CANADA

BUDGET SPEECH

DELIVERED BY

HON. J. L. ILSLEY

MINISTER OF FINANCE

MEMBER FOR DIGBY-ANNAPOLIS-KINGS

IN THE

HOUSE OF COMMONS

MARCH 2, 1943

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

INDEX

APPENDIX

BUDGET SPEECH

DELIVERED BY

HON. J. L. ILSLEY

MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS, TUESDAY, MARCH 2, 1943

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, the financial and economic requirements of war become greater, and more exacting as the scope and thoroughness of our plans grow. This fifth war-time budget will exceed all previous standards and make provision for expenditures on a scale which it is sometimes difficult for any of us to appreciate.

The task of preparing this budget has been cheered by the growing evidence that we have seized the offensive, and the power of the united nations is already striking deep into the enemy's defences. There is, too, the expectation that our own land forces will soon match the blows which our air force and navy have struck against the aggressor. But if the valour of our men and of our allies is now translating our economic and financial programme into telling blows against the axis powers, there is every reason for pressing that programme forward and none for relaxing it.

As I have said frequently, financial measures are but one of the means through which we link the whole war programme together. They are instruments and not ends in themselves. They are instruments which must be used wisely lest we frustrate our efforts now and sow the seeds of intolerable conditions later. Financial measures are one of the means through which each person has his share in this war. Taxes and loans are not exactions from the people by a government. They are weapons which the people through their elected representatives and the free methods of democracy have fashioned for their own use and their common purpose. We cannot all man guns and planes and ships; we cannot all build guns and planes and ships, but the Canadian people have shown by the reception which has been given to each succeeding war-time budget that they are ready to wield these weapons, each according to his strength and all against the people's enemies. They are ready to accept their share in each increase in the effective organization for war of which the budget is but the financial counterpart.

It is by the single purpose of the people of this country and her allies that this war will be brought to the desired end. It is by the sober, tenacious purpose of the men and women of this and other countries that a just and durable peace will be written. The proposals which I shall lay before the house tonight are the recommendations which the government makes to the elected representatives of the people of this country for improving the financial means by which each of us may throw his whole weight into this struggle—and help to make possible a world more worthy of our better selves.

I

ECONOMIC AND FINANCIAL REVIEW

The current fiscal year has been marked by the coming to fruition of all our major production programmes, and yet, as we approach our full capacity, the increase in over-all production is less marked than last year. Industrial production in Canada rose from an index figure of 208 in December, 1941, to 251 in December, 1942. Such over-all figures however, conceal what has been taking place. While detailed production figures are not disclosed, the increases of 20 to 75 per cent in the numbers employed in the production of such things as chemicals, electrical equipment, iron and steel, and motor vehicles, and of more than 100 per cent in the case of those engaged in shipbuilding, tell their own story of war production. A number of other industries, partly war and partly civilian, have just maintained the level of employment. But there is a lengthening list of industries, producing, in the main, less essential goods, which show over the past year definitely reduced employment. It is the shifts in production rather than the over-all increase, which tell the significant story. We have, in recent months, been definitely in the period when substantial increase in war production can be achieved only at some loss of less essential production and in which we must be prepared to shift men and resources from one kind of production to another, as changing needs dictate.

We have been confronted with our inability to satisfy fully both war requirements and the high levels to which unrestricted war-time consumption has gone. It has been necessary, therefore, to restrict consumption and use in a growing number of instances in order that supplies for the armed forces should be fully assured, and the goods and services available distributed in an orderly and equitable manner. The problems raised by this situation are difficult and often extremely vexatious, but their emergence is a clear indication that we are reaching the stage in our war programme which it was the desire of every Canadian that we should reach, namely, the stage when we would be producing not merely what we could produce comfortably but all that we could possibly produce from the resources and man-power at our disposal. If we had no shortages, no vexatious restrictions, no farm labour problem, none of the problems and difficulties which have been debated in this house in recent weeks, we could be certain that we were falling far short of a full-out war effort.

SHORTAGES AND CONTROL

In a war of such extent and movement, in which technical improvements have already played so large a part, it was not to be expected that shortages would emerge in a well ordered and easily forseen pattern. The mounting of the allied offensives and the unlimited submarine warfare have made the limitations of ocean shipping particularly severe. Facilities for land transport have been heavily taxed, and the severity of the weather has introduced unusual difficulties in making the fullest use of the facilities available. The offensive phase which the war has entered has necessarily imposed changes in the direction and emphasis of our war programme. As the experience of battle redefines the needs of the armed forces, we can expect to be faced with increasingly difficult problems of controlling the production, distribution and use of goods and services.

There are sufficiently frequent occasions for discussing before the house the government's policy of controlling prices, wages and salaries, that it is neither necessary nor desirable to say more here than that it continues to be an integral part of the war-time fiscal and economic policy, and that without it that policy could not be carried out effectively. Though there are plenty of critics of particular applications of this programme of control, there is none who advocates its abandonment. By the payment of consumer subsidies to offset a substantial part of the increase in the cost of living, which it was not possible to avoid, the government, after a year's experience, has reaffirmed its determination to adhere to this programme and to continue to reserve to parliament the right to distribute the financial and economic sacrifices of the war by its taxation measures rather than to have them distributed by the haphazard forces of changing prices and incomes.

EXCHANGE

As explained in the budget speech of last year, our exchange problems have now become pretty well merged with general fiscal problems. The shortage of United States dollars has ceased to be a major problem and the decisive position which it held in our early budgets has been overshadowed by the limitations imposed upon us by shortages of shipping and resources and man-power. It has already been announced that a measure will be introduced to provide, out of such war production as can be made available, for the needs of those united nations whose supplies of Canadian dollars are inadequate to permit them to purchase such equipment and materials as they need.

GOVERNMENT ACCOUNTS AND FINANCING, 1942-43

The estimates of revenue and expenditure and other relevant information are set out in full in the white paper which I shall table before I resume my seat. I wish, however, to report briefly on the probable results of the year and on the financing which has been carried out. The house will bear in mind that the fiscal year does not close until March 31 and that the figures which I quote are, therefore, estimates only.

REVENUES

It is estimated that all revenues, including the refundable portion of income and excess profits taxes estimated at $100 million, will total $2,309 million, over 55 per cent above the revenues for 1941-42.

Total tax revenues are forecast at $2,136 million including the $100 million of refundable taxes. This compares with $1,361 million for the previous year and is very close to the forecast given at the time of the last budget. Direct taxes on incomes and profits are now overwhelmingly the largest sources of tax revenues, yielding nearly two-thirds of the total. The graduated tax on personal incomes, the special tax on income from dividends and interest and the national defence tax which was in operation for only five months of the fiscal year, are expected to yield $568 million, an increase of $244 million. The corporation income tax and the excess profits tax will, it is anticipated, yield $805 million in contrast with $321 million for the previous year. It will be recalled that some part of this increase was the result of introducing payment by monthly instalments and will be non-recurring.

Excise taxes, at $477 million, will show an over-all increase of $24 million despite conspicuous reductions in the yield of some individual taxes. The largest item in this group, the sales tax, at $230 million net, will show a decrease of $6 million from the previous year's yield.

Thanks to the substantial increases in rates imposed by the budget legislation of 1942, excise duties are expected to reach $142 million as compared with $110 million in the previous year. Customs duties, having reached their recent peak in 1941-42, are likely to decline to $118 million from $142 million for the previous year.

Non-tax revenues, of which the largest source is the Post Office, are expected to reach $114 million. Special receipts and credits will be about $59 million, the largest contribution being the $25 million operating surplus of the Canadian National Railways.

EXPENDITURES

On the other side of the account, we estimate that total ordinary expenditure for 1942-43 will be approximately $566 million, or $121 million above that of the previous year. Toward this increase, interest on the public debt contributed $30 million; compensation to the provinces in respect of income, corporation and gasoline taxes, $74 million; the Unemployment Insurance Act, $7 million; and the Post Office, $4 million. Miscellaneous increases account for the remaining $6 million. Capital expenditures, at $3,862,000, will be slightly higher than those of the previous year. So-called special expenditures are likely to be about $31 million, less than half the expenditures under this category in 1941-42. The western grain crop was such that it was not necessary to make payments under the Prairie Farm Assistance Act; wheat acreage reduction payments were somewhat less than in the previous year; and the reserve set up to meet deficits arising out of the operations of the Canadian Wheat Board in respect of the 1939 and 1940 crops has proved to be more than ample, resulting in a credit adjustment of $6,600,000.

Government-owned enterprises, specifically, the Prince Edward Island Car Ferry and the National Harbours Board, will require about the same expenditures as in the previous year, $1,263,000.

In the budget speech of June 23, 1942, I intimated to the house that, although the War Appropriation Act and the United Kingdom Financing Act made provision for expenditures of $3,000 million, the actual war expenditures were likely to be considerably in excess of that figure. It now appears that they will reach $3,803 million, including an item of $200 million for the purchase of the British interest in Canadian war plants.

Miscellaneous other charges of $66 million involve mostly items of a bookkeeping nature, including the addition of another $25 million to our reserve to meet possible losses on realization of active assets, and the charging of $36 million to a non-active account (the Canadian National Railways Securities Trust Stock) as the contra-item to the taking into revenues of the operating surplus and certain capital gains of the Canadian National Railways.

Including all these categories of expenditure, the aggregate expenditures for 1942-43 as now estimated will be $4,470 million, as compared with an estimate of $3,900 million given at the time of the last budget. Deducting total revenues for the year of $2,209 million after excluding refundable taxes, we arrive at a probable over-all deficit or increase in direct net debt of approximately $2,261 million. The proportion of expenditures paid out of revenue, namely 49·4 per cent will thus fall slightly short of the estimate of 52 per cent which I gave last year.

BORROWING

Total borrowings during the year (exclusive of some $33 million of school lands debentures reissued to the western provinces) are estimated at $2,423 million. Of this, $1,070 million, including $77 million from the sale of war savings certificates and stamps and $1,825,000 from non-interest bearing certificates, will have been borrowed from the public. An amount of $90 million was borrowed in New York for refunding purposes. Borrowings from the Bank of Canada amounted to $443 million, including the renewal of a loan of $250 million. By the end of the year, it is estimated, $790 million net will have been borrowed from the chartered banks. During the current year, in order to obtain funds needed in the intervals between public loans, we introduced the practice of borrowing directly from the chartered banks on deposit certificates, a six month security bearing interest at $\frac{3}{4}$ of 1 per cent per annum. The amount outstanding at the end of the fiscal year will be substantially reduced when the next victory loan is issued.

Direct obligations of approximately $429 million (excluding school lands debentures) were redeemed during 1942-43, leaving net borrowings for the year of $1,994 million to which must be added an estimated $100 million of refundable taxes. This amount of $2,094 million, together with a decline of approximately $642 million in cash and other current assets and the amount of various advances repaid was used to meet the over-all deficit of $2,261 million and to make loans and investments of $517 million net, after allowing for amounts repaid on various outstanding advances. The largest of the new investments were the loan of $700 million to the United Kingdom under the War Appropriation (United Kingdom Financing) Act and an advance of $131 million to the Canadian National Railways, chiefly for the redemption of railway securities.

It is estimated that on March 31, 1943, the outstanding unmatured funded debt (including treasury bills) will amount to $7,861 million on which the annual charges will be $205 million or 2.6 per cent as compared with 2.9 per cent a year previously. In addition, there will be outstanding obligations guaranteed by the government of Canada to the amount of $716 million, a decrease of about $102 million during the year.

Perhaps this is a convenient point at which to remind the house that the financial work of the government has not been completed when the budget has been discussed and legislation passed. In carrying out the approved policy, we depend on two extensive, competent, and hard-worked organizations. It is the task of the Department of National Revenue to collect the taxes enacted by parliament. The department is represented by its own Minister in the house and it is not for me to say more than that the financial programme of the war has, to a degree not generally appreciated, laid heavy and exacting duties on the very loyal and able officials of that department.

NATIONAL WAR FINANCE COMMITTEE

The other side of the financial programme, borrowing from the public, is carried on through the National War Finance Committee which was established by the government in January, 1942, under the able chairmanship of Mr. George W. Spinney. Formation of this committee marked the creation of the first single nation-wide organization, responsible to the government, charged with the dual task of planning, organizing and administering arrangements for the maximum public sales of government securities, and of promoting maximum voluntary savings by all classes of Canadian individuals and corporations.

In effect, the committee represented a merger between the war savings committee,—which had been operating continuously since May 1940,—and the Victory Loan Committee —which had been set up as a temporary organization to arrange and conduct the first victory loan campaign in June, 1941.

Since its creation, the National War Finance Committee has welded together the previously existing war savings and victory loan organizations. At the present time, the permanent paid staff of the committee, located in Ottawa and throughout Canada, numbers only about 275 persons. This staff operates in conjunction with three main bodies of workers.

First, there are the voluntary workers attached to the local units in each province. These patriotic men and women are drawn from every group in the community. While, individually, most of these people are on a part time basis, collectively they form the largest group of workers associated with committee activities, both during and between large scale drive operations. This form of service on the home front is of vital importance, and I hope it will be possible to enlist the aid of more and more persons in this phase of our war programme. I should be most remiss if I did not take this opportunity of acknowledging the valuable work being done by these voluntary workers, and to express to them the thanks of the government and their fellow-Canadians.

The next body of workers are the salesmen on commission, and other temporary paid workers employed by the committee at the time of victory loan campaigns. These salesmen do much of the hard work of selling victory loan bonds, in small amounts, to individual investors, by house to house canvass in urban and rural areas. The salesmen who receive commission generally give up their regular jobs during the period of the loan. The money they receive as commission replaces the money they otherwise would make at their regular work, although, in many cases, the amount they receive as commission is less than their regular income. I should perhaps add that commissions are paid only on relatively small individual subscriptions, where the canvassing work is comparatively difficult. Commissions are not paid on orders from larger investors, such as business firms and corporations, nor on bonds sold to employees in medium and large size business organizations.

The third group of workers associated with the National War Finance Committee are the investment dealers and brokers, and persons from the regular staff employed by dealers and brokers. This body of professional workers is closely associated with committee operations at all times. Maximum participation is reached in the period of organization preceding victory loan drives, and during the period of public offering of the loans. In general, investment dealers and brokers do the organizational work, and, during loan campaigns, carry out the canvass of large corporate and individual investors. Investment dealers and brokers are paid for their participation in committee activities, a reasonable remuneration based on the number and nature of the staff made available and the previous record of the firm in the distribution of dominion government securities.

I have made these explanations in regard to payments to salesmen on commission, and to investment dealers and brokers, because of some public misunderstandings on these subjects. It is to me and to those familiar with money-raising campaigns a rather remarkable fact that the over-all cost of these intensive and extensive victory loan campaigns, including the cost of engraving the bonds and of all publicity activities, can be kept as low as 1 per cent of the amount of money raised.

At the time of the third victory loan, in October-November 1942, temporary paid staff, including salesmen on commission, numbered about 15,500, and voluntary workers, many additional thousands. For organizational purposes, Canada is divided into local unit areas, each of which is under a local voluntary war finance committee. These local unit committees in each province are under the control and direction of the National War Finance Committee for that province. The operations of the provincial organizations are coordinated by the central committee for the dominion which has its headquarters in Ottawa.

WORDS OF WARNING

Our financial programme for the year has been carried out with a high degree of success. To finance expenditures of nearly $4,500 million is in itself an achievement of which we have no reason to be ashamed. It is the financial counterpart of still more notable achievements of organization and production. But I would like to add some frank words of warning on four points:

My first point is this: On occasion, comparisons have been made of our taxes with the taxes of other countries to show that Canadians are contributing a higher proportion of their incomes in taxes than the citizens of other countries. The financial burden of the war on this country is not measured by the amount of taxes levied. It is measured by the amount of expenditures which are financed. Borrowing does not lessen the cost of the war to this generation. The taxation and borrowing policy merely decides how the burden shall be distributed among the people of the country. The only ways in which we can postpone some of the costs of the war are by borrowing abroad, (if by so doing we can obtain additional supplies of goods abroad) and by using up the physical equipment and inventories of the country and leaving the post-war population to repair the wastage. To some degree, we are relieving the present by the second of these ways. The first is not only undesirable but also would provide only slight relief because of the virtual impossibility of getting additional supplies from abroad. Since the main cost has to be carried during the war, it is the policy of this government to distribute that burden as far as practicable according to the incomes which people enjoy during the war, that is to say, by taxes levied according to ability to pay. The equity of that policy cannot, I think, be challenged successfully.

Secondly, it has been suggested that Canadians are being asked to contribute too much in proportion to our national income. I shall not attempt to elucidate to the house the intricacies of national income estimates. My knowledge extends just far enough to warn me that the most accomplished statisticians find it extremely difficult to make valid comparisons between countries and that, when they have made them, the layman is almost certain to misconstrue them. But there is a much simpler comparison which is more convincing. After we have met our war requirements, what is left for consumption by the civilian population? Is it higher than the pre-war standard of consumption or is it lower? Do we work longer hours or apply ourselves more intensively than other nations? The evidence of both statistics and common observation is pretty clear that all we have experienced so far on the average is some moderate decline from the peak of war-time consumption, and some increase in the inconveniences of shopping and travelling. Let no one so misinterpret statistics as to assert that these approach the economic sacrifices of countries nearer to the theatres of war than Canada.

GROUP DIFFERENCES

In the third place, we have now passed the point where we can in a short time increase our total output by any large amount. What one group may gain by pressing its advantages of the moment, other groups lose. The conflicts thus started will paralyse our striking power just at the time when it must be at its height. What, broadly speaking, have been the changes in incomes during the war? Corporations and other businesses have experienced large increases in profits which have been reduced by taxation and compulsory saving to a level not higher than 70 per cent of the pre-war standard profits. This is the most severe and rigid ceiling in force in this country. Personal incomes of the middle and higher income groups have borne the brunt of war-time taxation to the point where very definite reductions in customary standards of living have been forced. Receipts from the sale of farm products are reported to have reached a higher level in 1942 than in any year in the past two decades. Receipts from the sale of farm products are not equivalent to farm income. Farm costs have also risen but there is every evidence that farm incomes are at more remunerative levels than in any but the record years. Average weekly earnings of employed persons are at higher levels than they have been since the inflation boom following the war of 1914-18. Thus there has been a far-reaching and important change in the distribution of income in the country. On the whole, the directions of the change have been desirable and the government has welcomed and facilitated it. The increases, by and large, have gone to those who needed them most. But we have reached the point when the demands of some labour representatives and of some farm representatives cannot both be satisfied. Ability to resolve group differences is the decisive test of democracy. Nothing will frustrate our striking force so much as internecine strife over economic and financial advantage. Nothing would so belittle us in the eyes of those other Canadians who offer as a contribution to victory neither economic nor financial sacrifice but life itself.

NATURE OF BORROWING

Finally, on the year's financial results themselves. The plain fact is that this year we have had to depend too much on bank borrowing. I was able to say last year that "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." During the current fiscal year, we shall have borrowed direct from the Bank of Canada and the chartered banks a net amount of $983 million. That is not all dangerous borrowing for the public has desired to hold considerable savings in cash. But most of it is borrowing which I would rather not have done. If the government borrows from individuals, the government spends the money and the individual does not. If the government borrows from the banks the government spends the money, but the spending of others is not reduced. We borrowed from the banks because we were unable to borrow as much as we needed from personal savings.

I tabled recently in the house a statement showing the sources of subscriptions to the three victory loans. They were divided between individuals and non-individuals. Non-individuals included broadly corporation investors. Individuals included individual persons, small non-profit enterprises and some small businesses. While the total subscribed by individuals increased with each loan, the proportion to the total fell off somewhat in the third victory loan.

I estimate that sales of war savings certificates and stamps will approximate $77 million, although I should add that redemptions have been heavier than they should have been. This compares with $85 million sold in 1941-42. Non-interest bearing certificates, which were made available to meet a special demand, showed a net decline during the year, redemptions exceeding new sales.

These are sobering facts because to the degree that the government has had to borrow from the banks rather than directly from personal savings, to the degree that the spending power of the government has been increased and the spending power of the public has not been reduced by an equal amount, we have contributed to the pressure on prices and on supplies of necessary products. The evidence is clear that we, as a people, must bend our efforts with renewed and persistent strength to the task of increasing savings and placing them in the service of the nation.

II

BUDGET FORECAST 1943-44 AND PROPOSALS

I have reviewed the financial events and operations of the year which is drawing to an end. I turn now to the year ahead and the measures which we propose.

The estimates for the coming year are already before the house. For non-war expenditures $610 million is required. The war estimates stand at $3,890 million as compared with estimated expenditures of $2,803 million under the war appropriation in the current year. The amount to be included in the Mutual Aid bill is $1,000 million, the same as was provided in the current year under the War Appropriation (United Kingdom Financing) Act. The estimated expenditures thus reach the great total of $5,500 million, an amount which is the dollar measure of our financial task for the year and of the national achievement in organizing for war.

To meet these requirements, it is estimated that, under the present tax laws total ordinary revenues for the fiscal year 1943-44 will be $2,561 million or after allowing $210 million for refundable taxes $2,351 million in net ordinary revenue. I shall place on *Hansard* a statement showing the details of the estimate and comparing it with the expected yields for 1942-43.

	1943-44 (millions)	1942-43 (millions)
Customs duties	$ 100	$ 118
Excise duties	130	142
Sales tax	225	230
War exchange tax	85	94
Other excise taxes	165	153
Income taxes—		
Personal	825	460
National defence tax	—	81
Corporate	300	350
Interest and dividends	26	27
Excess profits tax	550	455
Succession duties	18	14
Miscellaneous	7	12
	2,431	2,136
Non-tax revenue	130	114
Total ordinary revenue	2,561	2,250
Special receipts	40	59
Total revenue	2,601	2,309
Less refundable taxes	210	100
Net total revenue	2,391	2,209

The table shows that, assuming no tax changes, we anticipate declines in revenue from customs duties, excise duties, sales tax and the war exchange tax. On all these items, shortage of goods and difficulties of transportation will affect revenues adversely. Excise taxes other than the sales tax are expected to yield slightly larger revenues when the higher rates and new taxes enacted at the last session apply to a full year.

It is anticipated that the yield of the personal income tax will be $284 million higher because the higher rates of tax collection will be in effect for the full year and because of increasing incomes. The yield of the corporation income tax will probably decline, somewhat as in the current fiscal year we moved forward the time of payment and consequently received somewhat more than one year's taxes. The yield of the excess profits tax is expected to be substantially higher, both because the higher rates enacted last year will be in effect for a full year and because profits before tax are apparently continuing to rise.

Expenditures of $5,500 million and gross revenues of $2,601 million will leave a deficit of $2,899 million to be met by new taxes and by borrowing other than by refundable taxes. The comparable estimated deficit for the current year is $2,162 million.

SALIENT ECONOMIC FACTS

The objects to be achieved by our financial programme for the coming year are clear enough. I have set out the decisive facts with which that programme must grapple. What are the salient economic facts? First of all, we have reached a state of full employment, aside from local situations. Supplies that will be available to meet consumer demands in the coming year not only cannot be expanded but must be decreased. Imports will be harder to get and more expensive when we get them. Costs are pressing upward against the price ceiling, causing many producers to find it difficult to work beneath those ceilings. Demands continue to be made for increased wages, and labour costs have a tendency to rise despite all efforts to stabilize them. The purchasing power in the hands of the public is already excessive in relation to what there is available to buy and appears likely to grow more excessive. In short, we find that the forces making for inflation are present on a large scale. The pressure is held in check only by the rigour of our existing taxation, by the willingness of Canadians to save on an unprecedented scale, and by our price control and wage control.

These are the economic facts. The cardinal financial fact is that the proposed expenditures are a billion dollars in excess of those of the current year. Our expenditures will, apparently, amount to more than one-half our gross national production. Revenues, on the other hand, without new taxes, will amount, it is true, to substantially more than ever before in our history, but they will still fall far short of our expenditures, leaving a deficit in the absence of tax changes of $2,899 million.

ADDITIONAL TAXES OR SAVINGS?

How much of this deficit should we seek to cover by new taxation or higher rates? How much from increased personal savings lent to the nation?

