	2,087	3,285	1,035
Total government-owned enterprises	50,940	44,218	44,833	58,943	42,080
OTHER CHARGES					
Write-down of assets chargeable to Consolidated Fund—					
Drought Area Relief Loans, 1934-35—Province of Saskatchewan	—	—	—	—	1,374
Reduction in soldier and general land settlement loans	488	628	750	1,023	1,643
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources	27	44	14	18	10
Canadian National Railways Securities Trust Stock—Reduction due to line abandonments during calendar years 1938 and 1939	—	—	(2) —	2,713	2,600
Cancellation of Canadian Farm Loan Board—Capital Stock	—	20	10	14	11
Province of Manitoba Treasury Bills	—	—	(4) 805	—	—
Province of Saskatchewan Treasury Bills	—	—	—	—	(4) 17,682

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—Concluded

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
Non-active Accounts—					
General Land Settlement Loans.......	—	—	139	—	—
Active assets transferred to non-active.	—	(3) 18,487	—	—	—
Fulfilment of guarantees—					
The Saskatchewan Seed Grain Loans Guarantee Act, 1936..............	—	—	—	—	2,638
Total other charges............	515	19,179	1,718	3,768	25,958
Grand total expenditures........	532,585	532,005	534,408	553,063	680,516

(1) Included with Eastern lines in previous years.

(2) An amount of $711,000 representing line abandonments during the calendar year 1937 was included in the adjustments resulting from the Canadian National Railways Capital Revision Act, 1937.

(3) Dominion contribution to Voluntary Debt Adjustment Program effected in Provinces of Manitoba and Saskatchewan respecting Drought Area Relief that was financed by the Dominion up to January 1, 1935—Manitoba $805,000, Saskatchewan $17,682,000.

(4) These amounts are offset by a contra account on the revenue side.

SUMMARY OF REVENUES AND EXPENDITURES

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
Ordinary expenditures....................	372,539	387,112	414,892	413,032	397,996
Ordinary revenues......................	372,222	445,029	510,298	498,017	541,618
Deficit (−) or surplus (+) on ordinary account..............................	−317	+57,917	+95,406	+84,985	+143,622
Special expenditures.....................	102,047	78,004	68,535	71,896	207,453
Less special receipts................	320	8,464	3,010	1,256	164
Balance.............................	101,727	69,540	65,525	70,640	207,289
Add—Capital expenditures..............	6,544	3,492	4,430	5,424	7,029
" Government owned Enterprises...	50,940	44,218	44,833	58,943	42,080
" Other charges...................	515	19,179	1,718	3,768	25,958
	159,726	136,429	116,506	138,775	282,356
Less other credits..................	54	661	3,385	2,898	20,313
	159,672	135,768	113,121	135,877	262,043
Add deficit or deduct surplus as above..	317	57,917	95,406	84,985	143,622
Over-all deficit or increase of direct net debt................................	159,989	77,851	17,715	50,892	118,421

REVENUES, 1939–40

3. The total revenues of the Dominion from taxation and other sources, not including $20,292,000 of credits to non-active account which necessarily appears also on the expenditure statement, aggregated $541,803,000. This represents an increase of $26,952,000 or 5·2% over the previous all-time record revenue received in the fiscal year 1937–38. Compared with last fiscal year, 1938–39, the increase was $42,490,000, or 8·5%.

4. Total revenue from taxation amounted to $467,685,000, an increase of $31,978,000 over that collected in the previous year. With the exception of (1) income tax, and (2) manufacturers', importations, stamps, transportation taxes, etc., the main sources of taxation recorded substantial increases over last fiscal year. These increases arose out of taxation changes effected by the emergency budget of September 12, 1939 and improvement of business conditions generally.

5. The sales tax replaced income tax as the largest single revenue producer. Receipts from this tax totalled $137,446,000, an increase of $15,307,000 over 1938–39. This increase was due in part to improvement in general business activity and in part to the removal from the schedule of exemptions of electricity and gas used for domestic purposes, salted or smoked meats and canned fish, as provided for in the budget of September 12, 1939.

6. Income tax receipts totalled $134,449,000, a decline of $7,577,000 from that collected in the previous year. This decline was principally in the collections of the tax on corporation incomes based on 1938 earnings. Of the receipts, $77,920,000 was from the tax on corporation incomes; $45,407,000 from the tax on individual incomes; and $11,122,000 from the 5% tax collected at the source on interest and dividends.

7. Other excise taxes including the stamp tax on cheques, etc., and the taxes on sugar, automobiles and rubber tires, matches, toilet preparations, pullman tickets, telegraph and telephone messages and other miscellaneous commodities realized $28,582,000, a decrease of $10,990,000 from the previous year. The removal of the 3% tax on importations under the intermediate tariff resulted in a loss in revenue from this source of $13,612,000. The difference, namely $2,622,000, represents the net increase in other items of excise taxes.

8. Receipts from excise duties, mainly on liquor and tobacco totalled $61,032,000, an increase of $9,718,000. This increase was due largely to the increased duties on liquor and tobacco following the budget of September 12, 1939.

9. The greatest increase in revenues from any one source occurred in customs import duties, where a total of $104,301,000 was realized, compared with $78,751,000 for the previous fiscal year, an increase of $25,550,000 or 32·4%. Of this increase it is estimated that approximately $6,600,000 was obtained from the tariff increases provided for in the September, 1939, budget. The balance of the increase reflects improvement in conditions generally, due in part at least to expanding activity brought about by the war.

10. Non-tax revenues or revenues from services rendered by the various departments and interest on investments, totalled $73,933,000 compared with $62,310,000 in the previous year. The largest non-tax item is the receipts of the Post Office which totalled $36,729,000 during 1939–40, an increase of $1,441,000 over the preceding fiscal year. The cost of operations of the Post Office last year was practically the same as its receipts, there being a nominal surplus of $2,000. Last fiscal year there was a nominal deficit of $168,000. The Post Office accounts do not include the rental value and other costs of premises occupied and equipment used, nor do they include any credit to the Post Office for services rendered to other departments through the free use of the mails.

The second largest non-tax revenue item is Interest on Investments which totalled $13,394,000, an increase of $231,000 over that received in the previous year.

Casual Revenue including mint handling charges and net profits on coinage, Dominion's share of surplus profits of the Bank of Canada, receipts from various provinces for services rendered by the Royal Canadian Mounted Police and other miscellaneous items totalled $9,373,000.

The large amount shown as Premium, Discount and Exchange revenue is due mainly to the redemption of the $3\frac{1}{2}\%$ 1930-50 loan of £28,162,776, which was called for payment and paid at the current rate of sterling.

11. Special Receipts and other credits amounted to $20,477,000. The main item in this category is the credit of $20,292,000 made up of $17,682,000 of Province of Saskatchewan treasury bills written off from non-active account; $2,600,000 of Canadian National Railways Securities Trust Stock written off because of line abandonments during the calendar year 1939; and $10,000 representing the yearly established losses in the seed grain and relief accounts of the Department of Mines and Resources. All of these amounts necessarily appear on the expenditure statement under the heading of "Other Charges".

EXPENDITURES, 1939-40

12. The comments which follow will deal with expenditures classified by the usual main categories: Ordinary Expenditures, Capital Expenditures, Special Expenditures (including relief and war), Operating Deficits of and Non-active Advances to Government Owned Enterprises, and Other Charges. All disbursements under these categories are included as expenditure in arriving at the over-all deficit or increase in net debt.

Ordinary Expenditures

13. Ordinary expenditures, which include interest on the public debt and the general administrative expenses of the Government totalled $397,996,000, a decrease of $15,036,000 from the previous fiscal year.

The largest decrease in ordinary expenditures is in the Department of National Defence where by reason of the war a change in policy was instituted as from September 1, 1939 which involved the charging of certain expenditures of this department to War Expenditures. These are included in the totals shown under section 15. Certain Defence Expenditures, totalling $3,770,000, originally set up as Capital have been charged to Ordinary Account pursuant to Item 205 of the Main Estimates, 1940-41. Ordinary expenditures of the Public Works Department decreased approximately $2,400,000 and special grants to provinces were reduced by $2,000,000.

There were no very large increases in the ordinary expenditures of any particular department. Expenditures of the Department of Agriculture increased by $2,290,000. Interest on public debt was up by $1,319,000. The Dominion's share of Old Age Pensions, including pensions to blind persons was $933,000 higher than last fiscal year. Payments in connection with the movement of coal under the Department of Mines and Resources increased by $2,611,000. The only other increase of any considerable amount was for the treatment and after-care of returned soldiers which increased by $1,325,000.

Capital Expenditures

14. Total expenditures charged to capital amounted to $7,029,000 compared with $5,424,000 in the previous year. The main items in this category are expenditures arising out of dredging the St. Lawrence Ship Channel and the construction and improvements of airways and airports.

Special Expenditures

War Expenditures—

15. Expenditures arising out of the War are treated as special expenditures. The amount actually expended and charged to the fiscal year 1939–40 was $118,340,000 divided by departments and services as follows:—

Agriculture—		
Purchase of Apples	$ 1,302,000	
Purchase of Fibre Flax Seed	1,000	
Program to encourage production of essential agricultural war supplies	39,000	
Sundry	35,000	
		$ 1,377,000
Auditor General's Office—		
Audit of War Expenditure		8,000
Civil Service Commission—		
Additional War Expenses		6,000
External Affairs—		
Establishment of new offices abroad	47,000	
Sundry	29,000	
		76,000
Finance—		
Comptroller of the Treasury—		
Dependents' Allowance Office and Outside Establishments	358,000	
War Supply Board Administration	215,000	573,000
Justice—		
Prize Court	1,000	
Defence of Canada regulations	13,000	
		14,000
Labour—		
Wartime Prices and Trade Board		55,000
Mines and Resources—		
Repatriation of distressed Canadians abroad		18,000
National Defence—		
Administration	504,000	
Military Services	67,323,000	
Censoring	99,000	
Internment	274,000	
Naval Services	11,351,000	
Air Services	28,554,000	
British Commonwealth Air Training Plan	4,257,000	
		112,362,000
National Harbours Board—		
St. John—Dredging—Courtenay Bay		70,000
National Research Council—		
Scientific and Technical Work		121,000
National Revenue—		
Censorship of Publications		2,000

War Expenditures—Concluded

Pensions and National Health—		
Hospitalization Expenses—		
C.A.S.F.	778,000	
R.C.M.P.	49,000	
Air Raid Precautions	56,000	
Sundry	17,000	
		900,000
Post Office—		
Censorship Co-ordination Committee (Postal Censorship)		70,000
Privy Council—		
Censorship Co-ordination Committee	5,000	
Sub-Committee of the Cabinet on Public Information	25,000	
		30,000
Public Works—		
New Office building in Ottawa	137,000	
Furniture, etc., for new employees	263,000	
Alterations to buildings	203,000	
Rental of new premises	87,000	
Construction, repairs and improvements to drydocks and dockyards	68,000	
Halifax barracks and torpedo building	60,000	
Sundries	11,000	
		829,000
Royal Canadian Mounted Police—		
Increase in strength		1,400,000
Secretary of State—		
Censorship Co-Ordination Committee (Press Censorship Division)	30,000	
Internment Operations	15,000	
Public Information Office	22,000	
Sundries	8,000	
		75,000
Trade and Commerce—		
Expenses *re* Canadian Shipping Board		4,000
Transport—		
Airport and airway facilities and aerodrome sites	138,000	
Meteorological services—wartime	25,000	
Radio services—wartime	71,000	
Canals services—canals protection and special pilotage	18,000	
Marine services—increased services of Marine Service Fleet, and replacing of buoys	75,000	
Sundries	23,000	
		350,000
TOTAL		$118,340,000

Relief Expenditures—

16. Special expenditures for the alleviation of unemployment conditions and of agricultural distress amounted in 1939–40 to $62,113,000 compared with $46,896,000 in the previous year. Payments to provinces under the Material Aid and Municipal Improvements Projects agreements amounted to $19,534,000 compared with Grants-in-aid to provinces the previous year of $17,037,000. The Dominion's share of joint Dominion-Provincial projects, including transportation facilities into mining areas and the development of tourist highways, increased from $7,472,000 to $8,268,000. The total cost of public works and other projects including administration for which the Dominion assumed sole responsibility amounted to $25,206,000 as compared with $13,241,000 during the preceding year.

