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CANADA

BUDGET SPEECH

DELIVERED BY

HON. J. L. ILSLEY

MINISTER OF FINANCE

MEMBER FOR DIGBY-ANNAPOLIS-KINGS

IN THE

HOUSE OF COMMONS

JUNE, 23, 1942



OTTAWA

EDMOND CLOUTIER

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1942

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HOUSE OF COMMONS, TUESDAY, JUNE 23, 1942

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE

Hon. J. L. ILSLEY (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, as we approach the end of a third year of war, we find ourselves in the midst of undertakings vaster than we ever hoped to assume for the defence of the world's freedom. We are surrounded by united nations more numerous and powerful than we ever dared to expect to be allied with us. Our war programme is great and growing in size and effectiveness. More and more of our national strength is being absorbed into it. The programmes of the united nations are daily becoming more closely knit in mutual aid. Yet to-day it is bitterly plain that we have far to go before victory is in sight.

The financial task of facilitating and safeguarding these developments has also grown in size and difficulty, but in the record and plans disclosed in this fourth war-time budget speech, it has become simple and direct in principle, though increasingly difficult of execution.

I

ECONOMIC AND FINANCIAL REVIEW

The budget proposals which I shall present to the house necessarily grow out of the experience of the past and are shaped by what we know of the work ahead.

Let me first recall some of the economic and financial events and policies of the past fiscal year. It was marked by great shifts and increases in production, employment, income, and private spending. The prime movers in our war economy are, obviously, our sales of goods abroad and our own government expenditures.

Taking the twelve months to the end of March as a basis of comparison, our exports

to the United Kingdom increased by 36 per cent, our exports to the United States by 41 per cent, our total exports by almost 50 per cent. In the face of restrictions abroad on non-essential buying and the use of transport facilities, these increases, much greater in amount than in any preceding year may be taken as evidence of our greatly enlarged contribution of war supplies and essential goods to allied and friendly countries.

For our own war programme, in the first quarter of this calendar year, our war direct expenditures were \$500 million as compared with \$275 million in the same months of last year, that is, more than 80 per cent higher.

General employment at the end of the fiscal year was up 22 per cent over the level of preceding March and employment in manufacturing was up 30 per cent. From the beginning of the war, employment in manufacturing has expanded by more than 80 per cent. Average weekly earnings of employees rose throughout the year. Retail sales at the close of the fiscal year were running about 20 per cent above the previous year's level, more than 50 per cent above the pre-war level, and showed few signs of slackening. Making allowance for the differences in prices, the quantity of goods being sold (aside from automobiles) appeared to be from 20 to 25 per cent above pre-war volume.

CONTROL OF PRICES, INCOMES AND SUPPLIES

As the year passed, numerous and marked shortages became apparent. The mounting war output of the united nations, greatly accelerated by the entry of the United States into the war, created scarcities of one strategic material after another. The widening of the area of conflict, the submarine menace on our coasts, and the loss of sources of supply in the far east shut off or reduced many imports on which we were accustomed to depend. The widening scope, the increasing speed of our own war programme, both in the armed services and in production, made heavy demands on our man-power until no one any longer denies the scarcity of labour. To these have been added shortage of power,

congested transportation facilities, and widely ramifying limitations of productive capacity. It has been clear these many months that our economy is in the zone of full employment, a condition in which it is still possible to expand our programmes for production and the armed services but only if we are prepared to make careful and wise choices as to what is urgent, what is more urgent, and what we can do without.

This is not an unexpected nor wholly unwelcome situation. It was clearly forecast in the budget speech, which I delivered in September, 1939. For the most part, it is reassuring evidence that we, as well as other nations associated with us, have so set the scale of our war programme that it will engage our full strength and more than we knew we had.

A clear sign of developing scarcities was provided in the rapid rise in prices in the summer of 1941. By October, 1941, the index of wholesale prices had risen by approximately 22 points since the beginning of the war. Of that, 10 points of rise occurred in the four months of 1939 when our exchange rate changed and shipping rates increased. Of the remaining 12 points of rise, 8 occurred between March and October of 1941. In living costs, half the full rise of the war period occurred between March and October of 1941.

These accelerating changes in production, employment, supplies and prices produced by October of last year a situation which was substantially different in degree from that which could be discerned on April 29, 1941, when the budget of that year was presented to the house. It was clear to the government that new fiscal measures, which could be adopted when parliament met, would be too late in effect and not sufficiently specific in application to meet the situation. It was, therefore, decided that direct controls should be established promptly over prices, wages and salaries, and that controls over production and supplies should be extended and made more rigorous.

The government's policy of over-all control on prices, wages, and salaries has already been discussed at length in the house. I would point out here four things: (1) the policy has in fact worked and has won support at home and admiration and emulation abroad; (2) though increases in some wage rates have been severely restricted, the earnings of labour have not been "frozen". On the contrary, depressed wage rates have been, and are being, adjusted by the war labour boards, while the Dominion Bureau of Statistics reports that for its sample of over a million and a

half employees, weekly earnings per employee, which reflect more continuous employment and overtime, increased nearly 8 per cent since October last. This increase in the average took place, despite the introduction of many women and other inexperienced production workers into industry; (3) the government by guaranteed prices, minimum prices, and export prices, which could not have been so high except for the terms of the War Appropriation (United Kingdom Financing) Act, and the intervention of the government, has contributed to a desired improvement in farm income while endeavouring to direct farm efforts to the most needed products. In the calendar year 1941, with relatively poor crops in many localities cash income from the sale of farm products was only 17 per cent below the income of 1928, the year of the biggest crops in our history. Good crops in 1942-43, with assured prices, will bring cash farm income close to the best records of Canadian agriculture. Excluding wheat, which has been in surplus supply since the beginning of the war and has required special measures, the prices of farm products on the average are now about 2 per cent above the level of 1926 and prices of animal products on the average are relatively still higher. Farmers are assured of these prices on a wide range of this season's crops, and will receive, by government action, higher prices than those on last year's crops for wheat, flax, soy beans, sugar beets and apples; (4) price and income control are essential weapons in combating inflation. They must be used, however, in close coordination with direct control of supplies and productive equipment, with direction and management of man-power, with consumer rationing, where necessary, and with fiscal policy. No one of these instruments is itself powerful and pervasive enough to do the whole job of directing our resources to the end desired.

Measures for the direct control of supplies multiplied during the year. The Minister of Munitions and Supply and the Wartime Prices and Trade Board have ordered the discontinuance or curtailment of manufacture of a large and growing number of non-essential products using metals and other scarce materials. Building construction and the installation of equipment, other than for war production, were more severely curtailed. The Wartime Prices and Trade Board is rapidly extending its orders on simplified practice to effect reductions in costs and provide the most ample supplies of essential products that the fundamental limitations will permit. Though dealers' stocks are large, it simply will not be possible during the present fiscal year for consumers to obtain the quantities of goods which they have been pur-

chasing during the past year. Restrictions on civilian industry to save materials and manpower will unavoidably multiply. We need not anticipate severe hardship; the government will do all it can to ensure equitable distribution of essentials. There must be, however, rigorous economy in consumption if the necessary materials, productive capacity, and labour are to be available for the winning of the war.

PROVINCIAL TAX AGREEMENTS

Since the Dominion-Provincial Taxation Agreement Act has been debated and passed by parliament and the agreements tabled, I need do no more than remind the house of the tax agreements with the provinces. In my budget speech of April 29, 1941, the provincial governments were offered compensation in respect of personal and corporation income taxes and the guarantee of gasoline tax revenues, if they would vacate the personal and corporation income tax fields for the duration of the war. This offer was accepted by the provinces, and I should like to pay tribute to the patriotic and constructive spirit in which the provincial governments cooperated in bringing the long and involved negotiations to a successful conclusion. The effect is that I am now free to recommend such tax changes as appear to the government necessary and equitable, and parliament is free to enact such changes, knowing that persons and corporations affected will be paying the same tax on similar incomes in no matter what province they are located. These are war-time agreements, and their duration is limited, but they make a great contribution to the possibility of an effective and equitable tax policy during the war.

STERLING AND DOLLAR EXCHANGE PROBLEMS

Concerning our exchange problems as they affect the finances of the past fiscal year, I need speak only briefly. In the last three budget speeches, they were dealt with at length because they then were to a degree separate problems requiring measures peculiar to them. They have now, by reason of events and measures taken, become merged with the general budget problem.

In introducing the resolutions on the War Appropriation (United Kingdom Financing) Act, on March 18 last, I explained fully the ways in which the government financed the United Kingdom's deficiency in Canadian dollars since the beginning of the war. During the fiscal year, 1941-42, the entire deficiency amounted to approximately \$1,100 million and was financed by Canada. Of this total, slightly less than \$48 million was financed by private repatriation of securities,

gifts and other private transactions. Of the remaining \$1,050 million, which required government financing, \$365 million was financed by repatriation of government and government guaranteed dollar securities (including \$223 million of the repatriation of \$295 million provided for under the Act). The remaining sum, \$685 million, represents sterling accumulated to our credit during the year. Such part of this as is not required for working balances, together with accumulations of \$215 million prior to March 31, 1941, is being taken care of by the remainder of the \$295 million repatriation, by the \$700 million loan and to the extent of \$76 million by a charge to the \$1,000 million gift provided in the War Appropriation (United Kingdom Financing) Act.

This act, in addition to the real advantages and essential rightness of its principles which were recognized by the house, has the minor advantage of removing from our financial picture an element in our national finances, which was very confusing to the layman. For the fiscal year, 1942-43, the financing of the United Kingdom's deficiency in Canadian dollars will appear as an integral part of Canadian war expenditures.

I turn now to the problem of United States exchange which has occupied a good deal of attention since the beginning of the war and has required special legislation and administrative action from time to time. Our imports of war materials from the United States have increased from month to month; recorded imports from the United States for both war and non-war purposes during the past fiscal year amounted to over \$1,100 million, the highest figure for any twelve-month period on record. Faced as we were with this growing need for United States dollars, our resources would not have been sufficient to meet the calls on them, had it not been for the Hyde park agreement, especially the sales of munitions of war to the government of the United States under it, and for the legislative and administrative steps taken to conserve United States exchange to which I have referred.

As I informed the house in introducing the United Kingdom War Appropriation Bill on March 18 this year, liquid reserves of gold and United States dollars held by the Foreign Exchange Control Board and the dominion government declined by \$142 million during 1941. In the first quarter of 1942, there was a marked, though in part a temporary, improvement. As a result, the decline in our liquid reserves for the fiscal year 1941-42 was only about \$50 million. This welcome change was due to two factors: purchases of Canadian

securities by investors in the United States, a method of obtaining exchange which cannot be depended on for really substantial amounts in view of the limited supply of securities available in Canada payable in United States dollars; and payments for sales of munitions under the Hyde Park agreement including some substantial advance payments. While we have reason to believe that these sales will increase, as new contracts are arranged and as larger deliveries are made under existing contracts, the advance payments are, of course non-recurring.

The outlook for the fiscal year, 1942-43, is distinctly more cheerful than the results of the calendar year 1941. We cannot expect, however, the full improvement which took place from January to March to continue. Other unfavourable factors have entered the picture, particularly the adverse effect on the tourist trade of the necessary restrictions on the use of gasoline and rubber and the recent decline in newsprint exports. Nevertheless, I look forward with reasonable assurance to transactions under the Hyde Park agreement being sufficient to safeguard our exchange position during the present fiscal year. The various measures which we have taken since June, 1940, have been sufficient to restrict what I may call our "civilian imports" from non-sterling countries to limits well within our ability to pay. The uncontrollable item is imports for war purposes which for the calendar year 1942 it is estimated will total approximately \$500 million, of which about 45 per cent is to supply the United Kingdom and other Empire countries and 55 per cent for our own needs. It is our estimate that were it not for the Hyde Park transactions almost the whole of this amount would be a net drain on our resources in United States dollars, or would be as long as we had any such resources left.

As matters stand, we are hopeful that the Hyde Park agreement will ensure our ability to purchase essential materials and war supplies in the United States to the full extent that that country is able to supply them. In effect, the agreement may be thought of as eliminating the dollar sign in our war-time transactions with the United States by providing a convenient technique for an exchange of raw materials and other components of war goods for the finished war supplies we are equipped to produce. By the collaboration of our good neighbour and ally, we hope to be able to meet our exchange requirements, which arise out of our need for war materials, in the way most effective for a nation at war, namely, by the provision of munitions of war for whichever of the united nations and whichever of the world's battle fronts require them most urgently.

This is a most desirable situation, but let it not be misunderstood. We are able to do this only as long as we continue to exercise care and prudence in our non-war transactions. The restrictions on pleasure travel have now been in force for nearly two years and it can be stated with assurance that these restrictions have saved us well over 100 million United States dollars since they were imposed. The amounts saved by the War Exchange Conservation Act are also very substantial. During the past fiscal year, it is likely that the savings under both these heads have amounted to in the neighbourhood of \$130 million, about equally divided between the two items. In the light of these figures, it is fully apparent that these measures have played an essential part in the past and that we are not presently in a position to relax them.

GOVERNMENT ACCOUNTS AND FINANCING 1941-42

Against this background, I wish now, Mr. Speaker, to review the government accounts for the past fiscal year and report on the financing which has been carried out. Following the useful custom which has now been established, I shall only summarize the estimates of our revenues and expenditures, and, before I resume my seat, I shall table a White Paper which will include full information concerning these estimates. The house will recall that, though these estimates are close approximations to the final figures, the Public Accounts will not be available until towards the end of this calendar year.

REVENUES

Revenues are again very greatly increased. Our present estimate is that they will total \$1,481 million, an increase over the previous year of \$609 million, or approximately 70 per cent. This is some \$34 million higher than I forecast in presenting the budget last year, and is nearly three times the Dominion's pre-war revenue.

Total tax revenues are now estimated at \$1,360,915,000 as compared with \$778 million in the preceding fiscal year. In contrast with previous years, direct taxes on incomes and profits made the largest contribution to this total. The graduated tax on personal incomes, the 18 per cent corporation tax and the special tax on dividends and interest produced \$404 million, more than 80 per cent in excess of last year's yield. The national defence tax produced \$107 million and the excess profits tax, for what was really its first full year of operation, as it is collected on the profits of the previous year, yielded \$135 million.

Succession duties, first introduced in last year's budget, produced \$7 million, a figure which gives little indication of the future revenue to be derived from this source.

Excise taxes, though no longer the largest source of revenue showed a greater increase than that for the preceding year, rising from \$284 million to \$453 million. The largest item in this group, the sales tax, at \$236 million was \$56 million or 31 per cent higher than the previous year. The other excise taxes including the new taxes imposed last year fully reached or exceeded the estimates of the last budget.

Excise duties yielded \$110 million as compared with \$89 million in the preceding year. Customs duties, as was expected, showed the smallest increase recorded during the year, from \$131 million to \$142 million.

Non-tax revenue, to which the largest contributor is the Post Office, is estimated to be \$103 million. Special receipts and credits will be approximately \$18 million.

EXPENDITURES

Turning to our expenditures, we now estimate that ordinary expenditures for 1941-42 were slightly under \$444 million, about \$53 million more than last year. Of this increase, \$15 million is attributable to increased interest on the public debt, \$10 million to increased cost of loan flotations and bond amortization, \$21 million to compensation to the provinces under the tax agreements and \$10 million to the Unemployment Insurance Act. Other items of ordinary expenditure are slightly reduced. Capital expenditures at \$3,357,000 were about the same as the previous year. The category of so-called special expenditures, which includes the costs of unemployment and agricultural relief, Prairie Farm Assistance Act, wheat acreage reduction payments, and prairie farm income payments will, it is estimated, show expenditures of \$62,879,000. Expenditures for relief and works projects have fallen to small figures, but payments under the Prairie Farm Assistance Act, the wheat acreage reduction and the prairie farm income payments have offset this decrease and occasioned an increase of \$20 million in the total. To meet deficits resulting from the operations of the Canadian Wheat Board, which had not been previously provided for, \$12,571,000 has been placed in reserve.

In 1940-41, government-owned enterprises required \$18 million. In 1941-42, because of the immense increase in railway earnings, this was reduced to \$1,215,000, only the Prince Edward Island car ferry and terminals and the National Harbours Board requiring such expenditures.

In the last budget, I estimated that war expenditures for 1941-42 would be between \$1,300,000,000 and \$1,450,000,000. It is now estimated that they will be \$1,351,553,000, excluding outlays of \$42,480,000 charged to

active assets. This compares with \$752 million spent in the preceding year.

OVER-ALL DEFICIT

Adding to the amounts, which I have given, miscellaneous other charges representing chiefly write-down of assets, we get an aggregate expenditure for the year 1941-42 of \$1,894,966,000, an amount more than 50 per cent higher than the expenditures of 1940-41, viz., \$1,250 million. Deduction of total revenues of \$1,481,285,000 gives \$413,681,000 as the over-all deficit or increase in the direct net debt, which on March 31, 1942, was approximately \$4,062,372,000. I estimated last year that we would pay between 73 and 79 per cent of our direct expenditures out of revenue. It now appears that we will have paid 78 per cent.

On March 31, 1942, the outstanding unmatured funded debt (including treasury bills) was \$5,866,071,000 on which the average rate of interest was 2.90 per cent as compared with 3.06 per cent a year previously. In addition, there were outstanding bonds and debentures bearing the guarantee of the Dominion to the amount of \$818,842,000, a decrease of \$165 million during the fiscal year.

BORROWINGS

Total borrowings during the year, excluding debentures of over \$33 million reissued to the western provinces in continuation of the school lands settlement, amounted to approximately \$2,424 million. Of this total, \$1,834 million was borrowed from the public in the two victory loans; \$85,294,000 represents the sale of war savings certificates and stamps; \$4,553,000 non-interest bearing certificates; \$10,000,000 was borrowed in New York for refunding; \$450 million was borrowed from the Bank of Canada and the chartered banks, replacing issues of identical amounts held by them and which matured during the year; the remainder, \$40,000,000, is the increase in treasury bills outstanding during the year. Thus, aside from the increase in treasury bills, there was no new direct borrowing from the Bank of Canada or the chartered banks during the year.

DEBT

Dominion of Canada direct obligations in the amount of \$931,042,000 (excluding school lands debentures) were redeemed during 1941-42, leaving net borrowings for the year of \$1,493,000,000. This sum was used to meet the over-all deficit of \$413,681,000, to advance \$400 million to the Foreign Exchange Control Board, for use in financing the sterling area's Canadian-dollar deficit, to advance \$252 million to the Canadian National Railways (nearly all of which was used to effect a redemption of railway securities), and the remainder (\$427

million), to make various other advances and raise the working balances of the government.

To obtain from the people of this country loans to the amount of \$1,673 million (allowing for the redemption of securities in New York and London), to obtain from the people and corporations of this country such an amount after they had contributed nearly \$1,500 million in revenue is a great financial achievement. It reflects the willingness of Canadians to do what is necessary in finance as in other fields to resolve this conflict in complete victory. It is an achievement which reflects the greatest credit on the National War Finance Committee and on the campaigns which it has so successfully carried out for the sale of war savings certificates and stamps and victory bonds. To them, to the press, radio, and other agencies, which have made special contributions to this success, and to the thousands of workers who cooperated in the campaigns, the government and the people of this country are grateful.

Our whole financial record for 1941-42 is an achievement but I wish to add a word of warning. When we say that 78 per cent of our expenditures was paid out of revenues we are perfectly correct by the principles of bookkeeping, but the figure is open to misconstruction. In addition to our expenditures, we must take account of the financing of the United Kingdom. It was necessary during the year for the government to find approximately \$1,050 million for this purpose. In exchange for the Canadian dollars transferred to the United Kingdom, we acquired assets, certain Canadian government obligations held in London and sterling balances which have now been converted into the \$700,000,000 loan. Since we acquired assets, the accountants are quite correct in classifying these outlays as investments. But just as an individual faces the same immediate financial problem in finding \$100 whether it is to be used to pay for the winter's coal, buy a government bond or make a gift to his son, so the immediate financial and economic problem of our financing of United Kingdom purchases has been the same as that of our own war expenditures. We must realize that though it is correct to say that in 1941-42 we paid 78 per cent of our expenditures out of revenue, the significant thing to say is that we paid just over 50 per cent of our expenditures and war advances out of revenue.

Further, we must not be misled by our achievements in borrowing from the public and the corporations. The conditions, under which a government may most easily borrow from its people and have its loans always oversubscribed, are the conditions in which

there is a considerable inflation of incomes and of bank balances. The government is committed to a policy of "pay as you go as far as it may be practicable"; it has set its face against distributing the cost of war through the medium of inflation. We must bear in mind that if it is easy for some of the people of this country to lend, easy for the government to borrow, there is a presumption, unless most of the opportunities for expenditure have been blocked, that we are falling short of our declared policy. I shall have occasion to say something further on this subject a little later.

II

BUDGET FORECAST 1942-43 AND PROPOSALS

So much for the past. I have given a brief, and, I hope, lucid account of the financial policies of the past year and the results of the budget of 1941-42. I realize, however, that the house has a greater interest in the estimates of our expenditures for the new fiscal year and in the measures and policies we propose to meet these expenditures.

ESTIMATE OF EXPENDITURES

For the fiscal ending March 31, 1943, the house has before it estimates of non-war expenditure amounting to \$455 million. To this will have to be added supplementary and possibly further supplementary estimates, including about \$20 million to provide for payments under the Wheat Acreage Reduction Act, and perhaps amounting altogether to, say, \$30 million.

The Dominion-Provincial Taxation Agreement Act provides for payments to the provinces of \$34,428,000. This does not include any payments, which it may be necessary to make as a result of the guarantee of provincial gasoline tax revenue. However, any amount which will fall due on this guarantee in the present fiscal year is likely to be small.

It will be recalled that the War Appropriation Act makes provision for war expenditures of \$2,000 million. In the early years of the war actual expenditures were likely to fall short of estimates. At this stage, they are more likely to reach or exceed the estimates and I may have to ask the house for an additional appropriation at a later date. Indeed, as I pointed out to the house in March, though the total appropriation requested was \$2,000 million, the individual items in the estimates, submitted by the departments at that time, totalled \$2,200 million.

The War Appropriation (United Kingdom Financing) Act provides for expenditures of \$1,000 million to furnish food, raw materials, and munitions of war to the United Kingdom.

Of this amount, the sum of \$76 million was used to purchase sterling accumulated during the month of March and this sum logically, and as intended, should have been charged to expenditures for the year 1941-42. It was, however, impossible to determine the amount and effect the necessary accounting entries before April 30, the last date on which charges could be taken into the accounts for the last fiscal year. While the gift to the United Kingdom is limited to \$1,000 million, it already appears likely that ways and means will have to be found to finance further shipments before March 31, 1943.

Adding these estimates together, we arrive at a total of \$3,570 million. In view of the considerations I have mentioned, the figure is likely to be exceeded. I feel, therefore, that it would not be safe nor fair to the house and the people of Canada to make financial plans for less than expenditures of \$3,900 million.

ESTIMATE OF REVENUE

To meet these requirements, it is estimated that with present taxes and tax rates, our total ordinary revenues for the fiscal year 1942-43 will be approximately \$1,672 million. The following statement shows how the estimate is made up and, for comparative purposes, the estimated yields for 1941-42:

	1942-43 (millions)	1941-42 (millions)
Customs duties.....	\$ 135	\$ 142
Excise duties.....	123	110
Sales tax.....	218	236
War exchange tax.....	95	101
Other excise taxes.....	85	116
Income taxes—		
Personal.....	240	190
Corporate.....	200	186
Interest and dividends..	28	28
National defence tax.....	150	107
Excess profits tax.....	275	135
Succession duties.....	15	7
Miscellaneous.....	3	3
	<hr/>	<hr/>
Non-tax revenue.....	\$1,567	\$1,361
	105	103
Total ordinary revenue...	<hr/> \$1,672	<hr/> \$1,463

It will be noted that we anticipate substantial increases in revenues from national defence tax and personal income tax and a very large increase in the yield of the excess profits tax. These will result from increases in incomes and the application of the rates of the 1941 budget to incomes for a full year. We also look for a sizable increase from excise duties. We anticipate that the yields of the sales tax, the war exchange tax, and other commodity taxes will decline by about \$55 million since a large number of goods subject to tax will not be available in the quantities

purchased last year and inventories being used up will have already been taxed. Obviously, the amount of such decreases is very hard to estimate with accuracy. The figures which I have given are the most careful guesses which we have been able to achieve.

THE FINANCIAL TASK

Expenditures of \$3,900 million and revenues of \$1,672 million will leave an apparent deficit of \$2,228 million to be covered by new taxes and borrowing. On the basis of these estimates, we should be paying less than 43 per cent of our expenditures out of revenue. To make a comparison with last year, we can exclude the United Kingdom financing and reach a deficit of \$1,228 million as compared with \$414 million as estimated for the past fiscal year.

Last year, I referred to the financial requirements of 1941-42, which were difficult to define clearly, as "staggering." Confronted now with much larger requirements, set out as the simplest of sums in arithmetic, I must perforce drop all adjectives and try to state, as clearly as one who isn't a prophet may state, what they mean in terms of the future.

During the last fiscal year, we appeared to achieve the impossible. Rough estimates indicate that we increased the dollar value of our national output of goods and services by nearly 25 per cent, (bringing the increase during the war to about 80 per cent), but we increased our expenditures on war (including expenditures for United Kingdom purchases) by a greater absolute amount. One might have expected that this would necessitate reduced expenditures for private consumption. On the contrary, estimates indicate that expenditures for private consumption were substantially increased. Our own observation confirms this.

The explanation of this seeming paradox is twofold. On the side of goods and services, some of the goods, which were purchased last year, did not come out of our own current output. Apparently, we reduced our inventories somewhat during the fiscal year, and ended the year with lower stocks on hand than we had at the beginning, having used more than we produced in the interval. We did not maintain our capital equipment by expending on repairs and replacements the full depreciation charged as an expense. Shortage of materials, in many cases, made such maintenance impossible. We did not pay for all our imports from the United States out of current production. Decline in our reserves of United States funds and imports of capital provided in the neighbourhood of \$200 million

of imports paid for out of capital not out of income.

On the side of money, not all the funds which the government acquired by taxation and borrowing came out of income, even out of gross income. A substantial amount, in fact, came in this the first year in which really big bond-selling campaigns were carried on, from idle bank balances or directly or indirectly from private bank loans. We obtained from an increase in our treasury bill issues \$40 million.

As I read the experience of the past fiscal year, we were not able to draw enough goods from sources other than our current output to match the idle balances and bank credit which were drawn into the treasury and paid out again in incomes. Of the \$1,673 million which we borrowed from the people of this country, by no means all could have come out of current saving. This, and similar situations in countries with which we trade, together with the insatiable demands of war for goods and services, occasioned the rapid rise of prices last summer, and, but for the prompt action of the government in imposing drastic restrictions on prices and incomes, would have led to a further and disastrous inflation.

In the present year, we must and can again increase our total output but by no such amount as was added to it last year. Shortages of materials are daily growing more stringent. Scarcities of power, transport facilities and labour have placed narrow limits on the production of almost everything. The need for war production, and it is only too apparent how urgent that need is this year, will absorb all our capacity to expand output and more.

Looking at the problem from the side of goods and services, we shall not be able to obtain substantial imports from the United States without paying for them out of current output, for we expect to meet, or nearly meet, our exchange problem by deliveries of goods under the Hyde Park agreement. We can probably again draw on inventories of civilian goods but by how much I do not know, for information as to inventories is very deficient. Deferred maintenance and replacement must again contribute a substantial sum. Making allowances for these sources outside of current output, the conclusion is inescapable that industry will not be able to supply goods for civilian consumption and private investment on the scale of last year.

Looking at money income, the conclusion is the same. Increased government expenditures of the amounts which I have given will, with present rates of taxation, leave in the hands of persons and corporations spendable income far in excess of what can be matched

at current prices by goods and services. In our borrowing, it would be dangerous folly to depend on the investment of idle balances. Even if we needed to borrow from the public no more than we borrowed last year, there must be a very substantial increase in current saving.

It is a most difficult task to deal with sums of the magnitude involved here. It is an even more difficult and sobering experience to reach decisions affecting such large fractions of the incomes of our people. I have given the most careful and earnest consideration to the problem confronting us, and have inevitably come to the clear decision that my proposals in this budget must include measures to increase our revenues within the fiscal year substantially, at least to the point where our dependence on borrowing will be more nearly within the limits of our current saving; they must provide for increased saving, both corporate and personal; they must include also measures to ensure that the task of contributing to the required increase in current saving is more widely and equitably distributed.

These fiscal measures are necessary if we are to follow honestly our declared policy to pay as we go in so far as it is practicable. They are necessary if our war debt is not to create post-war difficulties. It is not the size of the debt that is a matter of chief concern for after all it is an obligation of the people of Canada through their government to the people of Canada. Rather, we are concerned about the distribution of it. It is a matter of the first importance that those who have the right to receive payments on government obligations shall be those who will use the repayments to provide needed improvements in their standard of living, maintain themselves against insecurity, and contribute to the improvement of our productive equipment.