There are important considerations to be taken into account. Already our tax rates are heavy. They are heavy in absolute terms. They are heavy even by comparison with other countries at war to-day. They are very heavy by comparison with all our pre-war standards except in the case of the sales tax and customs duties, where we have deliberately avoided increases. Moreover, there is an automatic increase in the income tax deductions at the source which must occur under present legislation as soon as we change from deductions in respect of 1942 incomes to those in respect of 1943 incomes. This arises from the credit given in the 1942 rates of deduction for national defence tax payments in the first eight months of that year. Consequently, our day to day rates of tax deductions will increase without adding anything to our tax legislation. Already, taxation has forced some groups to readjust radically their whole scale of living. The new scale of deductions will require changes in the position of others.

There are upper limits to what can be equitably obtained by an income tax, as I have endeavoured to explain a number of times in the past. A man's income and the number of his dependents are not alone a perfect measure of ability to pay. Many other circumstances enter into a complete assessment of his position. The higher we force our taxation, the more necessary it is that we take these other circumstances into account. It was for this reason that last year, when tax rates were raised steeply, we provided allowances for medical expenses and certain savings commitments. The extent to which we can make special provision for additional varying circumstances of this sort, however, is strictly limited. We cannot make our tax so complicated that the ordinary man cannot understand it. It must be simple if it to be clear to the vast majority who are subject to it. Furthermore, every additional complication, every additional allowance that we make, increases the difficulty of administration and the risk of arbitrariness in administration. Already, we have thrust huge burdens on officials of the income tax division. Faced as they are with the difficulty of obtaining experienced and trained personnel, it is remarkable that they have been able to carry through all the radical changes we have already thrust upon them. To ask them to assume administratively hopeless tasks would be to risk a breakdown in our whole income tax system. Consequently, there are now very serious barriers both in equity and in administration to substantial increase in the income tax at this time.

PURCHASE TAX CONSIDERED

There are serious arguments to-day in favour of a very substantial purchase tax on all but the most essential goods and services. Such a tax would mop up a considerable amount of excess purchasing power, and would assist in securing the orderly distribution of scarce supplies. It would make those who will spend on non-essentials pay dearly for the privilege. Such expenditure in itself is evidence of ability to pay. However, there are several serious objections to such a plan. In the first place, there are not going to be enough really non-essential goods and services to provide much revenue unless either we apply such a tax also to what are fairly essential goods, or put a tax on at exceedingly high rates. Probably, we would have to do both if we were to get enough revenue to meet any large proportion of our prospective deficit. I do not feel prepared to do this. I don't believe there are many goods to-day which should in effect be reserved for those with the longest purses. That would be the result of putting very heavy taxes on such articles.

GENERAL POLICY

The financial programme for the coming year will be the government's programme only in the sense that the government has the responsibility of recommending it. In fact, it must be achieved by the willing and combined efforts of all the people of this country. In view of this fact and balancing the considerations I have outlined, I have reached the decision that the proper measures for achieving the financial results which must be achieved are: some improvements and alterations in the personal income tax to make more effective changes which were made last year, a plan for bringing our income tax collections up to date and, at the same time, increasing the current revenue, a number of increases in commodity taxes, and a renewed and extended programme for increasing personal savings. I shall also have a number of less important changes and modifications to propose.

PAY-AS-WE-EARN BASIS

The first and most important measure I wish to propose is that foreshadowed in the speech from the throne—the placing of our personal income tax on a pay-as-we-earn basis. In this way we will complete the transformation in our income tax begun with the enactment of the national defence tax in 1941 and carried last year to an advanced stage both in collecting a graduated tax at the source and in collecting as early as possible after the income is received on which the tax is assessed. I am proposing that beginning this year, 1943, the income tax currently collected at the source or paid in quarterly instalments, shall apply in respect of the tax to be assessed on the income of this current year, 1943. If parliament sees fit to put this proposal into effect, we shall then be on a fully current income tax basis. No one, speaking generally, will then be liable for large amounts of income tax on income he has earned in the past—except to the extent that adjustments in tentative tax deductions or payments must be made after the year's income is finally determined with accuracy.

The advantages of a system of current payment of tax such as I propose are now well known, so I need only remind the house of them. Under this plan, when a man's income falls off, his tax falls off with it; when his income rises, his tax rises with it. It enables us to avoid the lag in the payment of tax under our present system—a lag which now amounts to about eight months, substantially less than it was several years ago, but still a problem to those suffering or expecting to suffer a reduction in income. The difficulties in the present system are most serious in the case of those whose incomes cease or decline severely because they enter the armed forces, lose their jobs, retire, or die. Advocates of such a plan have made most people very much aware of the personal problems created in such situations by income tax debt. With taxes at present levels, such problems are now very difficult ones for any who have not made provision in advance for their taxes.

For example, a young married man who has earned $40 a week during 1942 who wished to join the air force at the beginning of this year had to face the necessity of paying income tax of $282 on his civilian income of last year out of his much lower service pay this year. Again, if a professional man earning, say, $5,000 a year, should die and leave behind a wife and two children, they would be liable for perhaps $831 of income taxes, whether or not there was any estate. The wage earner who loses his job would in many cases have anything up to several hundred dollars of income taxes to pay during the succeeding six months or year — taxes on income he had probably spent while he was earning it. Anyone who looks forward to early retirement on a pension considerably lower than his current earnings faces an almost insuperable barrier. We do not wish such persons either to exhaust what savings they have set aside or to be forced to break the law.

There are other substantial advantages of a pay-as-we-earn plan. It enables us to make more effective use of collection at the source from earnings and to avoid many refunds and adjustments that would otherwise be necessary. Secondly, it will make it possible in future to adjust our income tax rates and collections more promptly when changes in economic or other circumstances make such adjustments desirable. In this way it will make the income tax a better instrument of fiscal policy in helping to maintain full employment.

It is to overcome the various types of difficulty which I have described, and to obtain the other advantages of having our taxes on a sound current basis that the government is proposing now to complete the transformation of our income tax system to a full pay-as-we-earn plan.

METHOD OF PAYMENT

Under this new plan, all the deductions of tax made at the source during 1943 will apply in respect of the tax on 1943 incomes. Those who pay in quarterly instalments will pay such instalments in March, June, September and December of this year in respect of this year's income. These instalment payments will be based upon an estimated income and tax for this year, with safeguards to be provided against underestimates. In both

cases, the correct amount of income will be determined at the end of the year and a final return will be filed on or before March 31, 1944, together with any amount required to make up the difference between the total deductions or instalment payments and the actual tax. If the taxpayer finds he has had too much deducted or has paid too much, he will claim a refund on his tax return. In making tax deductions at the source from salaries and wages, we shall aim at collecting up to 95 per cent of the total tax liability, rather than 90 per cent as we did in the deduction tables for last year. This will cut down the amount to be paid at the end of the year in filing the return.

I wish to make it quite clear that the new plan will require us to bring into effect as soon as possible the higher rates of tax deductions which would have gone into effect next September. The reason for this is relatively simple and I want it to be understood. During 1942, we collected national defence tax for eight months. This counted towards the total tax on the income of 1942. The tax deductions that we put into effect last September, and which are in effect now, were, therefore, made high enough to collect only the remainder of 90 per cent of the tax for 1942, that is, 90 per cent of the total tax less the amount already paid as national defence tax. Now it is proposed to collect the 1943 tax on which we have paid nothing by means of national defence tax in the past. Consequently, our deductions must be somewhat higher even though the tax rates themselves have not been altered. Let me assure all taxpayers, however, that they will receive full credit against 1942 taxes for what they paid as national defence tax in 1942. It will be no longer reflected in lower deductions from pay, but it will be credited toward the 1942 tax—and in some cases there will be some left over to be refunded or carried as a credit against future taxes. The new rates of deduction will go into effect for the first payroll period commencing after March 31. These new deductions will also be slightly higher because we shall aim, as I have said, at collecting 95 rather than 90 per cent of the total tax by this method.

SPECIAL PROVISIONS FOR FARMERS

It will be difficult to put farmers on a pay-as-we-earn basis because it is so very hard for them to estimate their income in advance. We are proposing to give them as much latitude as possible by simply requiring them to pay two-thirds of their tax any time up to December 31—on the basis of a rough guess or calculation—and the balance when they file their final return in March of the following year. Higher agricultural incomes have now brought many farmers into the taxable income ranges, and I am glad to know that the Department of National Revenue is making special efforts to assist the farmer in reckoning his income and calculating his tax. After some careful consideration of the special problems faced by farmers in regard to income tax, I am proposing another special measure to assist them in overcoming the extreme variation in income to which they are frequently subject because of weather and other changes. Last year, the house approved a change in the income tax law enabling any business to carry forward a loss suffered in 1942 or any later year as a charge against profits in the following year. We propose now to enable a loss to be carried forward two years in the case of farmers—so that if a farmer suffered loss during 1942 he can charge that against the income from his farm during either 1943 or 1944.

ADJUSTMENT FOR 1942 TAX

In order to make the change to a complete pay-as-we-earn system of taxation on the income of 1943 and subsequent years, it is necessary to make some adjustments of the tax on 1942 income. If this is not done, we should have to pay a large part of the 1942 tax as well as the 1943 tax during this year 1943. If tax rates were substantially lower than they are, this overlapping would not be serious. With rates at their present high levels, we must avoid piling the unpaid portion of the 1942 tax liability on top of the current collections for 1943. This is the difficult problem of the transition to the pay-as-we-earn system. Nearly everyone has recognized the virtues of being on the pay-as-we-earn system. There has been far less agreement about the means of making the transition to this plan.

Fortunately we are in a better position to make this transition in respect of 1942 incomes in Canada than we would be in respect of any other year. We had already collected during 1942 eight months of national defence tax deductions from salaries and wages and four months of deductions on the new scale introduced last September. As a consequence, those whose 1942 income consisted of salaries and wages had already paid a substantial part of their total tax by the end of the year. This proportion varies from about 33 per cent in case of fairly high incomes up to more than 100 per cent in the case of some lower incomes. The proportion paid in any particular case depends on the income, the number of dependents, and whether or not the taxpayer had savings commitments to set against the refundable part of his tax. In general, the higher the income the smaller the proportion of tax collected by the end of 1942, and the less of the refundable part of the tax that is covered by outside savings commitments, the smaller the proportion of the total tax already collected.

It should be remembered in considering this matter that our deduction plan was only intended to collect up to 90 per cent of the full tax, leaving 10 per cent to be settled by the taxpayer himself at the end of the year, against which any allowances for charitable contributions, special medical expenses, etcetera, could be made. This was also intended to leave a margin of safety to prevent over-deduction for those whose earnings varied or changed during the year.

EXAMPLES OF PROPORTION PAID

Let me give the house a few examples to show where various types of persons stood at the end of 1942 in regard to the payment of their tax. A single person earning $30 a week through the year will have had $2.10 a week of national defence tax deducted for each of 35 weeks—and then $5.37 a week for the remaining 17 weeks, assuming that he was not able to offset the refundable portion of his tax against other specified savings commitments during 1942. Consequently, he had paid during 1942 a total of $164.79 against his total tax liability of $391.20. That is to say, he was 42 per cent paid up. A married man with two children earning $200 a month will have had 8 months national defence tax deduction of $6.66 deducted. In the last four months he will have had four monthly deductions of $24.87, if he is liable for the refundable portion of the tax. Consequently, he will have paid a total of $152.76 out of his total 1942 tax of $390.80, that is, 39 per cent. If this man had paid, say, life insurance premiums of more than $195.40 during 1942, his monthly tax deductions from September to December would have been $10.21, and consequently he would have paid a total for the year of $94.12. This would be 48 per cent of the tax for which he is liable on his 1942 income—bearing in mind that he is not required to pay the refundable portion. In the same way, it could be shown that a married man with two children and having a salary of $500 a month would have paid 38 per cent of his tax by the end of the year, assuming he had the savings portion of his tax covered by other savings commitments.

The case is somewhat different for those whose incomes are not made up very largely of wages and salaries. They are required to pay their tax in four quarterly instalments, based upon an estimate of their income for

1942. The first of these instalments was payable on or before October 15 and the second on or before January 15 of this year. Consequently, such persons had paid roughly half their taxes by the middle of January except to the extent that they underestimated their income and tax.

In summary then, it appears that most people had paid about half their tax or more by the beginning of this year; the remainder had paid between a third and a half of their tax, depending on circumstances.

In order to put the pay-as-we-earn plan into effect, we wish to have all tax deductions made during 1943 and all quarterly tax payments subsequent to that of January 15, 1943, apply in payment of 1943 taxes alone. We wish to avoid, so far as it is practicable, overlapping the payment of 1942 taxes with the current payment of 1943 taxes. Some overlapping for many people was to be expected in any case because we aimed at collecting only 90 per cent of the tax by deductions at the source, and the balance was to be paid at September 30—at the time deductions for 1943 taxes were to be taking place.

ADJUSTMENT PROPOSED

To put tax payments on a full pay-as-we-earn basis and avoid unreasonable overlapping of two years' taxes, the government has decided to propose that only one-half the full tax liability in respect of 1942 income shall now be payable. The tax liability will be reduced by one half in the case of earned incomes. For investment incomes half the 1942 liability will be deferred until the death of the taxpayer. Investment income of not more than $3,000 will be treated in the same way as earned income.

There is good reason to distinguish between earned income and investment income in making this adjustment to the pay-as-we-earn plan. The reasons for making the change arise almost entirely from the side of earned income. We wish to overcome the tax difficulties of those whose earnings cease or are reduced because they retire or die, or because they enter the armed forces or lose their jobs. In these circumstances there are much lower earnings or no earnings out of which to pay the tax due on past earnings. In the case of investment income there is almost always capital out of which such remaining taxes can be paid following the death of the taxpayer—or in other circumstances. Moreover most investment incomes are not so likely to decline rapidly or to cease, as are earned incomes. There is not such great need, therefore, to tax investment income on a current basis. Indeed the question of a change would never have arisen, I feel sure, if only investment income were concerned. It is not practical, however, to put one type of income on a current basis and not the other. Therefore we must make the shift in the collection of tax on investment income even though it is not required on its own merits. In doing so, however, we do not need to relieve the taxpayer, or his estate, of a tax which he or the estate is quite able to meet out of capital if not out of income. The course of action proposed is well in accord with the principle of taxing on the basis of ability to pay.

What we are proposing to do in respect of investment income is in effect to take the whole series of future tax payments to which it will be subject and bring them forward for earlier payment, including the unknown income tax that would be due on the death of the taxpayer, and to take the first such payment—50 per cent of the 1942 tax—and put it at the other end. Thus we substitute a definite and known liability at the time of death for an unknown and uncertain one. It is something which a man may, if he wishes, prepare for and even insure against. We are not adding to the burden on investment income—we are simply rearranging it. We are also withholding from investment income, which does not need it, the relief which we propose to give in the case of earned income and which takes effect at the time such income ceases or declines.

It is proposed to treat investment incomes up to $3,000 in the same way as earned income—forgiving 50 per cent of the tax instead of deferring it. This will enable us to avoid having to keep track over a long period of a large number of small accounts. It will afford a measure of relief in the future to those whose investment income really represents the fruits of earlier earnings or the protection against want which a man has provided for his dependents. It will also enable us to avoid what would otherwise be discrimination between those who have provided for their own old age by savings in the form of modest annuities and those whose employers have provided for them by pensions or superannuation payments which are included in earned incomes. Larger annuities are comparable with other forms of investment income, rather than with pensions, and will be left in the same position as at present except insofar as they benefit from the adjustment in respect of the first $3,000.

To illustrate the effects of the proposed means of dealing with the tax on 1942 incomes, I would like, with the permission of the house, to place on *Hansard* at this point two tables of figures, one showing the situation in respect of earned incomes of various amounts and the other showing that in respect of investment incomes. These the house and the public can examine at length.

TABLE SHOWING EFFECT OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON WAGES AND SALARIES

1942 Income†	Tax Liability on 1942 Income (Before adjustment)		Amount Deducted from Wages or Salary in 1942						Amount Remaining to be Paid i.e., 50% of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Person with no savings credits	Person with full savings credits
1. Single without dependents										
$	$	$	$	$	$	$	$	$	$	$
700	40	20	24	2	26	24	....	24	*6	*14
850	116	58	29	23	52	29	7	36	6	* 7
1,000	172	92	34	38	72	34	15	49	14	* 3
1,250	267	167	59	61	120	59	31	90	14	* 6
1,500	367	247	71	83	154	71	48	119	30	4
1,750	471	331	82	111	193	82	70	152	43	13
2,000	601	441	94	143	237	94	97	191	63	29
2,250	713	533	105	175	280	105	122	227	76	40
2,500	826	626	117	209	326	117	149	266	87	47
3,000	1,064	824	140	273	413	140	201	341	119	71
4,000	1,594	1,274	187	416	603	187	320	507	194	130
5,000	2,128	1,728	233	561	794	233	441	674	270	190
7,500	3,570	2,970	350	954	1,304	350	774	1,124	481	361
10,000	5,112	4,312	467	1,378	1,845	467	1,138	1,605	711	551
20,000	11,829	11,029	933	3,238	4,171	933	2,998	3,931	1,744	1,584
30,000	19,196	18,396	1,400	5,292	6,692	1,400	5,052	6,452	2,906	2,746
50,000	34,963	34,163	2,333	9,711	12,044	2,333	9,471	11,804	5,437	5,277

* Minus amounts will be allowed as credits or refunds.

† It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for the purpose of calculating deductions.

TABLE SHOWING EFFECT OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON WAGES AND SALARIES

1942 Income†	Tax Liability on 1942 Income (Before adjustment)		Amount Deducted from Wages or Salary in 1942						Amount Remaining to be Paid i.e., 50% of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Person with no savings credits	Person with full savings credits
2. Married persons without other dependents										
$	$	$	$	$	$	$	$	$	$	$
1,250	50	25	42	4	46	42	....	42	*21	*30
1,300	100	50	44	15	59	44	....	44	* 9	*19
1,500	217	109	50	46	96	50	15	65	13	*11
1,750	321	161	59	74	133	59	27	86	27	* 6
2,000	431	231	67	102	169	67	44	111	46	4
2,250	541	316	75	134	209	75	67	142	62	16
2,500	651	401	83	168	251	83	93	176	75	25
3,000	884	584	100	232	332	100	142	242	110	50
4,000	1,364	964	133	365	498	133	245	378	184	104
5,000	1,878	1,378	167	508	675	167	358	525	264	164
7,500	3,270	2,520	250	898	1,148	250	673	923	487	337
10,000	4,762	3,762	333	1,318	1,651	333	1,018	1,351	730	530
20,000	11,279	10,279	667	3,161	3,828	667	2,861	3,528	1,811	1,611
30,000	18,446	17,446	1,000	5,200	6,200	1,000	4,900	5,900	3,023	2,823
50,000	33,813	32,813	1,667	9,588	11,255	1,667	9,288	10,955	5,651	5,451

* Minus amounts will be allowed as credits or refunds.

It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for the purpose of calculating deductions.

TABLE SHOWING EFFECT OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON WAGES AND SALARIES.

1942 Income†	Tax Liability on 1942 Income (Before adjustment)		Amount Deducted from Wages or Salary in 1942						Amount Remaining to be Paid i.e., 50% of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	Nat. Defence tax Jan.–Aug.	Income tax Sept.-Dec.	Total (N.D.T. Income Tax)	Nat. Defence tax Jan.–Aug.	Income tax Sept.-Dec.	Total (N.D.T. Income Tax)	Person with no savings credits	Person with full savings credits
3. Married persons with two dependents										
$	$	$	$	$	$	$	$	$	$	$
1,250	32	16	15	5	20	15	....	15	* 4	* 7
1,300	35	18	17	5	22	17	....	17	* 4	* 8
1,400	42	21	20	6	26	20	....	20	* 5	*10
1,500	49	25	24	7	31	24	....	24	* 6	*11
1,750	105	53	32	20	52	32	5	37	1	*10
2,000	215	107	41	47	88	41	17	58	20	* 4
2,250	325	163	48	78	126	48	31	79	36	2
2,500	435	217	57	111	168	57	46	103	49	5
3,000	668	334	73	176	249	73	76	149	85	18
4.000	1,148	668	107	308	415	107	164	271	159	63
5,000	1,662	1,062	140	452	592	140	272	412	239	119
7,500	3,054	2,154	223	842	1,065	223	572	795	462	282
10,000	4,546	3,346	307	1,261	1,568	307	901	1,208	705	465
20,000	11,063	9,863	640	3,106	3,746	640	2,746	3,386	1,786	1,546
30,000	18,230	17,030	973	5,145	6,118	973	4,785	5,758	2,997	2,757
50,000	33,597	32,397	1,640	9,532	11,172	1,640	9,172	10,812	5,626	5,386

* Minus amounts will be allowed as credits or refunds.

† It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for the purpose of calculating deductions.

TABLE SHOWING EFFECTS OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON INVESTMENT INCOMES

1942 Income	Tax Liability on 1942 Income (Before adjustment)		Adjusted Liability on 1942 Income; Payable During 1942 and 1943*		Deferred Liability Due at Death of Taxpayer	
	Persons with no savings credits	Persons with full savings credits	Persons with no savings credits	Persons with full savings credits	Persons with no savings credits	Persons with full savings credits
Single Persons Without Dependents						
$	$	$	$	$	$	$
700	40	20	20	10		
850	116	58	58	29		
1,000	172	92	86	46		
1,250	267	167	134	84		
1,500	367	247	184	123		
1,750	481	341	240	170		
2,000	621	461	310	230		
2,250	743	563	372	282		
2,500	866	666	433	333		
3,000	1,124	884	562	442		
4,000	1,694	1,374	847	687	212	172
5,000	2,268	1,868	1,134	934	454	374
7,500	3,810	3,210	1,905	1,605	1,143	963
10,000	5,452	4,652	2,726	2,326	1,908	1,628
20,000	12,569	11,769	6,284	5,884	5,342	5,002
30,000	20,336	19,536	10,168	9,768	9,151	8,791
50,000	36,903	36,103	18,451	18,051	17,344	16,968
100,000	82,337	81,537	41,168	40,768	39,933	39,545
500,000	474,304	473,504	237,152	236,752	235,729	235,331
Married Persons With no Other Dependents						
$	$	$	$	$	$	$
1,250	50	25	25	12		
1,300	100	50	50	25		
1,500	217	109	109	54		
1,750	331	165	165	83		
2,000	451	251	225	125		
2,250	571	346	285	173		
2,500	691	441	345	220		
3,000	944	644	472	322		
4,000	1,464	1,064	732	532	183	133
5,000	2,018	1,518	1,009	759	404	304
7,500	3,510	2,760	1,755	1,380	1,053	828
10,000	5,102	4,102	2,551	2,051	1,786	1,436
20,000	12,019	11,019	6,009	5,509	5,108	4,683
30,000	19,586	18,586	9,793	9,293	8,814	8,364
50,000	35,753	34,753	17,876	17,376	16,804	16,334
100,000	80,187	79,187	40,093	39,593	38,891	38,406
500,000	464,154	463,154	232,077	231,577	230,685	230,188
Married Persons With Two Dependents						
	$	$	$	$	$	$
1,250	32	16	16	8		
1,300	35	18	18	9		
1,400	42	21	21	10		
1,500	49	24	24	12		
1,750	115	57	57	29		
2,000	235	117	117	59		
2,250	355	177	177	89		
2,500	475	237	237	119		
3,000	728	364	364	182		
4,000	1,248	768	624	384	156	96
5,000	1,802	1,202	901	601	360	240
7,500	3,294	2,394	1,647	1,197	988	718
10,000	4,886	3,686	2,443	1,843	1,710	1,290
20,000	11,803	10,603	5,901	5,301	5,016	4,506
30,000	19,370	18,170	9,685	9,085	8,716	8,176
50,000	35,537	34,337	17,768	17,168	16,702	16,138
100,000	79,971	78,771	39,985	39,385	38,786	38,204
500,000	463,938	462,738	231,969	231,369	230,577	229,981

* This amount is one-half the unadjusted total liability. The quarterly instalments paid in respect of this income in Oct. 1942 and Jan. 1943, together with deductions at the source, will presumably already have covered most of this liability. The residual, if any, must be paid during 1943.

