CANADA

BUDGET SPEECH

DELIVERED BY

Rt. HON. J. L. ILSLEY
MINISTER OF FINANCE
MEMBER FOR DIGBY-ANNAPOLIS-KINGS

IN THE

HOUSE OF COMMONS

JUNE 27, 1946

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1946

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APPENDIX

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THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Right 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.

FINANCIAL REVIEW

He said: Mr. Speaker, in presenting the last budget to this house on October 12, I emphasized that, although hostilities were over, it must still be regarded as a war budget, providing as it did mainly for war expenditures during the fiscal year 1945-46. The budget which I now have the honour and duty to place before the house is essentially a peacetime budget, providing for the financial needs of the first post-war year which is wholly a year of peace, although these needs include also certain remaining costs of demobilization and heavy costs for gratuities and other benefits to our veterans, costs that will not recur on a similar scale in subsequent years.

In reviewing the background against which this budget is projected, I do not propose to look further back than the period of demobilization and reconversion. A review of our war finance and of our other economic policies and activities during the war would remind us of many achievements in which Canadians may justly take pride. I referred to some of them briefly in the budget of last October. We plan to provide the important figures of our war finances in convenient form for reference in the next issue of the public accounts. The data regarding government financial operations during the last fiscal year, that is to say, the year ending March 31, 1946, I have set forth in a white paper which I shall table at the conclusion of my remarks and which will be printed as an appendix to the budget for the convenience of the house and the public.

GOVERNMENT ACCOUNTS AND FINANCING, 1945-46

As this white paper gives voluminous detail in regard to the revenues, expenditures and the other transactions and accounts, it will be necessary for me to refer only to some of the highlights in the record for the past fiscal year. The figures quoted, by the way, will not be the final figures; they are close estimates subject still to certain minor adjustments and to one major alteration in connection with the United Kingdom financial agreement, which I shall explain in a moment. In this connection, I should perhaps mention that the accounting adjustments and offsetting transactions required to complete the settlement of various war accounts have been particularly numerous this year, including for instance many transfers of payments originally made as advances on account or out of working capital funds to the final account to which they should be charged in our books.

Total revenues, including refundable taxes, amounted to $3,028 million, a slight increase from the revenues of the previous year. Accounting in part for this high total is the sum of $593 million under the heading, "Special receipts and other credits". While this includes some such readily understandable items as the net income of the Canadian National Railways, the earnings of Park Steamships Limited, the proceeds of sales of surplus crown assets, etc., it is made up in considerable part by refunds of previous years' expenditures and other essentially bookkeeping transactions arising out of the war. For instance, amounts previously paid by the Department of Munitions and Supply to contractors as advances or working capital are now being finally charged to the department or agency which received the supplies. Such refunds of previous expenditure must be brought into revenue but at the same time there are some corresponding and offsetting increases in expenditures. Too much significance therefore must not be attached to the over-all total of revenues, and the deficit is, of course, not affected by these offsetting transactions.

More significant is the total of ordinary revenues which amounted to $2,436 million, a decrease of only $84 million from the previous year. Total tax revenues are now estimated to have been $2,275 million, which is about $100 million less than in the preceding year. However, this figure includes only $73 million of refundable taxes as compared with $220 million in the preceding year, so that if we consider net taxable revenues we obtained about $48 million more in 1945-46 than in 1944-45, despite the substantial tax reductions made in the budget of last October. If we look at the yield of individual taxes, we find decreases in the revenue from the personal income tax, the corporation tax and excise taxes, and increases in the yield of the excess profits tax, succession duties, customs import duties and excise duties. But I shall not weary the house with the statistical details. The decline in the yield of excise taxes was more than accounted for by the abolition of the war exchange tax; most of the other special excise taxes showed increases, offsetting to a considerable extent the decline in the sales tax, which arose from the broad exemptions introduced last year for building materials and various types of goods entering into production costs.

Non-tax revenues increased by about $15 million to a total of $160 million. As the house knows, most of this revenue is derived from post office receipts and from the return on investments, both of which sources of revenue have shown a steady increase in recent years.

Ordinary expenditures for the year are estimated at $1,062 million, an increase of $295 million from the preceding year. This substantial increase is largely accounted for by an increase of $97 million in the cost of servicing the public debt and by the introduction of family allowances, which involved a cost of $173 million during the fiscal year.

War and demobilization expenditures for the year are shown at a total of $3,558 million. This total includes the offsetting bookkeeping charges that correspond to refunds included in special receipts arising from the adjustment of earlier expenditures made as advances by the Department of Munitions and Supply and finally charged to the departments and agencies receiving supplies. Expenditures by the army, navy and air force amounted in the year to $1,707 million, as compared with $2,938 million the previous year. These service expenditures included heavy costs of repatriation and demobilization, as well as settlement of arrears of charges incurred in previous years of active warfare. The expenditures of the Department of Munitions and Supply and Reconstruction amounted to $263 million, including the item of $145 million for the costs of termination of war contracts following the end of hostilities. Expenditures to provide Canada's contributions to UNRRA amounted to $143 million, completing the total of $154 million which we agreed to provide. Mutual aid expenditures, including the settlement of outstanding accounts for deliveries in the previous year and the cost of some supplies and aircraft on hand and surplus at the end of hostilities, amounted to $772 million. Expenditures for supplies for military relief amounted in the year to $34 million, for which bills are being rendered to the governments of the recipient countries by the combined military authorities. War expenditures of the Department of Veterans Affairs (including the costs of gratuities, reestablishment credits, rehabilitation benefits, treatment and pensions) amounted to $328 million, nearly three hundred million more than in the previous year. All war expenditures other than those already mentioned amounted to $311 million, of which various subsidies on agricultural products and subsidies to maintain ceiling prices amounted to about $192 million.