These fiscal measures are necessary also to success in our four-front battle against inflation. The price ceiling, control and rationing of supplies, the direction of man-power, and fiscal policy are complementary, not alternative measures. The offensive must be maintained on all four fronts. No one front can be held unless the others are held. The price ceiling, a sound policy which is being administered with great courage and imagination, cannot itself defeat inflation. If I may venture another military metaphor, it can prevent the enemy from winning by infiltration.

PERSONAL INCOME TAXES

From what has been said it is evident that fiscal necessity forces us to look again to the income tax on individuals, or some similar

device, for a large amount of additional funds. In devising measures to meet this need I have had to keep in mind three other important considerations—the need for equity, for incentive, and for savings.

As regards equity, I am sure we all agree that the income tax on individuals is the fairest method of taxation. By and large, a person's income is the best single measure of his taxable capacity, particularly when we take into account the number of persons dependent on him. It is by no means a perfect measure, however, and as we increase the rates to higher levels we must attempt to take into account other factors affecting ability to pay. Therefore I have several suggestions to put forward in a few minutes, intended to take into account additional special circumstances affecting ability to pay.

The problem in regard to incentive is less easy to assess but more fundamental and therefore more difficult to overcome. A progressive income tax must of necessity take more out of an additional dollar of earnings than it does out of the average dollar of earnings. Consequently it must bear heavily on additional income earned through extra effort or efficiency. There is a danger that high progressive rates of income tax may interfere with the incentive for harder and better work for efficient production. We can and must rely upon other than economic motives to a large extent these days. Nevertheless we cannot afford to dispense entirely with the incentive of improved earnings as a stimulus in the continual week-in, week-out production work of the nation at a time when production is of vital importance. I have endeavoured therefore, to frame these income tax measures so as to preserve as much as possible of the earnings incentive for the great majority of the working population.

The third consideration is the need to ensure that the increase in taxes is reflected in a decrease in expenditures and not in reduced saving. There would be little net gain if the putting into effect of higher income tax rates resulted in a corresponding decline in saving. It is vitally necessary that, while tax revenues increase, the flow of savings into the treasury shall also increase greatly.

Equity, incentive, and the encouragement of saving—these are the considerations which I have kept in mind, but fiscal necessity and the rude facts of war press us hard.

In order to obtain the increased yield from income tax which is required, I am proposing that we combine the present national defence tax and the graduated income tax into a single assessment to be collected as far as

possible by deduction at the source, or, where that is impracticable, by a compulsory instalment plan. This total assessment will consist in part of a flat rate tax on the total income like the present national defence tax, and in part of a steeply graduated tax at substantially higher rates than the present. It will be assessed in respect of incomes of the calendar year 1942, but will be collected and payable over the twelve months from September 1 of this year to August 31 of next year. Returns are to be filed, as at present, on or before March 31. National defence tax already deducted from 1942 incomes will be credited toward the total payable under the new tax; this will afford considerable alleviation of the immediate burden for those in the lower brackets.

As at present, single persons with incomes of less than \$660 per year and married persons with less than \$1,200 a year will be exempt from tax, and the tax will not reduce incomes below these starting points. The flat rate tax corresponding to the present national defence tax, will be at the rate of 7 per cent for married persons, and at the same rate for single persons with incomes not exceeding \$1,800; it will be 8 per cent on single persons with incomes exceeding \$1,800 but not exceeding \$3,000, and 9 per cent on single persons with incomes exceeding \$3,000. The allowance of \$20 for a child under the national defence tax has been increased to \$28 for this flat rate tax—that is, in direct proportion to the increase in the rate. It will be noted that the differentiation between the single and married in the rate of tax comes more gradually and at a higher income than in the present national defence tax; the effect of this on the relative tax payable will be more than counterbalanced in the brackets between \$1,200 per year and \$3,000 by the changes in the graduated tax and by other means to be noted in a moment.

The changes in the graduated tax are more complicated. In place of the present exemptions of \$750 for single persons, \$1,500 for married persons and \$400 for each child, we are shifting over to a single basic exemption of \$660—which is also the present starting point for national defence tax—and a flat allowance off the tax for married persons and for children. Married persons will deduct \$150 from the graduated tax, and the allowance for children (or other dependents) will be \$80 each. These figures were reached by taking the present exemptions of \$750 for a wife and \$400 for a child and evaluating them in terms of a tax saving at the rate of 20 per cent, which is not the lowest rate of the present graduated tax, but the rate in the

second thousand of taxable income. In effect, therefore, we are "freezing" the value of these present exemptions at about the amount they have been worth to a taxpayer having an income of around \$2,500 or \$3,000. This, I believe to be a better way of increasing the tax on persons with families than reducing the current exemptions, particularly under present circumstances when other changes are being made which will have the effect of widening the difference between the levies on the single, the married, and those with children.

The proposed rates of the graduated tax are set forth in detail in the resolution. They are substantially higher than the present rates. The first thousand dollars of net taxable income (i.e., after the exemptions are deducted) is now taxed at the rate of 15 per cent. Under the new schedule the first \$500 is to be subject to a rate of 30 per cent, the next \$500 to 33 per cent, and the following \$1,000 to a rate of 37 per cent—compared with the 20 per cent rate on the second thousand in the present schedule. I shall give a number of examples in a moment to illustrate the effects of these increases.

These new rates, together with the changes in exemptions and allowances, will increase very substantially the amounts to be obtained from taxpayers, although they will not impose taxes on any who would not be liable for taxes under present rates and exemptions. For example, these new rates would require from a married man without children and having an income of \$3,000 a year a total of \$884, in place of the amount of \$400 under the present law. While the total yield these rates will produce is still something short of the amounts we should like to obtain and therefore they cannot be considered more than enough from the point of view of our war requirements, they place such a severe burden upon many taxpayers that I believe we must now be prepared to make certain new types of adjustments in order to meet the considerations which I mentioned a few moments ago—considerations of equity, incentive and savings.

One type of special provision which I am suggesting, although not the most important, is to permit an exemption from taxable income in respect of unusually large medical or hospital expenses which a taxpayer has had to meet during the year out of the income on which he is being taxed. This will take the form of permitting as a deduction from income, for the purpose of calculating tax, amounts spent by the taxpayer during the

tax year on medical, dental, hospital and nursing services to the extent that these exceed 5 per cent of the taxpayer's income. A limit is to be set on the amounts that may be claimed in this way, of \$400 for one taxpayer, plus \$200 for his wife and \$100 for each child, up to a maximum of \$1,000. I should point out that while a family of five, for example, is more likely to have a large excess of these expenses in any year than a single person, it is not likely to have five times the amount for it is not to be expected that all five will be subject to serious illness or accident in the same year. I may say by way of explanation of the 5 per cent that studies of family expenditure indicate that the average expenditure on medical services, etc., are in the neighbourhood of 4 or 5 per cent of income, and we desire only to provide exemption for those who have more than average expenditures of this kind. Those claiming this exemption will be required to submit evidence that these payments have, in fact, been made in respect of services received by the taxpayer or his dependents within a specified period.

REFUNDABLE TAX

The second and most important type of alleviation I wish to recommend in order to render equitable the increased rates which I have outlined involves a substantial innovation in our tax machinery. I am proposing to make a portion of the increased tax refundable within a specified period after the war, with accrued interest at 2 per cent. This portion of the assessment on his income will therefore constitute a form of savings for the taxpayer, rather than simply a tax. This saving will be a part of the taxpayer's war-time earnings, kept for him until after the war, when it can be spent to better advantage. By means of this principle we are able to meet our immediate fiscal needs to a substantial degree without endangering the incentive afforded by the possibility of higher earnings for more and better work. In the case of those with incomes in the lowest brackets subject to tax, the refundable portion will be greater than the increase in the total taken, so that the net tax on these lower paid groups will be somewhat lighter than at present, although they will be required to provide a fair share of the increased total assessment.

This refundable portion of the tax we may term a "minimum savings requirement". It will ensure that the taxpayer not only pays his taxes but saves a certain minimum amount, dependent on his income, his tax, and his family responsibilities. In general, it will be collected in the same way and at the same time as the income tax. Allowance is to be made, however, in this refundable portion of the tax for certain types of savings already being made by the taxpayer under contract, which the taxpayer cannot cease making without substantial loss or danger. Payments made by the taxpayer within the tax years as net premiums on life insurance contracts in force to-day, or as principal payments on a mortgage on one residence, or as payments into a pension fund, retirement fund or superannuation fund, will be accepted as an alternative to the liability to turn over funds directly to the treasury as part of the minimum savings requirement. These alternative types of savings cannot readily be drawn upon during the war, and of course to the extent they are drawn upon in any year, they cannot be included. The use of funds for these purposes by the taxpayer does not compete with war requirements for goods or services, nor add to the problems of price control and rationing, as does the use of funds for expenditure. By permitting these savings under existing contracts to be counted a part of the minimum savings requirements, we are able to ensure that everyone saves the minimum amount without creating hardship for those who have contracted to save substantial amounts by means of life insurance, mortgage payments or pension funds.

Let me emphasize clearly that this minimum of savings to be required of all does not release any of us from the obligation to save as much as is humanly possible in addition to this, and to invest it in war savings certificates or victory loans. We are not substituting compulsory for voluntary savings. On the contrary, we must secure a very large increase in voluntary savings from individuals this year, in addition to the minimum savings now to be required by law. The figures I shall give in a

few minutes of the amount we shall have to borrow in addition to the revenue to be obtained from existing and increased taxes will make it quite evident that savings must greatly increase.

There is no doubt that Canadians as a whole have the financial means to make such savings. Under the pressure of vast war expenditures their aggregate income is reaching levels which would have seemed impossible a few years ago or even in the palmy days of 1929. Under the measures being proposed we are going as far as we feel we can to ensure a reasonable minimum degree of equity in respect of war saving. But the great majority of Canadians can save more than this basic minimum, and some can save very much more. I have in mind, for instance, family groups whose total income has increased very substantially because of the war. Under a fiscal system which is based on the individual rather than the family as a unit, the full mobilization of possible savings by such groups can only take place on the voluntary principle.

It is therefore clear that the National War Finance Committee, which directs our savings campaigns, has an even bigger and more difficult job to do than it has had in the past. The magnitude and the character of its task is such that the committee does not believe it can succeed unless it becomes to an even greater extent than it is now a people's organization. Success will depend upon the extent to which it can draw upon every group in the community for men and women who will help in planning its activities as well as in carrying them out, and organization is now proceeding with this end in view.

The taxes and minimum savings required from persons with various incomes are illustrated in a table which I would like to place on *Hansard* at this point, with the consent of the house.

The table gives the figures for single persons, married persons without children and married persons with two children, for selected incomes from the exemption limits up to high figures. The amount of tax payable at current rates, including national defence tax, is shown for the purpose of comparison:

TABLE ILLUSTRATING EFFECT OF PROPOSED INCOME TAX RATES WITH
REFUNDABLE FEATURE

(Amounts shown in even dollars for purposes of illustration)

Annual Income	Tax at Present Rates	Proposed Increase in Tax Alone	Tax at Proposed New Rates	Refundable Portion, or Minimum Savings Require- ment	Total, i.e., New Tax plus Refundable Portion or Minimum Savings Require- ment
SINGLE PERSONS, WITHOUT DEPENDENTS					
700.....	35	-15	20	20	40
850.....	57	1	58	58	116
1,000.....	87	5	92	80	172
1,250.....	162	5	167	100	267
1,500.....	217	30	247	120	367
1,750.....	273	58	331	140	471
2,000.....	340	101	441	160	601
2,500.....	475	151	626	200	826
3,000.....	622	202	824	240	1,064
4,000.....	955	319	1,274	320	1,594
5,000.....	1,332	396	1,728	400	2,128
7,500.....	2,400	570	2,970	600	3,570
10,000.....	3,600	712	4,312	800	5,112
20,000.....	9,105	1,924	11,029	800	11,829
30,000.....	15,082	3,314	18,396	800	19,196
50,000.....	28,392	6,511	34,903	800	35,703
100,000.....	64,347	15,990	80,337	800	81,137
500,000.....	411,720	60,584	472,304	800	473,104

MARRIED PERSONS, WITHOUT CHILDREN

1,250.....	50	-25	25	25	50
1,300.....	65	-15	50	50	100
1,500.....	75	34	109	108	217
1,750.....	125	36	161	160	321
2,000.....	175	50	231	200	431
2,250.....	225	91	316	225	541
2,500.....	275	126	401	250	651
3,000.....	400	184	584	300	884
4,000.....	675	289	964	400	1,364
5,000.....	1,000	378	1,378	500	1,878
7,500.....	1,965	555	2,520	750	3,270
10,000.....	3,080	682	3,762	1,000	4,762
20,000.....	8,330	1,949	10,279	1,000	11,279
30,000.....	14,085	3,361	17,446	1,000	18,446
50,000.....	26,965	6,588	33,553	1,000	34,553
100,000.....	61,875	16,112	77,987	1,000	78,987
500,000.....	401,120	60,834	461,954	1,000	462,954

TABLE ILLUSTRATING EFFECT OF PROPOSED INCOME TAX RATES WITH
REFUNDABLE FEATURE—*Concluded*

(Amounts shown in even dollars for purposes of illustration)

Annual Income	Tax at Present Rates	Proposed Increase in Tax Alone	Tax at Proposed New Rates	Refundable Portion, or Minimum Savings Require- ment	Total, i.e., New Tax plus Refundable Portion or Minimum Savings Require- ment
MARRIED PERSONS, WITH 2 CHILDREN					
1,250.....	22	-6	16	16	32
1,300.....	25	-7	18	17	35
1,400.....	30	-9	21	21	42
1,500.....	35	-10	25	24	49
1,750.....	48	5	53	52	105
2,000.....	60	47	107	108	215
2,250.....	73	90	163	162	325
2,500.....	115	102	217	218	435
3,000.....	215	119	334	334	668
4,000.....	450	218	668	480	1,148
5,000.....	735	327	1,062	600	1,662
7,500.....	1,637	617	2,154	900	3,054
10,000.....	2,710	636	3,346	1,200	4,546
20,000.....	7,890	1,973	9,863	1,200	11,063
30,000.....	13,621	3,409	17,030	1,200	18,230
50,000.....	26,437	6,700	33,137	1,200	34,337
100,000.....	61,299	16,272	77,571	1,200	78,771
500,000.....	400,408	61,130	461,538	1,200	462,738

NOTE.—In calculating the above taxes it has been assumed that all incomes up to \$30,000 are entirely earned incomes, and that incomes of more than \$30,000 include earned income of that amount and additional investment income to make up the total.

Let me give a few examples from the table. A married man without children and with an income of \$2,000 a year is liable under the present law for a tax of \$175. Under the rates proposed he would be liable for a total amount of \$431, of which \$231 would be tax and \$200 would be his minimum savings requirement to be refunded after the war, with interest. A single man with the same income would be paying \$340 under the present rates, and would pay a total of \$601 under the new rates, of which \$160 would be refundable and \$441 would be tax. A single man with an income of \$1,000 is at present rates subject to a tax of \$87.50, and at the new rates would be subject to a tax of \$92—only a slight increase—and as well to a minimum savings requirement of \$80. Going up to the middle income brackets, a married man without children, earning \$4,000 a year, who is subject to a tax of \$675 at present rates, would under the new rates be liable for a tax of

\$964, and, in addition, for a minimum savings requirement of \$400. If he had two dependent children, the tax liability would be only \$668, compared with \$450 at present, and the refundable portion of the total assessment would be \$480, making a total of \$1,148. A married man with two children and an income of \$1,500 is at present liable for a national defence tax of \$35. Under the new plan his tax liability would be reduced to \$24.50, and he would have a minimum savings requirement of an equal amount. I should point out that in many of these cases at least a portion of the minimum savings requirement will undoubtedly be met by the contractual savings already being made by the taxpayer in the form of life insurance premiums or pension fund deductions from wages or salaries.

It will be noted that on the amount of any income in excess of \$100,000, the rate of graduated tax is 85 per cent to which, of course, must be added the flat rate tax of

7 per cent for married persons and 9 per cent for single persons. In addition to this we must add the 4 per cent surtax on investment income, since any income in excess of \$100,000 is almost certain to be investment income in this country.

Therefore we have an effective top rate of tax of 96 per cent for married persons and 98 per cent for single persons. This leaves what for such persons will amount to only a token residual of 2 per cent or 4 per cent. The effect of these rates will be that while a married person with a \$100,000 income, of which \$30,000 is earned income, will be left with about \$21,000, another having a total income of \$500,000 will be left with about \$37,000.

I have considered the suggestion that a maximum level should be set for net income after tax—that we should place a “roof,” so to speak, on what a person may be allowed to retain, whatever his actual income may be. In the United States, where there is an awkward problem arising from the existence of large incomes from tax-exempt securities, there may be some special need for legislation of this character. In this country, however, there would be no substantial amount of revenue to be gained from imposing a 100 per cent top rate rather than the 98 per cent rate I am proposing. There may be some political allurements in the principle of establishing by legislation an absolute limit on personal incomes, instead of adhering to the principles of progressive taxation even though at very high rates. I can only say that there have been too many difficult and far-reaching decisions to be made in framing this budget for me to give any consideration to its political adornment.

I would estimate the yield of the present income tax, including national defence tax, for a full year at the present rates on the current level of incomes, at about \$410 million. The increase in rates, and changes in exemptions, which are proposed would, I believe, yield an additional \$115 million in a full year in the form of tax revenue proper. It would also impose a minimum savings requirement of about \$250 million in addition, but we must expect a very substantial portion of this to be met by the alternative contractual forms of saving, leaving possibly \$125 million as the yield of refundable taxes. I am not including this refundable tax with the estimates of revenue, however, as it is properly regarded as borrowing rather than revenue.

COLLECTION AT SOURCE

I mentioned that it was proposed to collect as much as possible of the new tax at the source or by a compulsory instalment plan.

The instalment plans that have been in effect on a voluntary basis for the last two years have been welcomed by many, but they have been used by only a minority of taxpayers. With the higher rates now being put into effect, including the refundable portion of the tax, it is obvious that the income tax is something for which almost everyone subject to it must budget the year round. From the national point of view, it is necessary that these higher rates should be reflected in reduced spending power as soon as reasonably possible, and regularly thereafter rather than in fits and starts. Consequently it is proposed to commence in September of this year to deduct at the source as much as is practicable of the new income tax rates, including the refundable portion. It will not be administratively possible to deduct 100 per cent of the tax liability as is the case with the national defence tax in some cases, but we shall aim at something like 85 per cent or 90 per cent, leaving only a moderate remainder to be paid when the return is filed. During the first four months the deductions will not be on the full scale that will be in effect from January 1943 to August of that year, but will be at an intermediate level between that and the present national defence tax level, in order to give taxpayers an opportunity to adjust themselves to the change. As I have noted, the national defence tax deducted during the first 8 months of 1942 will be credited against the tax payable on 1942 incomes, and this will be reflected in the scale of the deductions, particularly in the first four months.

The actual details of the deduction plans remain to be worked out and are not provided for in the resolution that I am moving. In general, it is expected that employers will be asked to deduct specified amounts from employees of a specified family status within a specified earnings range. Thus, for example, it may be that for married employees without children earning between, say \$33 and \$36 per week, the employer will be asked to deduct, say, \$5.50 a week to be forwarded to the income tax office and to be credited to the employee's tax liability and minimum savings requirements. Tables will have to be prepared showing the amounts to be deducted for various wage and salary ranges for single and married persons and so forth. It is believed that though the amounts to be deducted by employers will be much greater, the work of calculating and recording will not be greatly increased. Deductions will be based upon the income of the pay period against which they are made. It will be necessary for each taxpayer to meet any excess of his tax and savings liability over the amounts

actually deducted during the twelve months of deductions or to claim a refund in case of over-deductions.

It will obviously not be possible to deduct the major part of the tax at the source on all forms of income. It is therefore proposed that those persons having incomes in such forms as are not subject to deduction at the source shall be required to pay their taxes and their minimum savings requirements on a compulsory instalment plan extending over the same period as the deductions from other incomes. For this purpose it will be necessary to provide for only four instalments rather than twelve in order to reduce the administrative work involved in such frequent payments.

The collection of most of the income tax at the source, beginning in September, and the compulsory use of the instalment plan of payment for those types of income where the tax is not deducted at the source, would have the effect of increasing the amount of income tax to be received in the current fiscal year, but this effect is offset by the fact that the national defence tax deducted during the first eight months of 1942 will apply toward the payment of the new total tax, and part of the revenue from these national defence tax deductions has already been taken into last year's accounts. As a consequence of the several factors affecting the time of payment, as well as the changes in rates and exemptions, it is estimated that we shall receive from income tax on individuals, including deductions for national defence tax, a total of \$435 million in this fiscal year, which amounts to an increase of \$45 million over the figure I gave a few minutes ago for the potential yield this year of income tax and national defence tax under the existing law. These figures do not include the portion of the tax which will be refundable; we might expect \$140 million of refundable tax or minimum savings requirement during the fiscal year, but a large portion of this—we may say \$70 million—is likely to be accounted for in the alternative forms of contractual saving.

There are some minor changes proposed in the personal income tax which I will mention only briefly. I am proposing that the age up to which children may normally be claimed as dependents should be reduced from the twenty-first birthday to the eighteenth birthday except in cases where the child is attending school or college. Under present circumstances all able-bodied persons of eighteen years of age or over should, I believe, be engaged in some useful work or service unless they are completing their education, and consequently children of this age should no longer be presumed to be dependent on their parents. Those dependent by reason of physical or mental

infirmity will, of course, continue to be regarded as dependent for the purpose of income tax, irrespective of age.

For those at the other end of their working lives I am proposing some alleviation by providing that anyone over the age of 65 years shall not be liable for the minimum savings requirement, if their incomes do not exceed \$3,000 per year. Old persons with small incomes cannot reasonably be forced to save a substantial amount for a future which they may not live to enjoy. I would hope, however, that a large proportion of those entitled to this exemption will choose not to avail themselves of it, or to save even more in other forms, so that they may share with their younger compatriots the burdens of these historic years.

WAR SERVICE PENSIONS

In addition to the changes in the rate structure and the other proposals which I have just mentioned there are several other items which are of general interest. I am pleased to announce that I am going to recommend to the house an exemption from all taxes under the Income War Tax Act in respect of war service pensions, regardless of whether they arise out of the past war or the present one. I feel sure that this will meet with a hearty response not only in the house but in the country as a whole.

OTHER INCOME TAX CHANGES

Legislation will be introduced to prevent tax avoidance in certain directions. For example, it is proposed that income received from oil or gas wells organized on the so-called royalty basis shall be deemed to be income received by the person or persons actually operating the oil or gas wells on behalf of the royalty holders and taxed at that point. Also, when property is sold on an instalment basis the capital payments shall be deemed to include interest at a reasonable rate in cases where there is no interest provided for or where the interest provided for is unduly low.

Our tax on non-residents which now applies to interest, dividends, rents, royalties and certain other income will be extended to cover salaries and annuities. This will bring our tax on non-residents more nearly into line with those imposed by other governments on our citizens. At the same time I propose to remove the present limitation on the personal exemption applying to non-residents who but for this limitation would pay tax under our law on the same basis as residents. This provision, which will be on a reciprocal basis, will be of particular interest to persons who commute across our international border. Several other minor changes in the law will be introduced which I need not mention here but which

will appear in the resolutions. Rates of tax in the gift tax schedule will be increased 3 per cent.

This concludes the section on proposals relating to personal income taxes. I wish to turn now to some proposals concerning the excess profits tax.

EXCESS PROFITS TAX

The excess profits tax as it was drafted in the budget of June, 1940, and revised in many details in last year's budget, has been appropriate to the period of expansion during the early years of the war. During this time it has produced substantial revenues for the treasury in a reasonably equitable manner. It has imposed a heavy tax on increases in profits. It has served to keep the over-all increase in profits of all corporations within moderate limits, so that the total of all profits has increased by only a small percentage from year to year despite the very much larger increases in the total of business carried on. At the same time it has permitted rapidly expanding businesses to retain a fraction of their increased profits in order to meet their requirements for additional working capital during this expansion period.

The time has now come when we can and should make the excess profits tax more severe. The rate of expansion in business will now be much less than it has been heretofore. In the case of many civilian businesses the volume of their production or turn-over is likely to decline rather than expand. Even in the field of war production we are getting close to the levels of full capacity. Consequently, businesses in general no longer need to retain substantial amounts of their current profits for reinvestment in working capital and can afford to pay a large proportion to the treasury. Secondly, the machinery required to administer the excess profits tax has now been built up and is operating efficiently. We are, therefore, able to undertake changes in the tax which could not be readily undertaken when we did not have the administrative machinery to carry them out effectively. Finally, in the past year we have adopted a much more rigorous general economic policy, involving control over many forms of incomes as well as over production and distribution. This more rigorous economic policy makes appropriate the more rigorous excess profits tax.

I have given a good deal of consideration to various alternative means of increasing the excess profits tax. I believe that the increase should affect the tax on excess profits rather than on profits that have not increased substantially over pre-war levels. Already

the tax on profits that have not increased is heavy when we bear in mind that those profits when distributed as dividends are subject to all the personal income taxes in addition to the corporation taxes. This involves, in effect, a discrimination against income earned in the form of corporate profits as distinct from other types of income, such as interest. Some discrimination may be justified, but I believe we have already gone far enough in that direction. Consequently, I propose to increase the rate of tax on excess profits but not the flat rate of tax which applies to profits generally.

In proposing this increase I think it important that we should not remove entirely the continuing, day to day, incentive for economy and efficiency in production. If that incentive were entirely removed by making the tax such that it would take the whole of any increase in profits, leaving no benefit to the producer, then we would be exposing ourselves to the danger of slackness and carelessness in regard to costs and efficiency. I am not suggesting that Canadian producers, or distributors for that matter, or those engaged in any other type of business would in any way sabotage our national effort at this time, but simply that the complete removal of the standard, by which business men are accustomed to determine whether expenditures are justifiable or not, might make them forget the minor economies and opportunities for increased efficiency which do not appear significant in themselves in relation to the national effort but which in the aggregate have very great importance. We cannot afford now to waste labour, materials or time. We need to preserve efficiency by every reasonable means at our disposal. Secondly, I believe that in making any change we should not deprive businesses of all chance to build up reserves for the post-war period. Some reserves will be needed if business is to press ahead actively after the war with the conversion of its operations from war purposes to peace purposes, to modernize its plant and thereby place itself in the best position to provide employment in the post-war period. Thirdly, we must beware of making too severe an instrument of taxation that can never be perfectly fair and equitable, however much we endeavour to provide for various types of cases and situations. If we had a tax that was extremely severe in its treatment of so-called excess profits, yet something short of perfect in determining standard profits, we should be continually tempted to make special allowances of one kind or another to temper its severity in hard cases in an

endeavour to be equitable and these would be apt to add up in total to a tax that was far less severe than was intended.

On the other hand our need for funds at the present time is very pressing, as I have already emphasized in connection with the personal income taxes. We must obtain every dollar that we can. Moreover, it is desirable at the present time not to permit those who have substantially increased profits to disperse them in higher current dividends since this would be directly contrary to the government's policy of stabilizing incomes. Any increase in profits would better be reserved to enable the business to play an active part in post-war reconstruction.

Balancing these various considerations I have decided to propose that the rate of tax on excess profits be raised from 75 per cent to 100 per cent, and, at the same time, that provision be made for refunding after the war 20 per cent of the excess profits taken, over the range where this 100 per cent rate is effective.

I am also proposing another more complicated change which is less spectacular but serves to increase the effective rate of tax very substantially on businesses whose profits have increased significantly over pre-war levels. Let me remind the house that under the present act a corporate taxpayer pays an 18 per cent corporation income tax on all of its profits and then under the Excess Profits Tax Act pays either (a) 75 per cent of the excess profits over standard profits after deducting the corporation income tax paid on this excess or (b) 22 per cent of its total profits, whichever is the greater. I am now proposing that under the Excess Profits Tax Act a company shall pay a flat rate of 12 per cent on its total profits in addition to the 18 per cent corporation income tax, and then shall pay as well either 10 per cent of its total profits or 100 per cent of its excess profits after deduction of the corporation income tax and the 12 per cent rate thereon, whichever is the greater. In effect, therefore, I am taking the 22 per cent in the present act and splitting it into 12 per cent to apply to total profits in any event, and 10 per cent to apply as an alternative where that is greater than the amount produced by the rate on excess profits. The effect of this change, which may appear inconsequential at first sight, is to increase substantially the tax liability of all those whose profits have increased by more than one-sixth of their standard profits.

The amount to be refunded to those corporations which are subject to the 100 per

cent rate on excess profits will be 20 per cent of the amount of profits in excess of the amount at which the 100 per cent tax on the excess after the deduction of corporation income tax and the 12 per cent flat rate equals the 10 per cent tax on the total profit. This rather complicated provision results in the 20 per cent refund applying only where the 100 per cent rate effectively applies on any additional profits. The amount to be refunded will not bear interest but will be returned unconditionally to the taxpayer after the war, provided only that his tax liabilities have been paid.