Special drought area relief in the Province of Saskatchewan was confined to the earlier months of the fiscal year, and consequently expenditures under this heading declined from $9,146,000 in 1938-39 to $1,605,000 in 1939-40. However, as an offset to this reduction, there was an expenditure during 1939-40 of $7,500,000 under the Prairie Farm Assistance Act, 1939, representing the net cost to the Dominion in connection with the acreage bonuses paid to farmers under the Act.

The following table compares relief expenditures during each of the last two fiscal years:

	1938-39	1939-40
Material Aid to Provinces	$ 17,037,000	$ 18,291,000
Dominion's share, Municipal Improvements projects		1,243,000
Dominion's share of joint Dominion-Provincial projects	7,472,000	8,268,000
Dominion Projects—		
Department of Agriculture	3,338,000	3,620,000
" Fisheries	533,000	232,000
" Mines & Resources	1,672,000	2,752,000
" National Defence	369,000	137,000
" Public Works	5,780,000	13,338,000
" Transport	1,076,000	4,296,000
Sundry Departments	473,000	831,000
Western Drought Area Relief—		
Direct Relief and Agricultural Relief	8,869,000	1,605,000
Foodstuffs	277,000	....
Prairie Farm Assistance Act Net Payments		7,500,000
	$ 46,896,000	$ 62,113,000

17. The following table shows the Dominion's relief expenditures of a direct nature since the passing of the first Relief Act in 1930:

(000 omitted)

—	Direct Relief including Grants-in-Aid	Joint Dominion-Provincial Works and Projects	Dominion Works and Projects	Western Drought Area Relief	Write-off of Provincial Loans	Miscellaneous Relief Expenditures	Total
	$	$	$	$	$	$	$
Period Sept. 22/30 to Mar. 31, 1935	77,767	40,643	29,977	(1) 15,088	....	3,532	176,007
Year ended Mar. 31/36	26,570	10,408	38,132	(2) 4,000	....	306	79,416
Year ended Mar. 31/37	28,931	12,472	27,585	8,751	(3) 18.487	265	96.491
Year ended Mar. 31/38	19,530	10,105	13.847	24,586	....	407	68.535
Year ended Mar. 31/39	17.070	7,472	12,919	9,146	....	288	46.895
Year ended Mar. 31/40 (estimated)	19.534	8,268	24.919	(4) 9,105	(5) 1,374	287	63,487
Total	189,402	98.428	147,379	70,676	19,861	5,085	530,831

(1) Includes $5,000,000 Province of Saskatchewan Treasury Bills written off and charged to expenditure.
(2) Represents Province of Saskatchewan Treasury Bills written off and charged to expenditure.
(3) Written down to non-active assets as of March 31, 1937, and written off during 1939–40.
(4) Includes net cost to the Dominion under the Prairie Farm Assistance Act 1939, $7,500,000.
(5) Write off of Saskatchewan Treasury Bills re 1934–35 Drought Area Relief.

In the above table no account is taken of loans to Western Provinces under Relief Acts, loans to cover labour cost of special railway works programs and losses borne by the Dominion as a result of wheat marketing operations.

18. The last item in this classification covers losses arising from the Dominion's guarantee of a price of 80 cents per bushel, basis No. 1 Northern, Fort William, for the Western Wheat Crop of 1938. At the close of the fiscal year under review there remained unsold a small quantity of wheat of the 1938 crop and accordingly the losses of the Canadian Wheat Board in respect of the marketing of that crop were not finally determined. It was clear, however, that these losses would amount to at least $52,000,000. An advance of this amount without interest was made on account to the Board to enable it to pay off guaranteed bank advances. During 1938-39 a reserve of $25,000,000 had been set up as a reserve in the accounts in respect of possible losses in marketing this wheat and the difference between the total advance of $52,000,000 and this reserve, namely, $27,000,000 has been charged to the Dominion's accounts in 1939-40.

Government Owned Enterprises

19. The next major classification of expenditures comprises the losses of, and non-active advances to, Government owned enterprises which are operated as separate corporations.

Canadian National Railways

20. The operating revenues of the Canadian National Railways for the calendar year 1939 amounted to $203,820,000, an increase of $21,578,000 or 11·8% from the preceding year. All classifications of revenue tonnage, except forest products, showed substantial increases over 1938.

Operating expenses of the Railways totalled $182,966,000 an increase of $6,790,000 or 3·8% over 1938. Most of this increase was in maintenance and transportation expenses necessitated by the increase in traffic.

The net revenue available for interest on the railway's debt was $10,635,000 compared with a deficit before interest charges of $3,549,000 in 1938. After payment of interest charges of $49,814,000 due to the public and interest charges of $916,000 due to the Government in respect of temporary loans for capital purposes, there was a net cash deficit of $40,096,000 compared with $54,314,000 in the previous year, a decrease of $14,218,000.

The operating deficit of the Prince Edward Island Car Ferry and Terminals during 1939 was $427,000 as compared with $388,000 in 1938.

National Harbours Board

21. The operations of the harbours and facilities under the administration of the National Harbours Board in 1939 recorded a small gain over 1938. Operating income for the calendar year after payment of interest to the public but before depreciation and interest on Government advances, totalled $3,723,000 compared with $3,640,000 in the previous year.

Financial assistance provided by the Government to the National Harbours Board and charged to Dominion expenditure in the fiscal year ended March 31, 1940, amounted to $1,121,000. This amount was made up as follows: $94,000 for the operating deficits of the harbours at Quebec and Churchill; $377,000 for non-active advances for the deficit of the Jacques Cartier Bridge at Montreal; $7,000 for retirement of debentures of the Saint John Harbour Commission and $643,000 for capital expenditures at Halifax, Saint John, Quebec, Chicoutimi and Three Rivers.

The elevators at Port Colborne and Prescott operated at a profit during 1939 and the Government received $325,000 from these sources which was credited to Casual Revenue.

Canadian National Steamships

22. Total earnings, especially passenger revenue, of the Canadian National (West Indies) Steamships Limited were seriously affected after the outbreak of war. The 1939 operations of the Company resulted in a surplus of $154,000 after payment of interest on bonds held by the public but before depreciation and interest on advances from the Government. The comparable figure for 1938 was $276,000. The 1939 operating surplus was paid to the Government in partial payment of interest. An advance of $8,000 was made to the Company for capital improvements of vessels under its control.

Trans-Canada Air Lines

23. The operations of the Trans-Canada Air Lines expanded greatly during the calendar year 1939. Operating revenue increased from $591,000 to $2,350,000. The annual deficit after payment of interest on capital and depreciation decreased from $818,000 in 1938 to $412,000 in 1939.

Central Mortgage Bank

24. The operations of the Central Mortgage Bank for the period July 14 to December 31, 1939, resulted in an operating deficit of $16,000 which was paid by the Dominion Government. Further information as to this Bank will be found under Loans and Investments.

Summary

25. The total amount charged to Government expenditures resulting from operating deficits and non-active advances to all government owned enterprises totalled $42,080,000 as compared with $58,943,000 in the fiscal year ended March 31, 1939. The decrease of $16,863,000 was mainly due to the reduction of the deficit of the Canadian National Railways. Loans and Advances to Government Owned Enterprises which are treated in the Public Accounts as Active Assets are referred to in a later section.

OTHER CHARGES

26. Other Charges, the final main category of expenditures, amounted to $25,958,000. The principal item included in this total was the write-off of Saskatchewan treasury bills from non-active assets to Consolidated Fund amounting to $17,682,000. Other items similarly dealt with were reduction of Canadian National Railways Securities Trust Stock of $2,600,000 representing line abandonments during the calendar year 1939 and the yearly established losses in seed grain and relief accounts of the Department of Mines and Resources amounting to $10,000. The total of these three items, namely, $20,292,000, is offset by a similar amount of Other Credits already referred to under Revenues.

The annual write-off of Soldier and General Land Settlement Loans amounted to $1,643,000. Capital Stock of the Canadian Farm Loan Board in the amount of $11,000 was cancelled. An amount of $1,374,000 of Saskatchewan Treasury Bills was written-off as a final adjustment with respect to drought area relief assumed by the Dominion for the period September 1, 1934, to August 31, 1935.

Pursuant to the Saskatchewan Seed Grain Loans Guarantee Act, 1936, the Dominion was required to fulfil its guarantee with respect to bank loans to municipalities to the extent of $2,638,000.

SUMMARY OF EXPENDITURES

27. The grand total of the preceding expenditures, i.e., Ordinary, Capital, Special including War, Government Owned Enterprises, and Other Charges, is $680,516,000 for the fiscal year 1939–40.

28. The following table shows the percentage distribution of revenues and expenditures for a number of important items of revenue and expenditure. Receipts from various taxes and other revenue sources are shown as percentages both of total revenues and of total expenditures. Similarly, several of the main items of expenditure or groups of such items are shown as percentages both of total expenditures and of total revenues. This table should only be used for the purpose of drawing broad conclusions as to the relative burdens imposed on the treasury by the several important services or obligations of Government.

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1939-40

(000 omitted)

Revenues	Amount (estimated)	Percentage of total Revenues	Percentage to total Expenditure
	$	%	%
Ordinary Revenue—			
Income Tax	134,449	23·92	19·76
Customs Import Duties	104,301	18·56	15·33
Excise Duties	61,032	10·86	8·97
Sales Tax	137,446	24·45	20·20
Manufacturers', importation, stamp taxes, etc	28,582	5·09	4·20
Other tax revenues	1,875	0·33	0·27
Total Revenue from Taxes	467,685	83·21	68·73
Non-tax Revenues	73,933	13·15	10·86
Total Ordinary Revenue	541,618	96·36	79·59
Special Receipts and Credits	164	0·03	0·02
Other Receipts and Credits—			
Refunds of capital expenditures and credits on non-active accounts	20,313	3·61	2·99
Grand Total Revenues	562,095	100·00	82·60

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1939-40—Concluded

(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expenditure	Percentage to total Revenue
	$	%	%
Ordinary Expenditure—			
Interest on public debt	129,315	19·00	23·01
Cost of loan flotations and amortization charges	4,992	0·73	0·89
Public Debt Charges	134,307	19·73	23·90
Subsidies and special grants to Provinces	19,244	2·83	3·42
Old Age Pensions	29,977	4·40	5·33
Civil pensions and superannuation	574	0·08	0·10
Pensions and after-care of soldiers—			
Pensions, war and military	42,217	6·20	7·51
Treatment and after-care of returned soldiers	14,778	2·17	2·63
Total	56,995	8·37	10·14
Agriculture	11,817	1·74	2·10
Fisheries	2,320	0·34	0·41
Legislation	2,320	0·34	0·41
Mines and Resources	16,477	2·42	2·93
National Defence	13,192	1·94	2·35
Post Office	36,727	5·40	6·54
Public Works	13,066	1·92	2·33
Transport	15,424	2·27	2·75
All other	45,556	6·70	8·10
Total Ordinary Expenditure	397,996	58·48	70·81
Capital Expenditure—			
Railways	23	—	—
Public Works	7,006	1·03	1·25
Total Capital Expenditure	7,029	1·03	1·25
Special Expenditure—			
Reserve for losses on wheat	27,000	3·97	4·80
Material aid to Provinces, including improvements projects	19,534	2·87	3·48
Dominion projects	24,919	3·66	4·43
Western Drought Area Relief	9,105	1·34	1·62
Miscellaneous relief	8,555	1·26	1·52
War expenditure	118,340	17·39	21·06
Total Special Expenditure	207,453	30·49	36·91
Government Owned Enterprises—			
Losses charged to Consolidated Fund—			
Canadian National Railways	40,523	5·95	7·21
National Harbours Board, Trans-Canada Air Lines and Central Mortgage Bank	522	0·08	0·09
Loans and Advances Non-Active—			
Canadian National Steamships and National Harbours Board	1,035	0·15	0·18
Total Government Owned Enterprises	42,080	6·18	7·48
Other Charges—			
Write-down of assets	23,320	3·43	4·15
Fulfilment of guarantees—Saskatchewan Seed Grain Loans Guarantee Act, 1936	2,638	0·39	0·47
Total Other Charges	25,958	3·82	4·62
Grand Total Expenditures	680,516	100·00	121·07

OVER-ALL DEFICIT

29. Total revenues for 1939-40 amounted to $562,095,000, and total expenditures to $680,516,000, resulting in an over-all deficit of $118,421,000. In the preceding fiscal year, the comparable deficit was $50,892,000.