We have not as yet included in the figures of war expenditure the $425 million represented by the cancellation of accumulated liabilities of the United Kingdom under the British commonwealth air training plan. Although this was provided for in the financial agreement with the United Kingdom, the relevant article of the agreement and the section of the act implementing it have not yet been put into effect, pending action by the United States congress on the Anglo-American financial agreement. They will be put into effect, however, immediately after approval is given to that agreement, which is now at an advanced stage of congressional consideration. The result will be to extinguish this item now listed on our balance sheet as an advance to the United Kingdom, and to increase the figure of war expenditures for 1945-46 by a corresponding amount. This is the major change which I expect to see in our final accounts for the year, as compared with the estimates now presented.

Special expenditures increased by about $10 million, largely due to an increase in advances to the prairie farm emergency fund. Capital expenditures, losses of and non-active advances to government-owned enterprises and other charges remained practically unchanged. For the sixth year in succession an amount of $25 million was added to the reserve for possible losses on ultimate realization of active assets.

The grand total expenditures for the year amounted to $4,691 million, a decrease of $555 million from the preceding year. As total revenue, exclusive of refundable taxes, was $2,955 million, the over-all deficit for the year was $1,736 million, a figure approximately $822 million lower than the deficit of the previous year. This amount is, of course, the extent of the increase in the net debt during the fiscal year.

Our financial requirements for loans, advances and investments, which amounted to a total of $666 million, are set out in some detail in the white paper. This was more than $200 million larger than in the previous year, due to very large advances to the foreign exchange control board and loans and advances to allied governments.

Total borrowings during the year, excluding the renewal of treasury bills, deposit certificates and short term notes held by the Bank of Canada, amounted to $3,750 million. Of this huge total, the great bulk was obtained from the two highly successful victory loan campaigns. In the eighth victory loan, during the spring of 1945, a total of approximately $1,564 million was obtained, made up of 3,178,275 subscriptions. In the ninth loan, floated in October and November, total subscriptions amounted to $2,025 million and numbered 2,947,636. These two highly successful loans marked the climax of the work of the national war finance committee, to whose able leadership I have frequently paid tribute. Our other borrowing during the year took the form of refundable taxes, an increase of $70 million in treasury bills, the sale of war savings certificates and stamps, and a modest increase in the floating debt. During the year we redeemed for cash securities of a par value of $916 million, including $155 million in U.S. dollar securities. Details of borrowing operations and redemptions are given in the white paper. Our holdings of cash in Canada increased by $536 million during the year, accounting in considerable part for the large total of borrowings. The cash deficiency during the year—that is, the net amount borrowed to finance expenditure, loans and investments, and not to redeem debt or add to balances in Canada—amounted to $2,452 million, as compared with $2,955 million the previous year.

There was one important development in our borrowing operations and policy which should be mentioned. As I announced on February 27, the government reduced the rate of interest on deposit certificates sold to the chartered banks after that date from $\frac{3}{4}$ of 1 per cent to $\frac{5}{8}$ of 1 per cent, and has arranged with all the chartered banks that the holdings by each bank of government securities other than these deposit certificates and treasury bills or notes will be limited in amount to the equivalent of 90 per cent of its Canadian personal savings deposits and will be so selected as to maturity as to yield on average an interest rate which gives them only a moderate profit margin over the cost of interest and other operating expenses on these savings deposits. This constitutes an important development in monetary policy and government finance; it means that monetary expansion through the purchase of government securties by the chartered banks will not result in more than a modest profit margin for the banks on such new assets and liabilities. During the war we were able to accomplish this objective, in substance, through the large scale use of deposit certificates and informal arrangements for their distribution to the various banks. This new development will enable us to continue to obtain in peace time the advantages of low cost, short term borrowing from the banking system.

As at March 31, 1946, our total unmatured funded debt, including refundable taxes, amounted to $16,807 million as now estimated. The net debt was $13,034 million, which reflects, of course, an increase during the year of the amount of the budgetary deficit. The funded debt carried annual interest charges of $436 million. The average rate of interest was 2·59 per cent, as compared with 2·51 per cent as at March 31, 1945, the slight increase being due to the fact that most of the addition to our debt during the year took the form of 3 per cent victory bonds.

The white paper which I am tabling to-night and which will amplify the brief summary which I have just given, deals at length only with the government accounts. Next year I hope to be able to present additional information of broader significance, showing how the government accounts and activities have fitted into those of the nation as a whole. Already the house will probably have noted the interesting and significant figures of national income, production and expenditures which have recently been prepared by the dominion bureau of statistics in cooperation with other departments and agencies of the government. By next year I hope we shall have both the basic statistical data and the staff necessary to prepare for presentation at the time of the budget figures showing the way in which the government expenditures, revenues and financing relate to the accounts and economic activities of the nation as a whole, and this should help in understanding and appraising the effect of the government's expenditures and its budget proposals upon the economic life of the community.

ECONOMIC SITUATION

I have so much else that I must speak about in this budget that I propose to comment only very briefly on the economic situation. In any case, immediate economic considerations are of less importance in determining our present proposals than longer term economic policy and the necessities of dominion-provincial relations.

We find Canada to-day more prosperous and further along the road of reemployment and reconversion that we could reasonably have expected last autumn when I presented the previous budget. Despite many shortages and interruptions, our economy as a whole has turned with remarkable speed from war service and work to peace-time jobs and objectives. We are enjoying a level of employment and prosperity that we have never experienced before in peace time. For that, in the hungry and devastated world of to-day, we should be thankful. On the other hand, we do not have the spirit of agreement, of cooperation and mutual confidence that we had hoped for; on matters of public policy we do not seem to have found the peace-time equivalent to the "win-the-war" objective that kept us united and strong during the war and enabled us to reach high levels of national achievement. I need not comment on the international or industrial difficulties and disagreements. In a field much closer to home, and immediately affecting this budget, we find now that our previous hopes for a comprehensive agreement between the Canadian and provincial governments have not been realized. Lacking an agreement that would have enabled us and the provincial governments to make plans with confidence and boldness, we must now proceed more cautiously, thankful that the present prosperity makes many of our problems less urgent for a short time.