The result of these changes in the rate structure of the excess profits tax will be that no corporation will be permitted to retain more than 70 per cent of its pre-war standard profits, though it will be given the opportunity to earn a post-war credit through economies and efficiencies and increased production that enable it to earn higher profits before tax. This limitation on the amount of profits which may be retained may eventually require some corporations whose profits or dividends have increased substantially in recent years to reduce their current rates of dividends. If certain reductions of dividends should be required by the measure I am proposing I do not believe it will be too much of a burden to place on these corporations or their shareholders at this critical time. The amount of tax which will be refunded will not be lost to the corporation but will enable it to safeguard its post-war position and to make itself ready to take part in the important work of reconstruction.

Because these changes impose a 100 per cent rate on many corporations and because in many cases available earnings have already been disposed of, I have decided that it would be impossible to make it retroactive. Consequently, these new rates of excess profits tax will apply as from the 1st of July onwards. In order to ensure that the taxes payable under this act and by corporations under the Income War Tax Act are remitted at as early a date as possible to the treasury it is proposed to require monthly instalment payments on account of the tax liability, including the refundable portion. The payments made before the end of the fiscal period of the business will have to be based upon anticipated earnings or earnings in the preceding period. The result of this change in timing will mean a very substantial increase in the amount of revenues to be obtained from the excess profits tax during the current fiscal year.

Certain other amendments to the Excess Profits Tax Act will be brought in. For example, the tax exemption designed to encourage mineral production which previously was obtained in the Income War Tax Act will be transferred to the Excess Profits Tax Act. The house may recall that the present exemption expires December 31, 1942. It is proposed that a generally similar exemption shall be granted under the Excess Profits Tax Act where the tax relief is greater rather than under the Income War Tax Act. The new exemption will apply to producers of base metals and strategic minerals. This exemption may be regarded as complementary to the measure of assistance being granted under the Income War Tax Act which encourages the search for these minerals.

In the interests of achieving greater equity in our taxes on business enterprises, which now of necessity are at such very high levels, I propose to allow in future a one-year carry-forward of losses. This will apply in the case of corporations to both income and excess profits tax and in the case of sole proprietorships and partnerships to the excess profits tax.

The law at present gives complete exemption to small businesses with profits of \$5,000 or less. Under a proposed amendment this exemption will be withdrawn in respect of the new 12 per cent flat rate which applies generally to total profits of corporations. Other changes of a technical nature which I need not explain here will be found in the resolutions.

I have already given an estimate of \$275 million as the yield in this fiscal year of the excess profits tax if there were to be no changes made in it. This revenue would be largely derived from the tax on profits earned in 1941. The introduction of the compulsory instalment plan for the payment of this tax will increase substantially the revenue to be expected from it during this fiscal year from taxes on income earned during 1942. Excluding the effects of the changes in rates, this increase would be about \$145 million. The changes in the rates of the excess profits tax which I am proposing would, it is estimated, yield an increase in revenue of about \$58 million on the basis of a full year's application with profits at their current levels. Because of the instalment plan, we shall get some of this increase during the current fiscal year, and allowing for the fact that the changes go into effect from July 1, it is estimated that the amount will be about \$20 million. In addition to these amounts of actual revenue, the amount we shall receive in the form of refundable tax under the excess profits tax is estimated at about \$60 million on the basis of

a full year's application with profits at current levels, of which we may anticipate receipts of about \$25 million during the current fiscal year.

The application of the instalment plan to the corporation income tax will bring about an increase in revenues from that tax during the present fiscal year, even though the rates are not changed at all. It is estimated this will amount to \$105 million.

In the Succession Duty Act there will be few significant changes. The rate structure will not be altered. As a matter of general interest, however, I may call attention to the new form of exemption which will allow charitable gifts up to one-half the estate to pass entirely tax free where previously the duty was one-half the ordinary rate. It is also proposed to offer exemption on a reciprocal basis to representatives of foreign governments. Certain other minor changes will be made with a view to clarifying the law and assisting in its administration.

INDIRECT TAXES

I come now to indirect taxes. I would remind the house that, in the three previous war budgets, we have made a highly selective approach to indirect taxes. We have attempted to collect revenues on specific expenditures rather than on all expenditures. Remembering that we already had an 8 per cent sales tax at the outbreak of war, we have avoided, since the first war budget, except in last year's increase in the sugar tax, indirect taxes which would raise the cost of the necessities of life. The imposition of the price ceiling has added conclusively to the weight of argument against general rather than selective increases in consumption taxes. I propose to follow again, therefore, a selective approach and recommend substantial increases in taxes which fall on luxury expenditures. It is hoped that these taxes will discourage such expenditure. To the extent that they do, current savings will be increased. To the extent that such expenditures persist, the treasury will benefit from the revenue.

The excise duties on alcoholic beverages have already been increased substantially since the outbreak of war, but the record of sales leads me to conclude that further large increases can again be made. I shall recommend that the excise duty on spirits, which was increased from \$4 to \$7 a gallon in September, 1939, be raised to \$9 and that on Canadian brandy from \$6 to \$7. The pre-war excise duty on malt was 6 cents a pound and was increased to 10 cents in September, 1939, and to 12 cents in April, 1941. My recommendation is that it

be now increased to 16 cents a pound and that corresponding increases be imposed on malt syrup and on beer imported as such. It is proposed that the excise tax on wines be raised from 40 to 50 cents and on sparkling wines from \$2 to \$2.50 per gallon. It is anticipated that these changes will result in an increase of revenue of \$11,650,000 in this fiscal year and \$15,600,000 in a full year.

It is recognized that the provinces, as well as the dominion, derive revenue from the taxation or sale of alcoholic beverages. They have also the responsibility for regulation of the sale. If the tax increase here proposed should seem likely to affect their revenues they have it in their own power to raise their prices or taxes. The purpose of these increases is to provide additional revenue for the dominion at the expense of the consumer, not to make inroads on provincial revenues.

Sales of cigarettes, now taxed at \$6 per thousand, have increased very rapidly despite war-time increases in excise duties of 50 per cent. It is proposed, therefore, to amend the Special War Revenue Act to provide for an additional excise tax of one cent for each five cigarettes or fraction thereof contained in any package. Relative to cigarettes, smoking tobacco has been less highly taxed. While not seeking to equalize the rates, I propose an additional tax of one cent per ounce on manufactured tobacco. It will be recommended further that the rate on raw leaf tobacco be raised from 10 to 20 cents a pound. It will be recommended also that the tax on cigars be increased by 25 per cent, the tax on cigarette papers be increased from 5 cents to 6 cents per 100 and that on cigarette tubes be raised from 10 cents to 12 cents per hundred. It is estimated that these increases on tobacco, in its various forms and uses, will produce additional revenue of \$17,205,000 in the fiscal year and \$22,950,000 in the full year.

I shall recommend that a number of excise taxes be increased and that some new taxes be imposed. The increases proposed are briefly as follows: On soft drinks, of which the supply is at present inadequate to meet the demand, a specific tax of 1 cent a bottle in addition to the present 25 per cent tax; on carbonic acid gas, a corresponding increase from 25 cents to 50 cents a pound; on playing cards, an increase from 15 cents to 20 cents a pack; on passenger transportation, a rise from 10 per cent to 15 per cent with the exemption limit raised from 50 to 75 cents; on berths, from 10 per cent to 15 per cent with a minimum tax of 35 cents, and on

parlour-car seats, from 10 cents to 15 cents; on long distance telephone calls an advance from 10 per cent to 15 per cent with a corresponding adjustment of the rates on pay-station calls, the maximum tax being limited to 75 cents; and on telegrams, cables and radiograms an increase from 5 cents to 7 cents per message. On furs, which are at present subject to sales tax at 12 per cent, it is proposed to advance the rate to 25 per cent and change the form of tax from a sales tax to an excise tax.

I shall propose new excise taxes to be levied, at the manufacturer's level, on candy and chewing gum at a rate of 30 per cent and photographic films and plates, except for industrial and professional use, at the rate now imposed on cameras, 25 per cent. I shall further recommend a new tax of 25 cents per month on telephone extensions in private households. The treasury will be glad to have the revenue but, if anyone chooses to discontinue their use of such extensions, the telephone companies will be glad to have the instruments.

It was my opinion, at the time of the last budget, that expenditures in dance halls and cabarets were a proper occasion for taxation, but I was unable at that time to find a suitable formula. I shall recommend that a tax of 20 per cent be collected on all expenditures in dance halls, night clubs, cabarets and other such establishments which combine any two of the following features: provision for dancing by the patrons, the sale of alcoholic beverages, the offering of musical or other entertainment by paid performers. This tax is to be payable by excise stamps affixed to the bill or account which must be rendered by the proprietor to the patron. It is proposed that this tax take effect on July 1 next.

I shall recommend also that excise taxes be levied on the retail purchases of certain luxury articles. The tax of 25 per cent of the retail price is to be accounted for by the affixing of excise stamps to the bill, cash slip or the article itself. The articles, on the retail price of which it is recommended that this tax be applied, are (1) articles of personal luggage, brief cases, jewel cases, purses, handbags, sports bags, etc., with an exemption of articles selling for \$1 or less; (2) diamonds, jewellery and imitation jewellery and all goldsmiths' and silversmiths' products, articles of ivory, jet, amber, mother-of-pearl, etc., with exemption of articles selling for 50 cents or less; (3) articles of cut glass or crystal, articles selling for 50 cents or less

being exempt; (4) articles of china, porcelain, stoneware, etc., except such articles for use in the preparation or serving of food or drink, the 50 cent exemption also applying to this category; (5) clocks and watches; (6) ash trays, tobacco pipes, cigar and cigarette holders, and cigarette rolling devices and other smokers' accessories; (7) fountain pens, propelling pencils, desk sets and desk accessories. In respect of the last three groups of articles the tax will not apply to articles selling for \$1 or less.

I am sure that the house will agree that these excise taxes will fall on articles which it is not essential to purchase in war time and that they will fall almost wholly on persons who make unnecessary expenditures, and thus give evidence that they are in a position to contribute to the revenues of the country. I expect that the increases in excise taxes will produce additional revenue in the fiscal year of \$20,995,000 and \$28,025,000 in the full year.

In the case of taxes on commodities and services which are levied on the retail price and paid by the consumer or patron when his bill is paid, the tax will be stated separately from the price and will be deemed not to be part of the price for the purposes of the maximum prices regulations. Of the commodities on which new or increased taxes are assessed on the manufacturers' price it may be noted that furs are exempt from the maximum prices' regulations, as are also sales of alcoholic beverages by provincial liquor boards. The other commodities affected are subject to the maximum prices regulations, viz., alcoholic beverages sold otherwise, cigarettes and tobacco, cigarette papers and tubes, candy and chewing gum, photographic films and plates, soft drinks and playing cards. On cigarettes and tobacco, the new taxes are separately stated and will be so indicated by stamps on the packages. The tax will not be considered part of the price for purposes of the maximum prices regulations. In respect of the other commodities, the wartime prices and trade board will permit such adjustments as are necessary and equitable.

Expenditures on one commodity and one service affected by tax increases, cigarettes and passenger transportation, are included in the Dominion Bureau of Statistics cost of living index. That index has since the institution of price and income control acquired an importance which it did not previously have. It is calculated by precisely the same methods that have been used since its inception. No considerations of policy or expedi-

ency can be permitted to affect it. However, these tax increases will be separately stated and clearly identifiable as taxes on the consumer. I propose that in the case of cigarettes which, desirable as they may be in other circumstances, are clearly not necessities of life for the population as a whole, the new tax shall not be deemed part of the price for the calculation of the cost of living index.

In announcing the offer to provincial governments regarding tax agreements last year, I stated that if certain taxes were given up by the provinces it was possible that the dominion, in order to prevent certain classes of companies from benefiting by the change, might impose special taxes in these directions. On reviewing the situation, it has been decided to levy a tax of 2 per cent on premiums paid on life, fire and casualty insurance, in addition to the taxes we at present impose which are confined to fire and casualty insurance. In the case of other classes of companies it was found that the increase in dominion taxes on profits more than offset the special taxes which they had been paying to the provinces and accordingly no special taxes by the dominion are necessary. Since the taxes collected in this fiscal year will cover both 1941 and 1942 the revenue in the fiscal year should be \$13 million or double the annual yield.

The changes proposed in the customs tariff provide for a number of tariff reductions and amend the wording of several items to facilitate administration. The resolutions about to be tabled affect twenty-five items and also provide for increased additional duties on imports of alcoholic beverages. The changes being made in these additional duties equalize the increases being made on the same commodities under the Excise Act. The existing excise duty on beer is being removed from the schedule to the Excise Act and replaced by a gallonage tax in the customs tariff.

New duty free items are being provided to cover machinery and apparatus for operating oil sands by mining operations and for extracting oil from the sands so mined, fuel injection pumps and nozzles for diesel and semi-diesel engines, magnesium scrap and crude cotton seed oil for canning fish.

Additions to existing items provide for reduced rates on semi-finished piston castings of any material, parts of saggers, glass tubing for use in the manufacture of vials and ampoules, especially designed pins for marking systems, unbraided wick for the manufacture of wax candles or tapers, belting, non-elastic woven fabrics for the manufacture of abdom-

inal supporters and spinal braces, mouthpieces and wood bowls for the manufacture of tobacco pipes.

The wording is being amended to facilitate the administration of the items covering parts for use in the manufacture of motor trucks, motor buses, motor truck bodies, motor bus bodies, prepared or preserved vegetables, blended orange and grapefruit juice, silicate of soda and resin or rosin.

This completes the tax changes which I am recommending and I shall put on *Hansard* two tables, one showing the estimated increases in revenue which are expected in the remainder of this fiscal year and in a full year from the new and increased taxes, and the other showing the full revenue estimates for the present fiscal year after giving effect to all the changes and tax rates and time of payment:

Yields from Proposed Changes in Taxation

	Full year	Balance of current fiscal year 1942-43
Increased yields from changes in existing taxes—		
Personal Income Tax.....	\$115,000,000	\$ 45,000,000*
Corporate Income Tax.....		105,000,000*
Excess Profits Tax.....	58,000,000	165,000,000*
Insurance Premiums.....	6,500,000	13,000,000†
Excise Duties—		
Spirits (potable).....	6,000,000	4,500,000
Malt.....	9,000,000	6,700,000
Malt Syrup and Beer.....	200,000	150,000
Tobacco (raw leaf).....	350,000	260,000
	<u>\$ 15,550,000</u>	<u>\$ 11,610,000</u>
Excise Taxes—		
Wines.....	\$ 400,000	\$ 300,000
Cigarettes.....	17,600,000	13,200,000
Tobacco (manufactured).....	4,000,000	3,000,000
Cigars.....	100,000	75,000
Cigarette Papers and Tubes.....	900,000	670,000
Soft Drinks.....	5,000,000	3,750,000
Carbonic Acid Gas.....	300,000	225,000
Playing Cards.....	100,000	75,000
Passenger Transportation.....	3,000,000	2,250,000
Berths and Parlor Car Seats.....	500,000	375,000
Long Distance Telephone Calls.....	900,000	670,000
Telegrams and Cables.....	250,000	190,000
Furs.....	750,000	560,000
	<u>\$ 33,800,000</u>	<u>\$ 25,340,000</u>
Yields from New Excise Taxes—		
Candy and Chewing Gum.....	\$ 7,000,000	\$ 5,250,000
Films and Photographic Supplies.....	350,000	260,000
Telephone Extensions.....	125,000	90,000
Cabarets, Dance Halls, etc.....	2,000,000	1,500,000
Stamp Tax on—		
Luggage.....	\$1,500,000	
Jewellery, Clocks, Watches.....	5,000,000	
Cut Glass and China.....	750,000	
Ash Trays, Pipes, Fountain Pens, Pencils, etc...	500,000	
	<u>7,750,000</u>	<u>5,800,000</u>
	<u>\$ 17,225,000</u>	<u>\$ 12,900,000</u>
Total.....	<u>\$246,075,000</u>	<u>\$377,850,000</u>

* These estimates for the balance of the current fiscal year include substantial effects of proposed changes in the time and method of payment.

† Two years revenue will be collected in the balance of the current fiscal year, the proposed rate increases being retroactive to January 1, 1941.

Forecast of Total Ordinary Revenue for Fiscal Year 1942-43

	Revenue from existing taxes	Increase in revenue resulting from budget proposals	Total ordinary revenue
Customs duties.....	\$ 135,000,000	.....	\$ 135,000,000
Excise duties.....	123,000,000	\$ 11,610,000	134,610,000
Sales tax.....	218,000,000	.....	218,000,000
War exchange tax.....	95,000,000	.....	95,000,000
Other excise taxes.....	85,000,000	38,240,000	123,240,000
Income taxes—			
Personal	240,000,000	45,000,000	435,000,000
National defence tax.....	150,000,000		
Corporation	200,000,000	105,000,000	305,000,000
Interest and dividends.....	28,000,000	.....	28,000,000
Excess profits tax.....	275,000,000	165,000,000	440,000,000
Succession duties.....	15,000,000	.....	15,000,000
Miscellaneous taxes.....	2,600,000	13,000,000	15,600,000
Total tax revenue.....	\$ 1,566,600,000	\$ 377,850,000	\$ 1,944,450,000
Non-tax revenue.....	105,000,000	.....	105,000,000
Total ordinary revenue.....	\$ 1,671,600,000	\$ 377,850,000	\$ 2,049,450,000

CONCLUSION

If our estimates of the yields of new and increased taxes during the balance of the current fiscal year are reasonably correct, the dominion's total revenues for 1942-43 should be approximately \$2,050 million. With expenditures of \$3,900 million, this leaves a budgetary deficit of \$1,850 million which will have to be covered by borrowing. On these estimates, we shall have paid somewhat more than 52 per cent of our expenditures out of revenue.

The enactment of the budget proposals will provide for the collection in 1942-43 of additional sums to be refunded after the war and which it is estimated will amount to \$95 million.

This will leave for other methods of financing \$1,755 million. I shall put a brief tabular statement on *Hansard* to summarize these calculations in convenient form:

Fiscal Year 1942-43

Estimated total expenditure.....	\$3,900,000,000
Estimated ordinary revenue.....	2,050,000,000
Budgetary deficit.....	1,850,000,000
Estimated refundable taxes.....	95,000,000
Amount to be met by decline in cash and by borrowing.....	1,755,000,000

After making full allowance for some reduction in our cash balances which were unusually large at the beginning of this year, for moneys available for investment from the Unemployment Insurance Fund and other special government accounts and for subscriptions from insurance and trust companies and other corporate investors, it is apparent that the balance which should be provided by individual purchases of war savings certificates and bonds is very large, perhaps as much as two-thirds of the total.

No great fraction of this can be provided by individuals with incomes of more than \$3,000 or \$4,000. Individually they must do their share but the total of their subscriptions will be limited by the smallness of their numbers. It must be provided by people of lower incomes especially those in families whose incomes have increased during the war.

Now, the house will understand what I meant when I said that I was not proposing to substitute compulsory savings for voluntary savings. The refundable tax and other provisions which I am recommending are merely to equalize the base from which voluntary savings start. Subscriptions to victory loans and war savings certificates indicate that the current savings of individuals for the purchase of government securities are certainly not in excess of \$12 million a week and may be somewhat lower. Over and above the higher taxes, over and above the minimum savings requirement, these current savings must not only be increased; they must be increased greatly if we are to finance this war the sane and the equitable way, if those of us who are not in armed forces are to demonstrate that, as a democracy, we are capable of meeting the stern tests of war as we expect those who dare physical destruction to meet far sterner tests.

Will this mean a reduction in our standard of living? Certainly. The war will not be won by disputing as to whether labour or agriculture or employer or employee should get a larger share of a swollen national income. It will be won, not alone by the valour of fighting forces and the skill of generals but by the willingness of the people at home to make necessary sacrifices—willingness to make those sacrifices first and not after all other groups have made them.

I am asking that there should be by every individual the most rigorous economy. Every dollar we spend means that someone is working for us. Let us not spend it if that someone might instead be working for victory. I am not asking that anyone's standard of living should be reduced below the level of personal efficiency and decency. I am asking that it should be no higher than that level. Let us compete with our neighbours, in saving, not spending; in making shift with what clothing and house furnishings we have, not in buying more; in hard work and plain and thrifty living.

All this has an immediate and necessary purpose. All the equipment, materials and labour that we can possibly spare must be used in this bitter conflict for victory. It has a further purpose which gives hope for the future. The savings that we make now will be available after the war. 'We can' then replenish our wardrobes and build our houses and take more leisure, knowing that not only will we be increasing the comfort and vitality of our families but providing work and pay for thousands of people who will come out of the armed services and war industries and earn their livelihoods once more in civilian industry. By all means let us have a new world after the war. It will not come from speeches and laws. We must work and save for it and for victory now.

The National War Finance Committee is engaged in the development of an organization in each province which will undertake a continuous campaign for the regular sale of bonds, war savings certificates and stamps to the public throughout the entire year, supplemented from time to time, by special campaigns. I bespeak for them every dollar of savings that can be made and the active help of everyone in their campaign.

I should like to say a word to the business men who operate large and small businesses throughout this country. A big part of the earnings of business must during the war flow into the treasury. That is not because it is government policy to penalize business enterprise but because so large a part of all our incomes and all our work must go to winning this war. I realize fully that where most of the profits are absorbed by taxes it is difficult to be as vigilant in watching costs as when \$1 of expense saved is \$1 added to profits and the mark of a well-run business. Nevertheless it is imperative that business men

should be vigilant also in the national interest. Let no one have it on his conscience that he took man-power for unnecessary work; that he permitted cost increases which could have been avoided. For business too there is a longer view. Industry is going through a tremendous conversion to war production. When victory is achieved, it will have another great job of conversion to do. It must be prepared to serve again the civilian population, perhaps with many new and different products. It is the business interest and the nation's interest that men of business come to that task with costs that have been kept rigorously under control and with funds available for reequipping and restocking their plants and shops. The refundable portion of the excess profits tax will be available for that adjustment but it will be of less than its full value if business ends the war with highly inflated costs.

This, Mr. Speaker, concludes my presentation of the budget. The proposed tax increases are substantial and severe. They are imposed on the assumption that Canadians appreciate the critical gravity of recent events and the necessity of making a supreme effort in the present year. A few weeks ago, the atmosphere was surcharged with optimism which in many of its manifestations was almost light-hearted. The war would be over by January; the tide had turned; Germany was facing internal collapse; Japan had overextended herself; Italy was a joke; and so forth. More and more Canadians were putting forward demands for their own material betterments, and increasing numbers were transferring their interest from war to post-war problems.

The events of the last few days must surely have had a sobering effect. This is no time for airy overconfidence. Events in China, events in the Ukraine, events in the Crimea, events in Libya—do not these convince us that the war may not be won this year, may not be won for many years? It was not recklessly that Germany and Japan brought the United States into the war, as they did. What foolish statements we have made! Not long ago, how often was it said that Hitler was a madman, irrationally running headlong to destruction, that Japan was committing hara-kiri! Alas, there seems to have been nothing irrational—certainly nothing intentionally suicidal about the plans of our enemies. These aggressor nations prodded the United States into the war because they

were convinced that they could, nevertheless, win—win in 1942. Do Canadians realize how critical the situation is at this moment in Russia, in China, and in the middle east, and how critical it may be elsewhere before long? I believe that now they do and that their individual desires for gain, and ease, and advantage are submerged in the nation's will to win. In this belief, I present this budget to the house and to the Canadian people.

RESOLUTIONS

Mr. Speaker, I desire 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 and joint stock companies shall be increased to the rates set forth in the following schedule:

A. Rates of tax applicable to persons other than corporations and joint stock companies:

I. Normal tax—

(1) In the case of

(a) a married person,

(b) a widow or widower with a son or daughter under eighteen years of age and wholly dependent upon such taxpayer for support, or a son or daughter eighteen years of age or over and dependent on account of mental or physical infirmity, or a son or daughter under twenty-one years of age who is dependent upon such parent for support on proof that such child is a student at secondary school, university, or other educational institution;

(c) an individual, other than a married person, who maintains a self-contained domestic establishment and who actually supports therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption;

(d) a minister or clergyman, other than a married person, in charge of a diocese, parish or congregation, whose duties require him to maintain at his own and sole expense, a self-contained domestic establishment and who employs therein on full time a housekeeper or servant;

Provided, in the case of (a), the spouse, and in case of (b), the said dependent, is resident in Canada or in any other part of the territory of the British Commonwealth of Nations, or in a country contiguous to Canada, or is a national or citizen of a country allied with Canada in the present war and is prevented from entry into Canada due to the exigencies of the war, or is legally debarred from entry into Canada;

Seven per centum of the income, if the income exceeds \$1,200 per year;

And in the case of

(e) a husband and wife having each a separate income,

Seven per centum of the income of each, if the income of each exceeds \$660 per year;

And in the case of

(f) a single person, or

(g) a married person whose spouse is not resident in Canada or in any other part of the territory of the British Commonwealth of Nations, or in a country contiguous to Canada or in a country allied with Canada in the present war, or whose spouse is not legally debarred from entry into Canada,

Seven per centum of the income, if the income exceeds \$660 but does not exceed \$1,800 per year;

Eight per centum of the income, if the income exceeds \$1,800 but does not exceed \$3,000 per year; and

Nine per centum of the income, if the income exceeds \$3,000 per year.

And in the case of

(h) Estates having income taxable as provided by subsections 2 and 4 of section 11 of this act;

Nine per centum of the income.

(2) From the Normal Tax there shall be allowed a deduction of \$28 for the year 1942 and for each year thereafter for each of the following persons who is resident in Canada or in any other part of the territory of the British Commonwealth of Nations or in a country contiguous to Canada or in a country allied with Canada in the present war or who is legally debarred from entry into Canada, and wholly dependent upon the taxpayer for support, namely

(i) a child, grandchild, brother or sister of the taxpayer under eighteen years of age, or if eighteen years of age or over, is wholly dependent on account of mental or physical infirmity, or under twenty-one years of age on proof that such child is a student at a secondary school, university or other educational institution;

(ii) a parent or grandparent of a taxpayer, wholly dependent on account of mental or physical infirmity;

(iii) a child under eighteen years of age maintained by the taxpayer in Canada under a cooperative scheme sponsored by the governments of the United Kingdom and of Canada or any of the provinces of Canada, for children brought from the United Kingdom under a government plan, or under twenty-one years of age, and likewise maintained, upon proof that such child is a student at a secondary school, university or other educational institution;

except one such dependent provided for in (b) and (c) of subparagraph (1) hereof;

(3) If the tax exigible under the Normal Tax should cause the income of a single person or a husband or a wife to be reduced below the amount of \$660 or in the case of those persons referred to in (a), (b), (c) and (d) of subparagraph (1) hereof, below \$1,200, then to the extent that it would so reduce the income of the taxpayer, such tax shall not be payable.

II. Graduated Rates of Tax:

In addition to the Normal Tax there shall be imposed in respect of the income above the exemption hereinafter provided, the following:

On the first \$500 of income or any portion thereof, 30 per centum per annum, or

\$150 upon the income of \$500; and 33 per centum upon the amount by which the income exceeds \$500 and does not exceed \$1,000; or

\$315 upon income of \$1,000; and 37 per centum upon the amount by which the income exceeds \$1,000 and does not exceed \$2,000; or

\$685 upon income of \$2,000; and 41 per centum upon the amount by which the income exceeds \$2,000 and does not exceed \$3,500; or

\$1,300 upon income of \$3,500; and 45 per centum upon the amount by which the income exceeds \$3,500 and does not exceed \$5,000; or

\$1,975 upon income of \$5,000; and 50 per centum upon the amount by which the income exceeds \$5,000 and does not exceed \$8,000; or

\$3,475 upon income of \$8,000; and 55 per centum upon the amount by which the income exceeds \$8,000 and does not exceed \$13,000; or

\$6,225 upon income of \$13,000; and 60 per centum upon the amount by which the income exceeds \$13,000 and does not exceed \$20,000; or

\$10,425 upon income of \$20,000; and 65 per centum upon the amount by which the income exceeds \$20,000 and does not exceed \$30,000; or

\$16,925 upon income of \$30,000; and 70 per centum upon the amount by which the income exceeds \$30,000 and does not exceed \$50,000; or

\$30,925 upon income of \$50,000; and 75 per centum upon the amount by which the income exceeds \$50,000 and does not exceed \$70,000; or

\$45,925 upon income of \$70,000; and 80 per centum upon the amount by which the income exceeds \$70,000 and does not exceed \$100,000; or

\$69,925 upon income of \$100,000; and 85 per centum upon the amount by which the income exceeds \$100,000.