LOANS AND INVESTMENTS

Active Assets

30. In addition to the expenditures for the year, as already outlined, the Dominion has made disbursements for the acquisition of investments which are considered as active assets in the Public Accounts. These active assets are deducted from the total direct debt in arriving at the figure of net debt. During the fiscal year 1939-40, the net increase in active loans and investments was $46,017,000 as compared with $27,557,000 in 1938-39.

Loans to Provinces

31. Under authority of the annual Relief Acts, 1931 to 1935, inclusive, the Dominion had power to grant financial assistance to a provincial government by way of loan, advance or guarantee without limitation as to purpose or amount. Up to the close of the fiscal year 1935-36, loans had been granted to the four Western Provinces for purposes other than relief including the retirement of maturing provincial obligations, and, to a limited extent, ordinary provincial government expenditures. Since April 1, 1936, the Dominion's lending power has been limited to the making of loans only where necessary to enable a province to pay its share of expenditures pursuant to agreements with the Dominion entered into under authority of the relative Relief Act.

32. The total amount of loans advanced during the fiscal year 1939-40 was $12,191,966, divided as follows:—

Manitoba	$ 2,012,000
Saskatchewan	8,633,414
British Columbia	1,546,552

In addition the Dominion accepted Saskatchewan Treasury Bills to the net amount of $1,614,335 in respect of certain interest accruals on previous relief loans which the Province was unable to pay in cash.

33. During the year repayments of loans were made to the amount of $1,240,273 as follows:

Manitoba	$ 129,507
Saskatchewan	1,057,068
Alberta	53,698

34. The following tables show the net loans made to each province during each fiscal year and a classification of such loans on the basis of the general purposes for which the loans were given:—

NET LOANS TO PROVINCES UNDER RELIEF ACTS BY FISCAL YEARS

—	Manitoba	Saskatchewan	Alberta	British Columbia	Total
	$	$	$	$	$
1931-32	2,788,812	10,934,341	4,097,740	4,813,124	22,634,017
1932-33	5,171,904	7,578,556	1,902,041	912,636	15,565,137
1933-34	2,273,283	5,469,240	4,050,743	1,321,761	13,115,027
1934-35	2,874,631	10,141,014	1,926,476	7,966,714	22,908,835
1935-36	2,396,226	14,245,478	13,104,000	12,558,445	42,304,149
1936-37	4,626,000	6,058,879	805,198	3,972,400	15,462,477
1937-38	2,959,188	11,604,787	193,000	1,541,636	16,298,611
1938-39	1,405,499	13,708,847	—	−129,506	14,984,840
1939-40	1,882,493	9,190,681	−53,698	1,546,552	12,566,028
	26,378,036	88,931,823	26,025,500	34,503,762	175,839,121
Less Write-off as provided by votes 392 and 393 of further supplementary estimates, 1936-37	804,897	17,682,158	—	—	18,487,055
Less Write-off Sask. Treas. Bills *re* 1934-35 Drought Area relief assumed by Dominion. (Principal $1,250,000; Accrued int. previous yrs. $123,979.81)	—	1,373,980	—	—	1,373,980
	25,573,139	69,875,685	26,025,500	34,503,762	155,978,086

NET LOANS TO PROVINCES UNDER RELIEF ACTS CLASSIFIED AS TO PURPOSE

—	Loans Specifically to meet Maturing Obligations and Interest	Loans Specifically for Agricultural Relief, Including Purchase of Seed Grain	Loans for Provincial Purposes Generally Including Direct Relief and Public Works	Total
	$	$	$	$
Manitoba	1,139,455	234,819	25,003,762	26,378,036
Saskatchewan	3,934,341	15,509,871	69,487,611	88,931,823
Alberta	8,577,000	3,149,050	14,299,450	26,025,500
British Columbia	9,818,845	—	24,684,917	34,503,762
	23,469,641	18,893,740	133,475,740	175,839,121
Less write-offs as shown in the preceding table; Manitoba $804,897; Saskatchewan $19,056,138				19,861,035
				155,978,086

Canadian National Railways

35. In addition to paying the net income deficit of the Canadian National Railways, the Dominion made advances to the Railway for capital purposes amounting to $22,979,000, classified as follows:

Under Canadian National Railways Financing and Guarantee Act, 1939 (capital expenditures and retirement of miscellaneous obligations)	$12,443,000
Under Canadian National Railways Refunding Act, 1938	9,761,000
Construction of Senneterre-Rouyn Branch Line	325,000
Purchase of Trans-Canada Air Lines Capital Stock	450,000
	$22,979,000

A loan of $1,500,000 made in the fiscal year 1938-39 in anticipation of the passing of the 1939 budget of the Railway Company was repaid in the fiscal year ended March 31, 1940.

The Dominion purchased under authority of the War Measures Act and the War Appropriation Act appoximately $15,000,000 of railway equipment for the Canadian National Railways. As of the close of the fiscal year, equipment to the amount of $6,189,000 had been paid for and delivered. This equipment is being leased to the Railway Company under a hire-purchase agreement extending over a period of fifteen years.

The Railway Company paid the second instalment of $517,000 under the terms of a hire-purchase agreement relating to certain equipment purchased by the Government in 1935-36 and 1936-37 at a cost of $6,723,000 and leased to the Railway.

Other Loans and Investments

36. During the fiscal year the Government purchased a further $188,000 of the capital stock of the Canadian Farm Loan Board and an additional $2,100,000 of the Board's 3½% bonds. Capital stock in the amount of $11,000 was cancelled and written off. As at March 31, 1940, the total investment in the Canadian Farm Loan Board was $36,695,000.

37. In the fiscal year under review, 4,936 loans were approved under the National Housing Act in the amount of $21,924,000, bringing the total to March 31, 1940, to $52,553,000. During the year, the Dominion's share of loans actually paid out, less repayments by borrowers, was $4,393,000. The net amount of loans outstanding at the close of the fiscal year made under the authority of the National Housing Act and the Dominion Housing Act was $9,805,000. Loans under the National Housing Act are made jointly by the Government and approved lending institutions and are secured by first mortgage or hypothec, running jointly to the Government and an approved lending institution. Loans are normally made not in excess of 80% of the cost or appraised value of the completed property, whichever is the lesser. However, in the case of owner-occupied houses where the lending value does not exceed $2,500, a loan may be made up to 90% of the said lending value. Since January 1, 1940, new applications for loans are received only in respect of the construction of houses containing one self-contained dwelling place and where the loan does not exceed $4,000.

38. To March 31, 1940, the Government has approved loans to the amount of $5,272,000 under the Municipal Improvements Assistance Act, 1938, to municipalities to enable them to finance the construction of municipal self-liquidating projects. During the fiscal year under review, the amount actually paid out on such loans, less repayments, was $3,111,000. These loans bear interest at the rate of 2% per annum and are amortized over a period not longer than the estimated useful life of the project. The province in which the municipality is located is required to guarantee the payments for interest on and amortization of each loan.

39. There was advanced during the year $947,000 to the National Harbours Board for capital construction purposes at the ports of Montreal and Vancouver. As a considerable part of the interest accrued on the obligations issued by these two ports has been paid to the Government, these loans are carried as active assets on the books of the Dominion.

40. Loans to the Canadian Pacific Railway Company made in previous years for relief purposes were further reduced by $211,000. In addition, the Railway Company paid the second instalment of $441,000 under the terms of a hire-purchase agreement relating to certain equipment purchased by the Government in the fiscal years 1935–36 to 1937–38 at a cost of $5,730,000 and leased to the railway. Under the authority of the War Measures Act and the War

Appropriation Act, the Dominion purchased approximately $10,000,000 of railway equipment for the Canadian Pacific Railway Company. As at March 31, 1940, equipment to the amount of $2,904,000 had been paid for and delivered. This equipment is being leased to the Railway Company under a hire-purchase agreement extending over a period of fifteen years.

41. The Government purchased capital stock of the Central Mortgage Bank to the amount of $250,000. On November 13, 1939, it was announced that the Government had decided that the Central Mortgage Bank should not commence active operations for the time being. The existing state of war and the uncertainties regarding the effect which war might have on incomes and real estate values, made conditions so abnormal that the Government did not feel it would be practicable to make, with any degree of assurance, valuations that would provide an equitable and permanent basis for sound debtor-creditor relationships. There was the further consideration that the adjustments contemplated by the Act involved the use of the national credit on a substantial scale, and this also seemed undesirable in view of the very heavy present and prospective demands upon the national resources for war purposes.

42. There was advanced to the Canadian Broadcasting Corporation the sum of $750,000 for capital construction, mainly for two transmitting stations located in the maritime and prairie provinces. The corporation repaid $50,000 on account of a loan made in the fiscal year 1937-38.

43. During the fiscal year under review, the provinces of Manitoba, Nova Scotia and Prince Edward Island reduced by $699,000 loans granted by the Dominion in the post-war period for house construction. Loans for Soldier and General Land Settlement were reduced by payments of $1,116,000.

44. Investments in Sinking Funds amounted to $4,189,000. Stocks of other loans amounting to $6,987,000, held in the Sinking Fund of the 3½% 1930-50 Loan which was called for payment on April 17, 1940, were transferred to a bond holding account to be repurchased later for the Sinking Fund of other sterling issues. This resulted in Sinking Funds Account showing a net decrease for the year of $2,798,000.

45. The following statement shows the net changes in active investments during the last fiscal year together with comparable figures for the four preceding years:

LOANS AND INVESTMENTS, ACTIVE

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
Sinking Funds	3,636	3,646	3,843	4,336	Cr. 2,798
Canadian National Railways	3,689	4,573	Cr. 27,429	3,841	21,479
Canadian Pacific Railway	1,270	555	Cr. 211	Cr. 211	Cr. 211
Canadian Farm Loan Board	7,933	10,991	3,848	2,834	2,288
Dominion and National Housing Acts—Loans	82	995	1,678	2,657	4,393
Municipal Improvements Assistance Act, 1938—Loans	—	—	—	815	3,111
National Harbours Board	1,438	323	1,890	692	947
Provinces—under relief legislation	42,304	15,462	16,299	14,985	12,566
Provinces—Post War Housing Loans	Cr. 3,003	Cr. 2,038	Cr. 1,422	Cr. 105	Cr. 699
Railway Equipment purchased	7,244	5,120	89	Cr. 1,399	8,135
Soldier and general land settlement	Cr. 566	Cr. 489	505	Cr. 749	Cr. 1,116
Roumanian Government	—	—	359	—	—
Bank of Canada—Capital Stock	—	5,100	—	820	—
Central Mortgage Bank—Capital Stock	—	—	—	—	250
Canadian Broadcasting Corporation	—	—	500	Cr. 50	700
Canadian National (West Indies) Steamships	—	—	450	—	—
Net Advances	64,027	44,238	399	28,466	49,045

LOANS AND INVESTMENTS, ACTIVE—*Concluded*

(000 omitted)

—	1935-36	1936-37	1937-38	1938-39	Estimated 1939-40
	$	$	$	$	$
Less write-offs—					
Soldier and general land settlement loans	−488	−628	−750	−895	−1,643
Canadian Farm Loan Board—Capital Stock	—	−20	−10	−14	−11
Loans to Province of Saskatchewan—Drought Area Relief, 1934-35	—	—	—	—	−1,374
Write-down to non-active assets—					
Manitoba and Saskatchewan treasury bills	—	−18,487	—	—	—
Net change in active investments	63,539	25,103	Cr. 361	27,557	46,017

LOAN FLOTATIONS

46. In the fiscal year ended March 31, 1940, the Government issued obligations in the amount of $657,793,471. All these issues were floated in the Canadian market. Maturing obligations in the amount of $362,935,587 were redeemed out of the proceeds of the new issues, the remainder of the proceeds providing cash for the current purposes of Government.