When the war ended in Europe, slightly more than a year ago, there were three-quarters of a million men and women in our fighting forces. Now there are only about one hundred thousand; in little more than a year we have released about six hundred and fifty thousand. Of these, the large majority have found employment, or are taking university or vocational training, or have gone into business for themselves, assisted by their war-time savings and the many benefits provided for veterans. In the same period—but even more suddenly—our workers in war industry were released upon the labour market. The number is roughly the same as that of servicemen demobilized. All told then, about one Canadian in four who work for a living has been released from war activities. Several hundred thousand of them—married women, old people and students—have left the labour market. Some others are unemployed, unable to find work which they can and will undertake—although there are more than one hundred thousand unfilled jobs. The rest—the majority of the servicemen and war workers—are busy at work now in industry, trade, farming or elsewhere. Despite shortages and interruptions, peace-time production and trade have expanded rapidly and absorbed most of those seeking work with remarkably little difficulty. The number of unemployed is only about 200,000 at last report, and with the best season for employment still ahead. This compares with about 75,000 unemployed and seeking work immediately after the end of the war in Europe. This 200,000 is only about 4 per cent of our total labour force, at a time when changes in occupation are going on rapidly, and when it is difficult for men to move to the jobs that are now available.

The rapid and succesful demobilization and reemployment of man-power has been accompanied and, to some extent made possible, by the rapid technical reconversion of industry. War equipment was removed and replaced by equipment for civilian production in a great many plants with relatively little delay or difficulty. When the change-over has involved or been accompanied by modernization or extension of civilian production facilities, there has been greater difficulty and delay, due to shortages and competing demands in the United States and abroad.

In 1944 the total market value of all our current production and services—what the statisticians call our "gross national product"—reached a war-time peak of about $11¾ billion, compared with a value, at lower prices, in 1938 of about $5·1 billion. Thus, the effect of the war, including the effect of price increases, was to more than double our gross national production. We do not know, of course, what the final figure will be for the current year, but so far it has been running at about $11 billion—although that level may be pushed down as a result of interruptions to production.

Our present prosperity and employment are also on the whole well distributed throughout the country. There are some areas which have suffered from crop failure or from the disappearance of unusual war-time industrial or other activity, and which are experiencing temporary difficulties or a period of readjustment to more normal conditions, but there are surprisingly few of them.

The reason for the continuing high levels of production, employment and incomes, is that the demands of war, represented by war expenditures which have fallen from a huge total a year ago to a small fraction of that to-day, have been replaced by other demands which, though less insistent and insatiable, are nevertheless large and urgent and backed by effective purchasing power.

EXPORT TRADE

Our income from exports is the most important factor determining our prosperity and employment in peace time. During the war our exports reached fantastic levels, largely financed by war expenditures directly as through mutual aid, or indirectly, through what our forces spent abroad. These war exports included many of our staple products—foods, metals and other raw materials—but consisted largely of war products, guns, planes, ships, vehicles, ammunition, radar sets and other manufactured war equipment. Now, of course, the exports of these war supplies have almost entirely disappeared. But the exports of food and raw materials continue at high levels, and exports of civilian manufactured goods—locomotives, trucks, railway cars, ships, and machinery—are replacing those of war supplies, and helping to maintain our export trade, and therefore export incomes, at levels far above pre-war even though below the war-time peak. This is the main factor in the maintenance of our national production and employment.

While the need of overseas countries for our exports is enormous and urgent, most of them can only buy from us on credit. It is vitally important for the future development of our trade that these countries, particularly Britain and the countries of western Europe, should be able to buy our foodstuffs, metals, other raw materials and some of our new manufactured products, in order to reestablish their economic life and emerge as great trading nations providing markets for our goods. On our side, it is important to maintain export production and income while war expenditures decline and until normal trade, both domestic and international, is fully reestablished. Therefore the government has undertaken a large programme of export credits, which from the economic point of view is replacing our war expenditures by government investments, on which we shall earn a return in future years.

PRIVATE EXPENDITURE OF CAPITAL NATURE

The second powerful influence maintaining employment and production, despite the decline in war expenditures, is private expenditure of a capital nature, including building and construction, the purchase of new equipment and machinery, and the accumulation of stock in trade. In this general field there has apparently been a substantial increase in expenditure over the levels of last year. There is a large amount of private capital seeking investment in new building, plant and equipment, but the amount of expenditure of this kind is severely limited now by shortages of materials, parts and manufacturing capacity. In the building and construction field particularly, shortages of building materials, and to a lesser extent the shortage of skilled labour, are seriously restricting the provision of housing that is most urgently needed, as well as other forms of construction, particularly commercial and industrial buildings. It is to be hoped that this industrial and commercial expenditure that cannot readily be made now will be deferred a year or two, when it will help in sustaining high levels of employment and incomes after other temporary stimulants are less strong.

CONSUMER EXPENDITURE

The third offset to the decline in our war expenditures has been a substantial increase in the expenditures of consumers. At present a great many consumers have on hand large reserves of savings which they accumulated during the war, and some of which they wish to spend when the goods they want become available. Moreover, the proportion of their incomes which people have spent on consumption during the war has been abnormally low and will increase—both because they will not try so hard to save as under the pressure of war and because the proportion of income taken as taxes has been abnormally high. Now we may expect people to spend more of their incomes—and they are trying to do so. In addition, there has been the effect of the expenditures on family allowances to which I have already referred. These payments commenced shortly after the end of hostilities in Europe, and immediately offset a part of the rapid reduction which then took place in our war expenditures. Of even greater importance in its current effects, we have been operating a comprehensive and generous system of gratuities, benefits, reestablishment credits and other assistance for those leaving the armed services. I doubt if the house or the public realizes the large size of the sums involved in this programme. During the fiscal year for which we are now budgeting, these various payments to or on behalf of veterans as already provided for in the estimates, will add up to $620 million, and this figure omits the amounts paid by the services themselves for leave on discharge, deferred pay, clothing allowances and similar benefits. Nearly a quarter of all our expenditures this year will be directly for the benefit of veterans and their families. This year, of course, is the peak period, but these veterans' expenditures have been building up rapidly as war expenditures proper have declined, and have constituted a powerful influence increasing the total of what consumers have been trying to spend.