2. That the exemptions of \$1,500 and \$750 shall be reduced for the purposes of the Graduated Rates to \$660 for all persons;

3. That a married person, or a person heretofore entitled to an exemption equivalent to that of a married person, shall be allowed as a deduction from the tax payable under the Graduated Rates, an amount of \$150;

4. That in lieu of the deduction of \$400 from income for each dependent child or grandchild there shall be allowed a deduction of \$80 from the tax payable under the Graduated Rates;

5. That a deduction from the tax payable under the Graduated Rates be allowed a taxpayer to the extent of 20 per centum of the amount actually contributed for the support of a dependent parent or grandparent, or a brother or sister under eighteen years of age or eighteen years of age or over and dependent on account of mental or physical infirmity, or under twenty-one years of age, upon proof that such brother or sister is a student at a secondary school, university or other educational institution: provided that the maximum credit herein shall not exceed \$80;

6. That one-half of the total taxes payable by a taxpayer under the Normal Rate of tax and the Graduated Rates of tax shall be refundable to a taxpayer

provided, however, that such refund shall not exceed

8 per centum of the income of a single person, or \$800, whichever is the lesser; or

10 per centum of the income of a married person, or \$1,000, whichever is the lesser; plus

1 per centum of the taxpayer's income for each dependent, or \$100, whichever is the lesser;

7. (1) That the total taxes payable by any taxpayer under the Normal Rate of tax and the Graduated Rates of tax shall be reduced by the amount paid by the taxpayer in respect of

(a) payments into any approved superannuation, retirement or pension fund or plan, paid as a term of employment and not repayable during the continuance of such employment;

(b) premiums on life insurance policies in force prior to the twenty-third day of June, 1942;

(c) principal payments on a mortgage on one residential property, provided such mortgage was registered and in effect prior to the twenty-third day of June, 1942;

Provided, however, that such reductions shall not exceed the amount of the refundable portion of the tax as provided for in resolution 6 above; and the said refundable portion shall be reduced accordingly;

(2) That in the case of a taxpayer over sixty-five years of age with income less than three thousand dollars, the total taxes payable under the Normal Rate of tax and the Graduated Rates of tax shall be reduced by the refundable portion of the tax as provided for in resolution 6 above, and the said refundable portion shall be eliminated accordingly;

8. That the refundable portion of any tax exigible under any enactment founded on these resolutions shall be repaid to the taxpayer or to his legal representatives, after the cessation of hostilities between Canada and Germany, Italy and Japan, and in the following manner: The refundable portion of the tax in respect of income of 1942 shall be repaid at such times and in such instalments as the Governor in Council may determine but not later than the end of the second fiscal period of the government commencing after the said cessation of hostilities; the refundable portion of the tax in respect of the income of 1943 shall be repaid at such times and in such instalments as the Governor in Council may determine but not later than the end of the third fiscal year of the government commencing after the said cessation of hostilities and so on in respect of the refundable portion of the tax on income of successive years.

The date of the cessation of hostilities shall be deemed to be the date of a proclamation issued under the authority of the Governor in Council declaring that, for the purposes of the said refund, the war no longer exists.

9. That the refundable portion of any tax paid by the taxpayer in the twelve months preceding the first day of September in any year shall bear interest at the rate of 2 per cent from that date and shall be payable when the refundable portion is repaid;

10. That where, under any existing or future contract or arrangement, a capital or principal sum is payable by instalments or otherwise, without providing for interest, or with interest at a nominal rate only, the Minister in his sole discretion may by regulation or otherwise determine what part of the capital payment represents interest, which shall be deemed to be income for the purposes of this act;

11. That where any royalty company, association, or other body is organized for the purpose of drilling for and operating oil or gas wells whereby the production belongs not to the company but to the investors in the property, the production shall be deemed to be for and on behalf of the company and the income of the company shall be deemed to include the proceeds secured from the sale of the said oil or gas, less necessary expenses;

12. That any pension granted to any member of His Majesty's military, naval or air forces or to any member of the military, naval or air forces of His Majesty's allies, for any disability suffered on active war service by the pensioner or any pension granted to any dependent relative of any person who was killed or suffered any disability while on active war service in the said forces, shall be exempt from taxation;

13. That any amount received as compensation, other than compensation for loss of time, under any Workmen's Compensation legislation of any of the provinces of Canada in respect of any injury or disability incurred or in respect of any death, shall be exempt from taxation;

14. That any employer may deduct as an expense an amount up to 5 per centum of his pay roll, under limitations to be prescribed, paid as contributions to any employees' superannuation or pension fund or plan, excluding therefrom, however, portions in respect of salaries over \$6,000 per annum;

15. That a taxpayer shall be allowed a deduction from income in respect of medical expenses in excess of 5 per centum of the income of such taxpayer, incurred and paid by such taxpayer in the taxation year, or paid in the taxation year and incurred within one year prior to the date of payment if such payment is made to any qualified medical practitioner, dentist, or nurse, registered under any Dominion or Provincial legislation or regulation, or public or provincially licensed private hospital, in respect of any birth in the family of, illness or operation upon, the taxpayer or his spouse, or any person dependent upon the taxpayer, in respect of whom the taxpayer would heretofore have been entitled to an exemption and if the said dependent is resident in Canada, provided that the allowance in any taxation year shall not exceed the sum of

(a) \$400 in the case of a single person without dependents, or

(b) \$600 in the case of a married person or a person entitled to an equivalent allowance to that of a married person; plus

\$100 in respect of each additional person (not exceeding four) dependent upon the taxpayer for support;

Provided, however, that the maximum deduction hereunder shall not exceed \$1,000;

and provided further that the said amounts are substantiated by receipts and that such receipts are lodged with and at the time of filing the taxpayer's income tax return;

16. That the revenue losses in any business, of the immediately preceding year, may be allowed as a deduction.

17. That contributions not exceeding \$500 to any one registered prospecting syndicate searching for base metals or strategic minerals, but not exceeding \$5,000 in the aggregate, and payments not exceeding \$5,000 by any corporation in respect of its own prospecting expenses for similar minerals, may be allowed as a deduction from the income of any taxpayer, provided that the tax saving under this act and the Excess Profits Tax Act, 1940, shall not exceed 40 per centum thereof in each case;

18. That the deduction provided for by section 7 of the said Act under which a taxpayer is entitled to deduct from tax the amount paid under part III of the Special War Revenue Act, be repealed;

19. That salary and other periodic payments payable to non-residents of Canada who are residents of a country which imposes a tax of a similar nature shall be subject to a tax of 15 per centum at the source;

20. That the tax payable by all persons other than corporations shall be paid by quarterly instalments during the six months immediately prior to the close of the calendar year and the six months immediately subsequent to the close of the calendar year

(a) as to the six months, July to December, one-quarter of the estimated tax on or before the 15th day of September and the 15th day of December each year, having regard to the previous year's income and applying the current year's rates, and

(b) as to the six months, January to June, one-half of the tax (after deducting therefrom the previous two quarterly payments) on or before the 15th day of March and the 15th day of June each year, having regard to the income and applying the rates of the taxation year.

This shall be applicable to the tax on income of the calendar year 1942 and each year thereafter.

Any additional tax found due over that estimated or declared by the taxpayer shall be paid immediately upon assessment, together with interest at 5 per centum after four months from the close of the calendar year.

This instalment method of payment shall not apply to persons whose tax is being deducted at the source in respect of salary or wages, and whose salary or wage constitutes three-quarters or more of his income;

21. That the tax payable by a corporation shall be paid by monthly instalments during the six months immediately prior to the close of its fiscal period and the six months immediately subsequent to the close of its fiscal period

(a) as to the first six months, one-twelfth of the estimated tax, having regard to the previous or anticipated current year's income, applying the current year's rates, and

(b) as to the second six months, one-sixth of the tax after deducting therefrom the previous six months' payments having regard to the income, and applying the rates of the taxation year.

This shall be applicable to the tax on profits of fiscal periods ending on and after 31st December, 1942.

Any additional tax found due over that estimated or declared by the taxpayer shall be paid immediately upon assessment, together with interest at 5 per centum, after four months from the close of the fiscal period;

22. That the schedule of rates of tax on gifts in section 88 of the said act be repealed and in lieu thereof there be substituted the following schedule, to apply to gifts made after June 23, 1942:

	Per cent
On gifts up to and including \$5,000.....	10
On gifts exceeding	
\$ 5,000 but not exceeding \$ 10,000...	11
10,000 " " " 20,000...	12
20,000 " " " 30,000...	13
30,000 " " " 40,000...	14
40,000 " " " 50,000...	15
50,000 " " " 75,000...	16
75,000 " " " 100,000...	17
100,000 " " " 150,000...	18
150,000 " " " 200,000...	19
200,000 " " " 250,000...	20
250,000 " " " 300,000...	21
300,000 " " " 400,000...	22
400,000 " " " 500,000...	23
500,000 " " " 600,000...	24
600,000 " " " 700,000...	25
700,000 " " " 800,000...	26
800,000 " " " 1,000,000...	27
1,000,000	28

23. That provisions relating to the collection of National Defence Tax be repealed as of midnight of the 31st August, 1942;

24. That commencing after the 31st day of August, 1942, all dividends and registered interest paid by any debtor to residents of Canada shall be subject to a deduction at the source at the rate of 7 per centum;

25. That commencing after the 31st day of August, 1942, all salaries and wages paid by any employer to residents of, or persons employed in, Canada shall be subject to a deduction at the source of such portions of the taxes authorized herein as may be determined hereafter by the Governor in Council;

26. That any enactments founded on

(a) Resolutions 1 to 15 inclusive, 20 and 21 shall be applicable to the income of the 1942 taxation period and fiscal periods ending therein and to all subsequent periods;

(b) Resolution 16 shall be applicable to the income of 1943 taxation period and fiscal periods ending therein and all subsequent periods;

(c) Resolution 17 shall be applicable only to the income of the 1942 taxation period and fiscal periods ending therein;

(d) Resolution 18 shall be applicable to the income of the 1941 taxation period and fiscal periods ending therein and all subsequent periods;

(e) Resolution 19 shall be deemed to have come into force on the 24th day of June, 1942, and shall be applicable to all payments made on and after the said date.

EXCESS PROFITS TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Excess Profits Tax Act, 1940, and to provide—

1. That the rates of tax as set out in the Second Schedule to the said Act be repealed and the following substituted therefor:

"First part—

Ten per centum of the profits of corporations and joint stock companies and fifteen per centum of the profits of all persons other than corporations, before deduction therefrom of any tax paid thereon under the Income War Tax Act.

"Second part—

One hundred per centum of the excess profits.

"Third part—

Twelve per centum of profits of corporations and joint stock companies before deduction therefrom of any tax paid thereon under the Income War Tax Act."

2. That in computing the amount of excess profits subject to the tax of one hundred per centum, corporations be allowed to deduct such portion of the income tax and the tax payable under the Third Part of the Second Schedule to the Excess Profits Tax Act as the excess profits bear to the total profits.

3. That the exemption from excess profits tax of corporations with profits not in excess of five thousand dollars be limited to an exemption from the tax under the First Part or the Second Part of the Second Schedule but that such corporations be subject to the tax under the Third Part of the Second Schedule, namely, a tax of twelve per centum of profits.

4. That there shall be refunded to the taxpayer in accordance with paragraph five of these resolutions an amount equal to twenty per centum of the profits above the point at which the tax calculated under the First Part of the Second Schedule is equal to the tax calculated under the Second Part of the Second Schedule, provided that the said profits have been paid by way of taxes under the Income War Tax Act and the Excess Profits Tax Act, 1940, to the Receiver General of Canada.

5. That the refundable portion of any tax exigible under any enactment founded on these resolutions shall be repaid to the taxpayer or

to his legal representatives, after the cessation of hostilities between Canada and Germany, Italy and Japan, and in the following manner: The refundable portion of the tax in respect of the profits of 1942 and fiscal periods ending therein shall be repaid at such times and in such instalments as the Governor in Council may determine but not later than the end of the second fiscal period of the Government commencing after the said cessation of hostilities; the refundable portion of the tax in respect of the profits of 1943 and fiscal periods ending therein shall be repaid at such times and in such instalments as the Governor in Council may determine but not later than the end of the third fiscal year of the Government commencing after the said cessation of hostilities and so on in respect of the refundable portion of the tax on the profits of successive years or fiscal periods.

The date of the cessation of hostilities shall be deemed to be the date of a proclamation issued under the authority of the Governor in Council declaring that, for purposes of the said refund, the war no longer exists.

6. That the tax payable by a corporation shall be paid by monthly instalments during the six months immediately prior to the close of its fiscal period and the six months immediately subsequent to the close of its fiscal period—

(a) as to the first six months, one-twelfth of the estimated tax, having regard to the previous or anticipated current year's income, applying the current year's rates, and

(b) as to the second six months, one-sixth of the tax (after deducting therefrom the previous six months' payments) having regard to the income, and applying the rates of the taxation year;

This shall be applicable to the tax on profits of fiscal periods ending on and after 31st December, 1942.

Any additional tax found due over that estimated or declared by the taxpayer shall be paid immediately upon assessment, together with interest at five per centum, after four months from the close of the fiscal period.

7. That the definition of "standard profits" be amended to exclude therefrom dividends deemed to have been received under the provisions of section nineteen of the Income War Tax Act.

8. That if the Minister of National Revenue is satisfied that the taxpayer has not commenced business prior to the second day of January, 1939, he shall direct that the standard profits be ascertained by the Board of Referees.

9. That the revenue losses in any business of the immediately preceding year may be allowed as a deduction.

10. That the income of any company derived from the production of base metals or strategic minerals shall be exempt from taxation hereunder if the company first came into production during the period of three years commencing the first day of January, 1943, and such exemption shall extend to the income of the first three fiscal periods of twelve months each of any such company following commencement of such production.

11. That any enactment founded upon (a) resolutions Nos. 1, 2, 3 and 4 shall apply to one-

half of the profits of the calendar year 1942 and to the profits of all subsequent periods, provided that in the case of the fiscal period ending after June 30, 1942, and prior to December 31, 1942, the said enactment shall be applicable to that portion of the profits of any such fiscal period which the number of days therein after June 30, 1942, bears to the total number of days of such fiscal period, (b) resolutions Nos. 7 and 8 shall be deemed to have come into force at the commencement of the said Act, and (c) resolution No. 9 shall apply to the profits of 1943 and fiscal periods ending therein.

DOMINION SUCCESSION DUTY ACT

Resolved, that it is expedient to introduce a measure to amend the Dominion Succession Duty Act and to provide—

1. That superannuation benefits granted by the Dominion, the Provinces or any superannuation or pension fund or plan shall be subject to succession duty;

2. That one-half of the estate may be given to charitable organizations in Canada free of succession duty;

3. That the exemption in respect of gifts made prior to the 29th day of April, 1941, shall be allowed only in respect of gifts which are absolute and without any reservation of benefits to the donor;

4. That officials of foreign countries accredited to Canada owning real estate in Canada for residential purposes, shall in respect of such residential property be exempt from succession duty, if the country they represent grants similar relief;

5. That the proceeds of life insurance policies, including annuity contracts, shall be exempt from duty if the deceased was domiciled outside of Canada at the time the contract was entered into and at the time of his death and further that the beneficiary also was resident outside of Canada at the time of the death of the deceased;

6. (a) That executors be protected against court action by successors having any interest in expectancy in the property of the deceased if the executor elects to pay the duty in respect thereof at the time of death and not at the time when the expectancy falls into possession.

(b) That in order to secure payment of the duty a statutory lien be provided for in respect of any real or immovable property in Canada owned by any person who dies domiciled outside of Canada.

7. That executors be permitted to pay out, without the consent of the Minister, sums not in excess of—

(1) \$1,500 in the case of moneys payable

(a) under any contract of insurance;

(b) by any friendly society; or

(c) under any superannuation or pension fund or plan.

(2) \$500 in the case of moneys payable

(a) out of any bank account; or

(b) out of any trust or loan company's deposit account; or

(c) in satisfaction of wages or salaries.

8. That the foregoing resolutions shall apply from the commencement of the Dominion Succession Duty Act.

EXCISE ACT, 1934

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 spirits distilled in Canada be increased from seven dollars to nine dollars per proof gallon, provided that duty paid spirits owned by any distiller at the close of business on the twenty-third day of June, one thousand nine hundred and forty-two shall be subject to the following additional duty of excise on every gallon of the strength of proof two dollars and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon.

2. That the duty of excise on Canadian brandy be increased from six dollars to seven dollars per proof gallon, provided that duty paid Canadian brandy owned by any distiller at the close of business on the twenty-third day of June, one thousand nine hundred and forty-two shall be subject to the following additional duty of excise on every gallon of the strength of proof one dollar and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon.

3. That duty of excise on beer or malt liquor brewed in whole or in part from any substances other than malt be increased from thirty-five cents to forty-five cents per gallon.

4. That the duty of excise on malt manufactured or produced in Canada or imported be increased from twelve cents to sixteen cents per pound.

5. That the duty of excise on malt syrup manufactured or produced in Canada be increased from eighteen cents to twenty-four cents per pound and malt syrup imported into Canada and entered for consumption be increased from thirty cents to forty cents per pound.

6. That the duty of excise on Canadian raw leaf tobacco when sold for consumption be increased from ten cents to twenty cents per pound actual weight.

7. That any enactment founded upon the foregoing resolution shall come into force on the twenty-fourth day of June, one thousand nine hundred and forty-two.

SPECIAL WAR REVENUE ACT

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

1. That the tax on telegraph despatches be increased from five cents to seven cents upon each despatch transmitted.

2. That the tax on long distance telephone calls be increased from ten per cent of the charge made to fifteen per cent provided, however, that upon long distance telephone calls made from any public pay station there shall be paid in lieu of the tax hereinbefore provided for, the sum of five cents for each such call for which a charge of more than fifteen cents and not more than forty-five cents is made, and five cents for each additional charge of thirty-five cents or any fraction of thirty-five cents; and provided further that the tax imposed shall in no case be greater than seventy-five cents on any one call.

3. That there shall be imposed, levied and collected an excise tax of twenty-five cents per month on each telephone extension in any dwelling house, apartment or other domestic establishment.

4. That the tax on railway, vessel, bus and aircraft tickets or right of transportation be increased from ten per cent of the charge made to fifteen per cent; provided, however, that the said tax shall not apply on the charge for a ticket or right of transportation, if the regular one-way charge is seventy-five cents or less.

5. That the tax on pullman or parlour-car seats be increased from ten cents to fifteen cents.

6. That the tax on berths in sleeping cars or on other sleeping accommodation on railway trains be increased from ten per cent of the charge made to fifteen per cent; provided, however, that in no case shall the tax imposed be less than thirty-five cents.

7. That the excise tax on cigarette paper be increased from five cents for each one hundred leaves or fraction thereof to six cents.

8. That the excise tax on cigarette paper tubes be increased from ten cents for each one hundred cigarette paper tubes or fraction thereof to twelve cents.

9. That there shall be imposed, levied and collected an excise tax of one cent for each five cigarettes or fraction of five cigarettes contained in any package of cigarettes manufactured or imported into Canada.

10. That there shall be imposed, levied and collected an excise tax of one cent per ounce actual weight or fraction thereof on manufactured tobacco of all descriptions, except cigars or cigarettes, manufactured or imported into Canada.

11. That the excise tax on playing cards be increased from fifteen cents per pack to twenty cents per pack.

12. That the excise tax on wines of all kinds, except sparkling wines, containing not more than forty per cent of proof spirit be increased from forty cents per gallon to fifty cents per gallon, and that the excise tax on champagne and all other sparkling wines be increased from two dollars per gallon to two dollars and fifty cents per gallon.

13. That paragraph (a) of subsection four of section eighty-six of said Act is repealed and the following substituted therefor:

"4. (a) There shall be imposed, levied and collected an excise tax of 25 per cent upon the current market value of all dressed and/or dyed furs,—

(i) 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; or

(ii) dressed and/or dyed in Canada, payable by the dresser or dyer at the time of delivery by him."

14. That there shall be imposed, levied and collected an excise tax of 20 per cent payable by excise stamps on any charge for admission, cover charge, charge for meals, refreshment service or merchandise, or otherwise, which is payable by a person attending any dance hall,

night club, cabaret or similar place of entertainment which provides a combination of any two of the following features:

- dancing by patrons,
- sale of alcoholic beverages,
- entertainment by paid performers.

15. That in addition to any other duty or tax which may be payable under the said Act, or any other statute, there shall be imposed, levied and collected from the consumer or user a retail purchase tax payable by excise stamps in respect of the goods mentioned in the Schedule hereunder, purchased or imported by the consumer or user, at the rate set opposite each item in the said Schedule, computed on the retail selling price, if the goods are purchased in Canada, and on a value which includes all other duties and taxes if the goods are imported by a consumer or user, provided that the said tax shall not apply to goods of which the total retail selling price or the total cost to the consumer or user is not in excess of one dollar, in the case of any item mentioned in subparagraphs 1, 2, 4, 7 and 8 of the said Schedule, or in excess of fifty cents in the case of any item mentioned in subparagraphs 3, 5 and 6 of the said Schedule:

1. Trunks; suitcases; bags and luggage of all kinds; purses; handbags; jewel cases; brief and catalogue cases; dressing and toilet cases; shopping bags, except paper bags; golf and other sports bags; all the foregoing whether fitted or not, 25 per cent;

2. Clocks and watches adapted to household or personal use, 25 per cent;

3. Articles commonly or commercially known as jewellery, whether real or imitation, including diamonds and other precious or semi-precious stones for personal use or for adornment of the person; goldsmiths' and silversmiths' products including all gold, silver, chromium or other plated ware and pewter ware, 25 per cent;

4. Articles of all kinds made in whole or in part of ivory, jet, amber, coral, mother of pearl, natural shells, tortoise shell, jade, onyx, lapis lazuli, or other semi-precious stones, 25 per cent;

5. Articles of cut glassware, crystal glassware, cut or not, etched glassware, metal decorated glassware or marble, twenty-five per cent;

6. Articles of china, porcelain, earthenware, stoneware or other pottery ware, except articles for use in the preparation or serving of food or drink, twenty-five per cent;

7. Ash trays; tobacco pipes; cigar and cigarette holders; cigarette rolling devices and other smokers' accessories, not to include lighters, matches or tobacco, twenty-five per cent;

8. Fountain pens; propelling pencils; desk sets and all other desk accessories, twenty-five per cent.

16. That immediately after the word "cameras" in section five of Schedule I to the said Act, be added the following words:

"photographic films and plates; projectors for slides, films or pictures; except those designed exclusively for industrial or professional photographers' use; twenty-five per cent."

17. That section eight of said Schedule I to the said Act be repealed and the following substituted therefor:

"9. Beverages consisting of unfermented fruit juices (not including grape and other native fruit juices where at least ninety-five per cent of the products sold consist of pure juice of the fruit) and imitations thereof, carbonated beverages or aerated waters and all other compounded or mixed soft drinks, put up in bottles for sale, twenty-five per cent and one cent per bottle."

18. That the said Schedule I to the said Act is further amended by adding at the end thereof as Sections ten and eleven the following:

"10. Chocolate, candy and confectionery which may be classed as candy or a substitute for candy, thirty per cent."

"11. Chewing gum, thirty per cent."

19. That the rate of excise tax on cigars mentioned in paragraphs (a) (b) (c) (d) and (e) of section one of Schedule II to this Act be increased by twenty-five per cent.

20. That section two of the said Schedule II to the said Act be repealed and the following substituted therefor:

"2. Sugar, etc.:—

(a) Materials enumerated in customs tariff items 134, 135, 135a, 135b, one and one-half cents per pound;

(b) Materials enumerated in customs tariff items 139 (except glucose and grape sugar) 140 (except molasses), two cents per pound;

(c) Glucose and grape sugar (except when for use exclusively in the manufacture of leather, and artificial silk), one cent per pound."

21. That the excise tax on carbonic acid gas and similar preparations to be used for aerating non-alcoholic beverages be increased from twenty-five cents per pound to fifty cents per pound.

22. (1) That the tax imposed upon mutual companies authorized under the laws of the Dominion of Canada or of any Province thereof to transact the business of insurance, other than life insurance, on the premium deposit plan, and the tax on every exchange so authorized shall be increased from two per centum to four per centum upon the net premiums received by it in Canada during the calendar year 1941 and each calendar year thereafter.

(2) That the tax imposed upon mutual companies, other than those mentioned in subparagraph (1) hereof, and upon associations of persons formed upon the plan known as Lloyds', authorized under the laws of the Dominion of Canada or of any Province thereof to transact the business of insurance, other than life insurance, be increased from one per centum to three per centum upon the net premiums received by it in Canada, less net premiums paid for reinsurance to companies or associations to which the tax authorized by this subparagraph or subparagraph (3) hereof applies during the year 1941 and each calendar year thereafter.

(3) That the tax imposed upon every company, other than those mentioned in subparagraphs (1) and (2) hereof, authorized under the laws of the Dominion of Canada or of any Province thereof to transact the business of insurance, other than life insurance, shall be increased from one per centum to two per

centum upon the net premiums received by it in Canada, less net premiums paid for reinsurance to companies or associations to which the tax authorized by this subparagraph or subparagraph (2) hereof applies during the year 1941 and each calendar year thereafter.

(4) That there be imposed upon every company authorized under the laws of the Dominion of Canada or of any Province thereof to transact the business of life insurance, a tax of two per centum upon the net premiums received by it in Canada, less net premiums paid for reinsurance to companies or associations to which the tax authorized by this subparagraph or subparagraphs (2) or (3) hereof applies during the year 1941 and each calendar year thereafter.

23. (1) That any enactment founded on paragraph twenty of these resolutions shall be deemed to have come into force on the sixteenth day of February, one thousand nine hundred and forty-two.

(2) That any enactment founded on paragraph fourteen of these resolutions shall come into force on the first day of July, one thousand nine hundred and forty-two.

(3) That any enactment founded on paragraphs one to thirteen inclusive, paragraphs fifteen to nineteen inclusive and paragraph twenty-one of these resolutions, except as hereinbefore provided, shall be deemed to have come into force on the twenty-fourth day of June, one thousand nine hundred and forty-two and to have applied on all goods imported or taken out of warehouse for consumption on and after that day and to have applied on all goods previously imported for which no entry for consumption was made before that day.

CUSTOMS TARIFF

1. Resolved, that Schedule A to the Customs Tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended, is further amended by striking thereout subdivisions (a), (b), (c) and (d) of tariff item 90, tariff items 152b, 152d, 210, 276, 282b, 316a, 347, 410c, 422a, 435, 438d, 438i, 451b, subdivisions (a) and (b) of 534, 574, 584, 610, 610a, 657, 682a, 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		
					B.P. Tariff	Intermediate Tariff	General Tariff
90a	Vegetables, dried, desiccated or dehydrated, including vegetable flour, n.o.p.....	15 p.c.	27½ p.c.	30 p.c.	15 p.c.	27½ p.c.	30 p.c.
90b	Vegetables, pickled or preserved in salt, brine, oil or in any other manner, n.o.p.....	15 p.c.	32½ p.c.	35 p.c.	15 p.c.	32½ p.c.	35 p.c.
90c	Vegetable juices, liquid mustards, soy and vegetable sauces of all kinds.....	15 p.c.	32½ p.c.	35 p.c.	15 p.c.	32½ p.c.	35 p.c.
90d	Vegetable pastes and hash and all similar products composed of vegetables and meat or fish, or both, n.o.p.....	15 p.c.	32½ p.c.	35 p.c.	15 p.c.	32½ p.c.	35 p.c.
152b	Orange juice, grapefruit juice, and blended orange and grapefruit juice, the product of the British West Indies, when imported direct from the country of production.....	Free			Free 15 p.c.		
210	Peroxide of soda; silicate of soda, dry or in water 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.	15 p.c. 25 p.c.	20 p.c. 25 p.c.
276	Cotton seed oil for canning fish.....	Free	Free	Free	Free 12½ p.c.	Free 17½ p.c.	Free 17½ p.c.
282b	Saggars, hillers, bats, and plate setters, when used in the manufacture of ceramic products.....	Free	Free	Free	Free 12½ p.c.	Free 20 p.c.	Free 22½ p.c.
316a	Incandescent lamp bulbs for use in the manufacture of incandescent lamps; glass tubing for use in the manufacture of incandescent lamps, vials and ampoules; mantle stocking for gas light.....	Free	7½ p.c.	10 p.c.	Free 10 p.c.	7½ p.c. 20 p.c.	10 p.c. 22½ p.c.
349c	Magnesium scrap.....	Free	Free	Free	15 p.c.	25 p.c.	25 p.c.
	Provided, that nothing shall be deemed to be magnesium scrap except waste or refuse magnesium, fit only to be remelted.						

410c	(i) Machinery and apparatus and complete parts thereof for use exclusively in producing unrefined oil from shales, not to include motive power, of a class or kind not made in Canada.....	Free	Free	Free	Free	Free	Free
	(ii) Machinery and apparatus for operating oil-sands by mining operations and for extracting oil from the sands so mined; complete parts of the foregoing...	Free	Free	Free	Free 10 p.c.	27½ p.c. 27½ p.c.	35 p.c. 35 p.c.
422a	Concrete road-paving machines, self-propelling, end loading type, with a capacity of 21 cubic feet of wet concrete or more; concrete and asphalt road finishing machines; form graders; sub-graders; combination excavating and transporting scraper units; concrete mixers, transit type; dump wagons or trailers, having a capacity of 10 cubic yards or over, not self-propelled; back-filling machines and equipment, mounted on self-propelling wheels or crawling traction, semi- or full-revolving boom and scraper type; steam or air driven pile hammers or extractors; well-points; truck turntables; all the foregoing of a class or kind not made in Canada, and complete parts thereof.....	Free	10 p.c.	12½ p.c.	Free 15 p.c.	10 p.c. 27½ p.c.	12½ p.c. 30 p.c.
428g	Fuel injection pumps and nozzles for diesel and semi-diesel engines.....	Free	Free	Free	Free Free	Free 25 p.c.	Free 30 p.c.
435	Locomotives and motor cars for railways, of a class or kind not made in Canada, and complete parts thereof, for use exclusively in mining, metallurgical or sawmill operations; diesel switching locomotives of a class or kind not made in Canada.....	Free	12½ p.c.	20 p.c.	Free 15 p.c.	12½ p.c. 30 p.c.	20 p.c. 35 p.c.
438d	Front and rear axles; brakes; clutches; internal combustion engines; steering gears; magnetos; rims for pneumatic tires larger than thirty inches by five inches; transmission assemblies; drive shafts; universal joints; steel road wheels; and parts of the foregoing, when of a class or kind not made in Canada, and imported by manufacturers of the goods enumerated in tariff items 424 and 438a for use only in the manufacture of motor trucks, motor buses and electric trackless trolley buses, or for the manufacture of chassis for the same.....	Free	17½ p.c.	27½ p.c.	Free Free	17½ p.c. 25 p.c.	27½ p.c. 40 p.c.