EXAMPLES OF ADJUSTMENT

I will also give the house a few examples now to illustrate how the proposals work out. As a first example, let us recall the case I mentioned a few moments ago of the single man or woman earning $30 a week during 1942 and without credits to offset his refundable tax. Out of a total liability of $391.20, he had paid $164.79 by the end of the year. Cutting his liability in half leaves him with $30.81 still to pay. Of his reduced total liability of $195.60, $62.40 is to be refunded after the war and the balance, $133.20, is the net tax. If this man in question had been paying life insurance premiums or other types of contractual savings relieving him of the liability for refundable tax, he would only have about $5 left to pay when he files his return. Our second example was a married man with two children, earning $200 a month. He had paid, you will recall, $152.76 out of a total tax of $390.80, if he was liable for the refundable portion of the tax. Now that his liability is cut in two, he will only have $42.64 left to pay. If he had insurance premiums which looked after the refundable portion of his tax, he would only have $3.58 left to pay. Going higher up the scale, and assuming for these higher incomes that the refundable portion of the tax is covered by other savings commitments, we find that a married man with two children earning a salary of $5,000 had a total liability in respect of 1942 taxes of $1,062, of which $412 had been deducted at the source. When his liability is cut in half, this will leave him $119 of tax remaining to be paid. Similarly a $10,000 a year man will have paid $1,208 out of a total liability of $3,346, and when the liability is adjusted, he will have $465 to pay.

In the case of investment income we may reasonably assume, I think, that the two quarterly instalments together with deductions at the source have accounted for most of the 50 per cent liability that must be paid immediately. This is the end of the matter so far as investment incomes of less than $3,000 are concerned. For those of more than $3,000 we must take half of that proportion of the tax which corresponds to the proportion of income constituted by investment income in excess of $3,000. This amount is deferred and will be due at the death of the taxpayer. In the case of a $10,000 investment income the additional deferred payments will amount to $1,908; in the case of a $20,000 investment income they will be $5,342; for a $100,000 investment income they will be $39,933; and for those very few who enjoy investment incomes of more than this amount, they will be corresponding greater. The figures I have quoted as examples are those for a single person having no savings credits—in all other cases the amounts will be lower.

AMOUNTS REMAINING TO BE PAID

It will be observed that the amounts remaining to be paid this year in respect of 1942 tax liabilities are relatively small. For the majority of taxpayers they will be substantially less than the 10 per cent of the tax which it had been anticipated would be payable next September. In a great many cases, those with relatively small incomes will be entitled to a refund of some of the tax which has already been deducted at the source. The amount of these refunds will be very small in most cases, rarely exceeding $15, and I would hope that most of the taxpayers will see fit to leave these amounts as credits toward any amount owing on their 1943 tax at the end of the year. Those with incomes in the middle brackets, let us say from $2,000 to $5,000 per year, will find the amounts remaining to be paid relatively small if they have savings commitments that look after the refundable portion of their tax. If they must pay the refundable portion of their tax, the amount remaining will be somewhat more than the 10 per cent they were expecting to pay in September and consequently they will need to make an increased effort to provide this additional amount of forced saving, at the same time that they are paying their 1943 tax. In order to enable them to make these payments, it is proposed to require only one-third of the remaining outstanding amount to be paid at the time the return is filed, which will be June 30th, and the balance may be paid any time during the remaining six months of the year. For those with salaries in excess of $5,000 or $10,000 a year, the amounts remaining to be paid of the 1942 tax will in all cases, I believe, exceed the 10 per cent which it was expected would be due in September. I believe, however, that it is not unreasonable to leave this relatively slight extra burden on such persons at this time, bearing in mind that we are not making any increase in the rates of tax.

EFFECT ON REVENUE

The adoption of the pay-as-we-earn plan, together with the other changes associated with it, will increase our revenues in the next fiscal year and in subsequent years. It may seem strange at first sight that a rearrangement which involves cancelling some tax liabilities and making no increase in tax rates could somehow increase our tax revenues. The reason is that we replace the cancelled liabilities by bringing forward the taxes to be paid in all future years.

The effects of these changes upon revenue in the new fiscal year, 1943-44, will be an increase of about $115 million in our receipts from personal income taxes, of which roughly $15 million will be refundable after the war. Some of this increase will arise from the fact that the higher scale of deductions from earnings will go into effect in April instead of September. Another part will result from the fact that 1943 incomes will be higher than those in 1942. There will be some increase due to the payment of the remaining liability in respect of 1942 incomes in the same year that 1943 taxes are paid. I should add that several minor adjustments in income tax which I will mention shortly will mean the loss of some revenue, perhaps $10 million in all, and, consequently, the net increase in our income tax revenue in this new fiscal year is estimated at about $105 million in all, of which $15 million will be refundable.

ANOMALY REMOVED

The next proposal which I wish to mention is designed to clear up an anomaly which is certain to be vexatious to those affected and might lead to further undesirable results. It may be recalled that there is a provision in the law that the tax shall not reduce the income of a single person below $660 per year, nor that of a married person below $1,200 per year. The effect is that the tax, for example, on $1,200 of income for a married person is nothing, while that on $1,300 is $100, of which $50 will be refunded after the war. Thus there are ranges both above the $660 exemption and the $1,200 exemption over which in effect the tax, including the refundable portion absorbs every extra dollar added to income. This range extends from $660 per year to $733 per year in the case of single persons and from $1,200 per year to $1,362 per year in the case of married persons with no dependents. This high rate of tax on additional earnings over these ranges has not been effective this year in the deductions made from wages and salaries because at these levels of income the adjustments arising from the national defence tax have been substantial. Hence, it has not, up to date, so far as I know, been the cause of much difficulty or complaint nor has it been noted by many persons. However, the new table of deductions which must be put into effect in April would reflect fully this anomaly and the removal of incentive in these income ranges might have substantial and undesirable results. In order to maintain incentives at a time when it is desired to ensure so far as possible that everyone will stay at work and put his whole effort into work, I am proposing that we change this border-line provision. The new formula I am suggesting is that the tax in the ranges affected shall not be greater than two-thirds of the amount by which the income exceeds $660 in the case of single persons and $1,200 in the case of married persons. Under this arrangement, any additional dollar of income in this border-line range will go one-third in cash to the recipient, one-third in tax and one-third in refundable tax. This makes the incentive much greater than it is under the present formula, particularly for those who mistakenly attach little importance to the refund feature. This mistaken attitude may be based on the fact that they have not as yet received any form of security representing the taxes refundable to them. However, I have repeatedly stated and now wish to reiterate that within a reasonable time after the tax liability for 1942 is established and discharged, the taxpayer will receive a receipt or certificate covering the refundable portion of the tax which will be just as binding an obligation of the dominion as a victory bond or a war savings certificate. I would like to take this opportunity to emphasize that the refunding of this tax to those entitled to it is one of the most certain acts of any post-war government that I can imagine. Not only does the whole credit of the dominion stand behind this undertaking to repay but it would be political suicide for any government, however radical or however reactionary, to default on an obligation due to the mass of the wage-earners of the country.

ADDITIONAL SAVINGS CREDITS

I have two minor additions to propose to the list of those savings commitments which are recognized as alternative to the payment of the refundable portion of the tax. The first addition is principal payments on a mortgage on the home of the taxpayer when the property is held in the name of the wife or husband of the taxpayer. Last year, we discussed this situation and I was not prepared to include such payments as I believed that such arrangements of family property were artificial and were very frequently intended to relieve the head of the household of financial responsibilities which he should be prepared to carry in his own name. Since then, I have had my attention drawn to a great many types of cases where there were other good reasons for having the property in the name of the wife of the taxpayer and I do not now believe that there is any serious objection to recognizing such arrangements. It has also been found that quite a number of people have transferred property or transferred the mortgage from the wife's name to the taxpayer's name in order to bring them within the law. These transfers are relatively expensive in many cases and in the province of Quebec they are not possible. Since no important purpose is served by encouraging such transfers during the years in which our refundable tax is in effect and since it is inequitable to have a tax which can be escaped in one part of the country but not in another I am suggesting that we now recognize these principal payments on a mortgage when title to the property is held in the name of the consort of the taxpayer as well as when title is in the name of the taxpayer himself.

The second addition to the list of recognized savings commitments concerns Dominion annuities. Last year, there was considerable discussion as to whether or not Dominion annuities should be included. I did not believe they should be included because they did not fall within the general definition of those types of contractual savings which we wished to recognize. The principle on which we were working was that we should include only savings contracts which could not be altered without substantial loss or forfeiture to the taxpayer. In the case of Dominion annuities, the payments can be postponed at relatively small cost, since all that is involved is the difference in interest rates on the annuity and on the refundable portion of the tax. During the past eight months in which the law has been in effect, I have found that a great many of those having annuity payments to make have found it exceedingly difficult to understand this important principle on which we have been operating. However there is a degree of loss or forfeiture which becomes important for those whose annuities are about to mature. In view of this, and the difficulty of making the principle clear to the large number of small annuity holders I am recommending that contractual annual payments for the purchase of Dominion government annuities shall not be excluded from the list of recognized offsets against the refundable portion of the tax.

MINOR CHANGES

I have a number of relatively minor amendments to the income tax which I shall mention only briefly. One such amendment is intended to clarify the position of Canadian employees of Canadian companies who are temporarily engaged abroad on war work. There is some doubt as to the residential status of these employees, particularly single men, under the act as at present drawn up and it is intended to make it clear that they are taxable. There will be other changes in the wording of several sections of the act which will be made clear in the bill and which are intended to strengthen the law against possible evasion. Another provision will extend the time allowed to corporations in filing their income tax return from four months to six months after the close of their fiscal year. They are now allowed six months to pay their tax and in view of the shortage of accountants at present, it is considered desirable to permit an additional two months for the complicated work of making up the tax returns of corporations. I shall have several other minor changes to propose in regard to the making of returns and the penalties involved for those failing to make complete returns.

DEPRECIATION SAFEGUARDS

There is an important amendment to be made in regard to the provisions for special depreciation allowances granted for war purposes. It will be recalled that these special depreciation allowances have been permitted in the case of capital invested for essential war purposes either in cases approved by the War Contracts Depreciation Board or in those approved by the governor in council under the terms of the War Exchange Conservation Act. Where these special depreciation allowances have been granted it has been generally understood by all the parties concerned that the plant and equipment to be depreciated in this way will have very little market value at the close of the war. It is desirable to safeguard the crown in the occasional case which may arise where such property proves to have an unexpected market value after the war. It is therefore proposed that when immovable assets have been depreciated in this way and later sold for more than their depreciated value any excess of such sales value over the depreciated value shall be applied to reduce the special depreciation already taken in respect of such assets. As a further safeguard against fictitious sales or sales between related corporations, it is proposed that when assets which have been written down by means of either special or ordinary depreciation are sold by a company, for example, to another company in which the first has an interest, then the second or purchasing company will be restricted in depreciating such assets further. This is a complicated matter to try to put briefly in a budget speech, and I refer any person desiring further information to the resolution dealing with this measure which I shall table before resuming my seat.

ARMED FORCES

The members of the house will recall the difficult problems which have arisen in regard to the exemptions from taxation that have been granted to various classes of members of the armed services. Considerable study has been given to this question since the last session of parliament in the hope that a way could be found to remove the various anomalies which were still present even after the improvements which we effected last year. The problem created by the exemption from taxation of officers as well as men who are overseas while officers in Canada (except under certain circumstances) are taxable has proved to be such a fundamental difficulty that no simple solution is possible. We cannot overcome this distinction between officers at home and abroad unless we are prepared either to place a substantial tax on those abroad or relieve those at home from income taxes which they should bear just as well as civilians. I believe that the house will see objections to either of these courses. Consequently, I am not proposing that we change the tax status of officers overseas nor that of officers at home, except to the extent that I shall mention in a moment. I am proposing, however, that we shall recognize a middle group, constituted of those serving in the western hemisphere outside of Canada. Officers serving in this area will be liable to one-half the rate of tax in respect of their remuneration, excluding subsistence allowances. Heretofore they have been exempt, as they have been considered as serving abroad, but because of the way in which the war has developed I think it is reasonable to make a distinction between those who are in the United Kingdom or elsewhere across the ocean and those who are in Newfoundland, the West Indies, Labrador or Alaska.

Last year, it was provided that the tax payable by commissioned officers in the armed services, apart from the refundable portion of the tax, should not be greater than the excess of their pay over $1,600 in the case of single men, nor the excess of pay and allowances over $1,600 plus the similar allowances appropriate in the case of a warrant officer for married men. This provision was intended to overcome the anomalies created by the fact that commissioned officers were taxable, while senior non-commissioned officers were not, and the tax frequently had the result of reducing the net income of a senior man below that paid to his junior. This provision overcame most of the problem but it has been by no means perfect. It still leaves the compulsory savings portion of the tax effective in reducing an officer's retained cash income below that of a warrant officer in certain cases. Moreover it reduces substantially the difference between the net income of the junior commissioned officers and those immediately above them in rank, leaving no benefit to be gained or very little from promotions in this range. We have worked out now an improved method of making adjustments of this character which is free from the objections in the present measure. The new proposal involves a change in the form of the provision from a limitation on the tax to that of a credit against the tax. It is proposed as well that the line between taxable and non-taxable members of the forces will be drawn on a basis of income rather than on the basis of commissioned rank.

Under the new arrangement, those members of the forces receiving pay in excess of $1,600 a year will be liable for tax, whether commissioned officers or warrant officers, unless they are exempt because serving abroad, or because their duties are normally performed in aircraft or afloat. They will receive, however, a credit toward their tax equal to the tax payable on an income of $1,600 for single persons, or on $1,600 plus the appropriate dependents' allowance for those with dependents. This tax credit will be reduced, however, by the proportion which the excess of the service income of the officer above $1,600 (or above $1,600 plus allowances in the case of officers with dependents) bears to $1,600 (or $1,600 plus allowances). This will result in the tax credit being limited to those within the pay range of $1,600 to $3,200. Let me give an example to show how this works—taking the case of a single man for the sake of simplicity. A single lieutenant receives pay of $1,825. The tax paid by a single man on an income of $1,600 is approximately $407. For the lieutenant's case we must reduce this by the fraction formed by $1,825 less $1,600—that is, $225—over $1,600. That reduces the credit by 14 per cent, leaving an effective credit of $350. His tax before the application of this credit would be $522 but the credit will reduce it to $172, of which $86 will be savings. Under the present arrangement this lieutenant would pay a tax of $371, of which $146 is savings. It can be seen that this provision will chiefly benefit junior officers and officers with several dependents. It will bring into the taxable category a few warrant officers whose pay, including trades pay, exceeds $1,600. The proposal has the great advantage of providing a gradual application of the tax in such a way as not to disturb unreasonably the pay differential between various ranks.

The new arrangement for taxing at half rates those in the western hemisphere outside of Canada will help to remove some of the anomalous comparisons between persons serving in certain areas of Canada and paying tax and those serving across the boundary line or the Strait of Belle Isle and being exempt from tax. There is another anomaly which can be removed without exempting all administrative and training officers at home, or taxing officers abroad. This is the sudden reduction in income faced by an officer brought home from service abroad, which occurs because he thereby becomes liable to tax. It is proposed that such an officer returning to Canada after having served on the strength of a unit overseas shall be exempt from tax for a period of six months, or a period equal to the time he served overseas if that was less than six months. This will give returning officers an opportunity to adjust themselves to the new circumstances.

SEARCH FOR OIL

Included in the income tax proposals are a number intended to encourage the search for new sources of oil in Canada during the next two years. The government recognizes the urgent necessity under present emergency conditions of expanding our oil production and, if possible, of discovering new oil-producing areas in various parts of Canada. Success in the search for oil depends upon a combination of experience, skill and good judgment, as well as capital and good luck; it is essential therefore to bring into the search all we can of those with the necessary skill and experience. We desire to remove so far as possible any barriers which taxation may impose in the way of this search for oil. Several of the proposed measures can be put into effect by regulation but I wish to inform parliament and the public at once of our intention to apply them. We propose to revise the schedule under which pre-production expenses of any oil well may be written off against the income from it. The new schedule will be 40 per cent in the first year, 30 per cent in the second, 20 per cent in the third, and the remaining 10 per cent in the fourth. It will not be necessary to take all of these amounts in the years specified, and any amounts not used may be carried forward. In the case of wells commenced—"spudded in" I believe is the correct term—between January 1 of this year and March 31 of 1945, pre-production expenses may be written off as rapidly as the operator desires. The third change to be made by regulation is an increase from 15 per cent to 25 per cent in the depreciation rate to be applied to all depreciable assets used in oil production, including oil drilling equipment. Fourthly, it is proposed that a special wartime depletion allowance of 33⅓ per cent instead of the present 20 per cent be permitted in respect of royalty payments received by investors from wells spudded in in the period January 1, 1943, to March 31, 1945.

There are two other proposals to encourage oil production that will require legislation. It is proposed that companies formed for the purpose of exploration and drilling for oil will be allowed to accumulate exploration costs incurred during the period January 1, 1943, to March 31, 1945, and to write off such expenses against the income produced from any well which they may find. Secondly, it is proposed that all exploration costs, including geological and geophysical expenses incurred during the period from January 1, 1943, to March 31, 1945, and all off-property drilling expenses of dry wells which had been spudded in during this period shall be allowed as an expense or deduction against the current income of companies whose principal business is the production, refining or marketing of petroleum or its products. The tax saving so obtained will be limited to 40 per cent of the expenditures involved.

BASE METALS

In addition to oil, the government wishes to encourage the search for new base metal and strategic mineral deposits, which continue to be urgently required for war purposes. It is therefore proposed to renew the present provision of the law, enacted last year, regarding amounts invested by individuals in prospecting syndicates searching for base metals and strategic minerals. Instead of renewing the corresponding provision in respect of mining companies sending out their own parties, it is now proposed to allow companies engaged in the mining of metalliferous and strategic minerals to write off exploration and prospecting expenses incurred in prospecting anywhere in Canada for base metals or strategic minerals. In this case, as in the case of oil, the saving in tax will be limited to 40 per cent of the expenditure.

COMMODITY TAXES

As I have already indicated, the proposed changes in commodity taxes are not numerous and are such as are dictated not only by the need for revenue but also by the facts in respect of particular trades and revenues.

LIQUOR PROPOSALS

In order to make clear the proposals I have to make relating to imposts on liquor, it will first be necessary for me to give the house some background in regard to certain representations received from provincial governments in regard to their revenues from liquor sales. The dominion's liquor restriction programme was announced on December 16 last and provided, inter alia, for reductions of 30, 20 and 10 per cent in the quantity of spirits, wines and beer, respectively, available for sale during the twelve months beginning November 1, 1942, as compared with the quantity made available during the preceding twelve months. On December 17 I issued a statement expressing the hope that the new regulations would not financially embarrass the provinces, particularly as certain measures of adjustment were open to them. However, requests were received from certain provincial governments for a conference in order to discuss the effect of the restrictions on provincial revenues. This conference was held on January 28 and resulted in requests from representatives of most of the provincial governments that the dominion should make up to them any loss in revenue from liquor sales and also from motor vehicle licences which they might suffer in future as compared with their receipts from these sources in some base year. Varying base years were suggested by different provinces—the fiscal year 1941-42, the calendar year 1942, the year ending October 31, 1942, and the fiscal year 1942-43. The provinces were asked to submit their representations in writing and, while these submissions have not as yet been received from all provinces, we have given very careful consideration to such as have been received as well as to other pertinent data and are prepared to recommend a programme which we believe should accord with the equities of the situation as a whole and meet the reasonable needs of the provinces.

I am not so optimistic as to assume that it will fully satisfy all provincial governments, but we who are charged with responsibility for financing war expenditures of the colossal magnitude which I have described must never forget that there is but one tax-paying public in Canada, which pays taxes both to the dominion and to the provinces, and that, particularly under present conditions, there is an overriding obligation on all governments to avoid extracting from the pockets of the people any funds that are not absolutely necessary. What we propose, therefore, is (1) to levy an additional excise duty of $2 per proof gallon on spirits, with a corresponding increase in the duty on imported spirits to which I shall refer later, and (2) to guarantee to any province the revenues it received from all alcoholic beverages during the twelve months ending June 30, 1942, provided it is willing to increase the retail price of the spirits it sells by an amount at least sufficient to absorb our extra levy of $2 per proof gallon and an additional amount equivalent to $2 per proof gallon for the benefit of the province itself.

Let me explain the reasons for the main aspects of this proposal so that its full significance may be clear to the house. Obviously we believe that spirits can stand an additional levy of $4 per gallon; only 70 per cent of the quantity sold in the basic twelve months will be available for sale in any future 12-month period and that quantity will be sold almost as readily with the $4 increase as without. Indeed, the higher price should definitely ease the difficulties experienced by the provinces in rationing the smaller available supply. If all the available supply can be sold at the higher price and if the provinces thus have it in their power to offset their possible loss of revenue by a price adjustment, it would be unthinkable that this reasonable and appropriate solution of the problem should be overlooked and, instead, the dominion should be forced to accept an additional burden on behalf of the taxpayers of the country as a whole.

It will also be noted that the guarantee we propose to give will be based on provincial liquor revenues for the twelve months ending June 30, 1942. Had we not also been making a proposal, which I shall explain a little later on, to change the basis of levying customs duty on imported spirits, it might have been appropriate to consider applying a guarantee to revenues for the twelve months ending October 31 last. However, this other proposal, coupled with the reduction in the strength of spirits to not more than 30 underproof, will increase the revenues of the provinces in two ways, first, by reducing the amount of customs duty payable on imported spirits, and secondly, by increasing the number of bottles per proof gallon available for sale. We believe that the increased revenues obtainable in these two ways will be sufficient to compensate the provinces for having their liquor revenues guaranteed on the basis of the period ending on June 30, 1942, rather than the period ending on October 31, 1942.

As a result of this suggested programme, the provinces will be assured of a minimum revenue equal to, or nearly equal to, the highest annual revenue they have ever obtained from liquor sales, and, in addition, will have the possibility of enjoying an increase in that revenue as a result of higher retail prices and the savings in customs duties on imported spirits. I am hopeful that the guarantee should not cost the dominion anything and, if this proves to be the case, it will be as it should be, as I am sure the house and the country would wish it to be.

PROVINCIAL FINANCES

We gave very careful consideration to whether we should guarantee provincial revenues from motor vehicle licences. The provinces had requested this on the ground that such revenue was likely to fall off substantially because of dominion restrictions on gasoline and rubber tires and also because the new liquor control regulations were likely to cause a substantial falling off in their most expansible source of revenue. However, it is the war, and not the dominion government, which is responsible for the restrictions on gasoline and rubber, and the provinces cannot expect to be protected against every contingency to which the war may give rise. Furthermore, the programme I have suggested in regard to liquor should prevent a further falling off in liquor receipts and ensure the provinces very high continuing revenue from this source. Examination of the published accounts of the various provinces will show a very substantial increase in their ordinary revenues since the outbreak of war, which is of course due, directly or indirectly, to our own huge expenditures for war purposes. For the first time in many years, all provinces have been showing surpluses on ordinary account, some of them very substantial indeed, and others calculated after setting aside sizeable reserves of one kind or another. We are glad to see that the war has made it possible for the provinces to achieve a material strengthening in their financial positions. The war, however, has made the financial task of the Dominion infinitely more difficult. Because of that, because of the picture which I have had to present in this budget, I believe the house and the country will regard as fully justified the decision which we have reached to reject the provincial request for a guarantee of revenues from motor vehicle licences and to subject our proposed guarantee of provincial liquor revenues to the conditions which I have described.

TOBACCO

Increasingly large sums are being spent by the public on cigarettes and tobacco and I propose to increase the revenue derived from this source. It will be recommended that the tax on cigarettes under the Special War Revenue Act be increased by one cent for each five cigarettes or fraction of five, making the total tax under this act two cents for each five cigarettes in addition to the excise duty of $6 per thousand. This change should produce an increase of $22,000,000 in revenue. In conformity with this change, it is proposed to raise the excise taxes on cigarette papers and tubes from six to eight cents and from twelve to fourteen cents per hundred respectively. We hope to derive $2,000,000 extra revenue from this source.

Similarly, it is proposed to increase the tax under the Special War Revenue Act on manufactured tobacco from one to two cents per ounce. The excise duty of 35 cents a pound will remain unchanged. An excise tax on raw leaf tobacco of one-half cent per ounce is recommended to bring the total excise tax and duty to 28 cents a pound. The increases on raw and manufactured tobacco are expected to contribute $6,700,000 in additional revenue.

It is recommended that the tax on cigars under the Special War Revenue Act should be raised by $5 per thousand in the first price category and by appropriate increases in the higher price categories.

NIGHT CLUBS

The amount of expenditures by the public in night clubs and similar places of entertainment seems to me to warrant an increase in the tax on such expenditures and I shall recommend that the rate be raised from 20 per cent to 25 per cent. It will be recalled that the tax applies to the amount of every charge made to a patron of such place of entertainment and is paid in the first instance by the patron to the operator. An increase in revenue to the extent of $500,000 is anticipated to result from this change.