In fact, of course, consumers' expenditures continue to be limited and determined by the goods and services that are available to meet the demands. The available information indicates a moderate increase in these expenditures during recent months and a more substantial increase in employment in the industries supplying the consumer, particularly in trade and the service industries.

EXPENDITURES OF GOVERNMENT

The fourth influence offsetting the decline in our war expenditure has been a modest increase in the non-war expenditures of governments and municipalities—and in this I refer to their expenditures on supplies and services. In the case of the dominion government we have deliberately endeavoured to keep this increase to the minimum required by urgent post-war projects, and in particular we have pruned our public works and other construction programmes drastically in order to avoid demands on building materials and building labour urgently required for housing. I hope that provinces and municipalities will find themselves able to follow a similar policy at this time when the housing situation is so acute. Apart from projects that compete with building, however, there are many increased expenditures by governments and local bodies which it is important to proceed with as soon as possible after the war, and the result has been a gradual increase since last summer in government expenditures that give rise to employment and production.

PRICE CONTROL

While I hesitate to venture into the field of forecasting economic developments in a world as chaotic and eventful as the one we are living in at the present time, it appears that these major influences which have maintained a high level of expenditures for Canadian goods and services despite the reduction in war expenditure will persist for the remainder of this fiscal year, and beyond it, unless further difficulties arise to retard production. If these difficulties can be avoided, then I think we may reasonably expect a level of expenditure adequate to maintain a high level of employment and production through the year. Indeed, the pressure of expenditure at the present in many fields is so great that action by the government and others is needed to prevent rapidly increasing prices and the development of inflation.

The pressure on prices is still very strong. The scarcity of goods in relation to spending power is less than during the last few years, because there are more goods and services available for sale, both from larger production and imports and from the decline in the purchases of goods for war purposes. On the other hand, purchasers have incomes nearly as high as in war time, accumulated savings on hand at levels never before approached, and a greater disposition to spend now that the war is over. All this tends to pull prices up. Prices are also getting pushed up from below by increases in costs, increases in the cost of imported materials and parts, increases in fuel costs, increases in wages, and higher overhead costs when output is restricted.

We must resist this pressure towards higher prices and keep the increases within reasonable limits. During the war, as a result of strenuous efforts and the effective cooperation of the Canadian people, we succeeded in keeping prices under control and avoiding inflation. It would be the greatest folly now to dissipate the fruits of our efforts by letting prices get out of hand, by letting inflation set in when the battle is nearly over. Adjustments are necessary now, and many of them have been made. Some increases in prices and wages have been essential, and some others have been tolerable. We believe it is wise, and practically necessary, gradually to relax and remove the controls which made up our stabilization programme. Price ceilings are being raised here and there where conditions permit, and suspended altogether in some cases where no serious harm seems likely to result. Wage and salary control has been made more flexible to permit adjustments that are necessary, or that are justified on grounds of equity. But this relaxation is intended as a deliberate, orderly programme of decontrol and not as an invitation to a mad scramble for higher prices and wages in which we shall all suffer. So far, most Canadians have on the whole shown a sensible restraint in seeking adjustments of prices and wages. Now that we are relaxing our controls, we must look to all important groups and their leaders to act with sense and discretion and a due regard for the results of their actions upon others. I am sure that all members of this house would regard inflation now as a dismal tragedy, coming at the end of what has been an outstanding record of success in dealing with the economic problems of war.

The real answer, the constructive answer, to the inflationary pressures existing at this time is to work and produce the goods that are wanted in greater volume, so that our greater buying power will result in more goods at reasonable prices, rather than fewer at higher prices. To business men in particular I would like to address a plea that they do all in their power to hold prices down and get volume up, over this next critical year. The purchasing power represented by war-time savings will go further and our prosperity will be more permanent, if prices can be kept down. Canadians, before long, must expect to meet competition in export markets and in their own markets from the exports of other countries. We wish to enter that long period of competition with the advantages of low costs and volume production, so that high employment can be maintained and a high real standard of living.

Production then should be our primary objective both for its own sake in a world that needs goods so badly, and as a safeguard against the present danger of inflation. We should aim now at high volume production for civilian purposes despite shortages, strikes, delays and uncertainties, high volume production rather than high prices as a source of income and profits. No longer must civilian production be restricted in order to conserve resources for war. It can now receive first priority.

BUDGET FORECAST 1946-47 AND FINANCIAL PROPOSALS

It is with this view of the current economic situation and the prevailing trends that I have approached the primary purpose of this budget, namely, the formulation of financial proposals to meet the requirements of the current fiscal year 1946-47 and the months immediately following the close of the year.

As the house knows, the main estimates for the current fiscal year, covering both ordinary expenditures and expenditure chargeable to demobilization and reconversion involve an expected outlay of $2,769 million. We have found from experience, however, that there are likely to be savings in any financial programme of that magnitude, although of course it is impossible to say beforehand in respect to what items the savings will actually be made. On the other hand, payments to veterans, chiefly veterans' credits, have been running in recent months at higher levels than were anticipated when the main estimates were prepared. My own forecast is that apart from any substantial increase in this item and assuming no new commitments of a major character, the total savings will be sufficient to allow for any supplementary and further supplementary estimates which it may be necessary later in the year to ask the house to approve.

On the revenue side, it is estimated that under our tax laws as they now stand, total revenues in 1946-47 will approximate $2,510 million as compared with $2,956 million in the last fiscal year. I shall place on *Hansard* a table showing the details of this estimate in comparison with the revenues of 1945-46:

	Forecast Fiscal Year 1946-47 (millions)	Actual Fiscal Year 1945-46 (millions)
Customs duties	$ 183	$ 129
Excise duties	195	187
Sales tax (net)	250	212
War exchange tax	...	41
Other excise taxes	259	244
Income tax:		
Personal	640	692
Corporate	210	218
Excess profits tax	340	494
Interest and dividends	30	28
Succession duties	24	21
Miscellaneous	9	9
Total tax revenue	2,140	2,275
Less refundable taxes	...	73
Net tax revenue	2,140	2,202
Non tax revenue	170	161
Total ordinary revenue	2,310	2,363
Special receipts	200*	593
Total revenue	$2,510	$2,956

* Arbitrary estimate.