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates		
					B.P. Tariff	Intermediate Tariff	General Tariff
	<p>(1) Provided that if the above articles are imported for use as original equipment for motor trucks, motor buses and electric trackless trolley buses, or for chassis for the same, by a manufacturer of the goods enumerated in tariff items 424 and 438a, and provided also that during the year during which importation is sought, not less than forty per centum of the factory cost of production of such motor vehicles and chassis therefor, not to include duties and taxes, is incurred in the British Empire, the rates of duty under this item shall be.....</p> <p>(2) Provided that the Governor in Council may make such regulations, if any, as are deemed necessary for carrying out the provisions of this item.</p>	Free	7½ p.c.	27½ p.c.	Free Free	7½ p.c. 25 p.c.	27½ p.c. 40 p.c.
438i	Body bottom cross members and steel shapes for the manufacture thereof; bumpers, front and rear, and parts thereof, including spring steel bumper plates; casket tables or platforms for hearses; destination and route sign assemblies, illuminated or not, and parts thereof; direction signals, illuminated or not; door and step mechanism, hand, vacuum or air operated, and parts thereof; door locks and catches and parts thereof; electric switches, buzzers, bells, push buttons, fuse assemblies and parts thereof; forward drive control conversion assemblies and parts thereof; lamps of all kinds, illuminating and indicating, including sockets, flanges, terminals, glassware, lenses and gaskets therefor, assembled or not, but not to include lamp bulbs; metal stampings, oiled and primed or not, and assemblies thereof; rubber fenders; seat operating mechanisms; ventilators, including motor driven fan type, and grilles, and parts thereof; window operating mechanisms; all of the foregoing when imported to be used only in the manufacture of motor bus bodies, electric trackless trolley bus bodies, motor ambulances and hearses.....	Free	Free	20 p.c.	Free Free	Free 25 p.c.	20 p.c. 40 p.c.

438j	Semi-finished piston castings of any material.....	Free	25 p.c.	35 p.c.	Free	30 p.c.	40 p.c.
451b	Pins manufactured from wire of any metal:						
	(i) Specially designed for marking systems.....	Free	5 p.c.	10 p.c.	17½ p.c.	27½ p.c. 10 cts. per pound	30 p.c. 10 cts. per pound
	(ii) N.o.p.....	17½ p.c.	27½ p.c.	30 p.c.	17½ p.c.	27½ p.c.	30 p.c.
	and, per pound.....	10 cts.	10 cts.	10 cts.		10 cts. per pound	10 cts. per pound
534	(a) Wick, with or without core, processed or not, when imported by manufacturers of wax candles or tapers for use in their own factories in the manufacture of wax candles or tapers.....	Free	Free	Free	Free 15 p.c.	Free 22½ p.c. 3½ cts. per pound	Free 25 p.c. 4 cts. per pound
	(b) Braided wick, with or without core, processed or not, when imported for use exclusively in oil- burning sanctuary lamps, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free	Free	Free
574	Woven fabrics, non-elastic, not exceeding three inches in width, imported by manufacturers of suspenders, garters, hose supporters, abdominal supporters and spinal braces for use exclusively in the manufacture of such articles in their own factories.....	10 p.c.	17½ p.c.	20 p.c.	10 p.c. 22½ p.c.	17½ p.c. 27½ p.c.	20 p.c. 35 p.c.
584	Resin or rosin; bone pitch, crude only.....	Free	Free	Free	Free 15 p.c.	Free 25 p.c.	Free 25 p.c.
610	Belting, n.o.p.....	7½ p.c.	25 p.c.	27½ p.c.	15 p.c. 7½ p.c.	25 p.c. 27½ p.c.	27½ p.c. 27½ p.c.
657	Mouthpieces in the rough, screws, aluminum pipe fit- ments and pipe bowls moulded from briarwood dust, and bowls of wood, not further processed than frazed, when imported by manufacturers of tobacco pipes for use in the manufacture of such pipes, in their own factories.....	Free	Free	25 p.c.	Free 15 p.c. 17½ p.c. 20 p.c.	Free 25 p.c. 22½ p.c. 27½ p.c.	25 p.c. 25 p.c. 25 p.c. 30 p.c.
682a	Net floats of aluminum, glass, canvas, cork, rubber, or cellulose acetate, for use exclusively in com- mercial fishing.....	Free	Free	Free	Free 20 p.c.	Free 30 p.c.	Free 35 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, as amended by chapter twenty-nine of the statutes of 1940 and chapter thirteen of the statutes of 1941, the following enumerations of goods and rates of additional duties of customs:

Whisky, brandy, rum, gin and all other goods specified in Customs Tariff Items 156, 156a, and 156b, \$3 per gallon of the strength of proof.

Ale, beer, porter and stout, 9 cents per gallon.

Wines of all kinds except sparkling wines, containing not more than 40 per cent of proof spirit, 32½ cents per gallon.

Champagne and all other sparkling wines, \$1.25 per gallon.

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

Whisky, brandy, rum, gin and all other goods specified in Customs Tariff Items 156, 156a, and 156b, \$5 per gallon of the strength of proof.

Ale, beer, porter and stout, 30 cents per gallon.

Wines of all kinds except sparkling wines, containing not more than 40 per cent of proof spirit, 42½ cents per gallon.

Champagne and all other sparkling wines, \$1.75 per gallon.

3. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the twenty-fourth day of June, one thousand nine hundred and forty-two, 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, 1942-43

Budget Papers presented by the
Honourable J. L. Ilsley, M.P., for the
information of Parliament on the occasion of the
Budget of 1942-43

A. Review of Government Accounts, 1941-42.

B. Tables on Economic Conditions, 1941-42.

DOMINION OF CANADA

A. GOVERNMENT ACCOUNTS, 1941-42

COMPARATIVE SUMMARY STATEMENT OF REVENUES AND EXPENDITURES

1. As the final figures for the fiscal year 1941-42 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 1941-42, together with comparable figures for the four preceding fiscal years:

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

	1937-38	1938-39	1939-40	1940-41	Estimated 1941-42
	\$	\$	\$	\$	\$
Tax Revenues—					
Customs import duties.....	93,456	78,751	104,301	130,757	142,392
Excise duties—					
Spirits, malt, etc.....	19,026	18,530	21,267	34,140	46,777
Cigars, cigarettes and tobacco.....	32,837	33,225	40,557	55,417	65,050
Licences.....	38	34	35	45	39
	52,501	51,789	61,859	89,602	111,866
Less refunds.....	464	475	827	994	1,775
	52,037	51,314	61,032	88,608	110,091
Excise taxes—					
Sales.....	141,864	125,927	141,121	184,536	246,553
Manufacturers—					
Automobiles, rubber tires and tubes	1,453	1,343	1,568	11,206	16,742
Gasoline.....	—	—	—	—	24,752
Cigars, cigarette papers and tubes.	1,428	1,575	2,009	3,601	4,281
Beverages.....	—	—	—	—	6,247
Matches and lighters.....	1,769	1,819	2,135	2,173	2,766
Sugar.....	10,833	11,004	12,302	11,894	22,009
Toilet preparations and soap.....	1,224	1,249	1,371	1,542	3,539
Electric and gas appliances.....	—	—	—	1,886	8,470
Phonographs, radios and tubes....	—	—	—	1,289	2,361
Sundry.....	477	465	732	1,340	2,322
Amusements.....	—	—	—	—	7,710
Tax on pari mutuel bets.....	—	—	—	—	1,082
Special excise (importations).....	18,622	15,591	1,979	1,008	861
Transportation and communication..	1,727	1,640	1,657	1,848	8,131
Stamps, licences, interest, etc.....	5,231	4,885	4,829	4,747	5,095
War exchange.....	—	—	—	61,932	100,874
	184,628	165,498	169,703	239,002	463,795
Less refunds.....	3,809	3,787	3,675	4,835	10,369
	180,819	161,711	166,028	284,167	453,426
Income tax—					
Individuals.....	40,445	46,937	45,407	75,863	189,502
Corporations.....	69,769	85,186	77,920	131,566	185,836
Dividends, interest, etc.....	10,152	9,903	11,122	13,042	28,269
	120,366	142,026	134,449	220,471	403,607
National defence tax.....	—	—	—	27,672	106,637
Excess profits tax.....	—	—	—	23,995	135,168
Succession duties.....	—	—	—	—	6,957
Banks, Insurance Companies, etc.—					
Chartered banks.....	1,107	1,014	949	898	787
Insurance companies.....	867	891	926	972	1,148
Miscellaneous.....	509	587	536	673	702
Total Revenue from taxes.....	449,161	436,294	468,271	778,213	1,360,915
Non-tax Revenues—					
Post Office.....	35,546	35,288	36,728	40,333	45,994
Return on investments.....	14,463	14,407	14,617	17,592	25,830
Bullion and coinage.....	1,715	2,052	3,756	6,266	4,765
Premium, discount and exchange.....	27	477	7,939	6,107	11,780
Other.....	9,386	9,499	10,306	11,194	14,200
Total non-tax revenue.....	61,137	61,723	73,346	81,542	102,569
Total ordinary revenues.....	510,298	498,017	541,617	859,755	1,463,484

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—Concluded
(000 omitted)

	1937-38	1938-39	1939-40	1940-41	Estimated 1941-42
	\$	\$	\$	\$	\$
Special Receipts and Other Credits—					
Consolidated Fund—					
Refunds of previous years' special expenditure.....	1,184	1,232	153	78	102
Refunds of previous years' war expenditure.....	—	—	—	1,221	7,826
War donations.....	—	—	11	1,410	459
Special receipts arising out of the war.	—	—	—	321	1,649
Canadian National Railways—					
Operating surplus for calendar year 1941.....	—	—	—	—	4,016
Capital gain on redemption of 4% debenture stock.....	—	—	—	5,504	99
Canadian National (West Indies) Steamships Ltd.—					
Operating surplus for 1936 and 1937..	270	—	—	—	—
Dominion stock "A" written off....	—	—	—	4	—
Montreal Turnpike Trust Account—					
adjustment.....	—	24	—	—	—
Surplus value of free lands and re-claimed leases previously held in the Soldier Land Settlement Assurance Fund transferred to Consolidated Revenue Fund.....	758	—	—	—	—
Inventory value of stores on hand in the Department of Transport as at April 1, 1937, credited to Consolidated Revenue Fund pursuant to Department of Transport Stores Act, 1937.....	708	—	—	—	—
Total Consolidated Fund.....	3,010	1,256	164	8,538	14,151
Capital Accounts—					
Refunds of previous years' expenditure.....	1,543	40	21	20	36
Net insurance proceeds on the P.E.I. Car Ferry.....	—	—	—	—	984
Non-active Accounts—					
Canadian Government Merchant Marine, Limited—					
Balance in Contingency Reserve..	—	—	—	1	—
National Harbours Board—					
Reduction in indebtedness.....	—	—	—	—	33
Write-downs to Consolidated Fund—					
Seed Grain and Relief Loans.....	14	18	10	46	58
Relief Loans to Province of Manitoba.....	805	—	—	—	—
Relief Loans to Province of Saskatchewan.....	—	—	17,682	—	—
Soldier and General Land Settlement Loans.....	—	127	—	—	—
Canadian National Railways Securities Trust Stock—					
Line abandonments.....	—	2,713	2,600	2,334	2,539
Net capital loss on sale of S.S. <i>Prince David</i> and S.S. <i>Prince Robert</i>	—	—	—	1,475	—
Net credit resulting from Canadian National Railways Capital Revision Act, 1937.....	1,023	—	—	—	—
Total Special Receipts and Credits.....	6,395	4,154	20,477	12,414	17,801
Grand Total Revenue.....	516,693	502,171	562,094	872,169	1,481,285

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

(000 omitted)

	1937-38	1938-39	1939-40	1940-41	Estimated 1941-42
	\$	\$	\$	\$	\$
ORDINARY EXPENDITURE					
Agriculture.....	9,017	9,527	11,817	8,593	8,437
Auditor General's Office.....	463	473	459	453	456
Civil Service Commission.....	358	379	398	397	401
External Affairs, including Office of Prime Minister.....	1,450	1,057	1,220	1,013	1,055
Finance—					
Interest on Public Debt.....	132,118	127,996	120,315	139,179	154,270
Cost of Loan Flotations and Annual Amortization of Bond Discounts and Commissions.....	4,555	4,914	4,992	6,304	16,430
Subsidies to Provinces.....	13,735	13,752	13,769	13,769	14,409
Special Grants to Provinces.....	7,475	7,475	5,475	5,475	—
War-time Prices and Trade Board— Dominion Fuel Board Administra- tion, coal subsidies and subventions	—	—	—	—	(6) 4,880
Miscellaneous Grants and Contributions	560	643	660	530	533
Civil Pensions and Superannuation....	712	638	567	500	445
Government contribution to Super- annuation Fund.....	2,065	2,220	2,271	2,316	2,347
Old Age Pensions, including pensions to blind persons.....	28,653	29,044	29,977	29,912	29,612
Compensation to Provinces under Dominion-Provincial Taxation Agreements.....	—	—	—	—	21,120
Administrative and Sundry Expenditure	3,573	3,689	3,966	3,508	3,513
Fisheries.....	1,850	2,036	2,320	1,618	1,684
Governor General and Lieutenant Gov- ernors.....	225	226	227	213	226
Insurance.....	187	194	195	176	180
Justice.....	2,790	2,748	2,725	2,711	2,658
Penitentiaries.....	2,577	2,675	2,941	2,717	2,786
Labour.....	706	788	788	826	763
Technical Education.....	49	27	31	18	41
Unemployment Insurance Act, 1940— Administration.....	—	—	—	69	2,345
Government contribution.....	—	—	—	—	7,287
Government Annuities— Payments to maintain reserve.....	8,941	—	379	111	661
Legislation—					
House of Commons.....	1,516	1,800	1,286	2,468	1,408
Library of Parliament.....	79	72	76	70	72
Senate.....	536	600	432	868	424
General.....	57	75	68	58	47
Dominion Franchise Office.....	76	50	—	—	—
Chief Electoral Officer, including elec- tions.....	45	114	458	2,469	281
Mines and Resources—					
Administration.....	(1) 1,491	(1) 184	(1) 186	(1) 179	(1) 170
Immigration and Colonization.....	1,163	1,335	1,338	1,273	1,287
Indian Affairs.....	4,897	5,305	5,675	5,183	4,079
Lands, Parks and Forests.....	1,910	2,249	2,116	1,937	1,963
Surveys and Engineering.....	933	1,325	1,301	1,114	1,175
Mines and Geological Survey.....	658	1,340	1,324	1,173	1,153
Movement of Coal and Subsidies under Domestic Fuel Act.....	2,521	1,921	4,532	4,408	(2) —
Munitions and Supply.....	—	—	—	9	12
National Defence—					
Administration.....	—	(3) 409	(3) 178	(3) 30	(3) 38
Militia Service.....	17,221	15,772	5,997	—	—
Naval Service.....	4,372	6,590	1,869	—	—
Air Service.....	10,018	11,216	4,852	—	—
Sundry Services.....	1,149	447	295	168	231
National Revenue (including Income Tax).....	11,870	11,899	12,064	12,229	13,430
National War Services.....	—	—	—	—	675
Pensions and National Health—					
Administration.....	—	(3) 118	(3) 132	(3) 133	(3) 137
Treatment and after-care of returned soldiers.....	12,109	13,453	14,771	13,402	12,733

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

(000 omitted)

	1937-38	1938-39	1939-40	1940-41	Estimated 1941-42
	\$	\$	\$	\$	\$
ORDINARY EXPENDITURE—Continued					
Pensions and National Health—Conc.					
Pensions, War and Military.....	42,240	42,181	42,219	41,515	40,582
Health Division.....	957	1,012	1,113	1,111	1,249
Post Office.....	33,762	35,456	36,726	38,700	41,495
Privy Council.....	48	49	59	54	54
Public Archives.....	170	159	150	126	123
Public Printing and Stationery.....	161	191	199	283	195
Public Works.....	12,382	15,484	13,065	11,507	11,936
Royal Canadian Mounted Police.....	6,308	6,145	5,626	5,554	6,021
Secretary of State.....	693	730	836	772	823
Soldier Settlement.....	801	758	624	582	564
Trade and Commerce.....	4,070	4,763	4,999	4,815	(4) 6,200
Canada Grain Act.....	1,675	1,847	1,933	1,908	1,909
Mail Subsidies and Steamship Sub- ventions.....	2,029	1,993	1,907	942	616
Transport—					
Administration.....	417	371	358	334	364
Air Service.....	2,935	3,457	3,862	3,478	3,414
Marine Service.....	4,290	4,271	4,215	3,795	4,013
Canadian Travel Bureau.....	250	249	312	470	(5) —
Railways and Canals.....	3,661	4,371	3,763	3,527	3,697
Maritime Freight Rates Act.....	3,183	2,583	2,660	3,951	3,935
Railway Grade Crossing Fund.....	180	187	255	126	25
Total ordinary expenditure.....	414,892	413,032	398,323	390,629	443,960
CAPITAL EXPENDITURE					
Railways.....	71	26	23	7	5
Public Works.....	4,359	5,398	7,007	3,351	3,352
Total Capital Expenditure.....	4,430	5,424	7,030	3,358	3,357
WAR EXPENDITURE					
War (see sections 17 to 27).....	—	—	118,291	752,045	1,351,553
SPECIAL EXPENDITURE					
Unemployment Relief—					
Administration—Relief Acts.....	378	260	287	236	102
Grants-in-aid to Provinces.....	19,493	17,037	—	—	—
Material Aid to Provinces, including municipal improvements projects....	—	—	19,534	15,785	1,856
Dominion share of joint Dominion- Provincial projects.....	8,841	6,259	7,147	1,794	487
Dominion projects.....	13,913	12,981	24,919	9,784	5,948
Transportation facilities into mining areas.....	1,324	1,213	1,121	48	—
	43,940	37,750	53,008	27,647	8,393

(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.

(2) For current year see Department of Finance.

(3) Prior to 1938-39 general administration expenses were not segregated from other expenditure of the respective services of the departments.

(4) Includes an estimated amount of \$2,565,000 for Census of population of Canada.

(5) For current year included in National War Services.

(6) For previous years included in Departments of Trade and Commerce and Mines and Resources.

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

(000 omitted)

	1937-38	1938-39	1939-40	1940-41	Estimated 1941-42
	\$	\$	\$	\$	\$
SPECIAL EXPENDITURE—Continued					
Western Drought Area Relief—					
Direct Relief.....	11,925	8,869	1,605	—	—
Feed and fodder and freight thereon....	11,352				
Expenses of marketing cattle.....	337	—	—	—	—
Purchase and distribution of food-stuffs.....	972	277	—	—	—
Prairie Farm Assistance Act, 1939—					
Administration.....	—	—	—	346	420
Advances to Prairie Farm Emergency Fund.....	—	—	7,500	4,376	11,836
Wheat acreage reduction payments....	—	—	—	—	29,659
	24,586	9,146	9,105	4,722	41,915
Provision for reserve against estimated losses on 1938 wheat marketing guarantees.....	—	25,000	27,000	—	—
Provision for reserve to meet deficits resulting from the operations of the Canadian Wheat Board calculated as at July 31, 1940 and 1941, respectively, not previously provided for.....	—	—	—	10,500	12,571
Total special expenditure.....	68,535	71,896	89,113	42,869	62,879
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Fund—					
Canadian National Railway System, ex-eastern lines.....	37,882	48,194	34,850	14,451	—
Eastern lines.....	4,464	6,120	5,245	2,514	—
Prince Edward Island Car Ferry and Terminals.....	—	(1) 388	427	461	424
National Harbours Board.....	289	138	94	40	33
Trans-Canada Air Lines.....	111	818	412	—	—
Central Mortgage Bank.....	—	—	16	—	—
Total charged to consolidated fund.....	42,746	55,658	41,044	17,466	457
Loans and advances non-active—					
Canadian National Steamships.....	104	6	8	—	—
National Harbours Board.....	1,983	3,279	1,027	716	758
Total non-active advances.....	2,087	3,285	1,035	716	758
Total government-owned enterprises.....	44,833	58,943	42,079	18,182	1,215
OTHER CHARGES					
Write-down of assets chargeable to Consolidated Fund—					
Drought Area Relief Loans, 1934-35—					
Province of Saskatchewan.....	—	—	1,374	—	—
Reduction of soldier and general land settlement loans.....	750	1,023	1,643	1,011	271
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources.....	14	18	10	46	58

(1) Included with Eastern lines in previous years.

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

(000 omitted)

	1937-38	1938-39	1939-40	1940-41	Estimated 1941-42
OTHER CHARGES—Concluded	\$	\$	\$	\$	\$
Canadian National Railways Securities Trust Stock—Reduction due to line abandonments during calendar years 1938, 1939, 1940 and 1941.....	(²) —	2,713	2,600	2,334	2,539
Canadian National Railways Securities Trust Stock—Capital loss (exclusive of loss applicable to expired service life) on sale of S.S. Prince David and Prince Robert.....	—	—	—	1,475	—
Cancellation of Canadian Farm Loan Board—					
Capital Stock.....	10	14	11	12	10
Province of Manitoba Treasury Bills..	(³) 805	—	—	—	—
Province of Saskatchewan Treasury Bills.....	—	—	(³) 17,682	—	—
To provide a reserve for possible losses on ultimate realization of Active Loans and Advances.....	—	—	—	25,000	25,000
Non-Active Accounts—					
General Land Settlement Loans.....	139	—	—	—	—
Fulfillment of guarantees—					
Saskatchewan Seed Grain Loans, 1936 and 1937.....	—	—	2,638	7,136	—
Canadian National Railways Securities Trust Stock—					
Increase in Dominion's Equity in the Canadian National Railways due to capital gain on redemption of £22,500,000 G.T.R. 4% Perpetual Debenture Stock.....	—	—	—	5,504	99
Increase in Dominion's Equity in the Canadian National Railways due to surplus earnings of Canadian National Railway System for calendar year 1941.....	—	—	—	—	4,016
Total other charges.....	1,718	3,768	25,958	42,518	31,993
Grand total expenditures.....	534,408	553,063	680,794	1,249,601	1,894,966

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

SUMMARY OF REVENUES AND EXPENDITURES
(000 omitted)

	1937-1938	1938-1939	1939-1940	1940-1941	Estimated 1941-42
	\$	\$	\$	\$	\$
Ordinary revenues.....	510,298	498,017	541,617	859,755	1,463,434
Ordinary expenditures.....	414,892	413,032	398,323	390,629	443,969
Surplus on ordinary account.....	95,406	84,985	143,294	469,126	1,019,515
War and special expenditures.....	68,535	71,896	207,404	794,914	1,414,432
Less special receipts.....	3,010	1,256	164	8,538	14,151
Balance.....	65,525	70,640	207,240	786,376	1,400,231
Add—Capital expenditures.....	4,430	5,424	7,030	3,358	3,357
“ Government owned Enterprises...	44,833	58,943	42,079	18,132	1,215
“ Other charges.....	1,718	3,768	25,958	42,518	31,993
	116,506	138,775	282,307	850,434	1,436,846
Less other credits.....	3,385	2,898	20,313	3,876	3,650
	113,121	135,877	261,994	846,558	1,433,196
Deduct surplus as above.....	95,406	84,985	143,294	469,126	1,019,515
Over-all deficit or increase of direct net debt.....	17,715	50,892	118,700	377,432	413,681

REVENUES, 1941-42

3. When the books for the fiscal year 1941-42 are finally closed, total revenues will reach, it is estimated, an all-time record of \$1,481,285,000. This represents an increase over the preceding fiscal year of no less than \$609,116,000 or approximately 70%. The chief reasons for this very substantial increase were the new taxes and the increases in old tax rates imposed by the last budget and the higher level of national income and production due to heavy expenditures for war purposes. In addition, there were less important increases in the yield from income taxes due to changes in the time and method of collection. As a result of the last budget, the due date for personal income taxes was moved back from April 30 to March 31 and the prepayment instalment plan became effective in September 1941, thus providing for seven monthly payments during the fiscal year for those who adopted the plan as compared with only three monthly instalments in the preceding fiscal year under the instalment plan which began in January 1941.

4. The five-year table of revenues shown on page 4 is in the same form as was used last year. This table is divided to show tax revenues under appropriate headings with sub-headings for Excise Duties, Excise Taxes and Income Taxes. The non-tax revenue section is broken down under five main headings.

5. Total revenues from taxation for the fiscal year ended March 31, 1942, are estimated at \$1,360,915,000 compared with \$778,213,000 collected during the previous year. This total represents 92% of the total estimated revenues. An examination of the five-year table discloses that direct taxes on incomes realized \$645,412,000 compared with \$272,138,000 during the previous year. While, in 1940-41, direct taxes represented 35.0% of the total revenue from taxes, they represented 47.4% of total tax revenues in 1941-42. This comparison illustrates the increasing reliance upon the direct taxation of incomes. Because of the change in the due date of personal income taxes from April 30 to March 31, and the longer period in which the prepayment instalment plan was in operation during 1941-42, an accurate comparison of receipts from personal income taxes during 1941-42 with the amounts received in previous years cannot be made.

6. As a result of the Budget of April 29, 1941, the Dominion levied succession duties for the first time. The yield of this new tax amounted to \$6,957,000. This compared with a rough estimate of \$10,000,000 given in last year's Budget.

7. The total revenue from sales tax, less refunds, is estimated at \$236,184,000, an increase of \$56,483,000 as compared with the previous year. Part of this increase was the result of removing building materials from the exempt list (effected by the Budget of April 1941) but for the most part it reflects the higher level of activity brought about by increasing expenditures for war purposes.

8. The war exchange tax is expected to realize a total revenue of \$100,874,000 compared with \$61,932,000 received during the previous year.

9. Other excise taxes as set out in the five-year table are estimated to produce \$116,368,000, an increase over the previous year of \$73,834,000. Excise taxes derived from new imposts realized \$44,937,000 as follows: gasoline \$24,752,000; amusements \$7,710,000; Pari-mutuel bets \$1,082,000; soft drinks \$6,247,000; and travel \$5,146,000. The remainder of the increase, namely \$28,897,000, is accounted for by business expansion and by increased excise taxes on automobiles, cigarette papers and tubes, lighters, playing cards, sugar, toilet preparations, wines and long distance telephone calls, etc.

10. Revenues from customs import duties for the year just closed are estimated at \$142,392,000 compared with \$130,757,000 received during 1940-41. This increase is due largely to increased imports arising out of the war.

11. Receipts from excise duties mainly on liquor and tobacco, are expected to total \$110,091,000, an increase of \$21,483,000 over the previous fiscal year. The gross duty on spirits, malt, etc., is estimated at \$46,777,000 and that on tobacco at \$65,050,000.

12. Total non-tax revenues are estimated at \$102,569,000 compared with \$81,542,000 in the previous year. The largest non-tax item is the receipts from the Post Office which it is expected will total \$45,994,000, an increase of approximately \$5,611,000 over the preceding fiscal year. The receipts from the Post Office will, it is expected, exceed the cost of operations by \$4,500,000. As mentioned in previous Budget Speeches, 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 for the free use of the mails. Other increases in the non-tax section were recorded under the headings of Premium, Discount and Exchange, and Return on Investments. The increase in Premium, Discount and Exchange was due to repatriation of sterling securities and the increase in Return on Investments was accounted for mainly by interest on increased loans to the Foreign Exchange Control Board and the Canadian National Railways.

13. The total amount shown for the fiscal year 1941-42 under the heading, Special Receipts and Credits, is \$17,801,000. Of this total cash receipts account for \$11,089,000 as follows: refunds of previous years' war expenditures \$7,826,000 voluntary donations for war purposes \$459,000; insurance moneys received on loss of Prince Edward Island Car Ferry \$984,000; and sundry receipts \$1,820,000.

The remainder amounting to \$6,712,000 represents bookkeeping items which affected the book value of the Canadian National Railways Securities Trust Capital Stock and certain other non-active assets. All of these items

making up the total of \$6,712,000 are offset by contra amounts appearing on the expenditure side under the heading, Other Charges.