47. The following table gives details of the amounts, terms and purposes of the new issues and the prices at which they were sold:

LOAN FLOTATIONS, 1939-40

Issue Date	Maturity Date	Interest Rate	Where Payable	Price		Yield at		Amount Issued	Issue Refunded	
				To Public	To Government*	Public Price	Price to Government		Amount	Interest Rate
1939		%		$	$	%	%	$	$	%
May 15..	May 15, 1942	1½	Canada	99·375	98·77	1·72	1·92	95,500,000	37,362,000 15,346,000 1,690,500	1 2 2½
May 15..	June 1, 1958	3	Canada	98·50	97·71	3·10	3·16	39,000,000	30,101,500	4
July 1..	July 1, 1940	4	Canada (School Lands)	—	100·00	—	4·00	33,293,471	33,293,471	4
Oct. 16..	Oct. 16, 1941	2	Canada	—	100·00	—	2·00	200,000,000	2,638,000 4,654,000 6,242,500 99,425,979† 17,168,000	1 2 2½ 3½ 4
1940										
Feb. 1..	Feb. 1, 1948-52	3½	Canada	100·00	99·216	3·27	3·36	250,000,000	75,013,637	3
Mar. 1..	Mar. 1, 1945	2	Canada	—	99·375	—	2·13	40,000,000	40,000,000	
								657,793,471	362,935,587	
Total amount issued for refunding purposes								362,935,587		
Total amount issued to provide new cash								294,857,884		
								657,793,471		

* Price to public, less commissions to dealers.

† Amount outstanding of 1930-50 3½% Registered Stock called for redemption on April 17, 1940, less amount held in sinking fund, converted at $4.86=£1.

48. During the fiscal year under review, the issue fortnightly of three months' treasury bills was continued. The last issue of treasury bills during the year ended March 31, 1940, was sold at a discount of ·747 per cent. The average cost to the treasury of funds obtained from the twenty-three offerings during the year was a discount basis of ·726 per cent. The amount of these

treasury bills outstanding at March 31, 1940, was $155,000,000 unchanged from the total outstanding at the close of the previous fiscal year.

49. As at March 31, 1940, the average rate of interest on the Dominion's outstanding direct funded debt (including treasury bills) was 3·40 per cent, as compared with 3·52 per cent on March 31, 1939.

NATIONAL DEBT

50. At the close of the fiscal year there was outstanding unmatured funded debt (including treasury bills) of the Dominion in the amount of $3,695,685,000. Of this total, securities in the amount of $67,196,000 were held in the sinking funds against certain issues payable in London. The remaining amount, $3,628,489,000, was outstanding in the hands of the public. Other liabilities, consisting chiefly of annuity, superannuation and insurance funds, Post Office Savings Bank deposits, and trust and contingent funds, were outstanding on the same date in an estimated aggregate amount of $332,888,000. Without deducting sinking funds now shown as an asset, the gross liabilities of the Dominion totalled $4,028,573,000. On the other side of its balance sheet, the Dominion had active assets of $757,593,000 representing cash on hand, sinking funds and active loans and investments. The net debt of the Dominion, the difference between the gross liabilities and the active assets, is therefore estimated at $3,270,980,000. The increase over the same date last year amounted to $118,421,000, namely, the amount of the over-all deficit for the fiscal year.

51. The following is a preliminary statement showing the liabilities and assets of the Dominion as estimated at March 31, 1940:—

LIABILITIES—MARCH 31, 1940
(estimated)

Bank Circulation Redemption Fund		$ 5,054,000
Post Office Money Orders, Postal Notes, etc., outstanding		2,787,000
Post Office Savings Bank deposits		23,100,000
Insurance and Superannuation Funds—		
Government Annuities	$ 140,042,000	
Insurance Fund—Civil Service	13,336,000	
Insurance Fund—Returned Soldiers	18,683,000	
Retirement Fund	9,827,000	
Superannuation Funds	60,887,000	
		242,775,000
Trust Funds—		
Indian Funds	14,298,000	
Common School Funds	2,677,000	
Contractors' Securities Deposits	2,114,000	
Other Trust Funds	3,126,000	
		22,215,000
Contingent and Special Funds		4,312,000
Province Debt Accounts		11,920,000
Funded Debt and Treasury Bills unmatured	3,695,685,000	
Floating Debt—		
Funded Debt matured and outstanding	2,465,000	
Interest due and outstanding	1,981,000	
Outstanding cheques	16,279,000	
		3,716,410,000
		$4,028,573,000

ASSETS—MARCH 31, 1940
(estimated)

Active Assets—		
Cash, working capital advances and other current assets		$ 186,742,000
Special Deposits		166,000
Sinking Funds		67,196,000
Bank of Canada Capital Stock		5,920,000
Central Mortgage Bank Capital Stock		250,000
Canadian Broadcasting Corporation—Loan		1,150,000
Canadian National (West Indies) Steamships, Ltd.—Loan		450,000
Dominion and National Housing Acts—Loans		9,805,000
Municipal Improvements Assistance Act, 1938—Loans		3,926,000
Loans to Provinces—		
Post War Housing Loans	$ 2,504,000	
Unemployment Relief Loans	155,978,000	
Alberta—Subsidy Overpayment	469,000	
		158,951,000

ASSETS—MARCH 31, 1940—*Concluded*

(estimated)

Loans to National Harbours Board—		
Montreal	61,698,000	
Vancouver	25,032,000	
		86,730,000
New Westminster Harbour Commission—Loan		275,000
Canadian Farm Loan Board—Advances and Capital Stock		36,695,000
Railway Accounts—		
Canadian National Railways—		
Advances—Financing and Guarantee Act, 1938	1,717,000	
Advances—Refunding Act, 1938	24,689,000	
Advances—Financing and Guarantee Act, 1939	12,443,000	
Senneterre-Rouyn Railway Line	639,000	
Trans-Canada Air Lines	550,000	
		40,038,000
Canadian Pacific Railway—		
Loan for betterment or repair of railway equipment	970,000	
Loan for wages on special works program	222,000	
		1,192,000
Purchase of equipment leased to—		
Canadian National Railways	11,878,000	
Canadian Pacific Railway	7,311,000	
		19,189,000
Loans to Foreign Governments—		
Greece	6,525,000	
Roumania	24,329,000	
		30,854,000
Soldier and General Land Settlement Loans		37,830,000
Seed Grain and Relief Advances		2,434,000
Canadian Government Railways Working Capital		16,772,000
Bond Holding Account		6,657,000
Province Debt Accounts		2,296,000
Deferred Debits—		
Unamortized discount and commission on loans		42,075,000
		$ 757,593,000
Net Debt, March 31, 1940 (estimated)		$3,270,980,000

Net Debt represented by—		
A. Expenditure and non-active assets (estimated) March 31, 1940.		
Capital Expenditures—		
Public Works—		
Canals	$ 240,316,000	
Railways	429,587,000	
Public Buildings, harbour and river improvements	299,029,000	
Military property and stores	12,057,000	
Territorial Accounts	9,896,000	
		$ 990,885,000
Loans, non-active—		
Canadian National Railways Securities Trust Stock		264,013,000
Canadian National Railways Stock		18,000,000
Canadian National Steamships		13,872,000
Canadian Pacific Railway (old)		62,791,000
National Harbours Board—		
Quebec	$ 27,365,000	
Chicoutimi	3,838,000	
Churchill	9,000	
Halifax	12,291,000	
Saint John	16,448,000	
Three Rivers	3,743,000	
Montreal (Jacques Cartier Bridge)	4,049,000	
		67,743,000
Seed Grain and Relief Advances		450,000
Soldier and General Land Settlement		16,526,000
Saskatchewan Seed Grain Loans Guarantee Act, 1936		2,638,000
Miscellaneous Advances		3,536,000
B. Consolidated Fund—		
Balance, consolidated fund brought forward from Mar. 31, 1939	1,702,494,000	
Excess of expenditure over revenue, fiscal year ended Mar. 31, 1940 (estimated)	128,032,000	
		1,830,526,000
		$3,270,980,000

52. The following table gives a statement of the unmatured funded debt (including treasury bills) of the Dominion outstanding as at March 31, 1940 and the annual interest charges thereon:

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1940, AND ANNUAL INTEREST CHARGES

Date of Maturity	Rate per cent	Where Payable	Amount of Loan	Annual Interest Charges
			$ cts.	$ cts.
1940, June 1	1½	Canada	80,000,000 00	1,200,000 00
July 1	4	Canada	33,293,470 85	1,331,738 83
Sept. 1	4½	Canada	75,000,000 00	3,375,000 00
1941, Mar. 15	1	Canada	45,000,000 00	450,000 00
May 1	1¼	New York	20,000,000 00	250,000 00
Oct. 16	2	Canada	200,000,000 00	4,000,000 00
Nov. 15	5	Canada	141,663,000 00	7,083,150 00
1942, May 15	1½	Canada	95,500,000 00	1,432,500 00
June 1	2	Canada	60,000,000 00	1,200,000 00
Oct. 15	3	Canada	40,409,000 00	1,212,270 00
1943, June 1	2½	Canada	20,000,000 00	500,000 00
Oct. 15	5	Canada	147,000,100 00	7,350,005 00
1944, Jan. 15	2¼	New York	30,000,000 00	675,000 00
June 1	2	Canada	90,625,000 00	1,812,500 00
Oct. 15	4½	Canada	50,000,000 00	2,250,000 00
Nov. 15	2½	Canada	20,000,000 00	500,000 00
1945, Mar. 1	2	Canada	40,000,000 00	800,000 00
Aug. 15	2½	New York	76,000,000 00	1,900,000 00
Oct. 15	4	Canada	88,337,500 00	3,533,500 00
1946, Feb. 1	4½	Canada	45,000,000 00	2,025,000 00
1947, Oct. 1	2½	London	4,888,185 64	122,204 64
1948, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
1949, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
June 1	3¼	Canada	33,500,000 00	1,088,750 00
Oct. 15	3½	Canada	138,322,000 00	4,841,270 00
1950, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
July 1	3½	London	*52,763,135 43	1,846,709 74
1951, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
Nov. 15	3¼	Canada	60,000,000 00	1,950,000 00
1952, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
May 1	5	New York	100,000,000 00	5,000,000 00
Oct. 15	4	Canada	56,191,000 00	2,247,640 00
1955, May 1	3¼	London	48,666,666 67	1,581,666 67
June 1	3	Canada	40,000,000 00	1,200,000 00
June 1	3	Canada	55,000,000 00	1,650,000 00
1956, Nov. 1	4½	Canada	43,125,700 00	1,940,656 50
1957, Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958, June 1	3	Canada	88,200,000 00	2,646,000 00
Sept. 1	4	London	73,000,000 00	2,920,000 00
Nov. 1	4½	Canada	276,687,600 00	12,450,942 00
1959, Nov. 1	4½	Canada	289,693,300 00	13,036,198 50
1960, Oct. 1	4	London	93,926,666 66	3,757,066 67
Oct. 1	4	New York	100,000,000 00	4,000,000 00
1961, Jan. 15	3¼	New York	48,000,000 00	1,560,000 00
1963, July 1	3¼	London	48,666,666 66	1,581,666 67
1966, June 1	3¼	Canada	54,703,000 00	1,777,847 50
Perpetual	3	Canada	55,000,000 00	1,650,000 00
1967, Jan. 15	3	New York	55,000,000 00	1,650,000 00
1968, Nov. 15	3	New York	40,000,000 00	1,200,000 00
Treasury Bills due April 1, 1940	·788	Canada	25,000,000 00	197,000 00
Treasury Bills due April 15, 1940	·784	Canada	30,000,000 00	235,200 00
Treasury Bills due May 1, 1940	·752	Canada	25,000,000 00	188,000 00
Treasury Bills due May 15, 1940	·746	Canada	25,000,000 00	186,500 00
Treasury Bills due May 31, 1940	·751	Canada	25,000,000 00	187,750 00
Treasury Bills due June 14, 1940	·747	Canada	25,000,000 00	186,750 00
			3,695,685,191 91	125,574,026 72
Payable in Canada			2,904,773,870 85	78·60%
Payable in New York			469,000,000 00	12·69%
Payable in London			321,911,321 06	8·71%
			3,695,685,191 91	100%

* Called for payment April 17, 1940.

INDIRECT LIABILITIES

53. Bonds and debenture stocks bearing the guarantee of the Dominion outstanding in the hands of the public at March 31, 1940, amounted to $1,084,479,000, a decrease of $987,000 during the fiscal year.

54. There were also outstanding on March 31, 1940, other contingent liabilities arising out of guarantees given under Relief and Seed Grain legislation and other Acts. There were no new guarantees incurred during the last fiscal year.