On these estimates which are believed to be conservative, there will be a decline of $446 million in our revenues this fiscal year compared with last, but most of this expected decrease comes from assigning to special receipts an arbitrary estimate of $200 million as compared with last year's corresponding figure of $593 million which, as I have already explained, is inflated by abnormal bookkeeping transactions. The more significant comparison relates to ordinary revenue, the estimate for which shows a decline of $53 million from last year. This expected decrease is largely attributable to the reductions in personal income and excess profits taxes announced in last year's budget. Substantial declines in the yields of these two taxes are not expected to be fully offset by moderate increases in the returns from customs and excise duties, the sales tax and the special excise taxes.

These revenue estimates of course are based on the assumption of no changes in our present tax structure. They indicate that if no such tax changes are made and if our total expenditures do not exceed the estimate given a few minutes ago, we may expect a budgetary deficit for 1946-47 of roughly $260 million. Measured by standards of the past, that is still a not inconsiderable deficit but it is in pleasing contrast with the deficit of $1,735 million which I have already reported for the last fiscal year.

It is possible that some of the revenue figures given above may prove to be underestimates if economic conditions remain as prosperous as at present, and in particular, special receipts, swollen by large scale disposals by War Assets Corporation, may be higher than the $200 million figure quoted. On the other hand, as I have already indicated, expenditures in the form of payments to veterans have been running ahead of earlier estimates. I think we can best accept the relatively conservative estimates that I have given above, in the expectation that there may be offsetting increases on both sides of the account, leaving the deficit roughly at the level forecast, subject, of course, to the tax changes which I shall propose.

FINANCIAL REQUIREMENTS

The financial requirements for which we must provide during the present fiscal year include not only our budgetary expenditures but certain disbursements outside the budget for the acquisition of active assets. For this purpose, during the present year we shall have to raise a substantial amount of cash, as in addition to the normal increases in loans, advances and investments, resulting from ordinary government activities, including the financing of the foreign exchange control board, the export credits programme and the United Kingdom loan will require the disbursement of governmental funds in very large volume. We estimate that during 1946-47 the total of these disbursements which create active assets may be in the neighborhood of a billion dollars. This will bring our total financial requirements on the basis of present commitments and present estimates during the year to roughly 3¾ billion dollars.

Financial requirements of this magnitude do not of themselves suggest a reduction in taxes. Moreover, as I have already indicated, the current economic situation in respect of the available volume of purchasing power and current spending trends is not such as to provide an economic justification for reducing taxes at the present time. Lighter taxes are not needed now for the purpose of permitting or encouraging additional private spending in order to maintain employment this year. In fact, if only immediate economic conditions were involved, one could make a case for temporary higher taxes in order to curb the excess of spending in some directions that is tending to pull prices up.

TAX POLICIES

There are, however, other important considerations to be borne in mind. In the first place, the action we take now in regard to taxes should provide whatever stimulus is possible to increased production. If we can encourage hard work and efficient production at this critical time, we shall be assisting greatly the effectiveness of our other actions to overcome the inflationary influences left behind by the war.

Secondly, in shaping our tax policies at present we should be moving toward our normal post-war tax policy, and we should therefore bear in mind the long run problems we shall face once the huge, temporary post-war demands have been satisfied and it becomes necessary for us to maintain and stabilize national expenditure and employment. When that time arrives, we must depend on steady, large scale capital expenditures by private business, and on our ability to sell our products abroad (and at home, too) in competition with other countries, if we are to succeed in maintaining a high level of employment and a high standard of living. To secure these conditions of stable prosperity we must revise our war-time tax system in such a way as to preserve essential fairness in the distribution of the total burden and avoid any serious deterrent to hard work and efficiency.

It will therefore be my pleasant duty in a few minutes to announce reductions in taxes on personal and corporate incomes which are based upon these longer run considerations as well as upon the desire to increase immediately the incentive to produce, even though we recognize that such reductions at this time may possibly increase some of our difficulties during the period of shortages and inflationary pressures.

DOMINION-PROVINCIAL FINANCIAL ARRANGEMENTS

The effect of the tax reductions which I shall propose to-night will, I believe, depend to an important degree upon what provincial governments do when the war-time tax agreements expire. These agreements were made in order to provide a necessary increase in over-all taxation from imposing intolerable inequities and hardship. Unless new arrangements are made to enable provinces to meet their requirements without a free-for-all scramble to exploit the major tax sources, I am convinced that this country will lose much of the economic advantages which should accrue from the over-all tax reduction which is now envisaged. Before outlining my tax proposals in detail, I must, therefore, refer to the problem of dominion-provincial financial relations.

This problem is far more than one of taxation alone. What is at stake is Canada's ability (a) to have an effective anti-depression policy and to maintain full employment and a high national income after the present abnormal transition period is over; and (b) to achieve a reasonable standard of economic security for all Canadians no matter in what part of the country they may live. It was with these broad objectives in mind that the dominion government put forward its proposals to the dominion-provincial conference which began its sessions on August 6 last.

These proposals outlined a coordinated programme by which the dominion and the provinces could most effectively work together to provide high and expanding employment and national income, a wide measure of economic security and a less burdensome, more efficient tax system. The proposals formed an integrated whole but for purposes of the present outline can be grouped in three categories: those relating to public investment, those relating to social security and those dealing with tax reform.