POSTAL RATES

Thus far in the war no change has been made in the postal rates. The need for revenue is now so great that a change can no longer be delayed. It is proposed to levy an additional tax, under the Special War Revenue Act, effective April 1, of one cent per ounce or fraction thereof on certain categories of mail, viz., on first-class office to office mail, (not including postcards, nor letters addressed to members of the armed forces overseas), and on so-called "drop" letters, i.e., letters collected by and distributed from the same office. The total rates will be four cents for out of town letters, and three cents for "drop" letters. The increased revenue expected from these changes is $8 million.

TRADE AND TARIFF POLICY

The customs tariff has fallen from the high position it has previously held as an instrument of fiscal and economic policy. Under the circumstances of war, the tariff has little effect except as a producer of revenue. The scope and direction of trade are now governed by the consideration of supply, transportation and enemy action and not by the tariff. Under these circumstances, changes in the customs tariff are of no effect in expanding or curtailing trade. I do not propose, therefore, to recommend changes in the tariff other than a few modifications chiefly for the purpose of amending tariff items which have become outdated.

There will again, however, be a time when the tariff will be an important instrument of trade policy and when this country will have to decide whether it will play its part with other countries which are prepared to help in freeing the world's trade, in enlarging markets, and in promoting the full and effective use of the world's resources.

The government has already, by an exchange of notes with the United States on November 30 last, undertaken to enter into conversations with that country, and with other countries, for the purpose of formulating programmes of agreed action directed to the expansion, after the war, of production, employment, and the exchange and consumption of goods, to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers.

Committed to these objects and having in mind particularly the vital concern of this country in access to the selling and buying markets of the world, the government is prepared to discuss with the government of the United States, the government of the United Kingdom, or the governments of other countries with which we trade, reciprocal trade arrangements wider in scope and longer in duration than have hitherto been made, provided always that the advantages of such arrangements shall be open to other countries willing to adhere to the same terms.

We believe that questions of post-war commercial policy must be tackled broadly and boldly; we believe that world trade must have a more liberal and dependable charter than it has had in the past two decades; and that countries, such as Canada, for which world trade is the very blood stream, should be prepared, not merely to accept desirable arrangements but to take the initiative in working out a plan mutually of benefit to ourselves and to other countries. We believe that countries, which have had long experience of friendly relations should associate themselves with that initiative and furnish to others examples of concrete accomplishment in the distribution of the world's products for the mutual welfare of all people.

TARIFF CHANGES

The most important of the tariff changes proposed relates to the customs duty on imported spirits. The additional duty on spirits is being increased from $5 per proof gallon to $7 per proof gallon in order to equalize the increase being made in the Excise Act making the total duty on imported spirits $12. For many years, it has been the practice to make no allowance below fifteen per cent in computing the quantity for duty purposes of imported spirits of a lesser strength than fifteen per cent under proof. Since it is not lawful now to sell spirits of greater strength than thirty per cent under proof, it is proposed that customs duty shall be collected on the actual strength of proof. The other changes proposed in the customs tariff provide for a number of tariff reductions and amend the wording of several items to facilitate administration. The duty free item covering nickel alloys is widened in scope. The other changes relate to certain articles for the manufacture, maintenance and repair of buoys and beacons, cigarette paper in sheets, bolting cloth, glue and fresh, frozen or dried peel.

This completes the tax changes which I am recommending and I shall, with the permission of the house, put on *Hansard* two tables, one showing the increases in revenue expected from the tax changes recommended, and the other the full revenue estimates for the coming fiscal year after giving effect to the changes in tax rates and time of payment.

Yields from Proposed Revenue Changes
Fiscal Year 1943-44

Increased yields from changes in existing taxation—	
Personal income tax	$ 105,000,000
Excise duties—	
Spirits	5,000,000
Excise taxes—	
Cigarettes	22,000,000
Cigars	2,000,000
Manufactured tobacco	6,500,000
Raw leaf tobacco	200,000
Cigarette papers and tubes	2,000,000
Night clubs and cabarets	500,000
	$ 33,200,000
Post Office	$ 8,000,000
Total	$ 151,200,000
Less refundable taxes	15,000,000
Net total	$ 136,200,000

Forecast of Total Revenue for Fiscal Year 1943-44

	Revenue from existing taxes $	Increase in revenue from budget proposals $	Total revenue $
Customs duties	100,000,000	....	100,000,000
Excise duties	130,000,000	5,000,000	135,000,000
Sales tax	225,000,000	....	225,000,000
War exchange tax	85,000,000	....	85,000,000
Other excise taxes	165,000,000	33,200,000	198,200,000
Income taxes:			
Personal	825,000,000	105,000,000	930,000,000
Corporation	300,000,000	....	300,000,000
Interest and dividends	26,000,000	....	26,000,000
Excess profits tax	550,000,000	....	550,000,000
Succession duties	18,000,000	....	18,000,000
Miscellaneous	7,000,000	....	7,000,000
Tax revenue	2,431,000,000	143,200,000	2,574,200,000
Non-tax revenue	130,000,000	8,000,000	138,000,000
Total	2,561,000,000	151,200,000	2,712,200,000
Special receipts	40,000,000	....	40,000,000
Total revenue	2,601,000,000	151,200,000	2,752,200,000
Less refundable taxes	210,000,000	15,000,000	225,000,000
Net total revenue	2,391,000,000	136,200,000	2,527,200,000

CONCLUSION

On the basis of these estimates of the yields of the increase in tax rates, the total revenue for 1943-44 (including the refundable portions of the personal income and excess profits taxes) should be approximately $2,752 million. With expenditures of $5,500 million, we will have a budgetary deficit of $2,748 million to be covered by borrowing as compared to the similarly estimated deficit in the current year of $2,161 million.

The programme which I recommend to the house and to the people of Canada is briefly and simply this, that each man and woman in this country should limit personal and business expenditures so that provision can be made of $5,500 million for the purposes of war and the ordinary conduct of government; that we should contribute $2,752 million through the taxes now in force and the additional rates which I have recommended and that we should lend an additional $2,748 million. As far as simple formal standards will permit and careful scrutiny by the house will ensure, the tax contributions will be adjusted to the ability of each receiver of income to pay. But beyond this, all of us, individually and as people united in a common purpose, must determine our own ability to lend out of savings in accordance with the common objective and so manage our spending that we can achieve our share of the great task that is ahead of us in 1943-44.

The carrying out, and to some degree the organization, of the borrowing programme is in the hands of the people themselves. It will be directed by the National War Finance Committee to whom I have four requests to make.

(1) to continue and expand the programme of increasing the public understanding of the critical need for greatly increased savings;

(2) to multiply the sale of war savings certificates and stamps;

(3) to organize and carry out in the next twelve months two victory loan campaigns directed particularly to the mobilization for war of the personal savings of the people on a vastly enlarged scale;

(4) to promote by every means the retention by purchasers to the end of the war of the bonds and certificates which they buy.

INCREASED SAVING NEEDED

Let me emphasize two points. The only way to accomplish this financial and economic programme is through increased personal savings, spending less and lending more. Some of the people's savings are mobilized and lent to the government through the insurance companies and other financial institutions. Businesses can contribute savings out of retained profits, unexpended depreciation and maintenance funds and unnecessary working capital. Large subscriptions to loans representing but a temporary shifting of assets will not do what must be done.

My second point is this: After the close of each victory loan campaign, many thousands of subscribers dispose of the bonds they bought during the campaign period. Further, many thousands of people are presenting their war savings certificates for redemption. I should like to make it clear that victory loan bonds and war savings certificates are the property of their individual owners who have the right to turn them into cash at any time they may desire. No restrictions on the sale of bonds or on the redemption of the certificates after six months are under consideration, and no restrictions have been under contemplation at any time in the past. When a person buys a victory bond or a war savings certificate, that person is making it possible for this country to get the men and material needed for war use, and is helping to fight the home-front battle against inflation. When people sell their bonds or present their certificates for redemption, they are withdrawing this help.

Emergency needs for cash are legitimate reasons for selling bonds or redeeming certificates, provided the person has no other forms of savings which can be used, or provided the person cannot obtain a temporary loan, to be repaid out of future income, to meet the immediate need for cash. Sales or redemptions to get dollars to buy things that are not essential have not legitimate reason. We must not only increase our voluntary savings and lend them to our country through the purchase of victory loan bonds and war savings certificates; we must also continue to hold these securities at least until after the war, unless we need money for real emergency use. I repeat what I said in the budget last year, "Let us compete with our neighbours, in saving, not spending."

The National War Finance Committee is performing a task of the first importance in our war programme. The responsibilities of each person in this organization are very great, and I have now made them greater.

Let no one be misled because I have considered it wise in the interest of the total objective to improve and simplify the collection of taxes rather than, to any great degree, to increase rates and add new complications. The need is so great that it must be understood clearly and each person must see clearly his own part in meeting that need.

A DIFFICULT PROGRAM

I shall not conceal from the house nor from the people that the programme which I have set out is a huge one and will be difficult of achievement. It is not a financial programme; it is only the financial aspect of our war programme. The basic facts are that industrial workers who are making shells and tanks and planes cannot at the same time make food, and clothing and shelter. Farmers cannot produce food for home consumption in the time spent on producing cheese and bacon for countries on shorter rations than we. Ships carrying ore to make aluminum to make planes, or oil and gasoline for air operations cannot carry sugar and gasoline for the rest of us.

The Canadian people can shoulder this task so that they can bring this year their war programme to its highest effectiveness and in addition assure to themselves and to the men returning from the fighting fronts resources for a more prosperous and ordered world after the war. I have confidence in the strength, the discipline and the united purpose of the people of Canada.

We do not know when victory will be achieved. No one knows. Anyone who professes knowledge is an irresponsible deceiver. And in my judgment those who are airily predicting victory in 1943 as if they did know are contributing to a premature relaxation of our war effort and in this way doing a great deal of harm. Most of those who believe that the war will be finished in 1943 and that we should be careful lest we put forth too great an effort are the same persons who thought it had finished and that we had lost in 1940.

We know two things and two things only. We know that we are in a position to strike hard, perhaps crushing blows in 1943 against those peoples who have made good their evil threat to bathe the world in blood. We know that the time to relax our efforts in a war with desperate and cunning adversaries is when they have given up their arms and surrendered unconditionally.

We do not need to tell these things to the men of the army undergoing ever more intensive battle training for the moment when they strike. We do not need to tell them to the men of the navy driving through biting wind and perilous sea to find the lurking submarine. We do not need to tell them to the airmen winging their way over Germany and Italy. We in this house and the people of this country need to tell them to ourselves.

Our soldiers, our sailors, our airmen will do their part. They are well trained; they are well equipped; they are well led; their courage and devotion are beyond praise. But what they achieve, they cannot achieve alone. It must be shared by the farmer at his work, the mechanic in the shop, the housewife in her home—in short, by every Canadian. Their achievements will be shared by each Canadian who, this year, and to the end of the war, carries out unswervingly, skilfully, relentlessly the watchwords of this budget: work and save.

RESOLUTIONS

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

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 nine dollars to eleven dollars per proof gallon, provided that duty paid spirits owned by any distiller at the close of business on the second day of March, one thousand nine hundred and forty-three 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 seven dollars to nine dollars per proof gallon, provided that duty paid Canadian brandy owned by any distiller at the close of business on the second day of March, one thousand nine hundred and forty-three, 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.

3. That any enactment founded upon the foregoing resolution shall come into force on the third day of March, one thousand nine hundred and forty-three.

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 excise tax on each letter transmitted by post be increased from one to two cents.

2. That the excise tax on cigarettes be increased from one cent to two cents for each five cigarettes or fraction of five cigarettes contained in any package of cigarettes manufactured in or imported into Canada.

3. That the excise tax on manufactured tobacco be increased from one to two cents per ounce actual weight or fraction thereof on manufactured tobacco of all descriptions, except cigars or cigarettes, manufactured in or imported into Canada.

4. That there shall be imposed, levied and collected an excise tax of one-half cent per ounce actual weight or fraction thereof on Canadian raw leaf tobacco when sold for consumption in Canada.

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

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

7. That the excise tax on the price of admission to certain places of entertainment be increased from twenty to twenty-five per cent.

8. That subsections (a), (b) (c), (d) and (e) of section 1 of schedule II to this Act be repealed and the following substituted therefor:

1. Cigars:—
   (a) valued at not more than forty dollars per thousand, per thousand, six dollars and twenty-five cents;
   (b) valued at more than forty dollars per thousand and not more than one hundred and ten dollars per thousand, per thousand, thirteen dollars and fifty cents;
   (c) valued at more than one hundred and ten dollars per thousand and not more than one hundred and fifty dollars per thousand, per thousand, twenty-five dollars;
   (d) valued at more than one hundred and fifty dollars per thousand and not more than two hundred dollars per thousand, per thousand, thirty-five dollars;
   (e) valued at more than two hundred dollars per thousand, per thousand, fifty-five dollars.

9. That any enactment founded on paragraph one of these resolutions shall come into force on the first day of April, one thousand nine hundred and forty-three.

10. That any enactment founded on paragraphs two to eight, inclusive, of these resolutions shall come into force on the third day of March, one thousand nine hundred and forty-three.

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 tariff items 105a, 156, 156a, 197c, 232, 355, 440i, 563, 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:

77580—4½

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates B.P. Tariff	Present Rates Intermediate Tariff	Present Rates General Tariff
105a	Lemon, orange, grapefruit and citron rinds, fresh, frozen, dried, sulphured or in brine...............	Free	Free	Free	Free 15 p.c.	Free 25 p.c.	Free 25 p.c.
156	Ethyl alcohol, or the substance commonly known as alcohol, hydrated oxide of ethyl or spirits of wine, n.o.p.; gin of all kinds, n.o.p.; rum; whisky and all spirituous or alcoholic liquors, n.o.p.; amyl alcohol or fusel oil, or any substance known as potato spirits or potato oil; methyl alcohol, wood alcohol, wood naphtha, pyroxylic spirit or any substance known as wood spirit or methylated spirits, absinthe, arrack or palm spirit, brandy, including artificial brandy and imitations of brandy, n.o.p.; cordials and liqueurs of all kinds, n.o.p.; mescal, pulque, rum shrub, schiedam and other schnapps; tafia, angostura and similar alcoholic bitters or beverages; and wines, n.o.p., containing more than forty per cent of proof spirit, per gallon of the strength of proof..	$5.00	$10.00	$10.00	$5.00	$10.00	$10.00
	Provided, (1) that when the goods specified in Item 156 are of greater or less strength than the strength of proof, the measurement thereof and the amount of duty payable thereon shall be increased or decreased in proportion for any greater or less strength than the strength of proof.						
	Provided, (2) that bottles and flasks and packages of gin, rum, whisky and brandy of all kinds, and imitations thereof, shall be held to contain the following quantities (subject to the provisions for addition or deduction in respect of the degree of strength) viz.:—						
	Bottles, flasks and packages, containing not more than three-fourths of a gallon per dozen, as three-fourths of a gallon per dozen......................						
	Bottles, flasks and packages, containing more than three-fourths of a gallon but not more than one gallon per dozen, as one gallon per dozen..........						
	Bottles, flasks and packages, containing more than one gallon but not more than one and one-half gallon per dozen, as one and one-half gallon per dozen..						
	Bottles, flasks and packages, containing more than one and one-half gallon but not more than two gallons per dozen, as two gallons per dozen.......						

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates B.P. Tariff	Present Rates Intermediate Tariff	Present Rates General Tariff
	Bottles, flasks and packages, containing more than two gallons but not more than two and four-fifths gallons per dozen, as two and four-fifths gallons per dozen....................................						
	Bottles, flasks and packages, containing more than two and four-fifths gallons but not more than three gallons per dozen, as three gallons per dozen.						
	Bottles, flasks and packages, containing more than three gallons but not more than three and one-fifth gallons per dozen, as three and one-fifth gallons per dozen..............................						
	Provided, (3) that bottles or phials of liquors for special purposes, such as samples not for sale to the trade, may be entered for duty according to actual measurement, under regulations prescribed by the Minister.........................						
197c	(i) Cigarette paper, ungummed, in rolls......	10 p.c.	22½ p.c.	25 p.c.	10 p.c.	22½ p.c.	25 p.c.
	(ii) Cigarette paper, ungummed, in sheets containing not less than thirty-two square inches.....	10 p.c.	15¾ p.c.	25 p.c.	15 p.c.	22½ p.c.	25 p.c.
232	Glue and gelatine, n.o.p..........................	17½ p.c	25 p.c.	25 p.c.	17½ p.c.	25 p.c.	25 p.c.
	and, per pound	2 cts.	5 cts.	5 cts.	2 cts.	5 cts.	5 cts.
355	Nickel, and alloys containing sixty per cent by weight or more of nickel, n.o.p., viz.: ingots, blocks and shot; shapes or sections, billets, bars and rods, rolled, extruded, or drawn (not including nickel processed for use as anodes); strip, sheet and plate (polished or not); seamless tube..................	Free	Free	Free	Free	Free	Free
440i	The following articles and materials when imported for use only in the manufacture, maintenance or repair of automatic gas buoys and automatic gas beacons, or automatic electric buoys and automatic electric beacons, for the Government of Canada, for marine signal purposes or for export, under regulations prescribed by the Minister, viz.: flanged and dished steel heads made from boiler plate, over five feet in diameter; acetylene gas lanterns and parts thereof; electric flashing lights and parts thereof..				15 p.c.	25 p.c.	25 p.c.
		Free	Free	Free	Free	Free	Free
503	Bolting cloth of any textile fibre, not made up, imported for use only for bolting or sifting materials..				15 p.c.	25 p.c.	30 p.c.
		Free	Free	Free	Free	Free	Free
					27½ p.c.	40 p.c. and 40 cts. per pound.	45 p.c. and 40 cts. per pound.

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, chapter thirteen of the statutes of 1941 and chapter twenty-three of the statutes of 1942, 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.

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, and 156b: $7 per gallon of the strength of proof.

3. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the third day of March, one thousand nine hundred and forty-three, 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.

INCOME WAR TAX ACT

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

1. That in respect of the taxation year 1942 the income tax liability, of taxpayers other than corporations, under subsection 1 of section 9 of the Income War Tax Act, in respect of earned income and in respect of investment income up to $3,000 shall be one-half of the amount calculated according to the schedules therein specified;

2. That in respect of the taxation year 1942 one-half the liability of taxpayers, other than corporations, under subsection 1 of section 9 of the Income War Tax Act, in respect of investment income in excess of $3,000, shall be deferred and shall not be due until the date of death of the taxpayer;

3. That the returns of income in respect of the 1942 taxation year for taxpayers other than corporations shall be due on the 30th June, 1943, together with payment of one-third of the taxpayer's unpaid income tax liability not otherwise provided for herein, the remaining two-thirds to be due and payable on the 31st December, 1943;

4. That the date of filing annual returns of income by taxpayers other than corporations shall be the 31st day of March in the year following the receipt of the income;

5. That the date of filing annual returns of income by corporations shall be six months after the close of the corporation's fiscal period.

6. That in respect of the taxation year 1943 and for each year thereafter sole proprietors (other than farmers) and taxpayers whose income from sources other than salary and wages exceeds 25 per cent of their total income, shall pay by quarterly instalments as follows:

20 per cent on the 31st March,
25 per cent on the 30th June,
25 per cent on the 30th September, and
30 per cent on the 31st December.

7. That taxpayers whose chief business is that of farming shall in respect of the year 1943 and for each year thereafter pay two-thirds of their income tax liability for the current year on or before the 31st day of December and the remaining one-third on the following 31st March;

8. That taxpayers whose chief occupation is that of farming may be allowed to carry forward for two years any farm losses, incurred by them in 1942 or any subsequent year;

9. That in the case of a single person or person with equivalent status whose taxable income is less than $820, the tax payable shall not exceed two-thirds of the amount by which such taxpayer's taxable income exceeds $660.

10. That in the case of a married person or any person granted an equivalent status under the act whose income is less than $1,570, the tax payable shall not exceed two-thirds of the amount by which such taxpayer's taxable income exceeds $1,200;

11. That where a sale of assets takes place between persons with common interests, the total depreciation which has been and may be allowed on such assets in the hands of the transferor and the transferee together shall not exceed 100 per cent of the original cost of the assets before such sale took place;

12. That where immovable assets (not including equipment or machinery) in respect of which special or accelerated depreciation has been allowed, are subsequently sold at a price in excess of the residual undepreciated value, such excess shall be applied to reduce proportionately in each year the special or accelerated depreciation previously allowed to the transferor; provided, however, that such taxpayer shall not be deprived of ordinary depreciation which but for the special depreciation would have been allowed as a deduction from income;

13. That all employees, whether single or married, of Canadian companies, sent outside of Canada temporarily to perform services on behalf of such companies, shall be liable to pay income tax while so engaged outside of Canada;

14. That the tax payable by a corporation shall be paid by twelve monthly instalments commencing in the sixth month prior to the close of its fiscal period

(a) as to the first eleven 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 twelfth month, the balance of the tax payable, having regard to the income and applying the rates of the taxation year;

provided, however, that should any instalment paid in each month of the seventh to eleventh month, both inclusive, be less than one-twelfth of the tax actually found to have been due, such deficiency shall bear interest at the rate of 5 per cent per annum from the close of the company's fiscal period;

15. That principal payments made by a taxpayer in respect of a mortgage or agreement for sale on or with respect to one residential property, which mortgage or agreement for sale was registered or in effect prior to the 23rd day of June, 1942, but was an obligation of such taxpayer's spouse, shall nevertheless be eligible as an offset against the refundable portion of the income tax payable;

16. That all drilling costs on wells spudded-in during the period January 1, 1943 and March 31, 1945, and abandoned within six months after completion of drilling and all exploration costs including all general geological and geophysical expenses incurred between the said dates may be allowed as a deduction against current income of companies whose principal business is the production and/or refining and/or marketing of petroleum and/or petroleum products; provided, however, that the tax saving hereunder shall be limited to 40 per cent of such expenditures;

17. That exploration expenses incurred during the period January 1, 1943 to March 31, 1945, by companies formed for the exploration and drilling for oil may be accumulated and allowed as an expense against the income from any well found hereafter by such company;

18. That payments of oil royalties shall be subject to a deduction at the source at the rate of 7 per cent;

19. That all companies mining metalliferous and strategic minerals shall be allowed a deduction of their exploration expenses incurred in searching for base metals and strategic minerals in respect of expenses incurred during the period January 1, 1943, to March 31, 1945: provided, however, that such tax savings shall not exceed 40 per cent of the expenses so incurred;

20. That contractual payments made in respect of any dominion government annuity contract shall be permitted as a deduction against the refundable portion of the income tax payable;

21. That the taxes payable and paid to a municipality pursuant to the provisions of subsections 6, 9 and 11 of section 39 of the Assessment Act (Ontario) R.S.O. 1937, chapter 272 which are deemed to be taxes on real property, may be allowed as a deduction from the income of any mining company; provided that the said Assessment Act is so amended as to provide that in assessing the said taxes payable to the municipality, taxes payable by a mining company under the Income War Tax Act and the Excess Profits Tax Act are not allowed as a deduction;

22. That the service pay and allowances of the Canadian naval, military and air forces while in the Canadian active service forces in the western hemisphere other than in Canada shall be subject to income tax at one-half the effective rate applicable to each individual taxpayer, such rate to be determined by calculating the total tax on each taxpayer's total income, determining the effective rate which the tax bears to such total income and allowing a credit against the tax payable of one-half of the effective rate on such service pay and allowances; provided, however, that no tax shall be payable in respect of the service pay and allowances of any such member of the Canadian naval, military and air forces whose total service pay does not exceed the sum of $1,600 (or in the case of female members of the said services such lower appropriate amount as shall be determined by the Governor in Council) and provided further that no tax shall be payable on service pay and allowances by members of the said forces whose duties are of such a character as are required normally to be performed afloat or in aircraft;

23. That the service pay and allowances of any member of the Canadian naval, military and air forces who is in the Canadian active service forces and who has been overseas on the strength of an overseas unit outside of the western hemisphere and whose service pay is in excess of $1,600 shall be exempt from taxation on the first six months' service pay and allowances received by him after his return to Canada; provided, however, that the period of such exemption shall not exceed the length of the period which has been served on the strength of an overseas unit outside of the western hemisphere; provided that in the case of female members of the said forces the figure of $1,600 shall be replaced by such appropriate lesser amount as may be determined by the Governor in Council;

24. That members of the Canadian naval, military and air forces in the Canadian active service forces and in receipt of service pay and allowances in excess of $1,600 shall be allowed a credit from the tax otherwise payable equal to the tax payable on $1,600 (increased by dependents' allowances in the case of married persons but not including any allowance for more than six children) provided that on incomes over $1,600 (or appropriately increased by dependents' allowances) the tax credit shall be reduced in the same proportion that such income exceeds $1,600 (or appropriately increased by dependents' allowances); provided that in the case of female members of the said forces the figure of $1,600 shall be replaced by such appropriate lesser amount as may be determined by the Governor in Council;

25. That any enactments founded on

(a) Resolutions 4, 5, 9, 10, 11, 14, 18, 22, 23 and 24 shall be applicable to the income of the 1943 taxation period and fiscal periods ending therein and all subsequent periods;

(b) Resolution 12 shall be applicable in respect of any sale made after March 2, 1943;

(c) Resolutions 13, 15 and 20 shall be applicable to the income of the 1942 taxation period and fiscal periods ending therein and all subsequent periods;

(d) Resolution 21 shall be brought into force on proclamation by the Governor in Council and be applicable to the fiscal period therein designated and to all subsequent periods.