The first of these items is that affecting the book valuation of the Canadian National Railways Securities Trust Capital Stock which was increased by \$4,115,000, due to (a) surplus earnings of The Canadian National Railway System for the calendar year 1941, amounting to \$4,016,000, and (b) the capital gain arising from redemption of Grand Trunk Railway 4% Debenture Stock at less than par in Canadian funds amounting to \$99,000. In addition, there were two other transactions affecting the non-active accounts: Canadian National Railways Securities Trust Capital Stock was reduced by reason of line abandonments during the year 1941 in the amount of \$2,539,000, and the sum of \$58,000 representing the yearly established losses in the seed grain and relief accounts of the Department of Mines and Resources was written off.

13A. The table below gives a summary of the forecasts made at the time of the last Budget of the probable receipts from various sources of revenue during the fiscal year 1941-42 and a comparison of these forecasts with the present estimates of actual receipts during the fiscal year. It will be noted that there is shown in the first column the forecast of expected receipts from the tax structure as it existed before the Budget of April 29, 1941, was brought down in the House, while the second column gives the expected receipts from the tax structure as affected by the proposals made in the Budget, and the third column the expected receipts from the tax structure as amended by the legislation finally passed by Parliament.

Under the conditions which have prevailed since the outbreak of war, with production and employment expanding rapidly and with prices rising (until last December), it has been very difficult to make accurate forecasts of the yield from various types of taxation. Budgetary authorities must always be cautious in predicting the probable magnitude and results of expanding economic activity and rising national income. It is always wise to err on the side of conservatism rather than undue optimism. It will be noted from the table that while there were under-estimates or over-estimates of some proportions in the case of individual revenue sources, these cancelled each other out to a considerable extent. The total yield from taxation was under-estimated by only \$4,815,000.

Some comments may be made in regard to the probable explanation for the major differences as between the forecasts and the estimated actual results. The increase in customs duties as compared with the forecast was due to a higher level of prices and a greater volume of imports than had been anticipated. The increase in excise duties was due to a higher volume of sales than had been expected while the substantial increases in the various excise taxes were due not only to a greater volume of business but also to higher prices than had been anticipated. The close estimate of the yield of the national defence tax indicates substantial accuracy in forecasting the level of personal incomes and the under-estimate of the yield of the graduated tax on personal incomes is chiefly due to the facts (a) that a smaller proportion of taxpayers than was expected took advantage of the prepayment instalment plan, and (b) that many returns mailed on March 31st were not received in sufficient time to be included in receipts for the fiscal year 1941-42.

The difficulty of making accurate allowance in advance for the effects of the pre-payment instalment plan was probably also the main explanation of the under-estimate of the yield from the corporate income tax and the over-estimate of the yield from the excess profits tax although other factors may also have been operative in the case of the latter including probably the fact that depressed businesses were allowed to calculate and pay their tax on the mini-

num basis pending final determination of standard profits by the Board of Referees. In comparing the forecast with the actual yield from succession duties, it should be remembered that this was an entirely new tax and there was no experience to go upon in preparing the forecast. Perhaps, also, insufficient account was taken of the time necessarily involved in securing full payment of succession duties. In any case, fluctuations in the yield of succession duties are almost impossible to predict in advance. Reference was made in an earlier paragraph to the increase in non-tax revenues. This resulted from a substantial increase in Post Office receipts, a large increase in Premium, Discount and Exchange arising out of the heavy repatriation operations and the increase in return on investments due to advances to the Foreign Exchange Control Board and the Canadian National Railways. It is impossible to predict the amount of special receipts and credits that may accrue in any fiscal year and it has not been the practice to attempt any estimate of this category of revenues.

DETAILED STATEMENT OF FORECASTS AND ACTUAL RECEIPTS OF REVENUE,
1941-42

Source of Revenue	Forecast of Receipts			Actual Receipts (Preliminary)	Increase (+) or decrease (-) in receipts as compared with final forecast
	From tax structure before Budget changes	From tax structure as changed by proposals made in Budget of April 29, 1941	From tax structure as amended in Parliament		
<i>Tax Revenues</i>	000 omitted \$	000 omitted \$	000 omitted \$	000 omitted \$	000 omitted \$
Customs duties.....	137,000	137,000	137,000	142,392	+5,392
Excise duties.....	98,000	101,200	101,200	110,091	+8,891
Excise taxes:					
Sales tax.....	190,000	203,500	203,500	236,184	+32,684
War Exchange tax.....	81,000	81,000	81,000	100,874	+19,874
Other excise taxes.....	51,000	108,900	113,900	116,368	+2,468
Total excises taxes....	322,000	393,400	398,400	453,426	+55,026
Income taxes:					
Graduated tax on personal incomes.....	135,000	225,000	225,000	189,502	-35,498
National defence tax.....	55,000	110,000	110,000	106,637	-3,363
Corporate income tax.....	165,000	165,000	165,000	185,836	+20,836
Excess profits tax.....	140,000	180,000	180,000	135,168	-44,832
Interest and Dividends.....	15,000	42,500	27,500	28,209	+769
Total income taxes....	510,000	722,500	707,500	645,412	-62,088
Succession duties.....	—	10,000	10,000	6,957	-3,043
Miscellaneous taxes.....	2,000	2,000	2,000	2,637	+637
Total Tax Revenues.....	1,069,000	1,366,100	1,356,100	1,360,915	+4,815
Non-tax Revenues.....	81,000	81,000	81,000	102,569	+21,569
Special Receipts and Credits..		(no estimate made)		17,801	+17,801
Grand Total.....	1,150,000	1,447,100	1,437,100	1,481,285	+44,185

EXPENDITURES, 1941-42

14. The comments which follow will deal with expenditures classified by the usual main categories: (1) Ordinary Expenditures; (2) Capital Expenditures; (3) War Expenditures; (4) Special Expenditures; (5) Operating Deficits of, and Non-active Advances to Government-owned Enterprises; and (6) Other Charges. All disbursements under these headings with the exception of active loans and investments chargeable to War Appropriation Acts, are included as expenditures in arriving at the over-all deficit or increase in net debt.

ORDINARY EXPENDITURES

15. It is estimated that ordinary expenditures for the year will total \$443,969,000, of which such uncontrollable and contractual items as interest and other charges on the public debt, pensions, unemployment insurance, post office, subsidies and payments to provinces under the Dominion-Provincial taxation agreements will aggregate \$330,342,000, approximately 74 per cent of the total. The remaining 26 per cent represents general administrative expenses and other services of government charged to Ordinary Expenditures.

The above estimated total of \$443,969,000 is greater than the actual amount of ordinary expenditures during the previous fiscal year by \$53,340,000. It may be noted, however, that this increase is due in considerable part to increased expenditures which are really due to the war itself, including the following as the more important items:

Increased Interest on Public Debt.....	\$ 15,091,000
Increased Cost of Loan Flotations and Annual Amortization of Bond Discount and Commissions.....	10,126,000
Compensation to Provinces under the Dominion-Provincial Taxation Agreements....	21,120,000
Increase in Administrative Cost, Department of National Revenue.....	1,201,000
	<hr/>
	\$ 47,538,000

The total of these increases due to the war should be reduced by \$5,475,000 representing the aggregate of special grants to the provinces which were dropped in 1941 and replaced by the arrangements under the new Dominion-Provincial Taxation Agreements. This leaves a balance of \$42,063,000. If we add to this the increased cost of unemployment insurance, namely \$9,563,000, we get a total of \$51,626,000. Some of the increases in the so-called ordinary expenditures of other departments might be regarded as due directly or indirectly to the war, such, for instance, as the \$2,795,000 increase by the Post Office Department and the \$467,000 for administration of the Royal Canadian Mounted Police. Regular subsidies to provinces increased by \$640,000. Other minor increases were: Government Annuities \$550,000; Public Works \$429,000; Trade and Commerce \$1,560,000; and sundry increases \$1,780,000.

The largest decrease in Ordinary Expenditures was occasioned by the suspension of the special grants to Provinces which amounted to \$5,475,000. Other decreases are as follows:—Agriculture \$156,000; Old Age Pensions \$300,000; House of Commons \$1,060,000; Senate \$444,000; Chief Electoral Officer \$2,188,000; Indian Affairs \$204,000; Treatment and after-care of returned soldiers \$669,000; Pensions, War and Military, \$933,000; Transport \$233,000; Sundry \$320,000. These decreases aggregate \$11,982,000.

CAPITAL EXPENDITURE

16. Total expenditures charged to capital are estimated at \$3,357,000 compared with \$3,358,000 in the previous year. The main items in this category are expenditures arising out of dredging the St. Lawrence Ship Channel amounting to \$1,952,000, and other construction and improvements, including lighting and radio facilities in connection with civil airways and airports, amounting to \$1,250,000.

WAR EXPENDITURES

17. Direct war expenditures accounted for roughly three-quarters of the Dominion's total expenditures during the fiscal year ended March 31, 1942. This is, of course, apart from the assistance given to the Government of the United Kingdom by the accumulation of sterling balances or the repatriation of Canadian securities held in the United Kingdom. It is now estimated that Canada's total direct outlays on war account will amount to \$1,394,033,000 for the past fiscal year. Included in this total is the sum of \$42,480,000 charged to Active Assets, of which \$18,149,000 represented additions to Loans and Investments and \$24,331,000 represented advances to crown corporations organized by the Minister of Munitions and Supply for the purchase of scarce commodities. This total direct war outlay represents an increase of \$615,609,000 over the corresponding figure for the preceding fiscal year.

The rapid increase in Canada's war expenditures (including amounts charged to Active Assets) is shown by the following table:

Fiscal Year 1939-40.....	\$ 127,384,000
Fiscal Year 1940-41.....	778,424,000
Fiscal Year 1941-42.....	1,394,033,000
	<u>\$2,299,841,000</u>

During the corresponding three years of the first World War, expenditures charged direct to war account aggregated approximately \$533,000,000. It will be seen, therefore, that expenditures by the Dominion on account of the present war have to date been over four times the expenditures made in the same period of the last War. They exceed by over \$603,000,000 Canada's total expenditures for war and demobilization during the whole of the last War. Indeed Canada's direct war outlays during the past fiscal year were less than \$300,000,000 short of the total cost to Canada of the last War.

18. If we deduct the amount charged to Active Assets, we get a total of \$1,351,553,000 as the estimated total to be charged to *expenditures* on war account during the past fiscal year. This represents an increase over the previous year of \$599,508,000. The amounts expended by the major Departments or Services and the increases over the preceding year may be summarized as follows:

	Direct War Expenditures		Increase
	1940-41	1941-42	
	\$	\$	\$
Department of National Defence—Army.....	383,235,000	509,879,000	126,644,000
Department of National Defence—Naval Service.....	88,163,000	132,443,000	44,280,000
Department of National Defence—Air Service.....	176,279,000	386,418,000	210,139,000
Department of Munitions and Supply.....	79,954,000	248,639,000	168,685,000
Department of National War Services.....	2,370,000	3,112,000	742,000
Miscellaneous Departments:			
Agriculture.....	4,490,000	25,724,000	21,234,000
Finance.....	1,692,000	16,727,000	15,035,000
Labour.....	1,897,000	6,559,000	4,662,000
Pensions and National Health.....	3,370,000	5,619,000	2,249,000
Transport.....	1,214,000	3,666,000	2,452,000
Other.....	9,381,000	12,767,000	3,386,000
Total.....	752,045,000	1,351,553,000	599,508,000

19. Expenditures made by the Department of National Defence, Army, are estimated at \$509,879,000, which compares with \$383,235,000 during the preceding year. This total is broken down as follows:

Administration.....	\$ 809,000
Army Services.....	501,542,000
Royal Military College.....	517,000
Radio Services, N.W.T. and Yukon.....	167,000
Joint Inspection Board of the United Kingdom and Canada.....	4,876,000
Internment Operations.....	1,315,000
Censorship.....	230,000
Dependents' Allowance Board.....	407,000
Dependents' Supplementary Grant Fund.....	16,000
	<hr/>
	\$ 509,879,000
	<hr/>

20. Expenditures made by the Department of National Defence, Naval Services, aggregated \$132,443,000, which compares with \$88,163,000 expended during the preceding fiscal year. The rapid expansion of the Canadian Navy may be indicated by a comparison with Canada's Naval expenditures during the last war; during the corresponding fiscal year of that war, namely, 1916-17, the total expenditures on Canada's Naval Services amounted to \$3,806,000.

21. Total expenditures of the Department of National Defence, Air Services, for the fiscal year ended March 31, 1942, are estimated at \$386,418,000, classified as follows:

Home War Establishment.....	\$ 108,708,000
Overseas Establishment.....	10,370,000
British Commonwealth Air Training Plan.....	267,189,000
Departmental Administration, Air.....	113,000
Construction of Temporary Building, Ottawa.....	38,000
	<hr/>
	\$ 386,418,000
	<hr/>

For the fiscal year 1940-41 Canada's total expenditure on Air Services amounted to \$176,279,000.

22. Under the Department of Munitions and Supply expenditures chargeable to the War Appropriation for 1941-42 aggregated \$248,639,000, of which administration accounted for \$4,939,000 and expansion of industry for \$243,700,000. Corresponding expenditure during the previous fiscal year was \$79,954,000.

23. Expenditures of the Department of National War Services chargeable to the War Appropriation amounted to \$3,112,000 during the fiscal year ending March 31, 1942. This compares with an expenditure of \$2,370,000 during the preceding fiscal year. The total of \$3,112,000 may be itemized as follows:

Departmental Administration.....	\$ 84,000
National Registration.....	274,000
Mobilization.....	634,000
Division of Human and Material Resources, General....	21,000
Salvage.....	157,000
Public Information.....	709,000
War Charities.....	27,000
Radio Broadcasting Censorship.....	22,000
Women's Voluntary Services.....	1,000
National Film Board.....	8,000
Payments re Auxiliary War Services.....	1,175,000
	<hr/>
	\$ 3,112,000

24. Included in the estimated total war expenditures for 1941-42, estimated at \$1,351,553,000 are various expenditures by the non-war departments for services or activities arising directly or indirectly out of the war and charged to the War Appropriation. The total of these expenditures, not including loans and investments referred to above, amounted to \$71,062,000 as compared with \$22,044,000 during the preceding fiscal year.

The following table gives a detailed itemization of these expenditures classified by Departments and Services:

Agriculture—

Agricultural Supplies Board Administration....	\$ 22,000
Flour and Feed Administration.....	13,000
Advertising, 1940-41 Commitments.....	25,000
Publishing Wartime Pamphlets.....	6,000
Compensation of Inspectors of 1941 Flax.....	5,000
Etrich Flax Tow Scutching Machine.....	67,000
Vanhawert Turbine Flax Scutcher.....	8,000
Installation of Experimental Refrigeration.....	19,000
Experimental Shipment of Eggs to Great Britain.....	2,000
Bacon Hog Advertising Programme.....	29,000
Egg Production Programme.....	8,000
Subsidy on Export Eggs.....	305,000
Bacon Board Administration.....	53,000
Bacon Export Subsidy.....	2,281,000
Dairy Products Board Administration.....	11,000
Cheese Exports to the United Kingdom.....	1,784,000
Nova Scotia Apples, 1941 Crop...\$	1,359,000
Less refund on account 1940 Crop. 1,200,000	
	<hr/>
	159,000
British Columbia Apples, 1940 Crop.....	182,000
British Columbia Apples, 1941 Crop.....	311,000
Freight Assistance on Western Grains, 1940-41 Accounts.....	170,000
Freight Assistance on Western Grains, 1941-42 Accounts.....	3,802,000
Special Products Board Administration.....	13,000
Payment to increase Income of Farmers in Spring Wheat Area of Western Canada.....	16,298,000
Inspection and Grading of Fibre Flax.....	6,000
Equipment for Dehydration of Apples.....	7,000
Dehydration of Vegetables.....	132,000
Sundry.....	6,000
	<hr/>
	\$ 25,724,000

<i>Auditor General's Office—</i>		
Audit of War Expenditure.....	\$	150,000
<i>Civil Service Commission—</i>		
Additional War Expenses.....		238,000
<i>External Affairs—</i>		
Departmental Administration.....	\$	244,000
Office of the Prime Minister.....		10,000
Representation Abroad.....		76,000
Evacuation of Offices Abroad.....		23,000
Consular Services, St. Pierre, Miquelon and Greenland.....		4,000
Permanent Joint Board on Defence.....		2,000
Payments to Canadian Government Employees evacuated from enemy occupied Territories..		8,000
Expenses of Canadian section of Joint Economic Committee.....		16,000
Sundry.....		5,000
		<hr/> 388,000
<i>Finance—</i>		
Payment of premium on purchase of Dominion of Canada Registered Stock.....	8,100,000	
Office of the Comptroller of the Treasury— Dependents' Allowances and Outside Offices, etc.....	3,864,000	
Royal Canadian Mint.....	80,000	
Wartime Prices and Trade Board—		
Licence Division.....	139,000	
Administration.....	1,208,000	
Furniture and Equipment.....	94,000	
Subsidies, etc., due to application of order placing ceiling on prices.....	3,242,000	
		<hr/> 16,727,000
<i>Fisheries—</i>		
Canned Lobster Control.....	103,000	
Wartime Fisheries Advisory Committee.....	1,000	
Committee re Japanese Fishing Boats.....	5,000	
		<hr/> 109,000
<i>Justice—</i>		
Prize Court.....	6,000	
Defence of Canada Regulations.....	35,000	
War Measures Act.....	4,000	
Arvida Commission of Enquiry.....	9,000	
Royal Commission re Hong Kong Expedition...	7,000	
		<hr/> 61,000
<i>Labour—</i>		
Vocational Training for Discharged Members of Canada's Armed Forces.....	3,000	
Wartime Bureau of Technical Personnel.....	41,000	
Cost of Living Commission.....	2,000	
Wartime Wages Policy Civil Employment Re- instatement Regulations.....	12,000	
Labour Supply Investigation Project.....	8,000	
National War Labour Board.....	91,000	

Labour—Concluded

Interdepartmental Committee on Labour Co-ordination.....	\$ 9,000	
National Labour Supply Council.....	12,000	
Assistance to Necessitous Dependents 1940-41..	10,000	
Assistance to Necessitous Dependents 1941-42..	59,000	
Training men for R.C.A.F. Ground Crews.....	1,489,000	
Purchase of Machine Tools.....	52,000	
Enlistments in His Majesty's Forces <i>re</i> Youth Training.....	25,000	
Skilled and Semi-Skilled Occupations for War Work 1940-41.....	139,000	
Skilled and Semi-Skilled Occupations for War Work 1941-42.....	4,430,000	
Occupation History of Canada's Armed Forces..	10,000	
Advertising Intent and Purpose of Government Wages Stabilization Policy.....	31,000	
Ontario Farm Labour Service.....	54,000	
Specialized Training for Aircraft Manufacturers' Employees.....	14,000	
British Columbia Security Commission.....	25,000	
Manpower Inventory.....	43,000	
		\$ 6,559,000

Mines and Resources—

Metallic Minerals Division—Services to War Departments.....	58,000	
Grant to Yukon Council.....	20,000	
Prince Rupert—Cedarvale Highway.....	10,000	
Explosives Division—Administration of Regulations.....	12,000	
British Columbia—Road—Pinchi Lake.....	1,000	
National Parks Bureau—Alternative Service Work Camps.....	237,000	
Dominion Forest Service—Alternative Service Work Camps.....	11,000	
Forest Products Laboratories.....	16,000	
Dominion Forest Service—Internment Operations.....	24,000	
Engineering and Construction Service—Alternative Service Work Camps.....	98,000	
General Expenses—British Isles and Canada..	17,000	
Detention of Alien Seamen.....	17,000	
Canadian Interests in Enemy or Enemy Controlled Territory.....	81,000	
Canadian Interests Abroad, Apart from Enemy Controlled Territory.....	5,000	
Grants to National Advisory Council—Children from Overseas.....	79,000	
British Evacuee Children.....	1,000	
Return of French Fishermen, SS. "Angelus"...	6,000	
Employment of Japanese Nationals.....	71,000	

764,000

National Harbours Board—

Halifax—Extension to Pier 9.....	\$ 627,000
—Lighterage Berth at Fish Pier.....	66,000
—Moorings for Ships under Repair.....	204,000
—Equipment and Operation of Fire Tug “Rouille”.....	48,000
Saint John—Construction of Wooden Pile Dock	589,000
Montreal—Purchase of Locomotive Cranes.....	113,000

\$1,647,000

National Research Council—

Special War Activities.....	246,000
New Annex Laboratories.....	303,000
Explosive Testing Laboratory.....	55,000
Radio Direction Finding Program.....	528,000

1,132,000

National Revenue—

Censorship of Publications.....	4,000
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Pensions and National Health—

Treatment—Members and Ex Members Defence Forces.....	2,700,000
R.C.M.P.....	96,000
Pensions—Defence Force, etc.....	888,000
Air Raid Precautions.....	620,000
Investigations—Dependents' Allowance Bd.....	26,000
Inspection of Industrial Plants.....	15,000
Public Health Engineering.....	15,000
Quarantine Service.....	52,000
Hire of Boat—Halifax.....	14,000
Additional Accommodation—Departmental Hospitals.....	100,000
Fixtures and Furnishings.....	42,000
Committee on Demobilization.....	9,000
Processing of Blood.....	101,000
Additions—Camp Hill Hospital.....	52,000
Additions—Lancaster Hospital.....	133,000
Maintenance—Non-resident Seamen.....	10,000
Committee on Reconstruction.....	9,000
Extension—Nurses Home, Westminster Hospital	35,000
Staff Accommodation and Recreation Building, St. Anne.....	36,000
Additional Accommodation—Savard Park Hos- pital.....	43,000
Calgary.....	31,000
Detention Allowance—Canadian Seamen.....	53,000
Addition—University of Alberta (Depart- mental Hospital).....	24,000
Improvements—Deer Lodge.....	15,000
Alteration to Steam Mains—St. Anne.....	17,000
Infectious Unit—Shaughnessy.....	23,000
Post Discharge Re-establishment.....	105,000
Reserve Stores.....	340,000
Sundry.....	15,000

5,619,000

Post Office—

Postal Censorship.....	\$ 328,000	
Army Postal Services.....	166,000	
		\$ 494,000

Privy Council—

Office of the Registrar of Orders in Council.....	4,000	
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Public Archives—

Compensation to staff evacuated from abroad.....	3,000	
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Public Works—

Additional Accommodation, C.O.T.C. Units..	61,000	
Ottawa—Daly Bldg., Annex.....	31,000	
Rock Island, Que.—Armoury.....	11,000	
London, Ont.—Westminster Hospital.....	35,000	
Ottawa, Ont.—Base Army Post Office.....	64,000	
Jackson Building—Taxes.....	31,000	
Extension of Jackson Building..	166,000	
Record Storage Building.....	20,000	
Temporary Building No. 3.....	13,000	
Temporary Building No. 4.....	307,000	
Temporary Building No. 5.....	471,000	
Temporary Building No. 6.....	244,000	
Temporary Building for Department of Pensions and National Health.....	4,000	
Toronto, Ont.—City Delivery Building.....	10,000	
Temporary Building for Post Office Department.....	62,000	
Vancouver, B.C.—Hospital.....	147,000	
Furniture, etc. for wartime employees.....	784,000	
Repairs, alterations, etc. to buildings.....	946,000	
Rental of new premises.....	462,000	
Dartmouth, N.S.—Wharf Improvements, etc..	202,000	
Missaguash River, N.S.—Interprovincial Bridge	22,000	
Shelburne, N.S.—Wharf repairs.....	48,000	
Saint John (Courtenay Bay), N.B.—Dredging..	130,000	
Lorne, Que. Dry Dock—Operation.....	2,000	
Repairs to Pier.....	15,000	
Midland, Ont.—Dredging.....	10,000	
Esquimalt, B.C.—Dry Dock—Operation.....	13,000	
Dry Dock—Dredging.....	3,000	
Protection and Camouflaging.....	5,000	
Provision for 24-hour telegraph service on Pacific Coast.....	10,000	
Port Hardy, B.C.—Wharf extension and shed..	8,000	
Sidney, B.C.—Wharf improvements and repairs.	6,000	
Communication Facilities between Port Alberni, B.C., and Ucluelet, B.C., Air Base.....	23,000	
Contingencies.....	132,000	

4,498,000

Royal Canadian Mounted Police—

Land Services.....	3,009,000	
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Secretary of State—

Internment Operations.....	77,000	
Press Censorship.....	81,000	
Refugee Camps.....	21,000	
Sundry.....	7,000	

186,000

Trade and Commerce—

Canadian Shipping Board.....	\$ 32,000	
Export Permit Branch.....	46,000	
Shipping Priorities Committee.....	2,000	
		\$ 80,000

Transport—

Meteorological Services.....	209,000	
Radio Interception and Monitoring.....	391,000	
Civil Aviation.....	135,000	
Marine Service Steamers.....	94,000	
Nautical Services.....	25,000	
Aids to Navigation.....	50,000	
Compensation to Masters and Crews <i>re</i> loss of personal effects.....	25,000	
Administration of Pilotage.....	12,000	
Office of Director of Merchant Seamen.....	341,000	
Installation of Degaussing Equipment.....	171,000	
Additional Harbour and Transportation Facili- ties—Halifax.....	1,932,000	
Salvaging of Captured Vessels.....	13,000	
Office of the Transport Controller.....	83,000	
Balance <i>re</i> payment to Yukon Southern Air Transport and Trans-Canada Air Lines.....	10,000	
Purchase and Repairs <i>re</i> Motor Tug "Francois"	29,000	
Stores, etc. C.G.S. "Montcalm".....	100,000	
Dredging in St. Charles River, Que.....	32,000	
Sundry.....	14,000	
		3,666,000
		<u>\$ 71,062,000</u>

25. Reference has already been made to the fact that included in the total estimated outlays for war purposes during the fiscal year 1941-42 was the sum of \$42,480,000 representing outlays made under authority of the War Appropriation Act 1941 and carried forward as Active Assets. This amount is made up as follows:

Advances to Commodity Corporations under Depart- ment of Munitions and Supply.....	\$ 24,331,000
Purchases of Railway Equipment.....	1,027,000
Working Capital, Canadian National Railways.....	17,122,000
	<u>\$ 42,480,000</u>

Since the beginning of the war advances have been made to provide working capital for commodity corporations set up by the Department of Munitions and Supply and for other companies. The following table shows the net balances in respect of these advances as at the close of the fiscal year 1941-42:

Commodity Corporations—

Melbourne Merchandising Company Ltd. (Wool)\$	5,531,000	
Fairmont Company Ltd. (Rubber and hides)...	11,955,000	
Plateau Company Ltd. (Silk).....	958,000	
		\$ 18,444,000

Other Companies—

Atlas Plant Extension Ltd.....	\$ 6,207,000	
Research Enterprises Ltd.....	285,000	
Algoma Steel Corp. Ltd.....	4,000,000	
John Bertram and Co. Ltd.....	312,000	
Dominion Steel and Coal Corp. Ltd.....	1,577,000	
English Electric Co. of Canada Ltd.....	777,000	
Steel Company of Canada Ltd.....	2,545,000	
A. C. Wickman (Canada) Ltd.....	75,000	
		15,778,000
		<u>\$ 34,222,000</u>

Of the above total of \$34,222,000, the sum of \$9,891,000 represents the aggregate of the net balances as at the close of the preceding fiscal year 1940-41, thereby making the net advances for the year \$24,331,000.

The advances to the commodity corporations have been brought to the account as assets because the funds represent either cash balances in the hands of the corporations concerned or are invested in commodities, such as rubber, leather, silk and wool, that are readily marketable after the war as commercial commodities. The advances to producing companies will be invested in commodities, goods in process, etc., that may not be readily saleable in the commercial markets after the war, although in some lines at least a considerable sum will no doubt be realized by liquidation. For this reason advances of this latter type have been charged to expenditures for the year in which they were incurred.

Advances by way of loans repayable over a specified period have been made to a number of private corporations to provide additional plant and equipment facilities. Repayments in the amount of \$4,582,000 have been received, and the balance outstanding at the close of the fiscal year is shown at \$15,778,000.

26. In addition to the foregoing advances, there have been advances made under authority of Section 3 of the War Appropriation Act, 1941, which are recoverable from the Government of the United Kingdom or from other allied governments. These advances were made to facilitate the provision of services for the said governments. The charges which are brought to account against the respective governments are for services and supplies, such as services arising out of recruitment and training in Canada of the nationals of allied governments, and supplies, repairs or equipment for units of the Royal Navy or naval vessels of allied governments entering Canadian ports.

Recoverable vouchers are raised by National Defence authorities at points of origin and are cleared to Ottawa where they are brought to account against the governments concerned and billed regularly. On the whole these accounts are repaid promptly by the respective governments. Naturally the major participant in this type of operation is the Government of the United Kingdom.

Under Army Services there are charges arising out of the operation of internment camps in Canada for prisoners of war and internees sent from the United Kingdom. As at March 31, 1942, there was a balance owing on this account of \$854,000. The Naval Services has a large operation arising out of the servicing of His Majesty's ships at Halifax and Esquimalt dockyards and at other points. A similar service is rendered to Canada's naval units when they are in United Kingdom waters. Under Air Services the major operation arises out of the Air Training Plan in Canada. This has resulted in substantial charges against the United Kingdom for equipment purchased in lieu of a contribution in kind provided for by the original agreement, and also charges for

supplies, services and construction work arising out of the establishment and operation of the R.A.F. Special Schools in Canada. The debit balance in these two accounts as at March 31, 1942, is estimated at \$102,419,000, all of which will be adjusted when the new Air Training Agreement becomes operative as at July 1, 1942. In respect of participation in the Air Training Plan by Australia and New Zealand, the former had a small balance owing of \$2,812,000 as at March 31, 1942, while New Zealand's obligations had been fully met.