Obviously at the present time of many continuing shortages and pressing demands it is not opportune to consider launching a large public investment or public works programme. Nevertheless the war-time depletion of many of our assets and depreciation of many of our public works make it imperative that we now prepare plans for greatly expanded activity in the whole field of public investment when the employment situation and other conditions should make that desirable. In the August proposals emphasis was laid in particular on two aspects of public investment. One was the desirability of regulating the timing of public investment in so far as that was practicable, with a view to levelling out booms and depressions. The second was recognition of the need for increased expenditures on the conservation of our soil and forests, and the economic development of our resources. To these ends the government outlined a substantially expanded programme of resource development and conservation services and construction projects which it was prepared to undertake itself, and also a broad list of services and categories of projects under provincial jurisdiction which it was prepared to assist. There were in addition grants proposed to provincial governments, and through provincial to municipal governments, to assist in meeting the cost of advance planning of projects with a view to building up a reserve shelf of useful works for time of need, and to encourage the best timing in relation to the general employment situation for carrying out these planned works. The programme as a whole was designed to develop and conserve the productive wealth of Canada, to assist in stabilizing employment, and to widen opportunities for private investment and employment. The character of investment proposend was one complimentary to private investment rather than competitive with it and was designed to be, when not directly self-liquidating, of real economic and social value to the nation.

The various social security proposals had also broad economic as well as broad social objectives. They were planned not only in relation to the needs of individuals suffering from the distress of unemployment, illness and old age, but also with a view to stabilizing the income of the lower income groups of the population and consequently that of the community as a whole.

The proposal for unemployment assistance was designed to care for the great bulk of able-bodied workers who might be unemployed through no fault of their own. This extension of dominion responsibility would remove the overcharging menace of the ability of provincial and municipal governments to finance themselves, and in particular the threat and uncertainties facing real property owners, inherent in the present responsibility for relief. In addition, proposals were made for expanded vocational training and other rehabilitation services designed to fit men for their most productive work and to prevent deterioration arising from idleness.

The old age pension proposals, including as they did, an increase in benefits and abolition of the means test for all persons aged 70 and over, and with provision for assistance to provincial schemes for persons from 65 to 69, recognized the claims and needs of our old people with which there seems to ge general sympathy. The qualifying age for federal assistance for pensions to the blind was to be lowered to 21.

In the important field of health the proposals provided for substantial dominion assistance to provincial public health and preventive medicine activities, for tuberculosis, mental disease and venereal disease prevention and cure, and for other health services. In addition an offer was made to meet approximately 60 per cent of the cost of provincially administered health insurance schemes within a national framework. The health insurance offer was an optional rather than obligatory part of the proposals and the programme was to be developed progressively by stages and areas. It was believed that it would contribute a great deal to relieve individual suffering and improve the health of the nation, and would ultimately pay substantial dividends in financial as well as human terms.

As in the case of Australia, New Zealand and the United Kingdom, it was proposed that these expanded social services would be financed in part by direct personal contributions. These might be likened to modest insurance premiums paid by each individual in order to make systematic provision against risks or contingencies which might otherwise fall with crippling force upon the family budget, as for instance the cost of medical care does to-day. There were no hard and fast provisions laid down as to the financing of the province's share of health insurance except that there was to be a registration fee which was not specified.

The tax proposals which have been the subject of so much controversy were in reality two-fold, and there is some danger that sight may be lost of the second and more important of these aspects. As a necessary preliminary, the government proposed that it should have exclusive occupancy of the personal income, corporation, and succession duty tax fields, compensating the provincial governments by annual rental payments. The August proposals were subsequently modified in respect to the succession duty tax to provide for continued exercise, by any province which so wished, of its succesion duty rights, with compensating credits to individuals paying provincial taxes and compensating adjustments in the annual rental paid to the provincial government. The government then outlined the policies which it proposed to follow if an agreement had been reached giving it a free hand in these fields, including reduction in personal income taxes and elimination of a portion of the existing element of double taxation in the corporate tax. The government attached great importance to the benefits which would be possible through a single administration of these important tax fields, arising from simplification and reform of the tax system on a scientific basis to reduce the total tax burden, from the removal of existing inequities, from greater efficiency of administration and collection, from reduction in the cost of tax compliance by the taxpayer, and from the means it would have available through appropriate changes in policy to help offset fluctuations in the business cycle. Of particular importance was the belief that the right tax policies, varying with the needs of the times, would lead to broadening and expansion of the tax base, that is to say, the size of personal and national incomes and consequently reduce the real burden of taxation. These taxes which were once relatively trivial in amount have of necessity become far too large to allow conflict, confusion and overlapping of policy to thwart investment, retard industry and depress employment. They are far too important adjuncts of economic policy to be exercised in different and unordinated ways if we are to achieve our objectives of high and stable income and employment.

A word should be added on the fiscal position in which the dominion's proposals would have put the provincial governments. In the major expenditure fields of public investment and social services, the government was prepared to assume responsibility for the most sharply fluctuating items and to assist the provincial governments substantially in expansion of their own services. Municipal budgets would also have been relieved of both substantial current and potential expenditures. The annual rental offered the provinces to vacate, for the proposed three-year term of the agreement, certain direct tax fields was not only generous in relation to any amounts which the provincial governments had hitherto derived from these fields, or could expect to derive in the light of the necessary post-war level of dominion taxes; but could not fall below a guaranteed minimum and would rise proportionately with increases in gross national product. The net effect would have been to put all provincial governments in a much stronger and more stable fiscal position than they had ever enjoyed before or than there was any prospect of their achieving in a return to the general free-for-all of pre-war. At the same time it was believed this could be done at a reduced overall cost to the taxpayers, and would provide positive incentives to industry and a greater degree of security for all Canadians in all parts of Canada.

The conference which met last August, decided to accept the dominion's proposals as a basis for discussion and a continuing coordinating committee was appointed consisting of the Prime Minister and the nine provincial premiers. This coordinating committee met in camera from November 26-30, from January 28-February 1, and on April 25 and 26. Most of the discussion at these meetings took place within the framework of the dominion proposals. Modifications were suggested by provinces and a good many substantial revisions were made by the dominion at the January and April meetings, so many indeed that we were charged with "constant and drastic revisions" while at the same time we were also accused of "uncompromising rigidity". It is fair, I think, to add that no alternative to the broad outlines of the dominion's proposals was discussed at the coordinating committee meetings held in camera.