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 definition of "standard profits" be amended to provide that the "standard profits" of wholly-owned subsidiary companies incorporated in 1942 or thereafter shall not in the aggregate exceed $5,000 when the sum of the capital employed by the parent and such subsidiary companies taken together is not substantially greater than the capital employed by the parent company prior to the incorporation of such wholly-owned subsidiary companies.

2. That where an upward adjustment of the standard profits has been made by the Minister because of an increase in capital employed during the "standard period" then an adjustment downward shall be made for subsequent decreases in capital employed which have not been accompanied by an equivalent reduction in capital stock, but not to an extent greater than the said upward adjustment.

3. That any amendment founded on the foregoing resolutions shall be deemed to have come into force at the commencement of the said Act.

APPENDIX

TO

THE BUDGET, 1943-44

Budget Papers presented by the Honourable J. L. Ilsley, M.P., for the information of Parliament on the occasion of the Budget of 1943-44

A. Review of Government Accounts, 1942-43.

B. Tables on Economic Conditions, 1942-43.

DOMINION OF CANADA

A. GOVERNMENT ACCOUNTS, 1942-43

Comparative Summary Statement of Revenues and Expenditures

1. Because of the early date at which the budget is being brought down and of the added difficulty in forecasting war expenditures and receipts from taxes imposed to meet outlays for war purposes, it must be recognized that the figures which are presented for the current fiscal year ending March 31st next are approximations only, and that when the books of the year are finally closed there may be considerable variations from the figures shown herein.

2. The following tables show, by main categories and in detail, estimated revenues, estimated expenditures and the estimated increase in net debt for the fiscal year 1942-43, together with comparable figures for the four preceding fiscal years:

77586—5

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
Tax Revenues—					
Customs import duties	78,751	104,301	130,757	142,392	118,000
Excise duties—					
Spirits, malt, etc	18,530	21,267	34,140	46,776	68,450
Cigars, cigarettes and tobacco	33,225	40,557	55,417	65,050	77,100
Licences	34	35	45	40	40
	51,789	61,859	89,602	111,866	145,590
Less refunds	475	827	994	1,775	3,500
	51,314	61,032	88,608	110,091	142,090
Excise taxes—					
Sales	125,927	141,121	184,536	246,553	245,000
Manufacturers—					
Automobiles, rubber tires and tubes	1,343	1,568	11,206	16,742	2,750
Furs	—	—	—	—	2,500
Gasoline	—	—	—	24,752	25,500
Candy and chewing gum	—	—	—	—	7,400
Cigarette papers and tubes	1,450	1,879	3,356	3,948	4,700
Cigars, cigarettes and tobacco	125	130	245	333	22,000
Beverages	—	—	—	6,247	14,000
Matches and lighters	1,819	2,135	2,173	2,766	2,650
Sugar	11,004	12,302	11,894	22,009	14,000
Toilet preparations and soap	1,249	1,371	1,542	3,539	4,500
Trunks, bags, etc	—	—	—	—	2,100
Electric and gas appliances	—	—	1,886	8,470	5,200
Phonographs, radios and tubes	—	—	1,289	2,361	1,200
Wines	230	420	658	1,445	1,800
Sundry	235	312	682	877	1,770
Amusements	—	—	—	8,792	11,800
Special excise (importations)	15,591	1,979	1,008	861	450
Transportation and communication	1,640	1,657	1,848	8,131	16,475
Stamps, licences, interest, etc	4,885	4,829	4,747	5,095	12,600
War exchange	—	—	61,932	100,874	94,000
	165,498	169,703	289,002	463,795	492,395
Less refunds	3,787	3,675	4,835	10,370	15,000
	161,711	166,028	284,167	453,425	477,395
Income Tax—					
Individuals—Graduated	46,937	45,407	75,863	189,502	460,000
National Defence Tax	—	—	27,672	106,637	80,500
Corporations	85,186	77,920	131,566	185,836	350,000
Dividends, interest, etc	9,903	11,122	13,042	28,269	27,000
Excess profits Tax	—	—	23,995	135,168	455,000
	142,026	134,449	272,138	645,412	1,372,500
Succession duties	—	—	—	6,957	14,000
Banks, Insurance Companies, etc.—					
Chartered banks	1,014	949	898	786	690
Insurance companies	891	926	972	1,148	10,500
Miscellaneous	547	540	636	702	700
Total Revenue from taxes	436,254	468,225	778,176	1,360,913	2,135,875
Non-tax Revenues—					
Post Office	35,288	36,729	40,383	45,994	49,000
Return on investments	14,407	14,617	17,902	25,826	41,500
Bullion and coinage	2,052	3,756	6,266	4,767	5,750
Premium, discount and exchange	477	7,939	6,107	11,855	—
Other	9,539	10,351	10,921	14,469	17,500
Total non-tax revenue	61,763	73,392	81,579	102,911	113,750
Total ordinary revenues	498,017	541,617	859,755	1,463,824	2,249,625

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—Concluded

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
Special Receipts and Other Credits—					
Consolidated Fund—					
Refunds of previous years' Special Expenditure	1,232	153	78	102	250
Refunds of previous years' war expenditure	—	—	1,221	13,200	11,000
War donations	—	11	1,410	459	275
Special receipts arising out of the war	—	—	321	3,184	(1)—
Canadian National Railways—					
Operating surplus for calendar years	—	—	—	4,016	25,000
Capital gain on repatriation of Canadian National Railways Securities	—	—	5,504	99	11,000
Dominion stock "A" written off	—	—	4	—	—
Montreal Turnpike Trust Account—adjustment	24	—	—	—	—
Canadian Wheat Board, Reserve Account—Adjustment based on operations of the Board calculated as at July 31, 1942	—	—	—	—	6,660
Total Consolidated Fund	1,256	164	8,538	21,060	54,185
Capital Accounts—					
Refunds of previous years' expenditure	40	21	20	38	25
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	15
Write-downs to Consolidated Fund—					
Seed Grain and Relief Loans	18	1	46	58	50
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	4,500
Net capital loss on sale of S.S. *Prince David* and S.S. *Prince Robert*	—	—	1,475	—	—
Total Special Receipts and Credits	4,154	20,477	12,414	24,712	58,775
Grand Total Revenue	502,171	562,094	872,169	1,488,536	2,308,400
Less estimated amount of Income and Excess Profits Taxes refundable after the war	—	—	—	—	100,000
					2,208,400

(1) Included in Ordinary Revenues.

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

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
ORDINARY EXPENDITURE					
Agriculture	9,527	11,817	8,593	8,430	8,717
Auditor General's Office	473	459	453	457	433
Civil Service Commission	379	398	397	399	429
External Affairs, including Office of Prime Minister	1,057	1,220	1,013	1,052	1,259
Finance—					
Interest on Public Debt	127,996	129,315	139,179	155,018	185,000
Cost of Loan Flotations and Annual Amortization of Bond Discounts and Commissions	4,914	4,992	6,304	16,350	13,530
Subsidies to Provinces	13,752	13,769	13,769	14,409	14,487
Special Grants to Provinces	7,475	5,475	5,475	—	—
Wartime Prices and Trade Board—Dominion Fuel Board Administration, coal subsidies and subventions	—	—	—	(1) 4,880	4,987
Miscellaneous Grants and Contributions	643	660	530	531	533
Civil Pensions and Superannuation	638	567	500	435	406
Government contribution to Superannuation Fund	2,220	2,271	2,316	2,347	2,350
Old Age Pensions, including pensions to blind persons	29,044	29,977	29,912	29,612	29,985
Compensation to Provinces under Dominion-Provincial Taxation Agreements—					
Income and Corporation Taxes	—	—	—	21,120	84,900
Gasoline Tax	—	—	—	—	10,000
Premium, Discount and Exchange	—	—	—	—	1,500
Administrative and Sundry Expenditure	3,689	3,966	3,508	3,817	4,478
Fisheries	2,036	2,320	1,618	1,679	1,811
Governor General and Lieutenant Governors	226	227	213	226	232
Insurance	194	195	176	181	183
Justice	2,748	2,725	2,711	2,657	2,455
Penitentiaries	2,675	2,941	2,717	2,786	3,055
Labour	788	788	826	762	740
Technical Education	27	31	18	41	30
Unemployment Insurance Act, 1940—					
Administration	—	—	69	2,344	5,000
Government contribution	—	—	—	7,287	12,000
Government Annuities—					
Payments to maintain reserve	—	379	111	617	400
Legislation—					
House of Commons	1,800	1,286	2,468	1,408	1,800
Library of Parliament	72	76	70	72	77
Senate	600	432	868	424	540
General	75	68	58	47	62
Dominion Franchise Office	50	—	—	—	—
Chief Electoral Officer, including elections	114	458	2,469	282	1,473
Mines and Resources					
Administration	184	186	179	178	167
Immigration and Colonization	1,335	1,338	1,273	1,289	1,422
Indian Affairs	5,305	5,675	5,183	5,000	5,265
Lands, Parks and Forests	2,249	2,116	1,937	1,959	1,824
Surveys and Engineering	1,325	1,301	1,114	1,128	1,186
Mines and Geological Survey	1,340	1,324	1,173	1,156	1,213
Movement of Coal and Subsidies under Domestic Fuel Act	1,921	4,532	4,408	(2) —	—
Munitions and Supply	—	—	9	12	12
National Defence—					
Administration	409	178	30	43	38
Militia Service	15,772	5,997	—	—	—
Naval Service	6,590	1,869	—	—	—
Air Service	11,216	4,852	—	—	—
Sundry Services	447	295	168	223	1,716
National Revenue (including Income Tax)	11,899	12,064	12,229	13,428	15,445
National War Services	—	—	—	682	364

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

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
ORDINARY EXPENDITURE—*Con.*					
Pensions and National Health—					
Administration	118	132	133	182	149
Treatment and after-care of returned soldiers (War 1914-18)	13,453	14,771	13,402	12,667	13,124
Pensions (War 1914-18) and Military	42,181	42,219	41,515	40,569	39,716
Health Division	1,012	1,113	1,111	1,246	1,313
Post Office	35,456	36,726	38,700	41,502	45,439
Privy Council	49	59	54	54	62
Public Archives	159	150	126	123	126
Public Printing and Stationery	191	199	283	195	248
Public Works	15,484	13,065	11,507	11,937	12,143
Royal Canadian Mounted Police	6,145	5,626	5,554	5,985	6,451
Secretary of State	730	836	772	823	839
Soldier Settlement	758	624	582	564	562
Trade and Commerce	4,763	4,999	4,315	(3) 6,200	4,804
Canada Grain Act	1,847	1,933	1,908	1,909	1,991
Mail Subsidies and Steamship Subventions	1,993	1,907	942	616	629
Transport—					
Administration	371	358	334	388	386
Air Service	3,457	3,862	3,478	3,386	3,471
Marine Service	4,271	4,215	3,795	4,010	4,233
Canadian Travel Bureau	249	312	470	(4) —	—
Railways and Canals	4,371	3,763	3,527	3,694	3,644
Maritime Freight Rates Act	2,583	2,660	3,951	3,935	4,917
Railway Grade Crossing Fund	187	255	126	25	11
Total ordinary expenditure	413,032	398,323	390,629	444,778	565,762
CAPITAL EXPENDITURE					
Railways	26	23	7	4	11
Public Works	5,398	7,007	3,351	3,426	3,851
Total Capital Expenditure	5,424	7,030	3,358	3,430	3,862
WAR EXPENDITURE					
War Appropriation Acts	—	118,291	752,045	1,339,674	2,802,765
The War Appropriation— (United Kingdom Financing) Act, 1942	—	—	—	—	1,000,000
	—	118,291	752,045	1,339,674	3,802,765
SPECIAL EXPENDITURE					
Unemployment Relief—					
Administration—Relief Acts	260	287	236	106	—
Grants-in-aid to Provinces	17,037	—	—	—	—
Material Aid to Provinces, including municipal improvements projects	—	19,534	15,785	—	—
Dominion share of joint Dominion-Provincial projects	6,259	7,147	1,794	2,063	834
Dominion projects	12,981	24,919	9,784	6,331	4,822
Transportation facilities into mining areas	1,213	1,121	48	—	—
	37,750	53,008	27,647	8,500	5,656

(1) For previous years included in Departments of Trade and Commerce and Mines and Resources.
(2) For current year see Department of Finance.
(3) Includes an amount of $2,615,000 for Census of population of Canada.
(4) For current year included in National War Services

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

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
SPECIAL EXPENDITURE—*Concluded*					
Western Drought Area Relief—					
Direct Relief / Feed, fodder, etc.	9,146	1,605	—	—	—
Prairie Farm Assistance Act, 1939—					
Administration	—	—	346	423	212
Advances to Prairie Farm Emergency Fund	—	7,500	4,376	11,848	700
Wheat acreage reduction plan—					
Administration	—	—	—	980	1,060
Payments of awards to farmers	—	—	—	29,654	23,045
	9,146	9,105	4,722	42,905	25,017
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	71,896	89,113	42,869	63,976	30,673
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Fund—					
Canadian National Railway System, ex-eastern lines	48,194	34,850	14,451	—	—
Eastern lines	6,120	5,245	2,514	—	—
Prince Edward Island Car Ferry and Terminals	388	427	461	424	591
National Harbours Board	138	94	40	33	—
Trans-Canada Air Lines	818	412	—	—	—
Central Mortgage Bank	—	16	—	—	—
Total charged to consolidated fund	55,658	41,044	17,466	457	591
Loans and advances non-active—					
Canadian National Steamships	6	8	—	—	—
National Harbours Board	3,279	1,027	716	758	672
Total non-active advances	3,285	1,035	716	758	672
Total government-owned enterprises	58,943	42,079	18,182	1,215	1,263
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	1,023	1,643	1,011	271	
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources	18	10	46	58	50
Canadian National Railways Securities Trust Stock—Reduction due to line abandonments during calendar years 1938, 1939, 1940, 1941 and 1942	2,713	2,600	2,334	2,539	4,500

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

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
OTHER CHARGES—*Concluded*					
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	14	11	12	10	8
Province of Saskatchewan Treasury Bills	—	17,682	—	—	—
To provide a reserve for possible losses on ultimate realization of Active Loans and Advances	—	—	25,000	25,000	25,000
Non-Active Accounts—					
Fulfilment 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 repatriation of Canadian National Railways Securities	—	—	5,504	99	11,000
Increase in Dominion's Equity in the Canadian National Railways due to surplus earnings of Canadian National Railway System for calendar years	—	—	—	4,016	25,000
Total other charges	3,768	25,958	42,518	31,993	65,633
Grand total expenditures	553,063	680,794	1,249,601	1,885,066	4,469,958

SUMMARY OF REVENUES AND EXPENDITURES

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
	$	$	$	$	$
Ordinary revenues	498,017	541,617	859,755	1,463,824	2,149,625
Capital refunds	40	21	20	1,022	25
Special receipts and other credits	4,114	20,456	12,394	23,690	58,750
Total revenues	502,171	562,094	872,169	1,488,536	2,208,400
Ordinary expenditures	413,032	398,323	390,629	444,778	565,762
Capital expenditures	5,424	7,030	3,358	3,430	3,862
War expenditures	—	118,291	752,045	1,339,674	3,802,765
Special expenditures	71,896	89,113	42,869	63,976	30,673
Government-owned Enterprises	58,943	42,079	18,182	1,215	1,263
Other charges	3,768	25,958	42,518	31,993	65,633
Total expenditures	553,063	680,794	1,249,601	1,885,066	4,469,958
Total deficit or increase of direct net debt	50,892	118,700	377,432	396,530	2,261,558

REVENUES, 1942-43

3. When the books for the fiscal year 1942-43 are finally closed, total gross receipts will reach, it is estimated, a new high record of $2,308,400,000. This represents an increase over the preceding fiscal year of $819,864,000, or approximately 55%. Compared with the fiscal year immediately preceding the war, namely, 1938-39, the increase in total receipts for 1942-43 is estimated at $1,806,229,000. In terms of percentage, this increase over total receipts for 1938-39 of $502,171,000 represents approximately 360%. The above total of $2,308,-400,000 is the total gross receipts, and includes an estimate of the refundable portion of income and excess profits taxes which are repayable after the war. It is not expected that the exact amount of these refundables will be determined before the books for the year are closed, and accordingly provision is being made to set up a liability of an estimated amount of $100,000,000, to meet these obligations. Of this amount it is estimated $75,000,000 will be applicable to income taxes pertaining to individuals, and $25,000,000 to the excess profits tax.

4. The increase in gross revenues, more fully dealt with in subsequent paragraphs, was obtained chiefly from the higher rates of tax and the new taxes imposed by the budget of June 23, 1942. A part of the increase in income taxes was due to taxes on 1941 income, paid on or after March 31, 1942 and taken into the revenues for 1942-43. An additional factor which affected income tax receipts, was the change-over from the voluntary instalment plans of payment to a compulsory instalment plan effective from July, 1942, in the case of corporations and from September, 1942, in the case of individuals. No estimate can be made as to what portion of the increase is attributable to each of these factors. In addition, there were substantial increases in revenue from succession duties, the tax on insurance companies, return on investments and also in the operating surplus of the Canadian National Railways for the calendar year, 1942.

5. The 5-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.

6. Total revenue from taxes for 1942-43, including refundable taxes, is estimated to reach $2,135,875,000 compared with $1,360,913,000 collected during 1941-42. This total represents approximately 92·5% of the total revenues. An examination of the 5-year table shows that direct taxes on incomes and profits, including the refundable portion realized $1,372,500,000 compared with $645,412,000 during the previous year. In the pre-war year of 1938-39, the percentage of direct taxes on incomes and profits to total revenues was 28·3% while in 1942-43 it is estimated that this ratio will be increased to 59·5. This comparison illustrates the increased reliance which has been placed upon the direct taxation of incomes including the tax on excess profits. The excess profits tax, imposed in 1940 and revised in 1941, was materially changed in its rate structure by the 1942 budget, effective from July 1, 1942. As a result, it is estimated that this item of revenue alone will account for no less an amount than $455,000,000, including an estimated amount of $25,000,000 refundable after the war. This item shows an increase over 1941-42 of $319,-832,000. A portion of this increase was due to a change in timing of payments, consequent upon the introduction of the monthly instalment plan.

7. The amount expected to be obtained in the fiscal year 1942-43 under the provisions of the Dominion Succession Duties Act, passed in 1941 is estimated at $14,000,000. In 1941-42 the amount realized from the same source was $6,957,000.

8. The total revenue from the 8% sales tax, less refunds, is estimated at $230,000,000, a decrease of $6,183,000 as compared with the previous year. It will be seen from the 5-year table that gross sales tax is estimated to be less than last fiscal year by only $1,553,000, while the amount of refunds is increased by $4,630,000. The increase in refunds is due largely to remission of taxes on materials and plant equipment imported or purchased in Canada for war purposes by the United Kingdom and allied governments or for certain other activities associated with the war.

9. The War Exchange Tax is expected to realize a total of $94,000,000, compared with $100,874,000 received during the previous year. There was no change in the structure of this tax and the decline is due to a falling off of certain imports not essential for war purposes.

10. Other excise taxes are estimated to produce $153,395,000, an increase over the previous year of $37,027,000. The 5-year table gives details of the increases and decreases in the various items. The main decreases totalling $26,959,000 are recorded in the taxes on the following articles:

(1) Automobiles, rubber tires and tubes, $13,992,000.
(2) Sugar, $8,000,000.
(3) Electric and gas appliances, $3,270,000, and
(4) Phonographs, radios and tubes, $1,161,000.

These reductions reflect the restricted use or consumption of certain articles. In the case of sugar, a reduction in the excise tax from 2 cents to $1\frac{1}{2}$ cents per pound was enacted as a result of the last budget. The increases in other excise taxes together with new taxes imposed by the last budget aggregating $63,986,000 relate to the taxes on the following articles:

(1) Cigars, cigarettes and tobacco, $21,667,000.
(2) Candy and chewing gum, $7,400,000.
(3) Beverages, $7,753,000.
(4) Trunks, bags, etc., $2,100,000.
(5) Furs, $2,500,000.
(6) Amusements, $3,008,000.
(7) Transportation and communication, $8,344,000.
(8) Stamps, etc., including payment of taxes on jewellery, chinaware, cabaret attendance, etc., $7,505,000, and
(9) Sundry, $3,709,000.

11. Revenues from customs import duties for the current year are estimated at $118,000,000 compared with $142,392,000 received during 1941-42, a decrease of $24,392,000. This decrease is due in part to remission of customs duties and drawbacks payable on materials, equipment and supplies imported for war purposes by the United Kingdom and allied governments or for other activities associated with the war. A second factor which brought about this reduction was the decline in importations for civilian use of certain goods and commodities not entirely essential to the war effort.

12. Receipts from excise duties mainly on liquor and tobacco are expected to reach $142,090,000, an increase of about $32,000,000 over 1941-42. Excise duties on liquors and tobaccos were substantially increased in the June 1942 budget.

13. The tax on insurance companies for 1942-43 is expected to realize $10,500,000 compared with $1,148,000 received during the previous year. The increase in revenue from this source is not due alone to the increased rates imposed by the 1942 budget, but, because of arrangements made under the

Dominion-Provincial Taxation Agreements, it so happens that the increased tax levied by the last budget applied to the calendar year 1941, during which year the provincial insurance taxes were not levied, as well as to 1942. The estimated amount of $10,500,000 therefore represents collections covering two calendar years.

14. Total non-tax revenues are estimated at $113,750,000, an increase of $10,839,000 over 1941-42. Receipts from the Post Office are expected to total $49,000,000, an increase of slightly more than $3,000,000 as compared with the preceding fiscal year. The receipts from the Post Office will, it is estimated, exceed the cost of operations by $3,561,000. As mentioned in previous years, 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. Return on Investments is expected to realize $41,500,000 an increase of $15,674,000 over last year. The larger items making up this total are: interest on advances to Canadian National Railways, $13,338,000; Bank of Canada profits, $7,985,000; interest on loans to Foreign Exchange Control Board, $4,633,000; loans to National Harbours Board, $2,600,000; loans to provinces, $2,802,000; and interest on advances made by the Department of Munitions and Supply to commodity companies, $3,500,000. The premium, discount and exchange account will, it is expected, show a debit of $1,500,000, compared with the credit for the last fiscal year of $11,855,000.

15. The total amount estimated for 1942-43 under Special Receipts and Credits is $58,775,000. The main items making up this total are: refunds of previous years' war expenditures, $11,000,000; operating surplus of the Canadian National Railways for the calendar year 1942, $25,000,000; and the capital gain on repatriation of Canadian National Railways Securities, $11,000,000. These last two items increase the book valuation of the Canadian National Railways Securities Trust Capital Stock, and accordingly are offset by contra amounts appearing on the expenditure side under the heading 'Other Charges'.

Another book-keeping item which is recorded under the heading of Special Receipts and Credits is an amount of $6,660,000, representing a reduction in the Reserve Account established to met the operating deficits of the Canadian Wheat Board. This adjustment is occasioned by an improvement in the Board's balance sheet in the period ended July 31, 1942, with respect to the 1939 and 1940 crop accounts. Last year it was necessary on the basis of calculations made as at July 31, 1941 to provide on the expenditure side for an increase in the reserve account of $12,570,828. This year the Reserve Account is being reduced by the amount of $6,660,000 on the basis of calculations made as at July 31, 1942.