It must be understood that corresponding services are rendered to Canada by the United Kingdom in connection with units of Canada's Armed Forces serving in the United Kingdom. In this case the United Kingdom Government bills Canada, but necessarily settlements can only be made some considerable time after the services have been rendered by the United Kingdom authorities. It is impossible as yet to give a close estimate of the amount payable by Canada as at the close of last fiscal year but it is fair to assume that this will substantially offset the amounts due the Dominion.

An estimate of the amounts owing to Canada, as at March 31, 1942, in respect of recoverable advances made under Section 3 of the War Appropriation Act, is as follows:

Army.....	\$ 1,595,000
Navy.....	11,862,000
Air.....	1,017,000
Internment Operations.....	854,000
R.A.F. Special Schools.....	53,730,000
B.C.A.T.P.—U.K. Equipment.....	48,689,000
B.C.A.T.P.—Australia's share.....	2,812,000
Total.....	<u>\$ 120,559,000</u>

27. Before leaving this summary of war expenditures, it may be well to call attention to the indirect assistance given to the Government of the United Kingdom during the fiscal year under review. In the past such assistance has taken a form which did not result in direct Government expenditure. Since the passing of the War Appropriation (United Kingdom Financing) Act, 1942, this situation has been substantially changed, as will be explained in later paragraphs.

During the fiscal year 1941-42, the deficit of the sterling area in Canadian dollars amounted to approximately \$1,100 million and this deficit was financed by Canada. Slightly less than \$48 million was financed by private repatriation of securities, gifts and other private transactions. Of the remaining \$1,050 million which required Government financing, \$365 million was financed by the repatriation of Government securities, Canadian National Railway guaranteed and unguaranteed securities and other Government guaranteed securities. The remainder, namely \$685 million, represents sterling which was accumulated by the Foreign Exchange Control Board during the year.

The War Appropriation (United Kingdom Financing) Act, 1942, received Royal Assent on March 27th last. Its three main provisions were: (1) the granting of a billion dollar gift to the Government of the United Kingdom to finance the purchase in Canada of foodstuffs, raw materials and munitions of war and to defray other expenditures incurred in Canada for war purposes; (2) the granting of authority to repatriate all Dominion of Canada direct and guaranteed securities and other Canadian National Railway securities held by British investors; and (3) the conversion of sterling balances accumulated to the credit of the Government of Canada to an amount equivalent to \$700 million (at the exchange rate of \$4.45 to the pound sterling) into a Canadian dollar obligation which is not to bear interest until after the termination of the war.

The conversion of sterling balances into a Canadian dollar obligation did not take place until after the close of the last fiscal year. In regard to the repatriation of securities, one delivery of securities was received before the close of the fiscal year. The value of these securities at the vesting prices, less interest included therein, amounted to \$222,724,000. The securities so purchased by the Dominion Government were classified as follows:

Dominion of Canada obligations.....	\$ 25,338,000
Canadian National Railway securities—	
Dominion guaranteed.....	\$132,841,000
Unguaranteed.....	63,624,000
	<hr/>
	196,465,000
Other Dominion guaranteed securities.....	921,000
	<hr/>
	\$222,724,000

In accordance with the terms of the Act, Canadian National Railway securities to the value of \$191,603,000 were turned over to the Railway Company and a temporary loan for this amount was made to the Company to enable it to acquire them. At the close of the fiscal year all the other securities were held by the Dominion with the exception of a small Dominion sterling issue which was cancelled.

The Act provided that the Minister would acquire from the Foreign Exchange Control Board such sterling balances held at the date of the commencement of the Act as were not required for the repatriation operation, the conversion of the \$700 million of sterling balances and the current operations of the Board. The cost of acquisition of this surplus sterling was to be charged to the billion dollar gift and as the sterling balances involved represented accumulations to meet the United Kingdom's Canadian dollar deficit during the major part of the month of March, it had been intended that the amount should be charged to the accounts for the fiscal year 1941-42. However, it was not possible to complete the necessary arrangements and estimate the surplus sterling until after April 30th, the last day on which an expenditure incurred in respect of the fiscal year 1941-42 could be charged to that fiscal year. Accordingly the cost of this surplus sterling, namely, \$76,429,000, will appear in the Government's expenditures for the current fiscal year.

SPECIAL EXPENDITURES

28. Expenditures classified as Special Expenditures for the fiscal year 1941-42 are estimated to total \$62,879,000, which compares with \$42,869,000 for the preceding fiscal year, an increase of \$20,010,000. Payments of awards under the Wheat Acreage Reduction Plan are estimated to total \$29,659,000. There was no expenditure on this account during the fiscal year 1940-41. Expenditures by the Dominion under the Prairie Farm Assistance Act in the form of advances to the Prairie Farm Emergency Fund, as provided for in the Act, are estimated at \$11,836,000, an increase of \$7,460,000 over the preceding year. The cost of administering this Act is estimated at \$420,000, an increase of \$74,000.

29. The remaining item under Special Expenditures which shows an increase is the provision for reserve to meet deficits resulting from the operations of the Canadian Wheat Board. There has been added to this reserve account \$12,571,000, an increase of \$2,071,000 over the provision made for this purpose in the accounts of the preceding fiscal year.

As reflected in the Public Accounts for the year ended March 31, 1940, an advance of \$52,000,000 was made to the Canadian Wheat Board to meet possible losses of the Board in respect of the 1938 wheat crop. During the fiscal year ended March 31, 1941, an additional amount of \$10,499,677 was set

up in the Dominion's books as a reserve to meet the deficit of the Board not previously provided for, on the basis of calculation made as at July 31, 1940. In the fiscal year now under review, an additional amount of \$12,570,828 was added to the reserve account to provide for deficits of the Board not previously provided for, on the basis of calculations made as at July 31, 1941, to the close of the last crop year. These amounts, which aggregate \$75,070,505, represent deficits resulting from the operations of the Canadian Wheat Board on the basis of calculations made as at July 31, 1941.

From the reserve account there was advanced to the Board during the fiscal year ended March 31, 1942, the sum of \$4,623,382, which amount enabled the Board to discharge its liability in respect of advances made by chartered banks to the Board and guaranteed by the Government of Canada in connection with the marketing of wheat crops up to and including the 1938 crop. As a result of these advances the amount now held in the reserve account is \$18,447,123.

30. The total of the increases of the various items of special expenditure noted above is \$39,264,000. Offsetting these increases there was a reduction of relief expenditures of \$19,254,000, leaving a net increase in Special Expenditures of \$20,010,000, as compared with the previous year.

GOVERNMENT-OWNED ENTERPRISES

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

Canadian National Railways

31. The operating revenues of the Canadian National Railways for the calendar year 1941 totalled \$304,376,000, an increase of \$56,849,000 or 23% over the previous year. With the single exception of the year 1928, this represented the largest revenue in the company's history, and was more than double that of 1933.

Operating expenses of the railway amounted to \$237,768,000, an increase of \$35,249,000, or 17.4% over the preceding year.

Net revenue available for interest on the railway's debt amounted to \$54,361,000 compared with \$33,474,000 in 1940. After payment of interest charges of \$44,698,000 on debt held by the public and interest charges of \$5,647,000 due to the Government in respect of temporary loans for capital and refunding purposes there was a net cash surplus of \$4,016,000 compared with a cash deficit of \$16,965,000 in the previous year. This cash surplus, the first since 1928, was paid over to the Government in redemption of temporary loans.

The operating deficit of the Prince Edward Island Ferry and Terminals during 1941 was \$424,000 compared with \$461,000 in 1940.

Canadian National Steamships

32. The operations of the Canadian National (West Indies) Steamships Limited in the calendar year 1941 resulted in a cash surplus of \$1,206,000 after payment of interest on bonds held by the public but before depreciation and interest on advances from the Government. The comparable figure for 1940 was \$666,000. The operating surplus was paid to the Government as interest on advances (current and arrears).

National Harbours Board

33. The operations of the facilities and harbours under the administration of the National Harbours Board recorded a slight gain over 1940. Operating income for the calendar year, after payment of interest to the public but before depreciation and interest on Government advances, totalled \$5,174,000 compared with \$4,942,000 in 1940.

Financial assistance provided by the Government to the National Harbours Board and charged to Dominion expenditure totalled \$791,000. This amount is made up as follows: \$33,000 for the operating deficit of the Churchill Harbour;

\$342,000 for non-active advances in respect of the deficit of the Jacques Cartier Bridge at Montreal; \$400,000 for the retirement of debentures of the Quebec Harbour Commission; \$2,000 for the redemption of debentures of the Saint John Harbour Commission; and the remaining \$14,000 for miscellaneous capital expenditures at various ports.

The elevators at Port Colborne and Prescott operated at a profit during 1941 and the Government received \$213,000 from these sources which was credited to Ordinary Revenue.

Summary

34. The total amount charged to Government expenditures resulting from the operating deficits of, and non-active advances to, all government-owned enterprises totalled \$1,215,000 as compared with \$18,182,000 in the previous year. This decrease of \$16,967,000 was due entirely to the better operating results of the Canadian National Railways, as there was a slight increase in expenditure on other government-owned enterprises. 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

35. The total of Other Charges, the final main category of expenditures, is estimated at \$31,993,000.

The principal item included in this total is \$25,000,000, to increase the reserve to meet possible losses on ultimate realization of assets treated as "active" in the Dominion's balance sheet. This is the same amount as was provided for in the Public Accounts for the year ended March 31, 1941.

In addition, there was the usual annual write-off of Soldier and General Land Settlement Loans estimated at \$271,000, and cancellation of Canadian Farm Loan Board Capital Stock, amounting to \$10,000. The provision for a further reserve of \$25,000,000 and the write-offs from Active Assets result in a proportionate increase in the net debt of the Dominion.

36. The Canadian National Railways Securities Trust Stock, representing the proprietor's equity of the Dominion in the Canadian National Railways, has been increased by \$4,016,000 due to the surplus earnings of the Canadian National Railway System for the calendar year 1941, and also by \$99,000 due to the capital gain on redemption of Grand Trunk Railway 4% Perpetual Debenture Stock at a price below par in Canadian funds. Both these items are offset by similar amounts included as special credits to Consolidated Fund already referred to under Revenues.

37. Write-offs from Non-active Assets include \$2,539,000 from the Canadian National Railways Securities Trust Stock, representing line abandonments during the calendar year 1941, and \$58,000; the yearly established loss on Seed Grain and Relief Accounts of the Department of Mines and Resources. Both these items are offset by similar amounts of other credits already referred to under Revenues.

SUMMARY OF EXPENDITURES

38. The grand total of expenditure for the fiscal year 1941-42, under the various categories enumerated, namely, Ordinary Expenditures, Capital Expenditures, War Expenditures, Special Expenditures, Losses of and non-active advances to government-owned enterprises, and Other Charges, is \$1,894,966,000.

39. 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, 1941-42
(000 omitted)

Revenues	Amount (estimated)	Percentage of total Revenues	Percentage to total Expendi- tures
	\$	%	%
Ordinary Revenue—			
Income Tax.....	403,607	27.25	21.30
National Defence Tax.....	106,637	7.20	5.63
Excess profits tax.....	135,168	9.12	7.13
Succession duties.....	6,957	0.47	0.37
Customs Import Duties.....	142,392	9.61	7.52
Excise Duties.....	110,091	7.43	5.81
Sales Tax.....	236,184	15.94	12.46
War Exchange Tax.....	100,874	6.81	5.32
Manufacturers, transportation and communication, stamp taxes, etc.....	116,368	7.86	6.14
Other tax revenues.....	2,637	0.18	0.14
Total revenue from taxes.....	1,360,915	91.87	71.82
Non-tax revenues.....	102,569	6.92	5.41
Total ordinary revenue.....	1,463,484	98.79	77.23
Special receipts and other credits.....	17,801	1.21	0.94
Grand Total Revenues.....	1,481,285	100.00	78.17

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1941-42
(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expendi- tures	Percentage to total Revenues
	\$	%	%
Ordinary Expenditure—			
Interest on Public debt.....	154,270	8.14	10.41
Cost of loan flotations and amortization charges.....	16,430	0.87	1.11
Public Debt Charges.....	170,700	9.01	11.52
Subsidies to provinces.....	14,409	0.76	0.97
Compensation to provinces under taxation agreements.....	21,120	1.11	1.43
Old Age Pensions.....	29,612	1.56	2.00
Civil pensions and superannuation.....	445	0.02	0.03
Pensions and after-care of soldiers—			
Pensions, war and military.....	40,582	2.14	2.74
Treatment and after-care of returned soldiers.....	12,733	0.67	0.86
Total.....	53,315	2.81	3.60
Agriculture.....	8,437	0.45	0.57
Fisheries.....	1,684	0.09	0.11
Legislation.....	2,232	0.12	0.15
Mines and Resources.....	10,727	0.57	0.73
Post Office.....	41,495	2.19	2.80
Public Works.....	11,936	0.63	0.81
Transport.....	15,448	0.82	1.04
All other.....	62,409	3.29	4.21
Total Ordinary Expenditure.....	443,969	23.43	29.97

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1941-42—*Concluded*
(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expendi- tures	Percentage to total Revenues
	\$	%	%
Capital Expenditure—			
Railways.....	5	—	—
Public Works.....	3,352	0.18	0.23
Total Capital Expenditure.....	3,357	0.18	0.23
War Expenditure.....	1,351,553	71.32	91.24
Special Expenditures—			
Relief expenditures.....	8,393	0.44	0.57
Prairie Farm Assistance including wheat acreage reduction....	41,915	2.21	2.83
Wheat Marketing guarantees.....	12,571	0.67	0.85
Total Special Expenditure.....	62,879	3.32	4.25
Government Owned Enterprises—			
Losses charged to Consolidated Fund—			
Prince Edward Island Car Ferry & Terminals and National Harbours Board.....	457	0.02	0.03
Loans and Advances non-active—			
National Harbours Board.....	758	0.04	0.05
Total Government Owned Enterprises.....	1,215	0.06	0.08
Other Charges—			
Write down of assets.....	27,878	1.47	1.88
Canadian National Railways Securities Trust Stock.....	4,115	0.22	0.28
Total Other Charges.....	31,993	1.69	2.16
Grand Total Expenditures.....	1,894,966	100.00	127.93

OVER-ALL DEFICIT

40. As total revenues for the fiscal year 1941-42 have been estimated at \$1,481,285,000 and total expenditures at \$1,894,966,000, the estimated over-all deficit (or increase in net debt) for the year is \$413,681,000. In the preceding fiscal year a comparable deficit was \$377,432,000.

LOANS AND INVESTMENTS

ACTIVE ASSETS

41. In addition to the expenditures for the year, as already outlined, the Dominion has made disbursements for the acquisition of investments which are treated 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. The net increase in active loans and investments during the fiscal year 1941-42 is estimated at \$616,147,000 as compared with \$362,370,000 in 1940-41. This increase is fully itemized in the table under section 56.

Loans to Provinces

42. As was shown in the Public Accounts for the fiscal year ended March 31, 1941, loans made to the Western Provinces under authority of the annual Relief Acts and outstanding at the close of that year totalled \$157,492,294.23.

No loans have since been made and during the year under review repayments were received from the Provinces of Saskatchewan and Alberta in the amounts of \$171,272.74 and \$46,000.00 respectively. These repayments left the net amount outstanding as of March 31, 1942, at \$157,275,021.49, divided by Provinces as follows:

Manitoba.....	\$ 25,217,214 18
Saskatchewan.....	71,341,419 95
Alberta.....	25,972,000 00
British Columbia.....	34,744,387 36
Total.....	\$ 157,275,021 49

43. The following table shows the net loans made to each Province during each fiscal year:

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
1940-41.....	—355,924	1,637,007	—7,500	240,625	1,514,208
1941-42.....	—	—171,272	—46,000	—	—217,272
	26,022,112	90,397,558	25,972,000	34,744,387	177,136,057
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 Saskatchewan Treasury Bills re 1934-35 Drought Area relief assumed by Dominion. (Principal \$1,250,000; Accrued interest previous years \$123,979.81)..	—	1,373,980	—	—	1,373,980
	25,217,215	71,341,420	25,972,000	34,744,387	157,275,022

Canadian National Railways

44. During the fiscal year ended March 31, 1942, the Government made net advances to the Canadian National Railways in the amount of \$251,721,580, classified as follows:

Advances—

Under Canadian National Railways Financing and Guarantee Act, 1941—for capital expenditures and retirement of miscellaneous obligations.....	\$ 11,943,000
Under The War Appropriation (United Kingdom Financing) Act, 1942—Purchase of securities.....	191,602,582
Under The War Appropriation Act, 1941—Temporary Loan for Working Capital.....	17,121,725
Under Canadian National Railways Financing and Guarantee Act, 1940—Purchase of Grand Trunk Railway Company of Canada 4% Perpetual Consolidated Debenture Stock...	11,784,932
Under the Canadian National Railways Refunding Act, 1938—Retirement of maturing issues.....	27,135,668

Total Advances.....\$ 259,587,907

Repayments—

Temporary Loan on account of interim deficit.....	\$	3,850,000
Application of 1941 Surplus—		
Advances—Financing and Guarantee Act, 1938.....		1,717,009
Advances—Financing and Guarantee Act, 1939.....		1,110,409
Advances—Senneterre-Rouyn Branch Line Construction..		638,909
Advances—Trans-Canada Air Lines.....		550,000
Total Repayments.....		\$ 7,866,327
Net Advances.....		\$ 251,721,580

Under the authority of The War Appropriation Act, 1941, and The War Measures Act the Dominion purchased \$1,027,426 of railway equipment which is being leased to the Canadian National Railways under the terms of a hire-purchase agreement. The Railway Company repaid instalments aggregating \$1,509,141 under the terms of hire-purchase agreements relating to equipment purchased by the Government in the fiscal years 1935-36 and 1936-37; 1939-40 and 1940-41.

Canadian Pacific Railway Company

45. Loans to the Canadian Pacific Railway Company made in previous years for relief purposes were completely liquidated by repayments aggregating \$981,000. In addition, the Railway paid the fifth 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, 1936-37 and 1937-38 at a cost of \$5,730,000 and leased to the Railway Company. The Railway also paid the first instalment of \$663,000 under the terms of a hire-purchase agreement relating to equipment purchased by the Government in the fiscal years 1939-40 and 1940-41 at a cost of \$9,951,000 and leased to the Railway Company.

Other Loans and Investments

46. In the fiscal year ended March 31, 1942, the Government purchased an additional \$25,000 of the capital stock of the Canadian Farm Loan Board. Capital Stock in the amount of \$10,000 was cancelled and written off. The Board repurchased out of surplus funds from the Government \$1,000,000 of its 3½% Bonds. At the close of the fiscal year the Government's investment in the Canadian Farm Loan Board was \$36,537,000.

47. The Canadian Broadcasting Corporation repaid \$283,000 on account of loans made by the Government during the fiscal years 1937-38 and 1939-40.

48. The Canadian Government Merchant Marine, Limited, repaid loans aggregating \$750,000 made in the fiscal year 1940-41 in order to provide the Company with working capital.

49. There was advanced to the Foreign Exchange Control Board in the fiscal year 1941-42 an amount of \$400,000,000 in order to provide the Board with capital to carry on its foreign exchange transactions.

50. Loans totalling \$230,000 were made to the National Harbours Board during the year for capital construction purposes at the ports of Montreal and Vancouver. In the same period, loans made in previous years, were reduced by \$1,210,000, leaving a net credit on this account of \$980,000.

51. Investments in Sinking Funds amounted to \$486,000 during the fiscal year under review. This amount together with the amount held at March 31, 1941, viz., \$5,233,000, was written off to Redemption of Debt, as the 4% Loan of 1953-58, the 3½% Loan of 1950-55 and the 3¼% Loan of 1958-63 were vested by the Government of the United Kingdom in August 1941. In turn these three sterling issues were purchased by the Government of Canada and cancelled.

52. In the fiscal year under review the Provinces of Manitoba, British Columbia and Nova Scotia reduced by \$740,000 loans made to them by the Dominion Government for house construction in the period following the first Great War.

53. Loans for Soldier and General Land Settlement were reduced by payments of \$1,521,000, and, in addition \$271,000 was written off and charged to Consolidated Fund.

54. In the period April 1, 1941, to March 31, 1942, 4,309 loans were approved under the National Housing Act for an amount of \$13,541,415, bringing the total approvals to March 31, 1942, to \$76,784,145. During the fiscal year, the Dominion's share of loans actually paid out, less repayments by borrowers, totalled \$2,644,165. The net amount of loans under the authority of the National Housing Act and the Dominion Housing Act, outstanding on the books of the Dominion at March 31, 1942, was \$16,254,095. Loans under the authority of 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 per cent 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 per cent 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.

55. Under the Municipal Improvements Assistance Act, 1938, no further loans were approved during the fiscal year ended March 31, 1942. From the inception of the Act to March 31, 1942, total loans approved totalled \$7,801,000. During the said fiscal year, the amount actually paid out by the Government, less repayments, was \$331,000. These loans bear interest at the rate of 2 per cent 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 situated is required to guarantee the payments for interest on and amortization of each loan.

56. The following statement shows in summary form 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)

	1937-38	1938-39	1939-40	1940-41*	Estimated* 1941-42
	\$	\$	\$	\$	\$
Sinking Funds.....	3,843	4,336	Cr. 2,798	Cr. 61,963	Cr. 5,233
Canadian National Railways.....	Cr. 27,429	3,841	21,479	105,573	251,722
Canadian Pacific Railway.....	Cr. 211	Cr. 211	Cr. 211	Cr. 211	Cr. 981
Canadian Farm Loan Board.....	3,848	2,834	2,288	838	Cr. 974
Dominion and National Housing Acts— Loans.....	1,678	2,657	4,393	3,805	2,644
Municipal Improvements Assistance Act, 1938—Loans.....	—	815	3,111	1,718	331
National Harbours Board.....	1,890	692	947	Cr. 333	Cr. 980
Province of Sask. Power Commission...	—	—	—	58	Cr. 4
Provinces—under relief legislation.....	16,299	14,985	12,566	1,514	Cr. 217
Provinces—Housing Loans, 1919.....	Cr. 1,422	Cr. 105	Cr. 699	Cr. 1,634	Cr. 740
Railway Equipment purchased.....	89	Cr. 1,399	8,135	14,781	Cr. 1,586
Soldier and general land settlement.....	505	Cr. 749	Cr. 1,116	Cr. 1,139	Cr. 1,521
Roumanian Government.....	359	—	—	—	—
Bank of Canada Capital Stock.....	—	820	—	—	—
Central Mortgage Bank—Capital Stock.....	—	—	250	—	—
Canadian Broadcasting Corporation.....	500	Cr. 50	700	Cr. 364	Cr. 283
Canadian National (West Indies) Steam- ships.....	450	—	—	—	—
Canadian Government Merchant Marine.....	—	—	—	750	Cr. 750
Foreign Exchange Control Board.....	—	—	—	325,000	400,000
Net Advances.....	399	28,466	49,045	388,393	641,428
Less write-offs—					
Soldier and general land settlement loans.....	-750	-895	-1,643	-1,011	-271
Canadian Farm Loan Board—Capital Stock.....	-10	-14	-11	-12	-10
Loans to Province of Saskatchewan— Drought Area Relief, 1934-35.....	—	—	-1,374	—	—
Reserve for possible losses on ultimate realization of active loans and advances	—	—	—	-25,000	-25,000
Net change in active investments.....	Cr. 361	27,557	46,017	362,370	616,147

*Does not include advances by the Department of Munitions and Supply to commodity and other corporations described in section 25 (pages 22-23).

LOAN FLOTATIONS

57. During the fiscal year ended March 31, 1942, the Government issued obligations in the amount of \$2,457,464,570 (including the increase in Treasury Bills outstanding but not the total amount of recurring issues of Treasury Bills made to refund outstanding Treasury Bills). With the exception of one \$10,000,000 issue sold in New York, all issues were sold in the Canadian market. During the same period Dominion obligations in the amount of \$964,335,201 were paid off out of the proceeds of the new issues. The remainder of the proceeds, namely, \$1,493,129,369, less cost of flotation, provided cash for direct and indirect outlays on war account.

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

LOAN FLOTATIONS, 1941-42

Issue Date	Maturity Date	Interest Rate	Where Payable	Price		Yield at		Amount Issued
				To Public	To Government	Public Price	Price to Government	
1941		%		\$	\$	%	%	\$
May 1.....	May 1, 1942	1	Canada	—	100.00	—	1.00	250,000,000
May 1.....	May 1, 1943	2½	New York	—	100.00	—	2.25	10,000,000
June 15.....	Dec. 15, 1946	2	Canada	99.00	97.98	2.19	2.40	193,286,000
June 15.....	June 15, 1951	3	Canada	100.00	98.95	3.09	3.21	643,534,250
July 1.....	July 1, 1942	4	Canada	—	100.00	—	4.00	33,293,471
			(School Lands)					
Oct. 16.....	Oct. 16, 1944	1½	Canada	—	99.27	—	1.75	200,000,000
1942								
Mar. 1.....	Sept. 1, 1944	1½	Canada	100.00	(x)	1.50	(x)	(a) 57,169,000
Mar. 1.....	Mar. 1, 1948	2½	Canada	100.00	(x)	2.25	(x)	(a) 268,924,000
Mar. 1.....	Mar. 1, 1954	3	Canada	100.00	(x)	3.07	(x)	(a) 671,410,300
Various.....	June 15, 1945	Non-Interest Bearing Certificates.	Canada	100.00	100.00	Nil	Nil	4,553,219
Various.....	Various.....	War Savings Certificates.	Canada	—	—	3.00†	3.00†	84,333,840
Various.....	.....	War Savings Stamps	Canada	—	—	Nil	Nil	960,490
Increase in short-term Treasury Bills.....								2,417,464,570
								40,000,000
								2,457,464,570

(a) Preliminary figures.

(x) Final costs for Second Victory Loan not yet available.

(†) Yield to investor if held to maturity, seven and one-half years after issue.

It will be noted that both the first and second Victory Loans were sold during the fiscal year under review. Each was an outstanding success. In the case of the first Victory Loan, total subscriptions amounted to \$836,820,250 and the total number of subscribers was 968,259. The second Victory Loan offered in February last resulted in total subscriptions of \$997,503,300 and the total number of subscribers was no less than 1,681,525.

59. The following table gives the details of Dominion of Canada bond redemptions during the fiscal year under review.

DOMINION OF CANADA BOND REDEMPTIONS, 1941-42

Maturity Date	Interest Rate	Where Payable	Amount
	%		\$
May 1, 1941.....	1½	New York....	20,000,000
May 1, 1941.....	1	Canada.....	250,000,000
July 1, 1941.....	4	Canada.....	33,293,471
		(School Lands)	
October 16, 1941.....	2	Canada.....	200,000,000
November 15, 1941.....	5	Canada.....	141,663,000
May 15, 1942 (1).....	1½	Canada.....	93,818,000
June 1, 1942 (1).....	2	Canada.....	59,761,000
October 1, 1947 (2).....	2½	London.....	4,201,913
May 1, 1955 (3).....	3½	London.....	42,761,390
September 1, 1958 (3).....	4	London.....	68,550,263
July 1, 1963 (3).....	3½	London.....	44,257,087
War Savings Certificates.....	3 (4)	Canada.....	4,551,948
Non-Interest Bearing Certificates.....	Nil	Canada.....	1,477,129
			\$964,335,201

(1) Amount converted into Second Victory Loan.

(2) This issue was vested by the Treasury of the United Kingdom in January 1942. The amount (at par of exchange) purchased in the fiscal year 1941-42 was cancelled.

(3) These issues were vested by the Treasury of the United Kingdom in August 1941. The amounts purchased, including Sinking Funds were cancelled.

(4) Yield to investor if held to maturity, seven and one-half years after issue date.

60. The fortnightly issue of three months Treasury Bills was continued during the past fiscal year. The last issue made during the year was sold at a discount of 0.552 per cent. The amount of these Treasury Bills outstanding at the close of the fiscal year was \$270,000,000, an increase of \$40,000,000 over the amount outstanding at the beginning of the year.

As at March 31, 1942, the average rate of interest on the Dominion's outstanding direct funded debt (including Treasury Bills) was 2.90 per cent. This compares with an average rate of 3.06 per cent on the debt outstanding at the close of the preceding fiscal year and is probably the lowest average rate in the Dominion's history.