During the fiscal year under review an amount of $52,000,000 was advanced without interest to the Canadian Wheat Board to enable the Board to pay off guaranteed bank advances with respect to the marketing of the 1938 Wheat Crop. The guaranteed bank loans to the Board outstanding at the close of the fiscal year amounted to $42,998,000. This amount constituted the Board's gross liability to the banks at the close of the fiscal year and mainly related to the purchase of the 1939 Wheat Crop at the fixed price of 70 cents per bushel No. 1 Northern, Fort William. The guarantee of the Dominion to the Winnipeg Grain and Produce Clearing Association Limited, referred to in previous budgets, is still outstanding. No liability accrues from day to day in connection with the guarantee as margin deposits are made to the Clearing Association daily.

At March 31, 1940, 102,365 Home Improvement Loans had been made by banks and approved lending institutions to home owners in the amount of $41,110,000. Repayments to the same date on account of these loans amounted to $24,068,000, or over 58 per cent of the total amount of loans made. The Dominion's contingent liability arising out of these loans is limited to 15 per cent of the aggregate of such loans made by each approved lending institution. As 288 loss claims for $86,922 have been paid, the maximum contingent liability as at March 31, 1940, was $6,079,595. In terms of dollar losses to total volume of loans, this loss ratio is only approximately $\frac{1}{5}$ of 1 per cent.

Under the Dominion Housing Act, 1935, and the National Housing Act, 1938, the Dominion has accepted and is accepting certain obligations arising out of its contracts with approved lending institutions which, while not expressed in the form of a guarantee, may nevertheless be regarded as contingent or indirect liabilities.

The manner in which losses in respect of any loan are to be borne by the Dominion and the lending institution is fixed by the contract. The general principle is that the Dominion bears two-thirds of the loss if at the time the loss is sustained the principal amount of the loan repaid, less any other amounts due, is equal to or less than the amount advanced by the Dominion and one-third of the loss if at the time the loss is sustained the principal amount repaid, less any other amounts due, is more than the amount advanced by the Dominion. In the case of small loans (that is, for amounts not in excess of $4,000 in the case of a single dwelling place or not in excess of $700 per habitable room in the case of a multiple family dwelling), the share of the loss to be borne by the Dominion is not more than 80 per cent and not less than 50 per cent of the loss. The above provisions apply to loans made under both the present National Housing Act and its predecessor, the Dominion Housing Act. Under the National Housing Act a new provision has been added to encourage the making of small loans in such small or remote communities and in such districts of other communities as may be designated by the Minister of Finance in any contract. In respect of such loans, the Dominion has agreed in contracts with certain lending institutions to pay losses sustained by any such lending institution up to certain amounts determined by the contract which are not less than 7 per cent and do not exceed 25 per cent of the total amount of such loans made in such areas by the lending institution.

Order in Council, dated December 5, 1939, provided that after January 1, 1940, applications would be received only for loans for the construction of houses containing one self-contained dwelling place and where the loan does not exceed $4,000.

Loans to the number of 15,054 had been approved at March 31, 1940, under the Dominion Housing Act, 1935, and the National Housing Act, 1938, and in the amount of $52,553,000. No losses had been realized by the Dominion as of that date.

55. The following is a statement of bonds and debenture stocks and other indebtedness guaranteed by the Dominion outstanding as at March 31, 1940:

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE DOMINION GOVERNMENT AS AT MARCH 31, 1940

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	$
Jan. 15, 1942	Canadian National	2	20,000,000 00
Feb. 15, 1943	Canadian National	2	55,000,000 00
Feb. 1, 1944	Canadian National	2¼	15,500,000 00
May 1, 1944	Canadian National	3	35,000,000 00
Jan. 15, 1946	Canadian National	2¼	15,000,000 00
July 1, 1946	Canadian Northern	6½	24,238,000 00
April 1, 1948	New Westminster Harbour Commissioners	4¾	700,000 00
Dec. 15, 1950	Canadian National	3	50,500,000 00
Sept. 1, 1951	Canadian National	4½	50,000,000 00
Feb. 1, 1952	Canadian National	3	20,000,000 00
Aug. 1, 1952	Saint John Harbour Commissioners	5	667,953 04
Feb. 15, 1953	Canadian National	3	25,000,000 00
July 10, 1953	Canadian Northern	3	9,359,906 72
Feb. 1, 1954	Canadian National	5	50,000,000 00
Mar. 1, 1955	Canadian National (West Indies) Steamships Limited	5	9,400,000 00
June 15, 1955	Canadian National	4¾	50,000,000 00
Feb. 1, 1956	Canadian National	4½	70,000,000 00
July 1, 1957	Canadian National	4½	65,000,000 00
July 20, 1958	Canadian Northern	3½	7,896,541 81
Jan. 15, 1959	Canadian National	3	35,000,000 00
May 4, 1960	Canadian Northern Alberta	3½	3,149,998 66
May 19, 1961	Canadian Northern Ontario	3½	34,229,996 87
Jan. 1, 1962	Grand Trunk Pacific	3	34,992,000 00
Jan. 1, 1962	Grand Trunk Pacific	4	8,440,848 00
July 1, 1969	Canadian National	5	60,000,000 00
Oct. 1, 1969	Canadian National	5	60,000,000 00
Nov. 1, 1969	Harbour Commissioners of Montreal	5	19,000,000 00
Feb. 1, 1970	Canadian National	5	18,000,000 00
By drawings	Canadian National	2	21,401,371 07
Various dates 1940-54	City of Saint John Debentures assumed by Saint John Harbour Commissioners	Various	795,384 78
Perpetual	Grand Trunk Guaranteed Stock	4	60,833,333 33
do	Grand Trunk Debenture Stock	5	20,782,491 67
do	Great Western Debenture Stock	5	13,252,322 67
do	Grand Trunk Debenture Stock	4	119,839,014 33
do	Northern Railway of Canada Debenture Stock	4	1,499,979 67
			$ 1,084,479,232 62

OTHER LIABILITIES GUARANTEED

	Principal Amount Outstanding Mar. 31, 1940
Bank Advances, *re* Province of Manitoba Savings Office $	6,491,173
Bank Advances, *re* Government of Newfoundland	625,000
Province of Manitoba Treasury Bill	4,809,206
Province of British Columbia Treasury Bill	626,534
Bank Advances, *re* Canadian Wheat Board	42,998,100
Winnipeg Grain and Produce Clearing Association, Ltd. Day to day margins of the Canadian Wheat Board (closed out daily)	— —
Bank Advances guaranteed under Seed Grain Loans Guarantee Act, 1937	6,891,858
Bank Advances guaranteed under Seed Grain Loans Guarantee Act, 1938	not determined
Loans made by approved lending institutions under Dominion Housing Act, 1935 and National Housing Act, 1938	indeterminate
Loans made by approved lending institutions under The Home Improvement Loans Guarantee Act, 1935	6,079,595
Deposits maintained by the chartered banks in the Bank of Canada	202,324,405

B. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS, 1939-40

1. The following tables and related paragraphs present a comprehensive survey of general economic conditions in Canada during the past year. For purposes of comparison figures for certain earlier years are also provided, and in the case of the more important factors statistics on a monthly basis are given covering the last two fiscal years.

The figures used throughout are those published by the Dominion Bureau of Statistics, unless otherwise indicated. Where an index or average figure is given for a fiscal, rather than a calendar year, it represents an average of the monthly data during the period concerned. All indexes shown as based on the year 1926 are to be construed as based on the calendar year 1926, and not the fiscal year.

A change this year in the method of compiling trade statistics at the end of the fiscal year has artificially decreased the March trade figures and artificially increased those of April, so that a valid comparison of either month with the same month in any previous year has been made impossible. This change not only affected directly the comparability of the trade statistics but influenced indirectly as well the index of the physical volume of business, many of the components of which utilize imports and exports of certain commodities as indicators of current business activity. To facilitate an accurate comparison of recent trends, therefore, in the following tables the figures for March and April of both the current and the preceding year have been averaged throughout, in the case not only of factors affected by the trade statistics, but, in order to provide comparable data, of other factors as well. In the text this average will be termed the March-April figure.

In the case of averages for the fiscal year ended March 31, 1940, no attempt has been made to adjust the March figures which have been artificially lowered by the change in the trade statistics, so that in all statistics affected by trade figures the average for the last fiscal year is slightly lower than it would have been if calculated on a basis comparable with previous years. This artificial reduction might amount to about one, two or three per cent in the annual figures.

CANADIAN ECONOMIC CONDITIONS

SUMMARY TABLES

	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
Group I.—Comprehensive Indexes (1926=100)									
Physical volume of business	101·9	122·1	74·8	115·2	120·8	113·8	126·9	114·9	137·0
Volume of manufacturing	101·1	117·5	70·8	117·6	119·8	108·4	125·6	108·5	132·8
Mining	103·0	121·1	104·2	166·5	196·0	194·8	217·6	208·1	252·2
Forestry	99·7	104·3	64·2	131·8	130·3	106·5	125·6	115·3	135·5
Carloadings	102·6	112·5	63·8	77·9	79·9	72·8	80·5	70·5	79·0
Electric power output	104·7	136·6	132·4	218·0	229·0	220·9	239·9	229·7	243·0
Employment	100·8	113·7	84·4	104·4	115·7	110·8	115·8	111·0	118·3
National income†	100·0	114·3	64·4	85·1	97·3	94·1	101·9	....	....
Dollar value of retail sales† (1930=100)	93·2	110·1	66·8	74·0	78·6	77·5	79·8	....	....
Group II.—Price Levels and Financial Factors (1926=100)									
Wholesale prices	98·8	95·8	65·5	77·2	84·6	76·0	77·8	73·3	83·2
Farm Product Prices	99·1	99·1	46·3	75·6	86·3	68·6	65·8	65·3	71·7
Cost of living	99·6	98·9	79·9	81·2	83·6	83·9	84·1	83·1	85·6
Common stock prices	101·8	173·3	52·1	125·5	117·6	103·8	99·4	99·9	98·0
Dominion Government bond prices	100·4	102·4	100·8	117·9	115·2	118·1	115·1	119·2	114·4
Dividend payments	101·8	123·7	79·9	112·9	139·0	143·4	129·2	136·1	124·7
Bank deposits	101·0	116·1	98·5	116·4	122·1	127·0	137·7	129·9	140·1
Active currency circulation	101·0	105·4	75·9	102·3	111·1	113·4	126·7	114·5	137·4

†Nearest calendar year.

	Calendar Years					
	1926	1928	1932	1937	1938	1939
	(Millions of Dollars)					
Group III.—Gross Value of Production in Major Industries						
Agriculture	1,714·5	1,806·0	766·8	1,039·5	1,062·6	1,170·9*
Forestry	555·8	586·2	349·3	494·3	425·0	484·8*
Fisheries	73·1	70·7	33·7	51·2	53·2	55·8*
Mining (inc. Smelting)	276·8	313·1	265·0	662·6	653·8	685·3*
Construction	385·9	488·4	132·9	351·9	353·2	354·9*
Manufacturing	3,100·6	3,582·3	1,980·5	3,625·5	3,337·7	3.613·8*
Group IV.—Foreign Trade and International Transactions‡						
Merchandise exports (all gold excluded)	1,276·6	1,363·6	497·9	1.012·1	848·7	935·9
Net exports of non-monetary gold†	30·4	40·1	70·0	145·1	160·5	184·4
Total exports, including non-monetary gold	1,307·0	1,403·7	567·9	1,157·2	1,009·2	1,120·3
Merchandise imports (all gold excluded)	1,008·3	1.222·3	452·6	808·9	677·5	751·0
Total trade	2,315·3	2,626·0	1,020·5	1,966·1	1,686·7	1,871·3
Export balances	+298·7	+181·4	+115·3	+348·3	+331·7	+369·3
Net tourist receipts	102·5	167·7	155·0	166·2	159·9	166·0
Net interest and dividend payments going abroad	201·0	221·0	261·8	246·2	251·0	260·8
Net capital export (direct estimate)	††	82·0	11·4	198·8	135·0	162·1

* Preliminary estimate. Certain of these figures have not yet appeared in official publications, or represent revisions of previously published figures.

‡ It should be noted that the export and import figures given in the table above, which have been compiled from official trade returns, differ slightly from the adjusted figures used in making up the Balance of International Payments. In the remaining part of the table certain less important items in the Balance of Payments have not been detailed.

† Adjusted for earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

†† Not available.