16. The table below gives a summary of the forecasts made at the time of the last budget of the probable receipts from the various sources of revenue during the fiscal year 1942-43, and a comparison of these forecasts with present estimates of receipts which will be received during the fiscal year. The general observations which preface a similar table in last year's budget as to the difficulty in forecasting revenues, particularly in time of war, are still true and are strengthened by reason of the budget being brought down at this early date. With respect to taxation revenues, and the amounts expected to be received by reason of increased rates and new imposts, it will be quite apparent that even a small percentage of error in calculation may represent a substantial amount in dollars.

While there are some substantial variations in the individual amounts now estimated for the fiscal year 1942-43, compared with estimates made in the last budget, the total increase over the amount forecast, after taking into account $58,775,000 expected to be received from Special Receipts and Credits which was not included in the estimate, represents only 4·9%. As was stated last year care was used to err on the side of conservatism rather than of undue optimism.

DETAILED STATEMENT OF BUDGET FORECASTS COMPARED WITH PRESENT ESTIMATE FOR RECEIPTS FOR 1942-43

Source of Revenue	Budget Forecast of Receipts		Receipts now estimated for 1942-43	Increase (+) or decrease (−) in receipts as compared with final budget forecast
	From tax structure before Budget changes	From tax structure as changed by proposals made in Budget of June 23, 1942		
	000 omitted $	000 omitted $	000 omitted $	000 omitted $
Tax revenues				
Customs duties	135,000	135,000	118,000	−17,000
Excise duties	123,000	134,610	142,090	+ 7,480
Excise taxes:				
Sales tax	218,000	218,000	230,000	+12,000
War Exchange tax	95,000	95,000	94,000	− 1,000
Other excise taxes	85,000	123,240	153,395	+30,155
Total excise taxes	398,000	436,240	477,395	+41,155
Income taxes:				
Graduated tax on personal incomes and national defence tax	390,000	435,000 *70,000	540,500	+35,500
Corporate income tax	200,000	305,000	350,000	+45,000
Excess profits tax	275,000	*25,000 440,000	455,000	−10,000
Interest and Dividends	28,000	28,000	27,000	−1,000
Total income taxes	893,000	1,303,000	1,372,500	+69,500
Succession duties	15,000	15,000	14,000	− 1,000
Miscellaneous taxes	2,600	15,600	11,890	− 3,710
Total Tax Revenues	1,566,600	2,039,450	2,135,875	+96,425
Non-tax Revenues	105,000	105,000	113,750	+ 8,750
Total	1,671,600	2,144,450	2,249,625	+105,175
Special Receipts and Credits	—	(No estimate made)	58,775	+58,775

*Estimated amounts refundable after the war.

EXPENDITURES, 1942-43

17. 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

18. Ordinary expenditures for the year, it is estimated, will total $565,762,-000 of which a few of the larger contractual and uncontrollable items such 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 $442,813,000 or approximately 78·3%.

The above estimated total of $565,762,000 is greater than the actual amount of ordinary expenditures during the previous fiscal year by $120,984,000. Some of the larger items making up this increase are:

Increased interest and charges on Public Debt........	$ 27,162,000
Increased compensation to Provinces under the Dominion-Provincial Taxation Agreements.............	73,780,000
Increase in Unemployment Insurance................	7,369,000
Increase in Post Office Expenditures................	3,937,000
Premium, Discount and Exchange Account...........	1,500,000
Increase in administrative cost of Department of National Revenue including Income Tax.........	2,017,000
Increase in cost of Chief Electoral Office *re* plebiscite..	1,191,000
Increase in National Defence, sundry services........	1,493,000
Increase in Maritime Freight Rates Act..............	982,000
	$ 119,431,000

Less important increases as well as decreases effected during the year are readily ascertained by referring to the five-year table.

Capital Expenditures

19. Total expenditures charged to capital are estimated at $3,862,000 compared with $3,430,000 in the previous year. The main items in this category are expenditures arising out of dredging the St. Lawrence Ship Channel and other construction and improvements, including lighting and radio facilities in connection with civil airways and airports.

War Expenditures

20. Total outlays under the various War Appropriation Acts for the year 1942-43 are now estimated at $4,558,000,000. This estimate, it will be realized, is difficult to make with any close degree of accuracy because of the magnitude of our war programme and the many factors that may not now be foreseen or are difficult to appraise. The total of $4,558,000,000 includes the gift of one billion dollars to the government of the United Kingdom under the War Appropriation (United Kingdom Financing) Act, 1942. It also includes the loan of $700,000,000 made to the Government of the United Kingdom under authority of the same Act in order to liquidate sterling balances accumulated by the Government of Canada prior to March 31, 1942, and also $55,235,000 of loans and advances to commodity corporations and other loans made under the authority of the War Appropriation Act, 1942. Deducting these last two amounts, which are treated as active assets in the Dominion's accounts, we have a net total charged to war expenditure of $3,802,765,000. This represents an increase of $2,463,091,000 over the corresponding figure for the preceding fiscal year.

The rapid expansion of Canada's war programme is shown in the following table:

Fiscal Year	Charged to Active Assets	War Expenditures	Total war Outlays
	$	$	$
1939-40..........	9,092,742	118,291,022	127,383,764
1940-41..........	26,379,066	752,045,326	778,424,392
1941-42..........	42,816,676	1,339,674,152	1,382,490,828
1942-43 (estimated)..........	755,235,000	3,802,765,000	4,558,000,000
	833,523,484	6,012,775,500	6,846,298,984

During the first world war Canada's total expenditures, including demobilization charged direct to war account, aggregated $1,695,958,570.

21. The following table gives a summary of war expenditures, together with details of the $755,235,000 loans and advances charged to active assets, all as now estimated:

Department of National Defence—Army	$1,078,157,000
" " " Naval Services	207,822,000
" " " Air	626,960,000
Department of Munitions and Supply	689,504,000
Miscellaneous Departments:	
Agriculture	20,820,000
Auditor General's Office	280,000
Civil Service Commission	477,000
External Affairs	518,000
Finance	98,668,000
Fisheries	278,000
Justice	95,000
Labour	17,451,000
Mines and Resources	7,904,000
National Harbours Board	350,000
National Research Council	2,022,000
National Revenue	4,000
National War Services	8,746,000
Pensions and National Health	15,591,000
Post Office	269,000
Privy Council	1,627,000
Public Archives	2,000
Public Works	7,096,000
Royal Canadian Mounted Police	4,147,000
Secretary of State	81,000
Soldiers Settlement of Canada	81,000
Trade and Commerce	8,049,000
Transport	5,766,000
Total estimated direct War Expenditure, 1942–43, under War Appropriation Acts, 1942, 1943	$2,802,765,000
The War Appropriation (United Kingdom Financing) Act, 1942—	
Payments for the account of the Government of the United Kingdom to enable it to purchase in Canada aircraft, tanks, mechanical transport vehicles, guns, ammunition and other munitions of war, foodstuffs, raw materials and other commodities and supplies essential to the conduct of the war and the maintenance of the people of the United Kingdom, and to defray other expenses incurred in Canada arising out of the war	1,000,000,000
Total war chargeable to expenditure	$3,802,765,000

Loans and Advances—		
War Appropriation Act, 1942—		
Advances to commodity corporations and other companies—Department of Munitions and Supply	$15,371,000	
Purchase of railway equipment leased to Canadian National Railways	16,964,000	
Loan to Canadian National Railways—Vermilion Oil Field—Alberta	400,000	
Credit to the Government of the Union of Soviet Socialist Republics	6,000,000	
Canadian Wool Board, Ltd	10,800,000	
Wartime Salvage, Ltd	700,000	
Commodity Prices Stabilization Corporation	5,000,000	
	55,235,000	
The War Appropriation (United Kingdom Financing) Act, 1942—		
Loan to the Government of the United Kingdom	700,000,000	
Total war chargeable to Active Assets		$ 755,235,000
Grand Total chargeable to War Appropriations		$4,558,000,000

22. The foregoing total outlay of $4,558,000,000 chargeable to war appropriations does not take into account advances made or to be made during 1942-43 under authority of section 3 of the War Appropriation Act, which advances are recoverable from the Government of the United Kingdom or from other allied governments. These recoverable advances which are estimated at $232,610,000 as at the close of the fiscal year, will be substantially offset by amounts payable by Canada with respect to accounts and commitments remaining unpaid or unadjusted when the books of the Dominion for the fiscal year 1942-43 are closed.

23. The recoverable advances to allied governments, totalling $232,610,000, are divided as follows:

Agriculture (Food), United Kingdom	$ 4,615,000
Munitions and Supply, War Supplies, Ltd	60,000,000
National Defence—	
Army	1,731,000
Internment Operations	2,750,000
Navy	11,404,000
Air	8,566,000
R.A.F., Special Schools	38,052,000
B.C.A.T.P.—U.K. Equipment	88,575,000
Combined Training Organization—Australia's share	16,917,000
	$ 232,610,000

24. The main provisions of the War Appropriation (United Kingdom Financing) Act, 1942 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.

25. Under the second of the above provisions, a substantial volume of Dominion and Canadian National Railway securities were repatriated before the close of the preceding fiscal year. In addition there were repatriated during the fiscal year 1942-43 securities valued on the basis of the prices at which they were vested by the Government of the United Kingdom, less interest included therein, at $70,022,000. The securities so purchased by the Dominion Government were classified as follows:

Dominion of Canada obligations		$ 9,514,000
Canadian National Railways Securities—		
Dominion Guaranteed	$ 24,844,000	
Unguaranteed	35,503,000	
		60,347,000
Other Dominion Guaranteed Securities		161,000
		$ 70,022,000

In accordance with the terms of the Act, Canadian National Railways securities to an estimated value of $61,820,000 (including amounts purchased in 1941-42, not previously transferred) will be turned over during 1942-43 to the Railway Company, and temporary loans for this amount are made to the Company to enable it to acquire them. In accordance with Section 3 of the Act, expenditure of $76,429,000 incurred in acquiring surplus sterling accumulated during March, 1942, was charged to the billion dollar appropriation.

26. The following table gives a detailed itemization of estimated direct war expenditures under the War Appropriation Acts, 1942-43, totalling $2,802,765,000 classified by departments and services:

Agriculture—			
Agricultural Supplies Board—			
Administration expenses	$ 33,000		
Programmes to encourage the production of essential war supplies	1,089,000		
Assistance in disposal of agricultural products rendered surplus by the War	3,823,000		
Feeds Administrator	10,928,000		
Flax Fibre Administrator	121,000		
Fertilizers and Pesticides Administrator	1,260,000		
Seeds Administrator	140,000		
		$17,394,000	
Bacon Board Administration		46,000	
Dairy Products Board Administration		11,000	
Special Products Board		662,000	
Special Farm Income Payments		2,707,000	
			$ 20,820,000

Auditor General's Office—			
Auditing and checking war appropriation accounts..........$			280,000
Civil Service Commission—			
Supply of personnel for war services..........$		460,000	
Payment of minimum railway fare *re* stenographers..................................		17,000	
			477,000
External Affairs—			
Departmental administration and Passport Office..................................		264,000	
Representation abroad......................		100,000	
Sundries..................................		154,000	
			518,000
Finance—			
Payment of premium on purchase of Dominion of Canada Registered Stock................		127,000	
Comptroller of the Treasury's Office—War accounting offices..........................		6,235,000	
Wartime Prices and Trade Board—			
Administration................	$10,514,000		
Canadian Wool Board Administration....................	200,000		
Wartime Salvage Limited—Administration and Losses...	800,000		
Commodity Prices Stabilization Corporation—Administration and Subsidies...............	80,000,000		
		91,514,000	
Subsidy *re* consumption of coke in production of pig iron..................................		327,000	
Freight on shipments of coke................		254,000	
Freight on shipments of scrap steel...........		162,000	
Sundries..................................		49,000	
			98,668,000
Fisheries—			
Japanese Fishing Vessels Disposal Committee..		19,000	
Damage claims *re* Japanese vessels............		80,000	
Subsidy *re* fishing vessel construction in British Columbia.........................		175,000	
Sundries..................................		4,000	
			278,000
Justice—			
Prize Court..................................		5,000	
Defence of Canada Regulations...............		66,000	
War Measures Act...........................		4,000	
Royal Commission *re* Hong Kong Expedition..		20,000	
			95,000
Labour—			
Industrial training for war work..............		4,510,000	
Training aircraft mechanics...................		2,050,000	
Specialized training for aircraft manufacturing		26,000	
War emergency training—administration.......		54,000	
Vocational training for discharged members of the Canadian armed forces.................		41,000	
National War Labour Board..................		385,000	
Wartime Bureau of Technical Personnel.......		163,000	

Labour—Concluded			
Personnel management training		$ 48,000	
National Selective Service—			
Director	$ 506,000		
Mobilization division	1,981,000		
Manpower records	549,000		
Expenses of work done by Unemployment Insurance Commission	2,100,000		
		5,136,000	
Co-ordination of shiploading and unloading operations—Halifax		29,000	
Universities—Accelerating courses and loans to students		320,000	
Ontario farm labour service		100,000	
General labour transference in war industries and agriculture		275,000	
Transportation of harvest workers to and from Saskatchewan and Alberta		250,000	
Harvest assistance to provinces		64,000	
British Columbia Security Commission		3,875,000	
Organization and operation of day nurseries, etc		75,000	
Sundries		50,000	
			$ 17,451,000
Mines and Resources—			
Mines and Geology—			
Development of tar sands	$ 150,000		
Geological surveys	30,000		
Oil explorations	80,000		
Strategic minerals—exploration and development work	381,000		
New metallurgical laboratory	153,000		
Explosives division—			
Administration of regulations *re* explosives	29,000		
Assistance to Provinces *re* transportation facilities to various wartime mining projects	68,000		
Metallic Minerals Division—			
Services to war departments	135,000		
Sundries	6,000		
		1,032,000	
Lands, Parks and Forests—			
National Parks Bureau—Alternative service work camps	150,000		
Dominion Forest Service—			
Alternative service work camps	40,000		
Alternative service work camps, B.C.	600,000		
Internment and prisoners of war operations	35,000		
Forest Products Laboratories	30,000		
Bureau of Northwest Territories and Yukon Affairs—Expenses of liaison officers, Alcan and Canol projects	9,000		
		864,000	

Surveys and Engineering—			
Engineering and Construction Service—			
Alternative service work camps	$ 100,000		
Prince Rupert-Terrace-Cedarvale highway	3,500,000		
Employment of persons of the Japanese race and Japanese Nationals	2,000,000		
		$ 5,600,000	
Immigration—			
Canadian interests in enemy and enemy controlled territory	100,000		
Canadian interests abroad apart from enemy or enemy controlled territory	25,000		
Grants to National Advisory Committee for children from overseas	50,000		
Repatriation of wives and dependents of members of the Canadian forces overseas	50,000		
Evacuation of Canadian citizens from the Far East	150,000		
Sundries	33,000		
		408,000	
			$ 7,904,000
Munitions and Supply—			
Administration		9,500,000	
Expansion of war industry		480,004,000	
Acquisition of United Kingdom interest in war plants		200,000,000	
			689,504,000
National Defence—Army Services			
Departmental administration		1,220,000	
Dependents' Allowance Board		587,000	
Dependents' Supplementary Grants Fund		704,000	
Army		1,060,508,000	
Chemical Warfare Experimental Station		374,000	
Directorate of Public Relations		111,000	
Internment operations		1,864,000	
Radio Services—Northwest Territories and Yukon		289,000	
Inspection Board—United Kingdom and Canada		12,500,000	
			1,078,157,000
National Defence—Naval Services			
Navy		$206,675,000	
Royal Canadian Sea Cadets		262,000	
Temporary Building—Cartier Square		885,000	
			207,822,000
National Defence—Air Services			
Home War Establishment		$192,869,000	
Overseas Establishment		22,306,000	
Departmental administration, Air		129,000	
British Commonwealth Air Training Plan		71,523,000	
Combined Training Organization		340,133,000	
			626,960,000

National Harbours Board—		
Halifax—Operation of fire boat "Rouille"......	$ 49,000	
Extension of pier 9, Richmond Terminal..........................	155,000	
Moorings for ships under repairs.....	16,000	
Installation of additional car dumpers at Terminal Grain Elevator...	120,000	
Saint John—West Side wooden pile dock......	10,000	
		$ 350,000
National Research Council—		
Special war activities............................	$ 1,786,000	
Special war annex............................	236,000	
		2,022,000
National Revenue—		
Censorship of newspapers and other publications...........		4,000
National War Services—		
Departmental administration..................	$ 96,000	
War Charities—general........................	44,000	
War Charities—Auxiliary Services............	6,000,000	
Salvage Division............................	313,000	
Women's Voluntary Services..................	14,000	
Canadian Firefighters for United Kingdom.....	800,000	
Committee on Co-operation in Canadian Citizenship....................................	13,000	
Censorship Division..........................	1,280,000	
Government Office Economies Control........	5,000	
National Film Board—		
Special War Library.......................	40,000	
Purchase of Supplies Revolving Fund.......	40,000	
Sundries....................................	101,000	
		$ 8,746,000
Pensions and National Health—		
Treatment—Defence Forces...................	4,025,000	
Royal Canadian Mounted Police..	100,000	
Pensions—Defence Forces....................	2,500,000	
Air Raid Precautions........................	6,435,000	
Investigations—Dependents' Allowance Board.	85,000	
Inspection of industrial plants..............	25,000	
Laboratory of hygiene.......................	17,000	
Public Health Engineering....................	30,000	
Food and Drugs..............................	13,000	
Quarantine Service..........................	75,000	
Committee on Demobilization................	10,000	
Rehabilitation Benefits......................	300,000	
Processing of blood for dried serum..........	175,000	
Maintenance of non-resident seamen..........	25,000	
Committee on Reconstruction.................	35,000	
Detention Allowances—Canadian seamen.....	65,000	
Additions, alterations and improvements to departmental hospitals......................	1,085,000	
Reserve Stores—Revolving Account...........	100,000	
Addition—John Street Laboratories, Ottawa...	10,000	
Grants to the Canadian Nurses Association...	115,000	
Hospital Unit adjacent to Ottawa Civic Hospital	250,000	
Acquisition of land—Westminster Hospital, London, Ontario..........................	66,000	
Sundries....................................	50,000	
		15,591,000

Post Office—			
Canadian Postal Corps			$ 269,000
Privy Council—			
Statutory Orders and Regulations Division		$ 26,000	
Wartime Information Board		1,601,000	
			1,627,000
Public Archives—			
Compensation to staff evacuated from abroad			2,000
Public Works—			
Chief Architect's Branch—			
Calgary, Alta.—Purchase of the Traders' building, and alterations	$ 178,000		
Ottawa—			
Construction of annex to Daly building	55,000		
Extension to Jackson building (including purchase of land)	211,000		
National Research Council, Sussex Street—temporary buildings	26,000		
Addition to temporary building No. 1	35,000		
Temporary building No. 5 (Preston and Carling)	15,000		
Temporary building No. 6 (Sussex Street)	118,000		
Temporary building No. 7 (Sussex Street)	141,000		
Temporary building No. 8 (Carling Avenue)	710,000		
Hostels for junior employees in the public service—constructionandfurnishings	380,000		
Installation of sprinkler systems and fire mains at temporary buildings	114,000		
Temporary building for Royal Canadian Mounted Police, north of Justice building	85,000		
Office building, shooting range, etc., for National Research Council	45,000		
Armoury accommodation for Canadian Officers' Training Corps Units	65,000		
Converting furnaces in public buildings from oil to coal firing	115,000		
Repairs, alterations operation and maintenance of buildings	1,300,000		
Rental of premises occupied for war purposes	1,250,000		
Furniture, etc. for war employees	900,000		
Sundries	54,000		
		$ 5,797,000	

Public Works—Concluded			
Chief Engineer's Branch—			
Dartmouth, N.S.—dredging at east side of pier	$ 16,000		
St. John Harbour (Courtenay Bay), N.B.—dredging	295,000		
Shelburne, N.S.—wharf repairs	15,000		
Ste. Anne de Bellevue, Que.—Military Hospital	66,000		
Windsor, Ont.—dredging	5,000		
Esquimalt, B.C.—Dry Dock	316,000		
Harrison River—improvements	9,000		
Sidney, B.C.—wharf improvements and repairs	8,000		
Seymour Narrows, B.C.—removal of ripple rocks and construction of dam	230,000		
To provide for a 24-hour telegraph service on the Pacific Coast	64,000		
Telephone service and unforeseen	275,000	$ 1,299,000	$ 7,096,000
Royal Canadian Mounted Police—			
Increased activities of the force due to war			4,147,000
Secretary of State—			
Dominion Plebiscite Committee		68,000	
Sundries		13,000	
			81,000
Soldier Settlement of Canada—			
Purchase of right-of-way, etc. *re* Canada-Alaska Highway			81,000
Trade and Commerce—			
Canadian Shipping Board		74,000	
Export Permit Branch		102,000	
Shipping Priorities Branch		16,000	
Revolving chartering fund		210,000	
Gift of wheat to Greece		4,211,000	
Steamship Stabilization Fund		436,000	
Drawback claims for millers		3,000,000	
			8,049,000
Transport—			
Departmental administration		8,000	
Transport Controller's Office		166,000	
Director of Merchant Seamen, including administration, Manning Pools, Nautical Schools and welfare facilities		643,000	
Air Service—Special radio interception and monitoring services, etc.—			
Radio service	$ 1,097,000		
Meteorological service	806,000		
Northwest air route	49,000		
Municipal terminal airports	233,000		

Transport—Concluded			
Moncton-Newfoundland Airline	$ 218,000		
North Bay Airport—Additional development	400,000		
Civil Aviation—Extra airport control	153,000		
		$ 2,956,000	
Canals service		39,000	
Marine service—			
Aids to navigation, including lightships	$ 117,000		
War risk bonus to crews of Dominion steamers	50,000		
Reconditioning C.G.S. *Lady Grey*	209,000		
Marine service steamers	180,000		
Dredging in St. Charles river, Que	37,000		
Nautical services	37,000		
Degaussing equipment for Canadian vessels	390,000		
Compensation to crews of Canadian vessels for loss of personal effects	100,000		
Expenses *re* C.G.S. *Montcalm* to Russia	85,000		
Sundries	8,000		
		1,213,000	
Railway Service—			
Additional harbour and terminal facilities at Halifax	666,000		
Construction of buildings at St. John for the United Kingdom	75,000		
		741,000	
			$ 5,766,000
Total estimated direct War Expenditure, 1942-43, under War Appropriation Acts			$2,802,765,000

SPECIAL EXPENDITURES

27. Expenditures classified as Special Expenditures for the fiscal year 1942-43 are estimated to total $30,673,000 compared with $63,976,000 for last fiscal year. The largest single item in this category is an amount of $23,045,000 covering payments of awards to farmers under the wheat acreage reduction plan. The estimated amount of administration costs of the wheat acreage reduction plan is $1,060,000. Advances to the Prairie Farm Emergency Fund and the costs of administration under the Prairie Farm Assistance Act are estimated at $700,000 and $212,000 respectively. The balance of $5,656,000 represents expenditures for Dominion relief projects, $4,822,000, and the Dominion share of government Dominion-Provincial relief projects, $834,000. The reduction of special expenditures over last year was accounted for by decreases in the following items: (1) Unemployment Relief, $2,844,000, (2) Prairie Farm Assistance Act, $11,359,000, (3) Wheat Acreage Reduction Plan, $6,529,000, and (4) Provision for reserve to meet deficits resulting from the operations of the Canadian Wheat Board, $12,571,000.

Government-Owned Enterprises

This classification of expenditures comprises the losses of and the non-active advances to Government-Owned Enterprises, which were established before the war and are operated as separate corporations.

Canadian National Railways

28. An examination of the five-year Revenue and Expenditure tables for the first three years shown therein, namely 1938-39, 1939-40 and 1940-41, shows deficits of the Canadian National Railway System amounting to $54,314,000, $40,095,000 and $16,965,000, respectively. These deficits are shown in the expenditure table. In the revenue table will be found amounts of $4,016,000 and $25,000,000 representing operating surplus of the system for the calendar years, 1941 and 1942 respectively. These have been or will be applied to repayments of temporary loans from the Government. The annual report of the Canadian National Railways for the calendar year 1942 is not yet available and it is, therefore, not possible to give details of the operating revenues and expenses for that year.

The operating deficit of the Prince Edward Island Car Ferry and Terminals during 1942 is estimated at $591,000 compared with $424,000 in 1941.