I shall not attempt to analyse the stand taken by each province. The published record of the open meetings which took place from April 29 to May 3 speaks for itself. I am convinced that in the case of at least a majority of provinces an agreement could have been reached along the broad outlines of the dominion's proposals. However, at least two provinces appeared to be definitely opposed to an agreement of the character and scope offered by the dominion. In the case of Quebec, it was never at any time made clear just what changes in the dominion proposals would be necessary to make them acceptable to that province. Ontario, it is true, did offer a proposal which was an alternative to the dominion proposals, but it was not until the closing hours of the conference that the financial implications of that proposal were revealed. These involved so large a net increase in total cost to the dominion as to put the proposal beyond the possibility of responsible consideration.

Under the Ontario proposal we were asked to forego revenues from which we estimated we would receive $102 million per year and to accept an increase in our obligations amounting to at least $32 million and perhaps to as much as $100 million, as compared with those assumed under the dominion's finally revised proposals. In other words, the Ontario proposal would, according to our estimates, have involved an additional net burden on the dominion treasury of at least $134 million a year, and perhaps $100 million in addition to that. These figures have been disputed, but they cannot be successfully refuted. At that stage the dominion felt it had made as comprehensive an offer, and had undertaken to assume as great a financial burden, as it could possibly justify to the people of Canada. The negotiations had extended over nine months and during that period of time the dominion had repeatedly revised its proposals in an endeavour to meet the several requests made by the provinces. We were still willing to accept suggestions for modification of our proposals provided they did not further increase the burden upon the taxpayers of Canada. In particular, we were willing to rent for a temporary period our rights to use certain fields of excise taxation, in the same way as we were asking the provinces to rent to us temporarily their rights in certain fields of direct taxation; provided the provinces could agree amongst themselves with respect to the rental consideration. However, none of the suggestions to this end made by ourselves or by some of the provinces, was acceptable to the provinces generally, and when it became clear how wide was the gulf between the dominion and at least one of the provinces, the conference adjourned sine die. There is nothing to be gained by post mortems or recriminations. We must now get on with our tasks as best we can.

The inability to reach a final agreement with the provinces has, however, greatly complicated my task in formulating this budget. The budget obviously cannot be based on the assumption that a general dominion-provincial agreement will still be reached. In my opinion the differences are far too great, not only between some provinces and the dominion but also between some provinces and other provinces to permit of reconciliation at an early date. I have had therefore to prepare this budget upon the assumption that no new general tax agreement could be made in the near future. Accordingly, in keeping with the terms of section 20 of the war-time tax agreements, I am proposing that the dominion's flat rate of tax on corporate incomes be reduced from 40 per cent to 30 per cent as from January 1, 1947. I am also proposing, as I shall explain in detail a little later, a substantial further reduction in personal income taxes, effective in 1947, which will enable the provinces which so desire to re-enter the personal income tax field. With these proposed reductions and with the payments to the various provinces of certain holdbacks within thirty days of the termination of the present agreements, we shall have fully carried out all our obligations under those agreements.

Nevertheless, we have all along been acutely conscious that the mere carrying out of the terms of these agreements would not enable us to remain indifferent to the problem of provincial finance and taxation. The agreements will all expire by next spring, three of them this fall, and without a new agreement several provinces are going to be faced with a difficult budget problem, and a chaotic tax situation is likely to arise.

If no new agreements are made, the provinces will again become dependent upon what they can collect from income and corporation taxes. Unfortunately, the income and corporation tax base is very unevenly divided as between provinces. Even before the war those provinces which were less fortunately placed in this respect were driven to uneconomic methods of taxation in attempting to meet their budget requirements. Apart from duplication and overlapping of taxes, provinces were forced to adopt arbitrary and makeshift devices which bore heavily on costs and hampered production. In spite of this, some provinces could not meet their minimum requirements without loans and temporary subsidies from the dominion. Their autonomy and their ability to discharge their constitutional responsibilities were seriously threatened.

If the pre-war situation was unsatisfactory, the post-war position will, in the absence of new agreements, become intolerable. Provincial expenditures have expanded greatly. Overall provincial budgets, brought down for the current year, call for expenditures higher by about $200 million than in 1940. This is an increase of roughly two-thirds. If the provinces again become dependent on income and corporation taxes, some will be forced to adopt taxation expedients far more drastic than those employed before the war. Financial pressure on the less-favoured provinces will give rise to increasingly arbitrary and discriminatory taxation, will lead to interference with interprovincial trade and to the extension of government ownership and operation of business merely in order to obtain additional provincial revenues which of course would mean loss of revenues to the dominion. Even with all this, it is difficult to see how some provinces could retain their solvency and any degree of financial autonomy. Moreover, the arbitrary and discriminatory provincial taxes would come on top of dominion taxes which, while substantially less than at present, would still be considerably higher than before the war. The dominion cannot stand aside and allow such a situation to develop. It would seriously impair the capacity of private enterprise to provide high and expanding employment. It would weaken and perhaps destroy our federal system.

The government has reached the conclusion that it would be irresponsible in the extreme if it allowed such a situation to develop without a further attempt to prevent it. It has been convinced that it would be shirking its responsibility to the people of Canada if it did not seek to devise some modified proposal which could be accepted by those provinces which wished to accept it and be left aside by those which did not desire it or felt they had no need for it. Such a modified proposal we have devised.

While it is to be regretted that it was not possible to reach agreement with all the provinces at the conference, it would be a mistake to say that the conference itself had not been of the utmost value in making clear to the governments of all the provinces as well as to the dominion government the problems with which each is faced, and the factors of which full account must be taken if immediate pressing situations are to be met and any practicable solution is ultimately to be found. Our modified proposal has been devised in the light of the conference discussions. I wish now briefly to outline its terms. It is, as I have indicated, wholly optional. Any province which wishes to do so will be perfectly free to remain out of the agreement and deal with its own problems in its own way. With those provinces which accept it, an agreement will be signed which will terminate five years after the termination of the present agreement. This is a longer term than the term of three years provided in our original proposals. It is, however, expected that some provinces may wish to sign immediately and others, if they sign at all, may not sign for one or two or more years. Having this in mind, it seems inappropriate to suggest a term shorter than five years.