PHYSICAL VOLUME OF BUSINESS

2. The index for the physical volume of business in Canada is the most comprehensive single measure of the level of general economic and business activity. It is made up by the Dominion Bureau of Statistics from 46 constituent items weighted according to their relative importance in the economy as a whole, and is adjusted for seasonal fluctuations. Included in the making of this index are such items as mineral production, manufacturing in its chief branches, construction, electric power output, trade employment, carloadings, imports and exports. Agricultural production as such does not find a place in this index, nor do fishing and lumbering as primary activities, but the processing of and trade in the products of these industries is reflected in the index. Correction is made, where necessary, for changes in the price factor in order that the index shall properly record only changes in the *physical* volume of business done. 1926 is taken as the base year. Following are presented the index numbers for each fiscal year since 1927 and the index for each month in the last two fiscal years.

INDEX OF PHYSICAL VOLUME OF BUSINESS

(1926=100)

Fiscal Years ended March 31													
1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
101·9	108·0	122·1	122·0	105·4	89·3	74·8	84·9	96·4	104·4	115·2	120·8	113·8	126·9

MONTHLY INDEX*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39..........	112·4	110·7	108·4	109·1	110·5	119·2	118·6	123·4	115·6	113·0	111·7	114·9
1939-40..........	116·7	121·4	121·4	120·5	125·2	125·8	133·1	133·0	133·3	138·6	131·2	137·0

* Seasonally adjusted.

The recovery from the depressed level of business activity of 1938 which had become evident in the early months of 1939 continued throughout the year and was accelerated by the outbreak of war in September. Each month in the past fiscal year was considerably above the corresponding month in the year previous, and the average for 1939–40 of 126·9 was about 11·5% above that of 1938–39. The March-April figure for 1940 was 19·2% higher than that for 1939, and has only been exceeded in one month in 1929, and in January of this year.

It may be of interest to compare this expansion of 19·2% in the physical volume of business with the expansion in employment in all industries of about 6·6% between March-April, 1939, and March-April, 1940. This suggests that the increased production has been achieved in considerable degree by a reduction in part-time work.

AGRICULTURE

3. The gross value of agricultural production in 1939 increased by about 10% over the previous year and reached the highest level since 1930. In general, it was a year of good crops, but of low prices. The wheat crop of 490 million bushels was the second largest in our history. In quality it was about normal, though relatively highly concentrated in No. 1 Northern grade. The area of poor crops

was very much reduced from preceding years. The average price received by the farmer at the farm for his 1939 wheat, up to December 31, has been estimated at 52c. a bushel compared with a revised figure of 59c. for the 1938 crop.

One of the most outstanding features of Canadian agriculture in the past year has been the great increase in hog production and marketings since the summer of 1939. Hog marketings in the eight months from September to April amounted to 3,213,373 compared with 2,244,765 in the eight months a year before. Indications are that hog production and marketings in 1940 will be the largest recorded in the history of the industry. Hog prices declined during the spring of 1939, and during the summer months were lower than in the previous two years. They rose during the fall months and were fairly well stabilized during the first three months of this year under the operation of the Bacon Agreement with the United Kingdom, but they have weakened in recent months as a surplus of hog products has accumulated, and in April were below the levels of the past three years.

Among the branches of agriculture most affected by the war is that of apple production, since exports of apples to British and foreign markets have been severely curtailed. The apple crop of 1939 was a very large one, exceeded only by 1933 in the last fourteen years, but the average value received per unit fell to a level lower than that for any year of the same period and, consequently, the total value of the crop was much below that of recent years. The Dominion Government provided assistance in the marketing of the apple crop, including special arrangements for processing apples in Nova Scotia which is more dependent than other regions upon the export market.

It will be noted in the table below that the general index of farm prices in March-April of 1940 had increased by about 10% over the level of a year before.

GROSS VALUE OF AGRICULTURAL PRODUCTION

(Millions of Dollars)

—	Calendar Years					
	1926	1928	1932	1937	1938	1939*
All Agricultural Production	1,714·5	1,806·0	766·8	1,039·5	1,062·6	1,170·9
Wheat	442·2	451·2	154·8	184·7	211·3	252·8
All other field crops	662·8	673·8	297·7	371·5	338·8	381·3
Dairy products	277·3	297·6	159·1	215·6	226·2	217·7
Live stock	178·4	197·9	65·2	141·9	136·8	170·8
Poultry and eggs	83·6	106·7	42·1	51·8	53·7	55·5
Fruit and vegetables	43·1	48·8	32·2	41·8	57·1	55·9
Tobacco	7·4	6·8	6·1	17·1	20·3	19·2
All other agriculture	19·7	23·2	9·6	16·0	18·4	17·7

* Subject to revision.

GENERAL INDEX OF FARM PRICES

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	82·5	77·3	76·6	71·4	64·1	63·8	63·8	64·9	64·6	64·8	64·7	65·3
1939-40	65·5	65·2	63·3	62·7	58·4	64·2	64·5	65·1	69·1	70·0	70·3	71·7

* Seasonally adjusted.

MINING

4. The past year has seen production and employment in the mineral industry expand to new record levels. Gold mining continues to be the largest element and the volume of gold produced in the fiscal year 1939–40 showed an increase of about 5·8% over the previous year, while the value of the production has, of course, been increased since September by the higher price received in Canadian dollars. Production of copper, nickel and zinc was larger in each case than in any previous year, but the value of this production was not as great as in 1937 because prices were lower than in that year. Contracts were made between the major Canadian base metal producers and the United Kingdom Ministry of Supply, providing for the sale of the bulk of the Canadian export surplus of copper, lead and zinc at prices approximately equal to those prevailing immediately before the outbreak of war.

Iron ore production commenced again in Canada in 1939 after a lapse of 16 years. Development is also proceeding rapidly to bring into production the high grade iron ore deposit at Steep Rock Lake.

Petroleum production in Alberta continued to expand though subject to pro-rationing because of the limited market available in the Western Provinces. 34 new wells were brought into production in Turner Valley in 1939. Coal production in 1939 was also increased by 8·6% over the previous year, most of the increase occurring in Nova Scotia, and in the first four months of this year production shows an increase of 26½% over the same months of last year.

Employment in mining continued to expand despite a slight set-back during the early winter. The March-April figure this year shows an increase of 4·2% over that of a year ago.

VALUE OF MINERAL PRODUCTION

(Millions of Dollars)

—	Calendar Years					
	1926	1928	1932	1937	1938	1939†
Value of All Minerals	240·4	275·0	191·2	457·4	441·8	473·1
Gold	36·3	39·1	71·5	143·3	166·2	184·1
Copper	17·5	28·6	15·3	68·9	56·6	60·9
Nickel	14·4	22·3	7·2	59·5	53·9	50·9
Lead	19·2	15·6	5·4	21·1	14·0	12·3
Zinc	11·1	10·1	4·1	18·2	11·7	12·1
Silver	13·9	12·8	5·8	10·3	9·7	9·4
Coal	59·9	63·8	37·1	48·8	44·0	48·3
Petroleum	1·3	2·0	3·0	5·4	9·2	10·4
All others	66·8	80·7	41·8	81·9	76·5	84·7

† Preliminary.

PHYSICAL VOLUME OF MINERAL PRODUCTION

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	212·7	199·4	176·6	192·1	198·6	202·1	201·4	206·6	183·1	176·8	190·0	208·1
1939-40	219·6	232·7	228·9	238·5	233·2	223·2	194·2	236·7	202·4	215·6	200·9	252·2

* Seasonally adjusted.

EMPLOYMENT IN MINING

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39..........	156·6	155·0	156·7	156·7	154·4	156·2	156·4	156·5	157·2	159·1	160·7	163·3
1939-40..........	162·9	161·3	164·1	166·4	166·4	166·7	165·7	163·8	164·9	163·4	168·6	170·1

* Seasonally adjusted as at first of month.

FORESTRY

5. The volume and value of forestry production in the past fiscal year, and in the calendar year 1939, have shown substantial increases over the preceding year. This was true for some months before the outbreak of war, as well as after it.

Newsprint production has increased markedly during the war period due to a greater demand in the United States and to the shutting off of Scandinavian supplies from world markets. In the first eight months of war newsprint production was 15·3% above the same period a year before, and for May the industry reports production of 323,563 tons, which is a new high record, and 29·6% above May of last year.

Lumber production has also been stimulated by wartime requirements, though not as yet to the same degree as newsprint production. Lumbering in Eastern Canada has been favoured relatively to that in British Columbia due to the greater availability of Atlantic shipping for export. About 10% more lumber was scaled in British Columbia from September to April than in the same period in the previous year. The index of lumber and timber prices during the war period has averaged about 12% above the year before.

It will be noted in the table below that improved employment in logging reflects the much better market for forestry products in the past year.

FORESTRY PRODUCTS

(Millions of Dollars)

—	Calendar Years					
	1926	1928	1932	1937	1938	1939
Gross Value of All Forestry Products....................	555·8	586·2	349·3	494·3	425·0	484·8†
Newsprint (in above)..............................	121·1	144·1	85·5	126·4	107·1	120·0†
Planks and boards exported..............................	61·9	47·7	12·6	45·4	35·9	48·8
Wood pulp exported....................................	52·1	45·6	18·9	41·8	27·7	31·0

† Preliminary.

PHYSICAL VOLUME OF FORESTRY PRODUCTION

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39..........	100·4	91·9	96·7	101·4	102·2	110·2	107·1	112·8	111·7	120·7	111·6	115·3
1939-40..........	120·2	112·6	120·6	114·2	126·4	130·7	139·3	128·7	127·6	142·4	125·4	135·5

*Seasonally adjusted.

LOGGING EMPLOYMENT

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	146·1	135·8	121·9	121·1	90·4	89·5	91·0	105·3	114·8	103·9	98·4	84·4
1939-40	81·3	71·0	126·4	134·0	111·5	92·1	133·5	166·2	181·9	164·1	156·4	129·2

* Seasonally adjusted index as at first of month.

FISHERIES

6. The Atlantic deep sea catch in 1939 was about 5% greater than in 1938, but prices were lower due to a slackening in European demand so that the value of the catch was only about 2½% higher. So far in 1940 events in Europe have kept changing the market situation, but during the early months of the year prices have been slightly higher than before the war. The normal export market for canned lobster has now been cut off by war restrictions and the Dominion Government has made provision for assisting in the disposal of the lobster catch. The British Columbia salmon pack in 1939 was somewhat smaller than the year before and of lower quality, but it was all marketed despite the war at somewhat higher prices than in the preceding year. The halibut catch this spring has been larger than last year, and prices received are slightly better.

FISHERIES

(Millions of Dollars)

—	Calendar Years					
	1926	1928	1932	1937	1938	1939
Gross Value of Production	73·1	70·7	33·7	51·2	53·2	55·8†
Salmon marketed (in above)	19·6	17·9	8·0	12·3	15·0	15·3†
Value of fish exported	36·0	36·3	18·5	28·0	25·6	28·0

†Preliminary.

MANUFACTURING

7. Production and employment in manufacturing have shown a substantial and general increase during the past fiscal year, and the average level of the production index for the year as a whole was higher than any year in the past. Activity in manufacturing increased very quickly after the outbreak of war, apparently reached an all-time peak in January and then receded slightly in the next two or three months. Unofficial information indicates that the expansion was resumed in May. The March-April figures for 1940 compared with those for 1939 show an expansion of 22·4% in production and 14·9% in employment in manufacturing as a whole.

Among the various manufacturing industries the most marked expansion has taken place in textiles for which the production index in March-April this year was more than double that of a year before. Many textile factories are now reported to be working at capacity. Steel production shows an expansion during the year of nearly 60%. Much of this increase took place before the outbreak of war but was due in part to British armament demands. The expansion in food manufacturing reflects in part the increased exports of flour and bacon and also the increased domestic consumption of foodstuffs such as that of sugar.

Production in the automobile industry showed little change for the last fiscal year as a whole compared with the preceding one, and the figures for March-April are only about 5% above those a year before. Restrictions imposed in export markets have offset the increased domestic sales of cars and the military demand for motor transports. Since the middle of March the Canadian automobile industry has received a number of substantial orders for military vehicles, however, and production in May reached a figure which was some 35% above May of last year and represented the largest volume in any month since June, 1937.