Canadian National Steamships

29. The operations of the Canadian National (West Indies) Steamships Limited for the calendar year 1942 will, it is estimated, result in a cash surplus of $997,000 compared with $1,205,657 for 1941. This operating surplus will be paid to the Government as interest on advances (current and arrears).

National Harbours Board

30. The annual report of the operations of the National Harbours Board for 1942 is not yet available and it is not possible to give the operating income for that year. Interest on Government advances to the Board will, it is estimated, be received this fiscal year to the amount of $2,600,000, and this has been taken into account in arriving at the total of revenue under the heading "Return on Investments".

Financial assistance provided by the Government to the National Harbours Board and charged to Dominion expenditure, it is estimated, will total $672,000. This amount is made up as follows: $380,000 for non-active advances in respect of the deficit of the Jacques Cartier Bridge at Montreal; $22,000 for reconstruction and capital expenditures of the Halifax Harbour Commission; $170,000 for reconstruction and capital expenditures, and $96,000 for the redemption of debentures of the Saint John Harbour Commission; and the remaining $4,000 for miscellaneous capital expenditures at various ports.

The elevators at Port Colborne and Prescott operated at a profit during 1942 and it is estimated that $250,000 from these sources will be credited to Ordinary Revenue.

Other Charges

31. The total of Other Charges, the final main category of expenditures, is estimated at $65,633,000.

Included in this total is $25,000,000 which has been added to 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 last two fiscal years and the total now provided to meet such possible losses is therefore $75,000,000. The usual annual write-off from active assets of Soldier and General Land Settlement Loans is estimated at $75,000, and cancellation of Canadian Farm Loan Board Capital Stock is estimated at $8,000. These two write-offs, and the provision for the further reserve of $25,000,000, result in a proportionate increase in the net debt of the Dominion.

32. The estimated total write-off from non-active assets, includes two items: *(a)* $4,500,000 to be written off from the Canadian National Railways Securities Trust Stock representing line abandonments for the calendar year, 1942; and *(b)* $50,000 representing the estimated yearly established losses on Seed Grain and Relief Accounts administered by the Department of Mines and Resources. As both of these items are non-active assets and are therefore already included in the net debt of Canada, they are offset by similar amounts on the Revenue side under "Other Receipts and Credits".

33. The remaining debit items, classified as Other Charges, and totalling $36,000,000, relate to the Canadian National Railways Securities Trust Stock. The amount of this stock which represents the Dominion's equity in the Canadian National Railways is expected to be increased by $25,000,000 due to the surplus earnings of the System for 1942 and also by $11,000,000 due to the estimated capital gain in respect of Canadian National Railways sterling securities redeemed during the year at a price below par in Canadian funds. The Canadian National Railways Securities Trust Stock is carried in the Dominion's books as a non-active asset, and as the two items just mentioned necessarily appear as credits under the heading Special Receipts and Credits, the net debt of Canada is not thereby changed.

Summary of Expenditures

34. The grand total of expenditure for the fiscal year, 1942-43, 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 estimated at $4,469,958,000.

35. The following table shows the percentage distribution of estimated revenues and expenditures for a number of important items. Receipts from various taxes and other revenue sources, after deducting the $100,000,000 of income and excess profits taxes estimated as refundable after the war, 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. The purpose of this table is to enable broad conclusions to be drawn as to the relative burdens imposed on the public treasury by the war and the main services or obligations of government.

PERCENTAGE DISTRIBUTION OF ESTIMATED REVENUES AND EXPENDITURES, 1942-43

(000 omitted)

Revenues	Amount (estimated)	Percentage of total Revenues	Percentage to total Expenditures
	$	%	%
Ordinary Revenue—			
Income Tax	842,500	38·15	18·85
Excess profits tax	430,000	19·47	9·62
Succession duties	14,000	0·63	0·31
Customs Import Duties	118,000	5·34	2·64
Excise Duties	142,090	6·43	3·18
Sales Tax	230,000	10·42	5·14
War Exchange Tax	94,000	4·26	2·11
Manufacturers, transportation and communication, stamp taxes, etc	153,395	6·95	3·43
Other tax revenues	11,890	0·54	0·27
Total revenue from taxes	2,035,875	92·19	45·55
Non-tax revenues	113,750	5·15	2·55
Total ordinary revenue	2,149,625	97·34	48·10
Special receipts and other credits	58,775	2·66	1·31
Grand Total Revenues	2,208,400	100·00	49·41

PERCENTAGE DISTRIBUTION OF ESTIMATED REVENUES AND EXPENDITURES, 1942-43

(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expenditures	Percentage to total Revenues
	$	%	%
Ordinary Expenditure—			
Interest on Public debt	185,000	4·14	8·38
Cost of loan flotations and amortization charges	13,530	0·30	0·61
Public Debt Charges	198,530	4·44	8·99
Subsidies to provinces	14,487	0·32	0·66
Compensation to provinces under taxation agreements	94,900	2·12	4·29
Old Age Pensions	29,985	0·67	1·36
Civil pensions and superannuation	406	0·01	0·02
Pensions and after-care of soldiers (War 1914-18)—			
Pensions, war and military	39,716	0·89	1·80
Treatment and after-care of returned soldiers	13,124	0·29	0·59
Total	52,840	1·18	2·39
Agriculture	8,717	0·20	0·40
Fisheries	1,811	0·04	0·08
Legislation	3,952	0·09	0·18
Mines and Resources	11,077	0·25	0·50
Post Office	45,439	1·02	2·06
Public Works	12,143	0·27	0·55
Transport	16,662	0·37	0·76
All other	74,813	1·68	3·38
Total Ordinary Expenditure	565,762	12·66	25·62
Capital Expenditure—			
Railways	11	—	—
Public Works	3,851	0·09	0·18
Total Capital Expenditure	3,862	0·09	0·18

PERCENTAGE DISTRIBUTION OF ESTIMATED REVENUES AND EXPENDITURES, 1942-43—Concluded

(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expenditures	Percentage to total Revenues
	$	%	%
War Expenditure	3,802,765	85·07	172·19
Special Expenditures—			
Relief expenditures	5,656	0·13	0·25
Prairie Farm Assistance including wheat acreage reduction	25,017	0·56	1·14
Total Special Expenditure	30,673	0·69	1·39
Government Owned Enterprises—			
Losses charged to Consolidated Fund—			
Prince Edward Island Car Ferry and Terminals	591	0·01	0·03
Loans and Advances non-active—			
National Harbours Board	672	0·01	0·03
Total Government Owned Enterprises	1,263	0·02	0·06
Other Charges—			
Write down of assets	29,633	0·66	1·34
Canadian National Railways Securities Trust Stock	36,000	0·81	1·63
Total Other Charges	65,633	1·47	2·97
Grand Total Expenditures	4,469,958	100·00	202·41

Over-all Deficit

36. As total net revenues for the fiscal year 1942–43 have been estimated at $2,208,400,000 and total expenditures at $4,469,958,000, the estimated over-all deficit (or increase in net debt) for the year is $2,261,558,000.

LOANS AND INVESTMENTS

Active Assets

37. In addition to the estimated expenditures for the year, as already outlined, disbursements are made for the acquisition of investments which are treated as active assets in the Public Accounts. The 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 for 1942-43 is estimated at $516,808,000 as compared with $640,805,000 in 1941-42. This increase is fully itemized in the table in section 54.

Loans to Provinces

38. As was shown in the Public Accounts for the fiscal year ended March 31, 1942, loans made to the Western Provinces under authority of relief legislation and outstanding at the close of that year totalled $157,275,021.49. No loans have since been made, and during the current year repayments to January 31, 1943, were received from the Provinces of Manitoba, Saskatchewan and Alberta in the amounts of $288,674.09; $50,986.87 and $38,500.00 respectively. The repayments left the net amount outstanding at $156,896,860.53, divided by Provinces as follows:

Manitoba	$ 24,928,540.09
Saskatchewan	71,290,433.08
Alberta	25,933,500.00
British Columbia	34,744,387.36
	$ 156,896,860.53

39. During the current fiscal year, the Province of Prince Edward Island paid in full the outstanding balance of $23,500 on housing loans made at the close of the last war (1914-18). The Province of Nova Scotia reduced its indebtedness on the same account by $70,000. The only loan now outstanding with respect to these advances is one of $37,000 due by the Province of Nova Scotia and maturing in April, 1943.

40. Subsidy overpayment to the Province of Alberta secured by a Treasury Bill of the Government of Alberta was reduced during the year by a payment by the Province of $68,750, thereby reducing this indebtedness to $400,000.

Canadian National Railways

41. It is estimated that the Government will have made during the fiscal year net advances to the Canadian National Railways in the amount of $130,938,995, classified as follows:

Advances—	
Under Canadian National Railways Refunding Act, 1938—for retirement of maturing issues	$ 59,315,908
Under Canadian National Railways Financing and Guarantee Act, 1940—Purchase of Grand Trunk Railway Company of Canada 4% Perpetual Consolidated Debenture Stock	472,116
Under Canadian National Railways Financing and Guarantee Act, 1941—Purchase of securities from Canadian holders	9,889,898
Under Canadian National Railways Financing and Guarantee Act, 1942—for capital expenditures and retirement of miscelleaneous obligations	8,143,989
Under Canadian National Railways Financing and Guarantee Act, 1942—Purchase of securities from Canadian holders	18,261,613
Under The War Appropriation (United Kingdom Financing) Act, 1942—Purchase of securities from Government of the United Kingdom	61,820,197
Under The War Appropriation Act, 1942—for capital purposes in connection with oil drilling campaign	400,000
Under Trans-Canada Air Lines Act—for capital purposes	850,000
Total Advances	$159,153,721
Repayments—	
Application of 1942 Surplus—	
Advances—Financing and Guarantee Act, 1939	$ 11,332,113
Advances—Financing and Guarantee Act, 1940	7,572,580
Advances—Financing and Guarantee Act, 1941	5,245,307
Advances—Trans-Canada Air Lines	850,000
Total Surplus	$ 25,000,000
War Appropriation Act, 1941, advance for Working Capital	3,214,726
Total Repayments	$ 28,214,726
Net Advances (estimated)	$130,938,995

Under the authority of The War Appropriation Act, 1942, it is estimated that at March 31, 1943, the total amount of railway equipment purchased by the Dominion and leased to the Canadian National Railways, will reach

$16,964,000. 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

42. The Canadian Pacific Railway Company paid in advance all outstanding instalments of principal, amounting to $3,526,154, on account of a hire-purchase agreement relating to certain equipment purchased by the Government in the fiscal years 1935-36, 1936-37 and 1937-38, and in the amount of $9,288,057 relating to certain equipment purchased by the Government in the fiscal years, 1939-40 and 1940-41.

Advances to Commodity and Other Companies

43. Advances to Commodity Corporations and other companies made by the Department of Munitions and Supply, and referred to in Section 21, are estimated at $15,371,000 for 1942-43. The following table gives net advances outstanding March 31, 1942; net advances during 1942-43, and net advances outstanding as of March 31, 1943, with respect to each Company:

Name	Products or Service	Net Advances Outstanding March 31, 1942	Net Advances 1942–1943 (estimated)	Net Advances Outstanding March 31, 1943 (estimated)
		$ cts.	$ cts.	$ cts.
Government Owned and Operated Companies—				
Atlas Plant Extension, Ltd., Welland, Ont.	General Munitions..........	6,533,483 04	1,190,454 97	7,723,938 01
Research Enterprises, Ltd., Leaside, Ont.	General Munitions..........	285,000 00	−285,000 00	—
Fairmont Company, Ltd., Toronto, Ont.	Commodities and Raw Materials (rubber and hides)	11,955,394 73	−2,665,069 71	9,290,325 02
Melbourne Merchandising Co. Ltd., Toronto, Ont.	Commodities and Raw Materials (Wool)	5,531,319 10	12,015,609 52	17,546,928 62
Plateau Co. Ltd., Toronto, Ont.	Commodities and Raw Materials (Silk)	957,729 86	2,394,951 15	3,352,681 01
Other Companies—				
Algoma Steel Corp. Ltd., Sault Ste. Marie, Ont.	Pig Iron and Rolled Steel Products	4,000,000 00	—	4,000,000 00
John Bertram & Sons Co. Ltd., Dundas, Ont.	Machine Tools.............	311,723 41	−311,723 41	—
Dominion Steel & Coal Co. Ltd., Sydney, N.S.	Ingots and Rolled Steel Products	1,576,967 74	1,908,393 04	3,485,360 78
English Electric Co. of Canada, Ltd., St. Catharines, Ont.	Transformers, Switch Gears and Motors	776,700 00	−169,800 84	606,899 16
Steel Company of Canada, Ltd., Hamilton, Ont.	Pig Iron and Ingot Steel....	2,545,000 00	—	2,545,000 00
A. C. Wickman, Ltd., New Toronto	Gauges, Carbide Tips and Tools	75,000 00	−75,000 00	—
Marine Industries, Ltd., Sorel, Quebec	Reconditioning barges as coal carriers	—	600,000 00	600,000 00
Union Drawn Steel Co. Ltd., Hamilton, Ont.	Cold steel.................	—	768,252 00	768,252 00
		34,548,317 88	15,371,066 72	49,919,384 60

44. In addition to advances to corporations as shown in the foregoing table, advances were made to The Commodity Prices Stabilization Corporation Limited, The Canadian Wool Board Limited, and Wartime Salvage Limited. The amounts shown as advances to these corporations which have been taken in to the accounts as Active Assets represent the estimated cash and inventory holdings of the corporations as at March 31, 1943. The balance of advances made are included as war expenditures. The assets with respect to each corporation as of March 31, 1943 are estimated to be:

The Commodity Prices Stabilization Corporation..$	5,000,000 00
The Canadian Wool Board........................	10,800,000 00
Wartime Salvage, Limited........................	700,000 00

Other Loans and Investments

45. The indebtedness of the Foreign Exchange Control Board to the Dominion may, unless certain repayments occur before March 31, 1943, reach $400,000,000 and this amount is shown as an active asset in the preliminary balance sheet of the Dominion for the current fiscal year.

46. Under authority of The War Appropriation (United Kingdom Financing) Act, 1942, sterling balances in an amount equivalent to $700,000,000 (at the exchange rate of $4.45 to the pound), were converted into a Canadian dollar obligation of the Government of the United Kingdom, which, under the provisions of the Act, is non-interest-bearing until after the termination of the war.

47. Pursuant to an agreement between Canada and the Union of Socialist Soviet Republics, it is estimated that by March 31, 1943, Canada will have advanced $6,000,000 on a credit for the purchase by Russia of Canadian wheat and flour. This advance bears interest at the rate of 3% per annum.

48. The Canadian Farm Loan Board, it is estimated, will have repurchased during the fiscal year from the Government out of surplus funds, $1,800,000 of its 3½% Bonds, due January 2, 1960, thereby reducing the amount of its bonds held by the Government to $27,400,000. Capital stock to be written off is estimated at $8,000.

49. In the period April 1, 1942, to January 31, 1943, 494 loans were approved under the National Housing Act for an amount of $1,457,235, bringing the total approvals to January 31, 1943, to $78,241,380. In this period the Dominion advanced $1,175,936, and borrower's repayments amounted to $961,523, making net advances for the period of $214,413. The net amount of loans under the authority of the National Housing Act and the Dominion Housing Act, estimated to be outstanding on the books of the Dominion at March 31, 1943, is $16,500,000. 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. Previous to December 8, 1942, loans were normally made not in excess of 80 per cent of the cost or appraised value of the completed property whichever was the lesser. In the case of owner-occupied houses, where the lending value did not exceed $2,500, a loan might be made up to 90 per cent of the said lending value. On December 8, 1942, an Order in Council was passed enabling loans to be made up to 90 per cent of the lending value for any house

where the lending value does not exceed $3,200, and on a sliding scale down to 80 per cent when the lending value does not exceed $4,000. 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. Under Vote No. 452 of the Appropriation Act, No. 5, 1942, an amount of $1,000,000 was appropriated to provide for advances under the National Housing Act, not exceeding (with the advance made jointly by the approved lending institution) $3,200 in respect of any one house, for the construction of houses where the Minister is satisfied that permanent houses can be constructed to relieve a serious housing shortage without threatening to create a post-war surplus.

50. Under the Municipal Improvements Assistance Act, 1938, no further loans were approved during the current fiscal year. From the inception of the Act, total loans approved, less amounts not required to complete projects, aggregated $7,052,000. For the current fiscal year it is estimated that the amount of repayments will exceed advances by $376,000, and that the net investment as of March 31, 1943, will be $5,600,000. 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 guarantees the payments for interest on and amortization of each loan.

51. For the current year it is estimated that advances to the National Harbours Board for capital construction purposes at the ports of Montreal and Vancouver will total $422,000. Payments of loans made in previous years amount to $679,000, leaving a net credit for the year of $257,000.

52. Loans for Soldier and General Land Settlement, it is estimated, will be reduced by payments of $1,333,000, and in addition it is estimated $75,000 will be written off and charged to Consolidated Fund.

53. The indebtedness of the Canadian Broadcasting Corporation to the Dominion on account of loans as at March 31, 1942, was $503,398.77. This amount has been paid in full with interest during the current year.

54. The following statement shows in summary form the net estimated changes in active investments for the current year, together with comparable figures for the four preceding years:

LOANS AND INVESTMENTS, ACTIVE

(000 omitted)

—	1938-39	1939-40	1940-41	1941-42	Estimated 1942-43
Foreign Exchange Control Board	—	—	325,000	400,000	Cr. 325,000
Government of The United Kingdom, The War Appropriation (United Kingdom Financing) Act, 1942	—	—	—	—	700,000
Government of The Union of Soviet Socialist Republics	—	—	—	—	6,000
Canadian Wool Board, Limited	—	—	—	—	10,800
Wartime Salvage Limited	—	—	—	—	700
Commodity Prices Stabilization Corporation	—	—	—	—	5,000
Department of Munitions and Supply—Advances to commodity corporations and other companies	—	—	9,891	24,657	15,371
Canadian Farm Loan Board	2,834	2,288	838	Cr. 975	Cr. 1,800
Dominion and National Housing Acts—Loans	2,657	4,393	3,805	2,644	246
Municipal Improvements Assistance Act, 1938—Loans	815	3,111	1,718	332	Cr. 376
Provinces—Housing Loans, 1919	Cr. 105	Cr. 699	Cr. 1,634	Cr. 740	Cr. 93
Provinces—under relief legislation	14,985	12,566	1,514	Cr. 217	Cr. 379
Province of Saskatchewan Power Commission	—	—	58	Cr. 4	Cr. 4
Province of Alberta—Subsidy overpayment	—	—	—	—	Cr. 69
National Harbours Board	692	947	Cr. 333	Cr. 980	Cr. 257
Canadian National Railways	3,841	21,479	105,573	251,723	130,940
Soldier and General Land Settlement Loans	Cr. 749	Cr. 1,116	Cr. 1,139	Cr. 1,521	Cr. 1,333
Railway equipment purchased	Cr. 1,399	8,135	14,781	Cr. 1,586	2,640
Sinking Funds	4,336	Cr. 2,798	Cr. 61,963	Cr. 5,233	—
Canadian Broadcasting Corporation	Cr. 50	700	Cr. 364	Cr. 283	Cr. 503
Canadian Pacific Railway	Cr. 211	Cr. 211	Cr. 211	Cr. 981	—
Bank of Canada Capital Stock	820	—	—	—	—
Central Mortgage Bank Capital Stock	—	250	—	—	—
Canadian Government Merchant Marine	—	—	750	Cr. 750	—
Net Advances	28,466	49,045	398,284	666,086	541,883
Less write-offs—					
Soldier and general land settlement loans	−895	−1,643	−1,011	−271	−75
Canadian Farm Loan Board—Capital stock	−14	−11	−12	−10	−8
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	−25,000
Net change in active investments	27,557	46,017	372,261	640,805	516,800

LOAN FLOTATIONS

55. During the fiscal year ending March 31, 1943, it is estimated that the Government will issue obligations in the amount of $2,456,449,471 (including an increase of $30,000,000 in Treasury Bills outstanding but not the amount of recurring issues of Treasury Bills made to refund outstanding Treasury Bills and only including the net amount of Deposit Certificates issued during the year). With the exception of one $90,000,000 issue sold in New York to provide in part for the redemption prior to maturity of $100,000,000 Five Per Cent. Bonds, all issues were sold in the Canadian market. During the fiscal year it is estimated that Dominion obligations in the amount of $462,168,089 will be paid out of the proceeds of the new issues. The remainder of the proceeds of the new issues namely, $1,994,281,382 less cost of flotation, will provide for direct and indirect war expenditures.

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

LOAN FLOTATIONS, 1942-43

Issue Date	Maturity Date	Interest Rate	Where Payable	Price: To Public	Price: To Government	Yield at: Public Price	Yield at: Price to Government	Amount Issued
1942		%		$	$	%	%	$
April 15	April 15, 1943	1	Canada	—	100·00	—	1·00	250,000,000
April 15	April 15, 1944	1½	Canada	—	100·00	—	1·50	100,000,000
Mar. 1 (1)	Sept. 1, 1944	1½	Canada	—	100·00	—	1·50	92,831,000
July 1	July 1, 1943	4	Canada (School lands)	—	100·00	—	4·00	33,293,471
Nov. 1	May 1, 1946	1¾	Canada	100·00	(x)	1·75	(x)	(2) 145,800 000
Nov. 1	Nov. 1, 1956	3	Canada	100·00	(x)	3·06	(x)	(2) 845,700,000
1943								
Jan. 15	Jan. 15, 1948	2½	New York	100·00	99·25	2·50	2·66	30,000,000
Jan. 15	Jan. 15, 1953	3	New York	100·50	99·125	2·94	3·10	30,000,000
Jan. 15	Jan. 15, 1958	3	New York	98·50	96·875	3·13	3·27	30,000,000
Various	June 15, 1945	Non-Interest Bearing Certificates.	Canada	100·00	100·00	Nil	Nil	(2) 1,825,000
Various	Various	War Savings Certificates.	Canada	—	—	(3) 3·00	(3) 3·00	(2) 77,000,000
Various	Various	¾ (Deposit Certificates)	Canada	—	100·00	—	0·75	(2) 790,000,000
								2,426,449,471
Increase in short-term Treasury Bills								30,000,000
								2,456,449,471

(1) Issued in June, 1942.
(2) Estimated amount.
(3) Yield to investor if held to maturity, seven and one-half years after issue date.
(x) Final costs of Third Victory Loan not yet available.

57. The Third Victory Loan was sold during the fiscal year under review This loan was the largest loan ever issued for cash in Canada. It was issued in the amount of $991,500,000 and was sold to 2,041,610 subscribers.

58. The Dominion instituted the sale of Deposit Certificates to the Canadian chartered banks in July, 1942. These Deposit Certificates bear interest at the rate of $\frac{3}{4}$ of 1 per cent. per annum and mature twenty-six weeks after date of issue. It is estimated that these Certificates will be sold to a total amount of $995,000,000, of which $205,000,000 have been redeemed out of the proceeds of the Third Victory Loan, leaving $790,000,000 estimated to be outstanding at the close of the fiscal year.

59. The following table gives the details of Dominion of Canada estimated bond redemptions in the fiscal year ending March 31, 1943:

DOMINION OF CANADA BOND REDEMPTIONS, 1942-43

Maturity or Call Date	Interest Rate	Where Payable	Amount
	%		$
May 1, 1942	1	Canada	250,000,000
May 15, 1942	1½	Canada	1,682,000
June 1, 1942	2	Canada	239,000
July 1, 1942 (School Lands)	4	Canada	33,293,471
October 15, 1942	3	Canada	40,409,000
January 4, 1943	2¼	New York	10,000,000
March 15, 1943	5	New York	100,000,000
October 1, 1947 (1)	2½	London	(x) 435,566
May 1, 1955 (2)	3¾	London	(x) 734,432
September 1, 1958 (2)	4	London	(x) 932,672
July 1, 1963 (2)	3½	London	(x) 657,948
War Savings Certificates	3 (3)	Canada	(x) 21,849,000
Non-Interest Bearing Certificates	Nil	Canada	(x) 1,935,000
			$462,168,089

(x) Estimated.

(1) 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 1942-43 was cancelled.

(2) These issues were vested by the Treasury of the United Kingdom in August, 1941. The amounts (at par of exchange) purchased in the fiscal year 1942-43 were cancelled.

(3) 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 fiscal year. The latest issue (February 26, 1943) was sold at a discount of 0·501 per cent. The estimated amount of these Treasury Bills outstanding at the close of the fiscal year is $300,000,000, an increase of $30,000,000 during the year.