60A. It may be of interest to give a summary of Loan Flotations and Bond Redemptions made by the Government of Canada since the outbreak of War to March 31, 1942. The record of such financing operations is found in the two following statements:

DOMINION OF CANADA BOND REDEMPTIONS SINCE OUTBREAK OF WAR TO
MARCH 31, 1942

Maturity Date	Interest Rate	Where Payable	Amount
	%		\$
Oct. 15, 1939.....	4	Canada.....	17,168,000
Oct. 15, 1939.....	2½	Canada.....	6,242,500
Nov. 15, 1939.....	2	Canada.....	4,654,000
March 1, 1940.....	3	Canada.....	115,013,637
April 17, 1940.....	3½	London.....	(1)137,058,841
June 1, 1940.....	1½	Canada.....	80,000,000
Sept. 1, 1940.....	4½	Canada.....	75,000,000
Oct. 1, 1940.....	4	London.....	(2)93,926,667
March 15, 1941.....	1	Canada.....	45,000,000
May 1, 1941.....	1½	New York.....	20,000,000
May 1, 1941.....	1	Canada.....	250,000,000
Oct. 16, 1941.....	2	Canada.....	200,000,000
Nov. 15, 1941.....	5	Canada.....	141,663,000
May 15, 1942.....	1½	Canada.....	(3)93,818,000
June 1, 1942.....	2	Canada.....	(5)59,761,000
Oct. 1, 1947.....	2½	London.....	(4)4,201,913
May 1, 1955.....	3½	London.....	(6)42,761,390
Sept. 1, 1958.....	4	London.....	(6)68,550,263
July 1, 1963.....	3½	London.....	(6)44,257,087
War Savings Certificates.....	(9)3	Canada.....	4,746,413
Non-Interest Bearing Certificates.....	Nil	Canada.....	1,655,632
Total.....			1,505,478,343

RECAPITULATION—

Payable in Canada.....	1,094,722,182
New York.....	20,000,000
London.....	390,756,161
	1,505,478,343

(1) Due July, 1, 1950, called for redemption on April 17, 1940.

(2) Due October 1, 1960, called for redemption on October 1, 1940.

(3) Amount converted into Second Victory Loan.

(4) This issue was vested by the Treasury of the United Kingdom in January, 1942. The amount (at par of exchange) purchased to March 31, 1942, has been cancelled.

(5) These issues were vested by the Treasury of the United Kingdom in August, 1941. The amounts purchased (at par of exchange) to March 31, 1942, have been cancelled.

(6) Yield to investor if held to maturity, seven and one-half years after issue date.

DOMINION OF CANADA LOAN FLOTATIONS SINCE OUTBREAK OF WAR TO MARCH 31, 1942

Title of Issue	Issue Date	Maturity Date	Interest Rate	Sold to			Total Issued
				Public	Chartered Banks	Bank of Canada	
			%	\$	\$	\$	\$
Two-Year Notes.....	Oct. 16, 1939...	Oct. 16, 1941...	2	—	200,000,000	—	200,000,000
First War Loan (***).....	Feb. 1, 1940...	Feb. 1, 1948-52	3½	250,000,000	—	—	250,000,000
Five-Year Bonds.....	March 1, 1940...	March 1, 1945...	2	—	—	40,000,000	40,000,000
One-Year Notes.....	May 1, 1940...	May 1, 1941...	1	—	—	250,000,000	250,000,000
Five-Year Bonds.....	June 1, 1940...	March 1, 1945...	2	—	40,960,000	24,040,000	65,000,000
Second War Loan (***).....	Oct. 1, 1940...	Oct. 1, 1952...	3	324,945,700	—	—	324,945,700
Two and One-Half Year Notes.....	Jan. 2, 1941...	July 2, 1943...	1½	—	250,000,000	—	250,000,000
New York Bank Credit.....	May 1, 1941...	May 1, 1943...	2½	—	(**)10,000,000	—	10,000,000
One-Year Notes.....	May 1, 1941...	May 1, 1942...	1	—	—	250,000,000	250,000,000
1941 Victory Loan.....	June 15, 1941...	Dec. 15, 1946...	2	836,820,250	—	—	193,286,000
1941 Victory Loan.....	June 15, 1941...	June 15, 1951...	3				643,534,250
Total—1941 Victory Loan (***).....				836,820,250	—	—	836,820,250
Three-Year Notes.....	Oct. 16, 1941...	Oct. 16, 1944...	1½	—	99,700,000	100,300,000	200,000,000
Second Victory Loan.....	March 1, 1942...	Sept. 1, 1944...	1½	997,503,300	—	—	57,169,000
Second Victory Loan.....	March 1, 1942...	March 1, 1948...	2½				268,924,000
Second Victory Loan.....	March 1, 1942...	March 1, 1954...	3				671,410,300
Total—Second Victory Loan (***).....				997,503,300	—	—	997,503,300
War Savings Certificates.....	Various.....	Various.....	†3	133,473,762	—	—	133,473,762
Non-Interest Bearing Certificates.....	Various.....	June 15, 1945...	Nil	10,765,678	—	—	10,765,678
Total.....				2,553,508,690	600,660,000	664,340,000	3,818,508,690
Increase in short-term Treasury Bills.....				(*)	(*)	(*)	115,000,000
Grand Total.....							3,933,508,690

† Yield to investor if held to maturity seven and one-half years after issue date.

(*) It is not possible to allocate the increase in Treasury Bills to purchases by the public, chartered banks and Bank of Canada.

(**) Includes participation by a United States bank.

(***) The chartered banks and the Bank of Canada converted maturing bonds into bonds of these issues, in the case of the 1941 Victory Loan conversions amounted to \$42,225,000 and in the Second Victory Loan to \$117,486,000.

NATIONAL DEBT

61. At the close of the fiscal year under review the gross unmatured funded debt (including Treasury Bills) of the Dominion outstanding amounted to \$5,866,071,000. Other liabilities consisting chiefly of Annuities, Superannuation and insurance funds, Post Office Savings Bank deposits, and various trust and contingent funds were outstanding on the same date in an aggregate amount of \$742,949,000. The gross liabilities of the Dominion, therefore, totalled \$6,609,020,000 as at March 31, 1942. On the other side of its balance sheet, however, the Dominion had active assets of \$2,546,648,000 consisting of cash on hand and various active loans and investments (less reserves provided against ultimate loss on their realization). If, therefore, we deduct the amount of the net active assets from the amount of the gross liabilities, we arrive at a figure of \$4,062,372,000 representing the estimated net debt of the Dominion. This net debt shows an increase over the corresponding figure for the close of the preceding fiscal year of \$413,681,000, which of course is the amount of the over-all deficit for the fiscal year ending March 31 last.

62. The following is a preliminary statement or balance sheet showing the liabilities and assets of the Dominion as estimated at March 31, 1942:

LIABILITIES—MARCH 31, 1942

(estimated)

Bank Circulation Redemption Fund.....	\$	4,478,000	
Post Office Money Orders, Postal Notes, etc., outstanding.....		6,900,000	
Post Office Savings Bank deposits.....		21,678,000	
Insurance and Superannuation Funds—			
Government Annuities.....	\$	172,970,000	
Insurance Fund—Civil Service.....		15,118,000	
Insurance Fund—Returned Soldiers.....		20,574,000	
Retirement Fund.....		12,718,000	
Superannuation Funds.....		65,533,000	
Unemployment Insurance Fund (cash).....		5,213,000	
			292,126,000
Trust Funds—			
Indian Funds.....		14,642,000	
Common School Funds.....		2,678,000	
Contractors' Securities Deposits.....		6,851,000	
Other Trust Funds.....		10,463,000	
			34,634,000
War Supplies Limited.....			36,714,000
Contingent and Special Funds.....			257,567,000
Canadian Wheat Board—Reserve for losses on wheat marketing guarantees.....			18,447,000
Province Debt Accounts.....			11,920,000
Funded Debt and Treasury Bills unmatured.....		5,866,071,000	
Floating Debt—			
Funded Debt matured and outstanding.....		6,000,000	
Interest due and outstanding.....		8,485,000	
Outstanding cheques.....		44,000,000	
			5,924,556,000
			6,609,020,000

ASSETS—MARCH 31, 1942

(estimated)

Cash, working capital advances and other current assets.....	\$	791,093,000	
Recoverable Advances—			
United Kingdom and other Allied Governments, Army, Navy and Air.....		120,559,000	
Special Deposits.....		3,022,000	
Bank of Canada Capital Stock.....		5,920,000	
Central Mortgage Bank Capital Stock.....		250,000	
Canadian Broadcasting Corporation—Loan.....		503,000	
Canadian National (West Indies) Steamships, Ltd.—Loan.....		450,000	
Dominion and National Housing Acts—Loans.....		16,254,000	
Municipal Improvements Assistance Act, 1938—Loans.....		5,976,000	
Loans to Provinces—			
Housing Loans, O. C. of December 3, 1918 and amendments.....	\$	130,000	
Unemployment Relief Loans.....		157,275,000	
Province of Saskatchewan—Power Commission.....		54,000	
Province of Alberta—subsidy overpayment.....		469,000	
			157,928,000
Loans to National Harbours Board—			
Montreal.....		60,326,000	
Vancouver.....		25,091,000	
			85,417,000
New Westminster Harbour Commission—Loan.....			275,000
Canadian Farm Loan Board—Advances and Capital Stock.....			36,537,000
Foreign Exchange Control Board—Loans and Advances.....			725,000,000
Railway Accounts—			
Canadian National Railways—			
Advances—Refunding Act, 1938.....		51,825,000	
Advances—Financing and Guarantee Act, 1939.....		11,332,000	
Advances—Financing and Guarantee Act, 1940.....		7,573,000	
Advances—Financing and Guarantee Act, 1940—			
Grand Trunk Railway Debenture Stock.....		105,936,000	
Advances—Financing and Guarantee Act, 1941.....		11,943,000	
Advances—The War Appropriation (United Kingdom Financing) Act,			
1942—purchase of securities.....		191,602,000	
Advances—The War Appropriation Act 1941—			
Temporary Loan.....		17,122,000	
			397,333,000
Purchase of equipment leased to—			
Canadian National Railways—			
1936 Agreement.....		4,655,000	
War Appropriation Act, 1940.....		13,888,000	
War Appropriation Act, 1941.....		1,027,000	
			19,570,000
Canadian Pacific Railway—			
1936 Agreement.....		3,526,000	
War Appropriation Act, 1940.....		9,288,000	
			12,814,000
Loans to Foreign Governments—			
Greece.....		6,525,000	
Roumania.....		24,329,000	
			30,854,000
Soldier and General Land Settlement Loans.....			33,888,000
Seed Grain and Relief Advances.....			2,413,000
Munitions and Supply—Advances to Commodity and other Companies.....			34,222,000
Canadian Government Railways Working Capital.....			16,772,000
Bond Holding Account.....			41,860,000
Province Debt Accounts.....			2,296,000
Unamortized Discount and Commission on Loans.....			55,442,000
			2,596,648,000
LESS—Reserve for possible losses on ultimate realization of active loans and			
advances.....			50,000 000
			\$2,546,648,000
Net Debt, March 31, 1942 (estimated).....			4,062,372,000
Net Debt represented by—			
A. Expenditure and non-active assets (estimated) March 31, 1942.			
Capital Expenditures—			
Public Works—			
Canals.....	\$	240,303,000	
Railways.....		425,960,000	
Public buildings, harbour and river improvements.....		307,828,000	
Military Property and stores.....		12,572,000	
Territorial Accounts.....		9,896,000	
			\$ 996,559,000

ASSETS—MARCH 31, 1942—*Concluded*
(estimated)

Loans, Non-active—		
Canadian National Railways Securities Trust Stock.....	267,283,000	
Canadian National Railway Stock.....	18,000,000	
Canadian Pacific Railway (old).....	62,791,000	
Canadian National Steamships.....	13,872,000	
National Harbours Board—		
Quebec.....	27,778,000	
Chicoutimi.....	3,838,000	
Churchill.....	10,000	
Halifax.....	12,452,000	
Saint John.....	16,550,000	
Three Rivers.....	3,741,000	
Montreal (Jacques Cartier Bridge).....	4,815,000	
Seed Grain and Relief Advances.....	346,000	
Soldier and General Land Settlement.....	16,526,000	
Saskatchewan Seed Grain Loans Guarantee Act, 1936.....	2,637,000	
The Seed Grain Loans Guarantee Act, 1937.....	7,136,000	
Miscellaneous Advances.....	3,537,000	
B. Consolidated Fund—		
Balance Consolidated Fund brought forward from March 31, 1941.....	2,195,400,000	
Excess of expenditure over revenue, less amounts charged under A above, fiscal year ended March 31, 1942—(estimated).....	409,101,000	
	<u>2,604,501,000</u>	
	<u>\$4,062,372,000</u>	

63. The following table shows the various obligations included in the unmatured funded debt of the Dominion outstanding as at March 31, 1942, and the annual interest charges thereon:

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1942, AND
ANNUAL INTEREST THEREON

Date of Maturity	Rate Per Cent	Where Payable	Amount of Loan	Annual Interest Charges
1942, May 1.....	1	Canada	\$ 250,000,000 00	\$ 2,500,000 00
May 15.....	1½	Canada	1,682,000 00	25,230 00
June 1.....	2	Canada	230,000 00	4,780 00
July 1.....	4	Canada	33,293,470 85	1,331,738 83
Oct. 15.....	3	Canada	40,409,000 00	1,212,270 00
1943, May 1.....	2½	New York	10,000,000 00	225,000 00
June 1.....	2½	Canada	20,000,000 00	500,000 00
July 2.....	1½	Canada	250,000,000 00	3,750,000 00
Oct. 15.....	5	Canada	147,000,100 00	7,350,005 00
1944, Jan. 15.....	2½	New York	30,000,000 00	675,000 00
June 1.....	2	Canada	90,025,000 00	1,812,500 00
Sept. 1.....	1½	Canada	*57,169,000 00	857,535 00
Oct. 15.....	4½	Canada	50,000,000 00	2,250,000 00
Oct. 16.....	1½	Canada	200,000,000 00	3,000,000 00
Nov. 15.....	2½	Canada	20,000,000 00	500,000 00
1945, Mar. 1.....	2	Canada	105,000,000 00	2,100,000 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
Dec. 15.....	2	Canada	193,286,000 00	3,865,720 00
1947, Oct. 1.....	2½	London	686,272 41	17,156 81
1948, Feb. 1.....	3½	Canada	50,000,000 00	1,625,000 00
Mar. 1.....	2½	Canada	*268,024,000 00	6,050,700 00
1949, Feb. 1.....	3½	Canada	50,000,000 00	1,625,000 00
June 1.....	3½	Canada	33,500,000 00	1,088,750 00
Oct. 15.....	3½	Canada	138,322,000 00	4,841,270 00
1950, Feb. 1.....	3½	Canada	50,000,000 00	1,625,000 00
1951, Feb. 1.....	3½	Canada	50,000,000 00	1,625,000 00
June 15.....	3	Canada	643,534,250 00	19,306,027 50
Nov. 15.....	3½	Canada	60,000,000 00	1,950,000 00
1952, Feb. 1.....	3½	Canada	50,000,000 00	1,625,000 00
May 1.....	5	New York	100,000,000 00	5,000,000 00
Oct. 1.....	3	Canada	324,945,700 00	9,748,371 00
Oct. 15.....	4	Canada	56,191,000 00	2,247,640 00
1954, Mar. 1.....	3	Canada	*671,410,300 00	20,142,309 00

**UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1942, AND
ANNUAL INTEREST THEREON—Concluded**

Date of Maturity	Rate Per Cent	Where Payable	Amount of Loan	Annual Interest Charges
1955, May 1.....	3½	London	\$ 5,905,276 73	\$ 191,921 49
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	1,449,736 66	177,989 47
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	New York	100,000,000 00	4,000,000 00
1961, Jan. 15.....	3½	New York	48,000,000 00	1,560,000 00
1963, July 1.....	3½	London	4,409,579 62	143,311 34
1966, June 1.....	3½	Canada	51,703,000 00	1,777,847 50
Sept. 15.....	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, 1942	-548	Canada	45,000,000 00	246,600 00
Treasury Bills due April 17, 1942	-548	Canada	45,000,000 00	246,600 00
Treasury Bills due April 29, 1942	-547	Canada	45,000,000 00	246,150 00
Treasury Bills due May 15, 1942	-545	Canada	45,000,000 00	245,250 00
Treasury Bills due May 29, 1942	-547	Canada	45,000,000 00	246,150 00
Treasury Bills due June 12, 1942	-552	Canada	45,000,000 00	248,400 00
War Savings Certificates.....	†3	Canada	\$5,723,251,986 27	166,378,153 94
War Savings Stamps.....		Canada	129,677,966 48	†3,870,745 74
Non-Interest Bearing Certificates.....		Canada	4,030,578 00	—
			9,110,045 92	—
			\$5,866,070,576 67	\$ 170,248,899 68
Payable in Canada.....			\$5,391,619,711 25	91.92%
Payable in New York.....			459,000,000 00	7.82%
Payable in London.....			15,450,865 42	0.26%
			\$5,866,070,576 67	100.00%

* Preliminary figures.

† 3 per cent on purchase value if held to maturity (7½ years from date of issue).

INDIRECT LIABILITIES

64. Bonds and debenture stocks bearing the guarantee of the Dominion and outstanding in the hands of the public as at March 31, 1942, totalled \$818,841,717, a decrease of \$165,174,661 during the fiscal year under review. This decrease is accounted for mainly by the purchase of Canadian National Railway Company securities from the Government of the United Kingdom, as provided for under the War Appropriation (United Kingdom Financing) Act 1942.

65. There were also outstanding at the close of the fiscal year other contingent liabilities assumed under Relief, Seed Grain and other legislation. During the fiscal year the Government agreed to guarantee the repayment of bank advances to the Canadian Red Cross Society to a maximum amount of \$3,000,000. It was anticipated that this Society would require funds for carrying on its war services pending the time when receipts would be available to it from a general public campaign. However, no advances were required under this guarantee.

66. Advances by Canadian chartered banks to the Government of Newfoundland, amounting to \$625,000 and carrying the guarantee of the Government of Canada have been referred to in previous budget speeches. These advances were paid off by the Government of Newfoundland during the fiscal year under review.

67. Guaranteed bank advances to the Canadian Wheat Board outstanding as at March 31, 1942, amounted to \$116,686,562. This amount constitutes

the Board's gross liability to the banks and related mainly to the purchase of wheat of the 1939, 1940 and 1941 crops. The guarantee of the Dominion to the Winnipeg Grain and Produce Clearing Association Limited referred to in previous budget speeches is still outstanding. However, no liability accrues from day to day in connection with this guarantee as margin deposits are made to the Clearing Association.

68. Before operations under the Home Improvement Loans Guarantee Act were discontinued (October 31, 1940), 125,720 loans had been made by banks and other approved loaning institutions to home owners under the terms of this Act and the total amount of such loans was \$49,959,055. The Dominion's contingent liability arising out of these loans is limited to 15% of the aggregate of such loans made by approved lending institutions, but as the balance of these loans outstanding on March 31, 1942, had been reduced to \$6,162,009, the contingent liability of the Government is limited to this amount. Up to March 31, 1942, 801 loss claims for an aggregate amount of \$259,100 had been paid. In terms of total losses to total volume of loans, this loss ratio is only slightly more than one-half of one per cent. Repayments to March 31, 1942, amounted to \$43,797,-048 or 88 per cent of the total volume of loans made.

69. Under the Dominion Housing Act, 1935, and the National Housing Act, 1938, the Government 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 more than the amount advanced by the Dominion. In the case of small loans (for amounts not in excess of \$4,000, in the case of a single family 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 the 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 or 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 of 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 18,251 had been approved at March 31, 1942, under the Dominion Housing Act, 1935, and the National Housing Act, 1938, in the amount of \$76,784,145. Losses recorded and paid to March 31, 1942, amounted to \$1,010.28, covering the Dominion's proportion of the loss on three loans. This amount represents total losses to date under both the Dominion Housing Act, 1935, and Part 1 of the National Housing Act, 1938. These losses are offset in part by a profit of \$288.41 realized by the sale of eight properties. The net loss to date is therefore only \$721.87.

70. The following is a statement of bonds and debenture stocks and other indebtedness guaranteed by the Dominion, outstanding on March 31, 1942.

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE DOMINION
GOVERNMENT AS AT MARCH 31, 1942

Date of Maturity	Issue	Interest Rate	Amount Outstanding	
		%	\$	cts.
Feb. 15, 1943	Canadian National	2	55,000,000	00
Feb. 1, 1944	Canadian National	2½	15,500,000	00
May 1, 1944	Canadian National	3	35,000,000	00
Jan. 15, 1946	Canadian National	2½	15,000,000	00
July 1, 1946	Canadian Northern	6½	23,750,000	00
April 1, 1948	New Westminster Harbour Commissioners	4½	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	2,011,330	05
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	4½	48,587,000	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	6,621,474	47
Jan. 15, 1959	Canadian National	3	35,000,000	00
May 4, 1960	Canadian Northern Alberta	3½	911,332	00
May 19, 1961	Canadian Northern Ontario	3½	8,144,663	54
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	57,138,000	00
Oct. 1, 1969	Canadian National	5	57,858,200	00
Nov. 1, 1969	Harbour Commissioners of Montreal	5	19,000,000	00
Feb. 1, 1970	Canadian National	5	17,376,000	00
By drawings	Canadian National	2	3,383,674	53
Various dates 1942-54	City of Saint John Debentures assumed by Saint John Harbour Commissioners	Various	775,229	31
Perpetual	Grand Trunk Guaranteed Stock	4	15,573,333	33
do	Grand Trunk Debenture Stock	5	5,549,825	00
do	Great Western Debenture Stock	5	3,153,989	34
do	Grand Trunk Debenture Stock	4	8,295,549	67
do	Northern Railway of Canada Debenture Stock	4	502,313	00
			\$	818,841,717 28

OTHER LIABILITIES GUARANTEED

	Principal Amount Outstanding Mar. 31, 1942
Bank Advances, re Province of Manitoba Savings Office	\$ 6,131,616
Province of Manitoba Treasury Bill	4,805,723
Province of British Columbia Treasury Bill	626,534
Bank Advances, re Canadian Wheat Board	116,686,562
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, 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	6,162,009
Deposits maintained by the chartered banks in the Bank of Canada	241,931,985
Bank Advances, re Government War Contracts—Department of Munitions and Supply	1,700,357
Guarantee under Dominion-Provincial Taxation Agreements of Provincial receipts from gasoline taxes at amounts received in fiscal years ending near- est December 31, 1940	Indeterminate

CANADIAN ECONOMIC CONDITIONS

ANNUAL FIGURES

	Calendar Years						
	1926	1928	1932	1937	1939	1940	1941
Group I—Comprehensive Indexes (1935-39=100)							
Physical volume of business.....	83	98	66	102	102	121	135
Volumes of manufacturing.....	92	104	68	113	109	135	151
Mining.....	53	62	57	100	113	125	129
Forestry.....	84	87	57	117	102	123	126
Carloadings.....	131	148	88	106	102	114	129
Electric power output.....	46	61	61	100	109	115	128
Employment (a).....	100	111	88	114	114	124	152
National income.....	109	124	70	105	118	131	157
Retail sales.....	(e)	(e)	92	105	105	118	136
Group II.—Price Levels and Financial Factors (1926=100)							
Wholesale prices.....	100	96	67	85	76	83	90
Farm product prices.....	100	101	48	87	64	67	71
Cost of living (b).....	122	121	99	101	102	106	112
Common stock prices (b).....	91	145	51	116	92	77	68
Bank deposits.....	100	115	100	120	132	139	152
Active currency circulation.....	100	105	81	103	111	147	198
Group III.—Gross Value of Production in Major Industries (\$ millions)							
Agriculture.....	1,715	1,806	767	1,039	1,205	1,265 (c)	1,375
Forestry.....	550	586	349	494	466	627 (c)	740
Fisheries.....	73	71	34	51	53	60 (c)	61
Mining (including Smelting).....	277	313	295	603	603	748 (c)	777
Construction.....	386	488	133	352	373	474 (c)	607
Manufacturing.....	3,101	3,582	1,981	3,626	3,475	4,529 (c)	5,018
Group IV.—Foreign Trade and International Transactions (\$ millions)							
Exports (gold excluded).....	1,277	1,364	498	1,012	936	1,193	1,640
Net non-monetary gold exports (d).....	30	40	70	145	184	203	204
Total exports, including non-monetary gold.....	1,307	1,404	568	1,157	1,120	1,396	1,844
Imports (gold excluded).....	1,008	1,222	453	809	751	1,082	1,440
Total trade.....	2,315	2,026	1,021	1,966	1,871	2,478	3,293
Export balance.....	+299	+182	+115	+348	+369	+314	+395
Net tourist receipts.....	(e)	(e)	(e)	(e)	(e)	60	87
Net interest and dividends going abroad.....	201	221	282	246	254	272 (c)	256

(a) 1926=100.

(b) 1935-39=100.

(c) Preliminary estimate.

(d) Adjusted for changes in stocks of earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

(e) Not available.

CANADIAN ECONOMIC CONDITIONS

MONTHLY FIGURES

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Group I.—Comprehensive Indexes (a) (1935-39=100)												
Physical volume of business.....	1940 114	109	106	120	118	120	121	129	130	129	130	128
	1941 131	123	126	131	134	137	138	142	149	139	132	141
	1942 141	134	136	140								
Volume of manufacturing.....	1940 130	120	116	128	130	129	134	144	149	146	147	142
	1941 142	136	140	143	143	144	154	164	182	165	149	159
	1942 138	152	150	160								
Mining.....	1940 116	109	113	146	121	137	127	142	124	117	128	124
	1941 123	125	123	132	141	126	146	141	123	124	126	124
	1942 120	114	119	130								
Forestry.....	1940 121	107	109	113	121	136	137	134	132	125	123	117
	1941 126	121	126	118	114	117	131	130	146	133	123	128
	1942 127	134	134	123								
Carloadings.....	1940 113	109	96	111	117	115	127	120	107	109	115	125
	1941 126	123	125	129	139	134	140	128	119	121	124	139
	1942 150	140	136	140								
Electric power output.....	1940 112	114	107	112	123	124	129	119	114	109	109	111
	1941 117	116	116	126	129	123	131	126	136	137	138	139
	1942 143	138	142	144								
Employment (b).....	1940 121	119	118	119	119	121	122	124	127	130	133	136
	1941 139	141	141	150	151	153	155	156	156	158	160	165
	1942 172	172	172	175								
Retail sales (c).....	1940 90	90	106	110	120	121	103	113	114	132	136	174
	1941 102	101	119	136	143	134	122	134	137	152	147	202
	1942 128	120	145	155								
Group II.—Price Levels and Financial Factors— (1926=100)												
Wholesale prices.....	1940 83	83	83	83	82	82	82	83	83	83	84	84
	1941 85	85	86	87	89	90	91	92	93	94	94	94
	1942 94	95	95	95								
Farm product prices.....	1940 70	70	71	72	68	64	65	62	64	65	67	67
	1941 67	68	69	70	70	71	72	72	73	74	74	75
	1942 77	78	79	80								

Cost of living (d).....	1940	104	104	105	105	105	105	106	106	106	107	108	108
	1941	103	108	108	109	109	111	112	114	115	116	116	116
	1942	115	116	116	116	116							
Common stock prices (d).....	1940	91	90	90	88	73	66	66	69	76	74	75	70
	1941	71	67	67	66	64	64	68	68	71	69	69	67
	1942	67	65	62	61								
Bank deposits (e).....	1940	142	143	139	140	139	137	136	135	138	140	140	139
	1941	146	150	149	151	154	155	154	154	153	151	153	154
	1942	156	160	166	166								
Active currency circulation (e).....	1940	119	120	126	125	127	143	154	159	168	173	173	178
	1941	169	175	182	186	187	194	198	206	211	217	222	230
	1942	225	234	241	244								
Group III.—Other Significant Factors													
Exports (f) (\$ millions).....	1940	91	72	84	85	111	112	102	111	103	107	119	99
	1941	89	100	103	118	163	147	171	150	143	140	164	152
	1942	152	168	177	170	235							
Imports (f) (\$ millions).....	1940	71	71	77	86	101	91	90	97	86	109	102	102
	1941	98	90	108	106	128	115	128	138	137	141	134	126
	1942	142	120	115	142								
Net non-monetary gold exports (g) (\$ millions).....	1940	22	12	16	18	17	15	16	18	17	19	17	17
	1941	19	15	20	14	16	18	17	13	21	17	15	17
	1942	15	17	16	14								
Construction contracts awarded (\$ millions).....	1940	9	12	12	26	28	39	29	41	52	26	55	17
	1941	27	25	14	24	41	86	32	36	39	29	23	19
	1942	13	11	18	23	24							
War contracts awarded (h) (\$ millions).....	1940	35	42	31	21	30	46	87	74	70	148	68	144
	1941	53	64	73	153	111	61	96	85	57	85	51	99
	1942	99	55	85									
War expenditure (\$ millions).....	1940	13	24	(i) 33	10	24	40	39	59	67	82	72	84
	1941	88	83	(i) 104	46	90	65	108	99	91	111	120	124
	1942	145	133	(i) 220	142	205							

(a) Indexes seasonally adjusted unless otherwise indicated.

(b) As at first of month. 1926=100.

(c) Unadjusted.

(d) 1935-39=100.

(e) Based on daily average figures; index unadjusted.

(f) All gold excluded; includes exports of foreign produce.

(g) Adjusted for changes in stocks of earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

(h) Contracts awarded by Department of Munitions and Supply on Canadian Account; Feb., 1942, preliminary; March, 1942, estimated.

(i) Includes year-end expenditure.

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