INDEXES OF PHYSICAL VOLUME OF MANUFACTURING*

(1926=100)

—	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
MANUFACTURING OF ALL KINDS........	101·1	117·5	70·8	117·6	119·8	108·4	125·6	108·5	132·8
Selected Industries—									
Foodstuffs..........................	100·0	97·1	83·4	105·8	101·8	102·2	117·0	105·7	128·0
Tobacco............................	102·3	138·2	107·1	153·9	178·3	178·1	189·1	176·9	205·1
Boots and shoes....................	101·5	97·7	84·0	108·4	114·2	110·3	135·8	108·6	119·7
Textiles...........................	101·6	103·4	71·9	123·3	128·4	108·9	152·7	104·9	226·3
Steel production...................	104·5	169·0	40·4	150·8	178·2	139·1	206·7	134·2	213·4
Automobile production..............	100·7	145·2	26·9	98·8	93·1	77·2	79·1	70·2	73·6
Crude petroleum (imports)........	104·7	146·6	138·4	208·1	221·3	207·3	217·3	183·4	186·0

*Seasonally adjusted.

PHYSICAL VOLUME OF MANUFACTURING PRODUCTION

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39...........	103·2	104·7	103·5	101·3	100·9	114·2	113·2	125·3	111·3	111·1	105·0	108·5
1939-40...........	109·5	113·3	112·9	112·3	116·5	121·3	143·7	136·9	136·9	146·8	134·2	132·8

* Seasonally adjusted.

EMPLOYMENT IN MANUFACTURING

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39...........	111·7	109·7	110·2	109·5	107·5	110·6	109·0	109·9	111·3	111·3	110·0	108·6
1939-40...........	108·0	107·5	109·4	109·1	110·3	112·1	116·0	121·0	123·6	126·1	125·0	124·8

* Seasonally adjusted as at first of month.

CONSTRUCTION

8. Total construction during the fiscal year 1939-40, as indicated by contracts awarded, showed a small increase over the preceding year. This increase appeared both in residential and in other construction. In the period May to August preceding the war there was evidence of a recovery in private construction, both residential and business, and total contracts in this period had recovered half the ground lost in the recession from 1937 to 1938. After

the outbreak of war there was a falling off in contracts other than residential, and some decline in residential contracts. Contracts for business and industrial construction began to increase about the end of the year and by March all major types of construction were showing substantial increases over the previous year. Total figures for the three months ending May 31 have not been exceeded since 1931, and this is true as well for all the major categories of construction except engineering work where in 1937 these three months showed a high figure.

During the fiscal year 1939-40 loans approved under the National Housing Act showed a substantial increase and reached a total of nearly $22,000,000 which was equal to almost a third of the value of all contracts awarded for residential construction during that year. Early in December it was announced that, in order to conserve the financial resources of the Dominion, loans under Part I of the Act would be restricted to a maximum of $4,000, and to single family houses, for applications received after December 31, 1939, and that the assistance by way of tax payment benefits under Part III of the Act would be restricted to buildings commenced before May 31, 1940. One effect of this announcement was to produce a rush of applications in December, and this shows up in the high figures for loans approved in January and February notable in the table below. Loans under the Home Improvement Plan have continued to increase and all months in the last fiscal year have shown increases over the corresponding months in the preceding year.

CONTRACTS AWARDED

(Millions of Dollars)

—	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
Total Contracts Awarded	380·8	500·2	104·3	161·9	218·8	188·6	191·9	10·6	18·8
Residential	111·0	137·4	26·0	49·6	54·1	63·0	64·5	4·7	4·9
All other	269·8	362·8	78·3	112·3	164·7	125·6	127·4	5·9	13·9

MONTHLY INDEX OF CONTRACTS AWARDED*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	65·3	53·2	53·1	53·8	55·7	54·1	55·2	50·4	74·8	45·6	69·1	53·6
1939-40	54·3	53·0	64·1	56·2	64·9	52·9	42·6	41·7	64·8	53·0	68·4	87·1

* Seasonally adjusted.

LOANS APPROVED UNDER NATIONAL HOUSING ACT*

(Thousands of Dollars)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
1935-36	—	—	—	—	—	—	214	152	159	142	89	48	804
1936-37	432	281	698	690	518	424	372	301	450	407	317	506	5,396
1937-38	865	821	919	1,049	753	551	742	636	500	456	342	1,190	8,824
1938-39	832	1,496	2,097	1,707	1,031	1,241	1,269	1,740	1,241	646	763	1,542	15,605
1939-40	1,463	2,426	2,197	2,772	2,184	2,192	1,313	1,615	1,255	2,193	1,421	953	21,924
Grand Total													52,553

* Dominion Housing Act prior to August, 1938.

LOANS APPROVED UNDER HOME IMPROVEMENT PLAN

(Thousands of Dollars)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
1936-37	—	—	—	—	—	—	—	682	516	303	306	598	2,405
1937-38	1,240	1,606	1,592	1,342	1,146	1,206	1,185	916	613	377	367	533	12,123
1938-39	956	1,325	1,437	1,233	1,138	1,311	1,224	968	648	403	409	650	11,702
1939-40	1,099	1,950	1,902	1,786	1,878	1,653	1,245	1,014	716	487	480	670	14,880
Grand Total													41,110

RAILWAYS

9. Movement of the near-record grain crop and the heavy demands placed on transportation facilities with the outbreak of war were responsible for a level of railway operations during the period since mid-year of 1939 which was considerably higher than that of any recent years. This is graphically illustrated by the striking increase in net operating income for the March-April average of 1940 over that of 1939. Carloadings during the first eight months of war show an increase of 14·4% over the similar period a year earlier.

RAILWAYS

—	Calendar Years						Mar.-Apr. Av.	
	1926	1928	1932	1937	1938	1939	1939	1940
All Railways								
Operating Revenues (millions of dollars)	493·6	563·7	293·4	355·1	336·8	366·5*	25·4	30·2*
Net Operating Income (millions of dollars)	+49·2	+57·9	−62·9	−31·2	−55·0	−34·0*	+0·6	+4·0*
Carloadings (thousands of cars)	3,267	3,706	2,179	2,635	2,429	2,549	185	207
Railway Payrolls (millions of dollars)	260·4	287·8	181·1	193·6	195·1	200·0*	14·8	16·1*

* Preliminary.

MONTHLY INDEX OF CARLOADINGS*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	71·4	71·8	68·7	71·5	76·3	81·0	76·0	74·2	73·7	70·7	66·7	70·5
1939-40	69·2	81·1	71·3	76·8	82·0	95·6	80·0	84·0	82·6	86·7	83·1	79·0

* Seasonally adjusted.

FOREIGN TRADE

10. Total Canadian trade with the rest of the world, including net exports of non-monetary gold, was just under two billion dollars in the fiscal year ended March 31, 1940. Exports of merchandise increased by 16·8% over the preceding fiscal year, while imports rose by 25·7%. The relatively greater increase in imports resulted in a reduction of about 2% in the net export balance, including net exports of non-monetary gold.

Although our foreign trade was moving upward prior to last August, the war produced an immediate stimulus to both exports and imports, so that trade during the war period showed a substantially greater proportionate increase than that of the fiscal year. Exports of merchandise in the eight months ended April, 1940, were 23·9% greater than in the same period of the previous year, while imports of merchandise were 48·9% greater. During this period as compared with the same period a year before our merchandise exports to the United States increased by 47·5% and to the United Kingdom by 19·5%, while imports from the same countries increased by 62·6% and 13·2% respectively. Exports to the United States showed their most marked advance during the first four months of the war when American business was expanding rapidly, while exports to the United Kingdom have shown their substantial increase since the beginning of 1940. Imports from the United States, however, have continued at a high level since the beginning of the war.

Commodity exports which showed notable gains in the war period over the same period of the previous year, and the percentages by which they increased, were as follows: Wheat flour 77%, meats, chiefly bacon and ham 66%, wood pulp 56%, wheat 54%, asbestos 46%, planks and boards 35%, cheese 33%, and paper 22%.

FOREIGN TRADE

(Millions of Dollars)

—	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
Merchandise Exports (all gold excluded)	1,260·7	1,376·5	476·9	991·1	991·2	841·6	983·4	60·5	84·1
Net Exports of Non-Monetary Gold†	34·8	36·5	70·7	137·3	147·7	167·5	188·0	13·0	17·1
Total Exports, including Non-Monetary Gold	1,295·5	1,413·0	547·6	1,128·4	1,138·9	1,009·1	1,171·4	73·6	101·2
Merchandise Imports (all gold excluded)	1,030·9	1,265·7	406·4	671·9	799·1	658·2	827·4	50·1	81·3
Total Trade	2,326·4	2,678·7	954·0	1,800·3	1,938·0	1,667·3	1,998·8	123·7	182·5
Export Balance	+264·6	+147·3	+141·2	+456·5	+339·8	+350·9	+344·0	+23·5	+19·9
Merchandise Trade by Countries (all gold excluded)									
United Kingdom—									
Exports	448·0	431·7	185·1	406·8	407·8	326·9	364·0	21·6	38·9
Imports	163·9	194·0	86·5	129·5	145·0	115·6	119·5	8·8	12·4
Other Commonwealth Countries—									
Exports	94·3	107·0	38·2	88·2	108·7	103·5	106·2	7·4	8·8
Imports	50·2	63·4	33·9	68·7	88·2	65·1	85·1	4·0	7·3
United States—									
Exports	472·5	508·9	144·7	364·4	343·3	288·5	399·9	23·5	28·6
Imports	687·0	868·0	232·5	393·7	487·3	412·5	554·1	33·4	55·6
Other Countries—									
Exports	245·9	328·9	109·0	130·8	130·0	122·7	113·3	8·0	7·8
Imports	129·8	120·3	53·5	80·0	78·6	65·0	68·7	3·9	6·0
Principal Commodity Exports									
Non-Monetary Gold†	34·8	36·5	70·7	137·3	147·7	167·5	188·0	13·0	17·1
Paper, chiefly Newsprint	123·2	148·4	77·2	117·8	129·9	115·0	129·4	8·8	12·2
Wheat and Wheat Flour	421·8	493·6	147·5	245·0	139·5	100·3	140·9	3·7	9·0
Copper and its Products	14·9	28·0	12·3	40·2	57·3	53·9	53·6	4·6	4·5
Nickel	12·9	23·9	7·5	45·9	61·9	49·6	57·9	4·7	5·4
Planks and Boards	59·8	47·7	11·1	40·3	43·7	37·1	50·5	2·9	3·8
Meats	29·4	19·2	6·7	36·1	41·4	35·3	45·0	2·7	5·6
Wood Pulp	49·9	44·9	17·8	33·2	40·0	26·8	35·7	2·2	3·9
Automobiles and Parts	36·4	45·4	7·8	22·3	28·3	25·3	23·3	2·0	1·4
Fish	34·5	34·9	16·6	25·1	26·3	25·6	27·9	1·7	2·0
Fruits and Vegetables	18·7	12·0	11·4	13·6	16·6	20·2	22·5	0·7	1·6
Milk and its Products	41·6	35·8	11·7	14·4	17·7	17·6	18·7	0·6	1·0

†Adjusted for earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

EMPLOYMENT AND UNEMPLOYMENT

11. The general index of employment registered a gain of 4·4% during 1939-40 over the previous fiscal year. Although in the early part of 1939 employment was at levels considerably below those of the preceding year, it rose gradually with increased business activity and since June each month has shown a substantial increase over the same month of the year previous. The May 1 figure this year at 118·7 for the general index was about 7·6% higher than the same date in 1939 and was higher than any other May except that of 1929. Greatly increased employment in manufacturing, logging, mining and transportation contributed to this upward movement. The index of employment in construction and maintenance has recently been at levels considerably below those of a year ago owing to curtailment of expenditure on highway construction and maintenance; other branches of construction have shown increases.

The improved employment situation is reflected in the lower number of persons in receipt of relief. In each month since November, 1939, both the numbers of employable unemployed and of all persons on relief have shown a considerable reduction from the same month of the previous year. Preliminary figures for April, 1940, show a decrease of 25·2% from April, 1939, in the total of relief recipients, and a decline of 11% from the same month in the number of employable unemployed. The number of wage-earners unemployed in April, 1940, was estimated by the Bureau of Statistics to be about 367,000, as compared with 473,000 in April, 1939, a decrease of about 22·5%. This 367,000 includes a considerable but unknown number of enlisted men who were formerly unemployed.