61. It is estimated that the average rate of interest on the Dominion's direct funded debt (including Treasury Bills) outstanding as at March 31, 1943, will be about 2·60 per cent. This compares with 2·90 per cent on the debt outstanding at the close of the preceding fiscal year and is undoubtedly the lowest average rate in the Dominion's history.

NATIONAL DEBT

62. It is estimated that the gross unmatured funded debt (including Treasury Bills) of the Dominion outstanding at the close of the current fiscal year, will amount to $7,861,196,000. Other liabilities consisting chiefly of Annuities, Superannuation and Insurance Funds, Post Office Savings Bank deposits, and various trust and contingent funds outstanding as at the same date are estimated at $1,031,944,000. The gross liabilities of the Dominion therefore are expected to total $8,893,140,000 as at March 31, 1943. On the other side of the balance sheet will be found active assets estimated at $2,586,-361,000, consisting of cash and various active loans and investments, less a reserve of $75,000,000 to provide 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 $6,306,779,000 representing the estimated net debt of the Dominion as at March 31, 1943. This net debt shows an increase over the corresponding figure for the close of the preceding fiscal year of $2,261,558,000, which of course is the estimated amount of the over-all deficit for the fiscal year 1942-43.

63. The following is a preliminary statement or balance sheet showing the liabilities and assets of the Dominion at March 31, 1943 as estimated:

LIABILITIES—MARCH 31, 1943

(estimated)

Bank Circulation Redemption Fund		$ 4,016,000
Post Office Money Orders, Postal Notes, etc., outstanding		7,000,000
Post Office Savings Bank deposits		23,000,000
Insurance and Superannuation Funds—		
Government Annuities	$ 185,000,000	
Insurance Fund—Civil Service	15,900,000	
Insurance Fund—Returned Soldiers	21,400,000	
Retirement Fund	15,000,000	
Superannuation Funds	68,500,000	
Unemployment Insurance Fund	108,430,000	
		414,230,000
Trust Funds—		
Indian Funds	15,000,000	
Common School Funds	2,678,000	
Contractors' Securities Deposits	9,100,000	
Other Trust Funds	16,000,000	
		42,778,000
Contingent and Special Funds		360,000,000
Department of National Revenue—		
Income and Excess Profits Taxes refundable after the war		100,000,000
Province Debt Accounts		11,920,000
Funded Debt and Treasury Bills unmatured	7,861,196,000	
Floating Debt—		
Funded Debt matured and outstanding	14,000,000	
Interest due and outstanding	10,000,000	
Outstanding cheques	45,000,000	
		7,930,196,000
		8,893,140,000

ASSETS—MARCH 31, 1943

(estimated)

Cash, working capital advances and other current assets		$ 204,616,000
Special Deposits		3,000,000
Bank of Canada Capital Stock		5,920,000
Central Mortgage Bank Capital Stock		250,000
Foreign Exchange Control Board Loan		400,000,000
Government of The United Kingdom—Loan under The War Appropriation (United Kingdom Financing) Act, 1942		700,000,000
Government of The Union of Soviet Socialist Republics—Loan		6,000,000
Canadian Wool Board, Limited		10,800,000
Wartime Salvage, Limited		700,000
Commodity Prices Stabilization Corporation		5,000,000
Department of Munitions & Supply—		
Advances to commodity corporations and other companies		49,919,000
Recoverable Advances—		
United Kingdom and other Allied Governments—		
Agriculture (Food)	4,615,000	
Munitions and Supply—War Supplies, Ltd	60,000,000	
National Defence—Army	1,731,000	
Internment Operations	2,750,000	
Navy	11,404,000	
Air	8,566,000	
Royal Air Force Special Schools	38,052,000	
British Commonwealth Air Training Plan—		
United Kingdom Equipment	88,575,000	
Combined Training Organization—		
Australia's share	16,917,000	
		$ 232,610,000
Canadian Farm Loan Board—Advances and Capital Stock		34,729,000
Canadian National (West Indies) Steamships, Limited—Loan		450,000
Dominion and National Housing Acts—Loans		16,500,000
Municipal Improvements Assistance Act, 1938—Loans		5,600,000
New Westminster Harbour Commission—Loan		275,000
Loans to Provinces—		
Housing Loans, O.C. of December 3/18 and amendments	$ 37,000	
Unemployment Relief Loans	156,896,000	
Province of Saskatchewan—Power Commission	50,000	
Province of Alberta—Subsidy overpayment	400,000	
		157,383,000
Loans to National Harbours Board—		
Montreal	60,100,000	
Vancouver	25,060,000	
		85,160,000

ASSETS—MARCH 31, 1943
(estimated)

Loans to Foreign Governments—		
Greece	$ 6,525,000	
Roumania	24,329,000	
		$ 30,854,000
Railway Accounts—		
Canadian National Railways—		
Advances—Refunding Act, 1938	111,141,000	
Advances—Financing and Guarantee Act, 1940—Grand Trunk Railway Debenture Stock	106,408,000	
Advances—Financing and Guarantee Act, 1941	6,698,000	
Advances—Financing and Guarantee Act, 1941—Purchase of securities	9,890,000	
Advances—Financing and Guarantee Act, 1942	8,144,000	
Advances—Financing and Guarantee Act, 1942—Purchase of securities	18,262,000	
Advances—The War Appropriation (United Kingdom Financing) Act, 1942—Purchase of securities	$ 253,423,000	
Temporary Loan—The War Appropriation Act, 1941	13,907,000	
Temporary Loan—The War Appropriation Act, 1942—Vermilion Oil Field, Alta.	400,000	
		528,273,000
Purchase of equipment leased to—		
Canadian National Railways—		
1936 Agreement	4,137,000	
1940 Agreement	12,896,000	
1941 Agreement	17,366,000	
1942 Agreement	625,000	
		35,024,000
Soldier and General Land Settlement Loans		32,480,000
Seed Grain and Relief Advances		2,400,000
Canadian Government Railways Working Capital		16,772,000
Bond Holding Account		21,550,000
Province Debt Accounts		2,296,000
Unamortized Discount and Commission on Loans		72,800,000
		2,661,361,000
LESS—Reserve for possible losses on ultimate realization of active loans and advances		75,000,000
		2,586,361,000
Net Debt, March 31, 1943 (estimated)		6,306,779,000
Net Debt represented by—		
(A) Expenditures for Capital Purposes and Non-Active Assets (estimated) March 31, 1943—		
Public Works—		
Canals		240,289,000
Railways		425,959,000
Miscellaneous		311,752,000
Military Property and Stores		12,572,000
Territorial Accounts		9,896,000
Canadian Pacific Railway (old)		62,791,000
Canadian National Railways Securities Trust Stock		298,783,000
Canadian National Railway Stock		18,000,000
Loans—Non-Active—		
Canadian National Steamships		13,872,000
National Harbours Board—		
Chicoutimi	3,838,000	
Churchill	10,000	
Halifax	12,474,000	
Montreal (Jacques Cartier Bridge)	5,195,000	
Quebec	27,766,000	
Saint John	16,817,000	
Three Rivers	3,742,000	
		69,842,000
Soldier and General Land Settlement		16,526,000
Seed Grain and Relief Advances		296,000
Saskatchewan Seed Grain Loans Guarantee Act, 1936		2,637,000
Seed Grain Loans Guarantee Act, 1937		7,136,000
Miscellaneous Non-Active Accounts		3,537,000
		$1,493,888,000
(B) Consolidated Fund—		
Balance, Consolidated Fund brought forward from March 31, 1942	$2,587,277,000	
Excess of expenditure over revenue, less amounts charged under A above, fiscal year ending March 31, 1943 (estimated)	2,225,614,000	
		4,812,891,000
		$6,306,779,000

64. The following table shows the various obligations included in the unmatured funded debt of the Dominion estimated to be outstanding as at March 31, 1943, and the annual interest charges thereon:

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1943, AND ANNUAL INTEREST THEREON

Date of Maturity	Rate Per Cent	Where Payable	Amount of Loan	Annual Interest Charges
1943, April 15	1	Canada	$ 250,000,000 00	$ 2,500,000 00
June 1	2½	Canada	20,000,000 00	500,000 00
July 1	4	Canada	33,293,470 85	1,331,738 83
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	2¼	New York	30,000,000 00	675,000 00
April 15	1½	Canada	100,000,000 00	1,500,000 00
June 1	2	Canada	90,625,000 00	1,812,500 00
Sept. 1	1½	Canada	150,000,000 00	2,250,000 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
May 1	1¾	Canada	*145,800,000 00	2,551,500 00
Dec. 15	2	Canada	193,286,000 00	3,865,720 00
1947, Oct. 1	2½	London	‡250,705 75	6,267 64
1948, Jan. 15	2½	New York	30,000,000 00	750,000 00
Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
Mar. 1	2¼	Canada	269,879,000 00	6,072,277 50
1949, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
June 1	3¼	Canada	33,500,000 00	1,088,750 00
Oct. 15	3½	Canada	138,322,000 00	4,841,270 00
1950, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
1951, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
June 15	3	Canada	643,534,250 00	19,306,027 50
Nov. 15	3¼	Canada	60,000,000 00	1,950,000 00
1952, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
Oct. 1	3	Canada	324,945,700 00	9,748,371 00
Oct. 15	4	Canada	56,191,000 00	2,247,640 00
1953, Jan. 15	3	New York	30,000,000 00	900,000 00
1954, Mar. 1	3	Canada	669,658,900 00	20,089,767 00
1955, May 1	3¼	London	‡5,170,844 97	168,052 46
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
Nov. 1	3	Canada	*845,700,000 00	25,371,000 00
1957, Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958, Jan. 15	3	New York	30,000,000 00	900,000 00
June 1	3	Canada	88,200,000 00	2,646,000 00
Sept. 1	4	London	‡3,517,064 67	140,682 59
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	3¼	New York	48,000,000 00	1,560,000 00
1963, July 1	3¼	London	‡3,751,632 05	121,928 04
1966, June 1	3¼	Canada	54,703,000 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 2, 1943	·517	Canada	45,000,000 00	232,650 00
Treasury Bills due April 16, 1943	·514	Canada	45,000,000 00	231,300 00
Treasury Bills due April 30, 1943	·512	Canada	45,000,000 00	230,400 00
Treasury Bills due May 14, 1943	·508	Canada	55,000,000 00	279,400 00
Treasury Bills due May 28, 1943	·501	Canada	55,000,000 00	275,550 00
Treasury Bills due June 11, 1943	†·501	Canada	55,000,000 00	275,550 00
Deposit Certificates	·75	Canada	‡790,000,000 00	5,925,000 00
			7,661,695,968 29	199,122,036 06
War Savings Certificates	**3	Canada	‡186,500,000 00	5,595,000 00
War Savings Stamps	....	Canada	‡4,000,000 00	—
Non-Interest Bearing Certificates	....	Canada	‡9,000,000 00	—
			7,861,195,968 29	204,717,036 06
Payable in Canada			$7,409,505,720 85	94·25%
Payable in New York			439,000,000 00	5·59%
Payable in London			12,690,247 44	0·16%
			$7,861,195,968 29	100·00%

* Preliminary figure. † Estimated rate. ‡ Estimated amount

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

INDIRECT LIABILITIES

65. Bonds and debenture stocks bearing the guarantee of the Dominion and outstanding in the hands of the public are estimated to total $716,348,777 as of March 31, 1943, a decrease of $102,492,940 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, and the redemption of guaranteed railway securities by means of loans from the Government.

66. There will also be outstanding at the close of the fiscal year other contingent liabilities assumed under Relief, Seed Grain and other legislation.

67. Under the terms of an Order in Council dated July 10, 1942, the Commodity Prices Stabilization Corporation, a Government-owned Corporation, was authorized to guarantee certain advances and interest thereon obtained by any person from a chartered bank in order to purchase coal, coke or briquettes in the summer of 1942. The liability of the Corporation is limited to twenty per cent. of the aggregate amount of advances made by each bank, but not exceeding in the aggregate $5,000,000. The amount of these advances outstanding on January 31, 1943, was $622,828, and the contingent liability of the Corporation was $124,566.

68. Under the terms of an Order in Council dated October 9, 1942, the Commodity Prices Stabilization Corporation was authorized to guarantee certain advances, obtained by any person engaged in the production of logs or lumber, from a chartered bank. The liability of the Corporation is limited to fifteen per cent. of the aggregate amount of advances made by each bank, but not exceeding in the aggregate $2,500,000. The amount of these advances outstanding on January 31, 1943, was $238,288, and the contingent liability of the Corporation was $35,743.

69. Guaranteed bank advances to the Canadian Wheat Board outstanding as at February 13, 1943 on account of wheat amounted to $91,880,239. This amount constitutes the Board's gross liability to the banks and is related mainly to the purchase of wheat of the 1939, 1940, 1941 and 1942 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.

70. By Order in Council passed in 1942 the Canadian Wheat Board was empowered to deal in flaxseed, soybeans, oats and barley. In order to finance these operations, guaranteed bank advances were obtained from certain chartered banks. The amount of these guaranteed advances outstanding on February 13, 1943, was flaxseed $7,444,191; soybeans $1,032 and oats and barley $227,257.

71. Before operations under the Home Improvement Loans Guarantee Act were discontinued (October 1, 1940), 125,724 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 per cent. of the aggregate of such loans made by approved lending institutions, but as the balance of these loans estimated to be outstanding on March 31, 1943, will have been reduced to $3,000,000, the contingent liability of the Government is limited to this amount. Up to January 31, 1943, 1,047 loss claims for an aggregate amount of $361,503 had been paid. In terms of total losses to total volume of loans, this loss ratio is only ·724 of one per cent.

72. Under the provisions of the Appropriation Act No. 5, 1942, the Home Extension Plan was created. It provided for loans not exceeding $2,000,000 by banks under regulations similar to those of the Home Improvement Loans Guarantee Act for the purpose of financing the creation of additional self-contained housing units by alterations or additions to a building used solely or partially as a dwelling at the time application is made for the loan. The general public are now beginning to take advantage of the Plan and twenty-six loans have been made. The total amount of these loans to February 15, 1943, is $55,385. The Dominion's contingent liability arising out of these loans is limited to 15 per cent of the aggregate of such loans made by the banks or $8,307. There have been no claims for loss made by the banks.

73. 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. 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.

Under Vote No. 452 of the Appropriation Act No. 5, 1942, an amount of $1,000,000 was appropriated to provide for advances under the National Housing Act, not exceeding with the advance made jointly by the approved lending institution, $3,200 in respect of any one house, for the construction of houses where the Minister is satisfied that permanent houses can be constructed to relieve a serious housing shortage without threatening to create a post-war surplus. Loans to the number of 19,015 have been approved at January 31, 1943, under the Dominion Housing Act, 1935, and the National Housing Act, 1938, in the amount of $78,241,380. Losses recorded and paid to January 31, 1943, amounted to $2,209, covering the Dominion's proportion of the loss on four loans. This amount represents total losses to date under both the Dominion Housing Act, 1935, and Part I of the National Housing Act, 1938. These losses are offset in part by a profit of $428 realized by the sale of ten properties. The net loss to January 31, 1943, is therefore only $1,781.

74. The following is a statement of bonds and debenture stocks and other indebtedness guaranteed by the Dominion, estimated to be outstanding on March 31, 1943:

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE DOMINION GOVERNMENT AS AT MARCH 31, 1943

Date of Maturity	Issue	Interest Rate	Estimated Amount Outstanding
		%	$
Feb. 1, 1944....	Canadian National..........	$2\frac{1}{4}$	15,500,000
May 1, 1944....	Canadian National..........	3	35,000,000
Jan. 15, 1946....	Canadian National..........	$2\frac{1}{4}$	15,000,000
July 1, 1946....	Canadian Northern..........	$6\frac{1}{2}$	23,754,000
April 1, 1948....	New Westminster Harbour Commissioners......	$4\frac{3}{4}$	700,000
Dec. 15, 1950....	Canadian National..........	3	50,500,000
Sept. 1, 1951....	Canadian National..........	$4\frac{1}{2}$	48,022,000
Feb. 1, 1952....	Canadian National..........	3	20,000,000
Aug. 1, 1952....	Saint John Harbour Commissioners..........	5	667,953
Feb. 15, 1953....	Canadian National..........	3	25,000,000
July 10, 1953....	Canadian Northern..........	3	1,131,580
Feb. 1, 1954....	Canadian National..........	5	50,000,000
Mar. 1, 1955....	Canadian National (West Indies) Steamships Limited..........	5	9,400,000
June 15, 1955....	Canadian National..........	$4\frac{3}{4}$	48,518,000
Feb. 1, 1956....	Canadian National..........	$4\frac{1}{2}$	67,368,000
July 1, 1957....	Canadian National..........	$4\frac{1}{2}$	64,136,000
July 20, 1958....	Canadian Northern..........	$3\frac{1}{2}$	5,140,323
Jan. 15, 1959....	Canadian National..........	3	35,000,000
May 4, 1960....	Canadian Northern Alberta..........	$3\frac{1}{2}$	553,257
May 19, 1961....	Canadian Northern Ontario..........	$3\frac{1}{2}$	4,157,623
Jan. 1, 1962....	Grand Trunk Pacific..........	3	26,465,130
Jan. 1, 1962....	Grand Trunk Pacific..........	4	7,999,074
July 1, 1969....	Canadian National..........	5	56,694,000
Oct. 1, 1969....	Canadian National..........	5	57,719,500
Nov. 1, 1969....	Harbour Commissioners of Montreal..........	5	19,000,000
Feb. 1, 1970....	Canadian National..........	5	17,333,000
By drawings.......	Canadian National..........	2	356,541
Various dates 1943-54..........	City of Saint John Debentures assumed by Saint John Harbour Commissioners..........	Various	678,729
Perpetual..........	Grand Trunk Debenture Stock..........	5	1,673,934
do	Great Western Debenture Stock..........	5	1,104,167
do	Grand Trunk Debenture Stock..........	4	7,725,985
do	Northern Railway of Canada Debenture Stock..	4	49,981
			$ 716,348,777

OTHER LIABILITIES GUARANTEED

	Estimated Principal Amount Outstanding Mar. 31, 1943
Bank Advances, re Province of Manitoba Savings Office........................$	5,953,004
Province of Manitoba Treasury Bill..	4,805,723
Province of British Columbia Treasury Bill....................................	626,534
Bank Advances, re Canadian Wheat Board (Feb. 16, 1943):	
Wheat..	91,880,239
Flaxseed..	7,444,191
Oats and Barley..	227,257
Soybeans..	1,032
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..	3,000 000
Loans made by approved lending institutions under the Home Extension Plan (Feb. 15, 1943)	8,307
Deposits maintained by the chartered banks in the Bank of Canada (Feb. 17, 1943)..	254,832,908
Bank Advances, re Government War Contracts—Department of Munitions and Supply (January 31, 1943)...	1,829,607
Bank Advances, re coal, coke or briquette purchases—Commodity Prices Stabilization Corporation, (January 31, 1943)..............................	124,566
Bank Advances, re production of logs or lumber—Commodity Prices Stabilization Corporation, (January 31, 1943).	35,743
Guarantee under Dominion-Provincial Taxation Agreements of Provincial receipts from gasoline taxes at amounts received in fiscal years ending nearest December 31, 1940	Indeterminate.

B CANADIAN ECONOMIC CONDITIONS

ANNUAL FIGURES

—	Calendar Years						
	1926	1928	1932	1937	1939	1941	1942
Group I—Comprehensive Indexes (1935-39=100)							
Physical volume of business	87	102	69	107	107	165	202
Volume of manufacturing	89	100	66	109	105	192	243
Mining	55	64	59	104	118	215	210
Forestry	84	87	57	117	103	135	131
Carloadings	131	148	88	106	102	129	137
Electric power output	46	61	61	106	108	128	142
Employment (a)	100	111	88	114	114	152	158
National income	111	130	68	106	112	160	184
Retail sales	(e)	(e)	92	105	105	136	154
Group II.—Price Levels and Financial Factors (1926=100)							
Wholesale prices	100	96	67	84	76	90	96
Farm product prices	100	101	48	87	64	71	82
Cost of living (b)	122	121	99	101	102	112	117
Common stock prices (b)	91	145	51	116	92	68	64
Bank deposits	100	115	100	120	132	152	167
Active currency circulation	100	105	81	103	111	198	268
Group III.—Gross Value of Production in Major Industries ($ millions)							
Agriculture	1,715	1,806	767	1,039	1,205	1,379	(c) 2,134
Forestry	556	586	349	494	466	(c) 716	(c) 770
Fisheries	73	71	34	51	53	(c) 83	(c) 104
Mining (including Smelting)	277	313	265	663	663	(c) 785	(c) 792
Construction	386	488	133	352	373	640	(c) 547
Manufacturing	3,101	3,582	1,981	3,626	3,475	(c) 6,394	(c) 8,009
Group IV.—Foreign Trade and International Transactions ($ millions)							
Exports (gold excluded)	1,277	1,364	498	1,012	936	1,640	(e)
Net non-monetary gold exports (d)	30	40	70	145	184	204	(e)
Total exports, including non-monetary gold	1,307	1,404	568	1,157	1,120	1,844	(e)
Imports (gold excluded)	1,008	1,222	453	809	751	1,449	(e)
Total trade	2,315	2,626	1,021	1,966	1,871	3,293	(e)
Export balance	+299	+182	+115	+348	+369	+395	(e)
Net tourist receipts	(e)	(e)	(e)	90	78	87	(e)
Net interest and dividends going abroad	201	221	262	246	254	230	(e)

(a) 1926=100.
(b) 1935-39=100.
(c) Estimated.
(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	107	119	119	122	123	130	132	133	142	143
	1941	144	145	144	153	156	164	167	172	178	179	184	194
	1942	192	193	189	198	196	200	204	206	206	207	208	221
Volume of manufacturing	1940	130	119	115	125	126	126	130	136	138	140	141	141
	1941	151	153	156	164	165	169	176	179	191	192	200	207
	1942	223	226	213	231	232	236	246	249	253	263	263	276
Mining	1940	116	110	115	138	120	133	140	158	152	155	164	154
	1941	160	156	156	150	155	180	225	258	284	300	291	261
	1942	258	248	234	227	211	196	213	217	226	196	192	210
Forestry	1940	121	107	109	114	122	138	140	134	131	128	127	116
	1941	131	130	134	132	127	128	137	138	149	141	132	141
	1942	138	148	148	138	133	131	128	121	116	127	117	128
Carloadings	1940	116	112	98	112	119	118	125	118	102	108	113	123
	1941	126	123	125	129	139	134	140	128	119	121	124	139
	1942	150	140	136	140	142	141	148	130	117	125	126	145
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	146	147	146	143	140	138	137	140
Employment (b)	1940	121	119	118	118	119	121	122	124	126	130	133	136
	1941	139	140	141	150	151	153	155	156	156	158	160	165
	1942	172	172	172	175	174	172	172	173	172	172	175	182
Retail sales (c)	1940	90	90	106	110	120	121	103	113	114	132	136	174
	1941	102	102	119	136	143	134	122	134	137	152	147	202
	1942	128	120	145	155	159	154	137	148	154	174	165	213
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	95	96	96	96	96	97	97	97
Farm product prices	1940	70	70	71	72	68	64	65	63	64	65	67	67
	1941	67	68	69	70	70	71	72	72	73	74	74	75
	1942	77	78	79	80	80	82	81	81	84	86	86	87

Cost of living (d)	1940	104	104	105	105	105	105	106	106	106	107	108	108
	1941	108	108	108	109	109	110	112	114	115	116	116	116
	1942	115	116	116	116	116	117	118	118	117	118	119	119
Common stock prices (d)	1940	91	90	90	88	73	65	66	69	76	74	74	70
	1941	71	66	67	66	64	64	68	68	71	69	69	67
	1942	67	65	62	61	62	63	62	62	63	65	68	71
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	160	156	156	163	169	178	189	181
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	245	250	254	265	278	291	305	309	317
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	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........
mports (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	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........
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	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........	(j)........
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	22	24	47	32	32	30	21	22	10
War contracts awarded (h) ($ millions)	1940	36	43	31	21	30	61	92	76	72	152	67	103
	1941	87	56	67	192	124	80	128	96	54	134	59	103
	1942	84	113	58	113	108	118	113	124	127	151	113	114
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) 208	142	205	138	190	173	207	176	210	219

(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, including Capital Assistance; December, 1942, subject to revision.
(i) Includes year-end expenditure.
(j) Because of wartime restrictions trade figures are no longer published.