EMPLOYMENT INDEXES

(1926=100)

—	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939*	1940*
All Industries	100·8	113·7	84·4	104·4	115·7	110·9	115·8	111·0	118·3
Manufacturing	100·8	112·7	81·8	104·7	115·5	110·0	116·1	108·6	124·8
Logging	100·2	116·6	42·7	153·4	201·6	107·4	130·2	84·4	129·2
Mining	101·2	115·5	97·2	140·7	155·2	157·4	165·4	163·3	170·1
Transportation	100·4	106·7	82·7	84·6	85·2	84·3	86·5	85·0	88·3
Construction and Maintenance	101·4	120·2	77·1	83·5	104·0	110·0	103·3	128·6	79·6
Trade	100·8	118·2	114·4	128·4	132·5	133·4	137·9	132·4	140·6

* Seasonally adjusted as at first of month.

EMPLOYMENT—ALL INDUSTRIES

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	111·2	111·5	111·9	111·4	109·0	110·6	111·0	109·7	111·3	111·3	110·6	111·0
1939-40	111·1	110·3	113·1	113·6	114·3	115·0	115·8	118·3	119·8	120·7	118·8	118·

* Seasonally adjusted as at first of month.

EMPLOYABLE UNEMPLOYED IN RECEIPT OF MATERIAL AID

From the National Registration—Department of Labour

(thousands)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1938-39...........	169	154	138	132	124	115	124	143	162	181	191	192	152
1939-40...........	187	169	149	141	142	125	125	133	147	164	170	173	152

ALL PERSONS IN RECEIPT OF MATERIAL AID

From the National Registration—Department of Labour

(thousands)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
All Persons—													
1938-39.........	1,024	956	885	836	758	554	641	787	896	977	1,019	1,028	863
1939-40.........	1,005	923	839	806	803	539	544	586	629	714	753	773	743
Agriculture—													
1938-39.......	392	380	364	339	287	109	168	252	292	321	321	323	295
1939-40.......	319	297	282	271	258	50	60	78	73	96	112	124	198
Urban—													
1938-39.......	632	576	521	497	471	445	473	535	604	668	698	705	569
1939-40.......	686	626	557	535	545	489	484	508	556	618	641	649	575

WAGE EARNERS UNEMPLOYED*

Estimated by Dominion Bureau of Statistics

(thousands)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1938-39...........	437	400	387	407	368	346	378	398	472	485	491	494	421
1939-40...........	473	395	369	352	332	300	283	296	364	377	387	391	360

* Beginning with Sept. 1939, includes a considerable number of enlisted men who were previously unemployed wage earners.

PRICES

12. The gradual decline of wholesale prices which had marked the latter part of the fiscal year 1938–39 continued up until August of 1939, and the index reached a low point of 72·4 in that month. During the economic adjustments that took place in the month or two immediately following the outbreak of war, and in considerable part due to such factors as exchange movement, higher ocean freight and insurance rates, and forward buying both by consumers and producers, wholesale prices of some commodities rose fairly steeply, particularly those of certain imports and exports, including grains and animal products. The total index rose to 79·3 in October, i.e., by about 10% in two months. From that point on to March the rise was more gradual and the index reached a peak of 83·2 in that month. This rise showed up mainly in a further increase in grain prices and in textile prices. Since March there has been a slight decline largely due to lower prices for animal products and grains, and the index for the week ending June 7 was 81·9.

It may be of interest in wartime to note that prices of fully and chiefly manufactured goods have followed very closely the movements of the general index, and that the index of the group "iron and its products" has risen by only about 5% since August while the group "producers' equipment" has increased less than 2%. It may also be worth noting that the index of our export prices had risen by about 24%, and that for imports about 17% between August and April.

During the six months before the war the cost of living remained at the low level to which it had declined in the latter part of 1938. Increased cost of food and, to a much lesser extent, of fuel, caused a rise of about 2% in the index in the first two months of war. Since that time only minor changes have occurred in the total index. Increases in the cost of clothing early in 1940 were offset by some reduction in the cost of food. The latest figure shows an increase of only 3% over that of a year ago.

While no official indexes of wage rates exist except on an annual basis, other information indicates that there have been numerous increases in wage rates, particularly in those trades where there is already some evidence of a shortage of skilled labour.

PRICES

Indexes

(1926=100)

—	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
Wholesale Prices	98·8	95·8	65·5	77·2	84·6	76·0	77·8	73·3	83·1
Consumer's goods	98·5	95·2	70·4	75·7	79·7	76·1	77·9	74·1	82·7
Producer's goods	99·0	96·9	61·3	76·4	85·5	72·1	73·2	68·2	80·2
Export prices(†)	100·0	94·2	54·9	71·3	81·1	65·9	66·6	60·8	74·0
Import prices(†)	100·0	96·1	70·5	82·1	89·0	82·2	87·7	80·7	94·2
13 sensitive manufacturing materials	96·3	87·6	36·6	61·0	62·5	49·8	61·4	51·0	67·6
Retail Prices	99·5	98·9	71·3	73·9	79·0	78·7	79·1	77·4	81·4
Cost of Living	99·6	98·9	79·9	81·2	83·6	83·8	84·1	83·1	85·6

† For the fiscal years 1927, 1929 and 1933 figures for nearest calendar years are given.

MONTHLY INDEX OF WHOLESALE PRICES

(1926 = 100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	82·3	80·3	80·1	78·6	76·0	74·5	74·1	73·5	73·3	73·2	73·2	73·3
1939-40	73·4	73·7	73·3	72·6	72·4	78·2	79·3	80·3	81·7	82·6	82·8	83·1

MONTHLY INDEX OF COST OF LIVING

(1926 = 100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.-Apr. Av.
1938-39	84·2	84·2	84·1	84·2	84·9	84·1	83·9	83·8	83·6	83·3	83·1	83·1
1939-40	83·1	83·1	82·9	83·1	83·0	82·9	84·7	85·0	85·3	85·1	85·2	85·6

FINANCIAL FACTORS

13. The outstanding facts relating to financial conditions during the past year are, firstly, the changes in exchange rates and the imposition of exchange control, secondly, the smooth working of our credit and monetary machinery and, thirdly, the disturbances caused to security markets by various developments in the war.

The foreign exchange value of the Canadian dollar remained close to the United States dollar until about a week before the outbreak of war. Between August 24 and September 15 it fell to a discount of about 10%. On September 15 the Foreign Exchange Control Board was established and after that date all sterling and foreign exchange transactions of Canadian residents were subject to its control. The official rates established by the Board were: American dollars, buying rate, $1.10, selling rate $1.11; Sterling, buying rate $4.43, selling rate $4.47. These official rates closely approximated the actual rates prevailing during the few days prior to control, and have not been changed since they were established. Practically all dealings involving Canadian dollars take place at these official rates. Non-residents of Canada are able to transfer Canadian bank balances and other assets to other non-residents, and there is a market for Canadian dollars in New York which is not subject to control by the Foreign Exchange Control Board. The small volume of transactions in this market makes its rates of little significance and also makes them rather unstable.

During the early months of the fiscal year 1939–40 the average yield on long-term Dominion Government bonds remained close to 3%. In the disturbances that naturally took place on security markets at the time of outbreak of war bond prices declined sharply and the average yield on long-term Dominion bonds in September was about 3·60%. From September to April there was a rather irregular recovery in the prices of these bonds, and by the end of April the yield was back down to 3·25%. Since that time there has been a small decline in price, and yields during the first half of June have been in the neighbourhood of 3⅓%. Canadian stock prices declined moderately in the weeks preceding the outbreak of war. After the war began industrial share prices rose sharply, particularly those of pulp and paper companies. Golds and utility stocks also began to rise before the end of September, and there was a general but mild upward movement till the end of the year. During the first four months of 1940 all groups except the paper stocks suffered a small and gradual decline. In May, however, there was general and severe liquidation which carried most groups to levels lower than any in recent years.

During the first five months of the fiscal year 1939-40 monetary and banking conditions remained stable. Cash reserves of the Chartered Banks increased slightly from $257 millions in March to $261 millions in August, while Canadian deposits of the banks increased in proportion. During the three months after the outbreak of war the Bank of Canada added substantially to its security holdings which increased from about $163 millions in August to $248 millions in November. This provided cash to meet the enlarged public demands for currency and to increase the cash reserves of the Chartered Banks from an average of $261 millions in August to an average of $294 millions in November. With this increase in their reserves the Chartered Banks were enabled to increase their Canadian deposits from $2,565,000,000 at the end of August to an all time record figure of $2,871,000,000 at the end of November. In these three months the security holdings of the Chartered Banks rose by $158 millions, and their current loans to the public by $147 millions. From November until April the Bank of Canada gradually reduced its security holdings from $248 millions to $206 millions. The cash reserves of the Chartered Banks have fallen in the same period from $294 millions to $271 millions. Total Canadian deposits of the Chartered Banks have been reduced less than in proportion and at the end of April amounted to about $2,753,000,000. This has involved a reduction of the security holdings of the Chartered Banks of about $73 millions, which is a little less than half their increase last fall.

Total net Government and corporate bond issues in 1939, as reported by the Bank of Canada, amounted to about $237 millions, exclusive of municipal issues. This compares with $174 millions, $56 millions and $106 millions in the preceding three years. The $237 millions included net Dominion direct and guaranteed and other C.N.R. issues amounting to $177 millions, Provincial issues amounting to $79 millions and net retirements of corporation issues of $20 millions. In the first quarter of 1940 there have been net Dominion and C.N.R. issues of about $168 millions and net Provincial issues of about $40 millions.

On April 30, 1940, an Order in Council was passed requiring all Canadian residents to sell their holdings of foreign exchange (but not of foreign securities) to the Foreign Exchange Control Board before May 31. Some exemptions were made for those requiring a certain amount of foreign exchange to carry on their normal business. As part of this mobilization of foreign exchange resources the gold and most of the foreign exchange reserves of the Bank of Canada were transferred to the Board. In order to provide the Board with the funds to purchase this gold and foreign exchange, the Exchange Fund was increased by $325,000,000, which was raised by the sale to the Bank of Canada of that amount of short-term Dominion securities. As a consequence of these operations the statements of the Bank of Canada since May 1 show no figures for gold coin and bullion, and much larger figures for investments. The value of gold held by the Bank on April 30 was $225,772,887.41.

FINANCIAL FACTORS

—	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
Security Prices and Yields									
Indexes of Common Stock Prices (1926=100)									
General Index	101·8	173·3	52·1	125·5	117·6	103·8	99·4	99·9	98·0
Industrials	102·4	222·2	60·1	207·6	192·2	171·8	163·0	104·5	157·0
Gold Mines	—	94·1	59·0	132·0	112·7	118·8	107·9	114·1	96·1
Dominion Bonds—Average Yields (%)	4·82	4·04	4·90	3·29	3·32	3·09	3·26	3·03	3·30
Dominion Treasury Bills—Average Yield (%)	—	—	—	·778	·739	·601	·702	·650	·745
Banking and Currency									
(Millions of Dollars)									
Bank of Canada—									
Total Reserves	—	—	—	194·8	206·0	217·5	267·0	236·4	284·6
Total Security Holdings	—	—	—	135·8	166·6	179·5	200·2	160·3	205·9
Active Note Circulation	—	—	—	70·6	95·9	107·8	140·5	108·3	162·7
Government Deposits	—	—	—	23·1	23·7	24·0	39·3	19·8	47·7
Chartered Banks' Cash Reserves	—	—	—	230·6	243·1	259·5	270·8	258·6	269·9
Chartered Banks—									
Canadian Deposits	1,978·0	2,274·0	1,929·0	2,280·1	2,390·6	2,487·0	2,697·0	2,544·5	2,743·5
Notice Deposits	1,355·7	1,507·0	1,378·3	1,530·6	1,584·7	1,649·6	1,700·1	1.698·7	1,666·3
Demand Deposits	557·8	682·4	473·1	646·0	684·0	705·0	764·1	710·4	791·0
Total Security Holdings	517·8	517·0	720·2	1,370·3	1,430·7	1,450·5	1,577·5	1,503·9	1,595·4
Current Loans in Canada	957·7	1,212·9	997·9	685·6	744·1	799·4	899·7	807·3	959·2
Call Loans in Canada	145·5	260·1	109·0	104·0	94·3	64·5	52·6	55·0	52·9