OFFER TO PROVINCES

The essence of our proposal is that in return for specified unconditional annual payments and other benefits, the agreeing provinces would undertake to restrict during the term of the agreement their use of the three fields of direct progressive taxation as follows:

(a) The agreeing provinces would agree not to levy any taxes on personal income nor permit their municipalities to do so. There would, of course, be double taxation of personal incomes in those provinces which did not wish to enter into the agreement and proceeded to levy their own taxes on personal incomes, but in order to help reduce the burdens of such duplication the Dominion would be willing to give a tax credit to the individual taxpayer of the amount of the tax he had to pay to the province, up to 5 per cent of the tax payable to the dominion by such taxpayer. Any increase in financial burden on the individual taxpayer would thus be avoided if the provincial tax did not exceed 5 per cent of the dominion tax. The provincial government would, of course, have to remain the sole judge as to the amount and nature of the tax it imposed on its own people, but obviously the inconvenience to the individual taxpayer involved in filling out two sets of income tax returns and calculating tax on two different bases would be decreased if the provincial tax were imposed as a fixed percentage of whatever tax might be payable to the Dominion by the individual taxpayer. In order to be of assistance to that end, the Dominion would be willing to make extra copies of its forms available so that when filling out his dominion tax return the taxpayer could merely make an additional copy and mail it with his cheque to the treasurer of his province.

(b) An agreeing province would undertake to levy a five per cent tax on net corporate income within the province and would also agree on behalf of itself and its municipalities to impose no other corporation tax or tax on corporations except corporations engaged in mining or logging operations. For this purpose, a corporation tax would have the same meaning as under the existing agreements. The province would also agree to discontinue the special five per cent tax mentioned above at such time as all provinces had made a tax agreement with the dominion. The five per cent levy would be based on taxable income as defined in the dominion income tax law, and allocation between provinces would be made on the basis of uniform rules worked out between the dominion and the provinces making an agreement. The dominion would collect the five per cent tax for the province and the dominion's annual payments to the province, as specified below, would be reduced by the amount of such collections. Any province not signing the agreement could levy such taxes as it pleased on its corporations, but any such taxes defined as corporation taxes or income taxes under the existing agreements, other than taxes on corporations engaged in mining and logging operations, would not be regarded as a deductible expense for the purpose of calculating taxable income under dominion tax laws.

(c) For the duration of the agreement also an agreeing province would either undertake not to levy succession duties at all or if it wished to continue to do so, it would agree to accept an appropriate reduction in its annual payments due from the dominion. In the latter case, succession duty amounts payable to the province would be treated by the dominion as a credit against amounts due under the dominion succession duty but the credit would be limited to one half the succession duties payable to the dominion. The dominion's annual payments to an agreeing province so continuing to impose succession duties would be reduced by the aggregate amount of such credits. This proposal, of course, will involve a doubling of the rate of succession duties now in effect under the dominion act but because of the system of tax credits already described, the general burden of the combined dominion and provincial succession duties in those provinces which continue to levy succession duties will be the same as at present.

In return for these undertakings, the agreeing provinces would receive annual payments from the dominion along the lines of the proposal made by the dominion to the provincial premiers at the conference held two months ago. For the term of the agreement the dominion would undertake to supplement the present statutory subsidies in such a way as to provide that each province signing an agreement with the dominion would receive a guaranteed minimum annual payment, including statutory subsidies, equal to $15 per capita based on the 1941 actual or the 1942 estimated population of the province, whichever is the greater. The actual payments to be made in any year would be equal to the guaranteed minima increased in proportion to increases both in population and in per capita gross national production and would be based on the average of payments as determined separately for each of the three preceding years. In no case would the dominion's payments to a province be less than 150 per cent of that province's annual receipts under its wartime tax agreement (excluding guarantee of gasoline tax revenue). For no province would they be less than two million dollars. In addition, all provinces would be free to tax profits from mining and logging operations and any such taxes would be treated as a deductible expense for dominion tax purposes. Finally, in the case of companies whose main business is generating for distribution to the public or distributing to the public electrical energy, gas and steam, the dominion would pay to the provinces concerned one-half the dominion's net corporation income tax collections from such companies in respect to such business. This payment to a provincial government would be reduced by an amount equal to any taxes which the government of that province levied on such companies. If a provincial government or one of its municipalities should take over a tax-paying corporation (other than one of the category just mentioned), the specified annual payments to that province would be reduced by the amount of the tax loss sustained by the dominion. The provisions regarding the allowances for taxes on mining and logging operations and half the tax on certain public utility companies will apply to all provinces, whether or not they enter into an agreement.

I have had prepared a table showing the guaranteed minimum payments for all of the provinces and the payments presently estimated for the year 1947, assuming all provinces accepted the agreement, together with the provincial revenues received from comparable sources at the present time. With the consent of the House, I shall place this table on *Hansard:*

Dominion Payments to Provinces Under Proposed Tax Agreements
(Millions of Dollars)

	Dominion Payments to Provinces under Proposed Tax Agreements		Present Provincial Receipts From			
	Guaranteed Minimum	1947 as Presently Estimated	Wartime Tax Agreements	Statutory Subsidies	Provincial Succession Duties(1)	Total of Foregoing
P.E.I.	2·0	2·0	·7	·4(2)	·1	1·2
N.S.	8·9	10·0	2·9	·7(2)	·6	4·2
N.B.	7·0	7·5	3·7	·7(2)	·4	4·8
Que.	50·9	57·3	20·6	2·9	7·8	31·3
Ont.	58·3	64·5	29·0	3·2	12·1	44·3
Man.	10·9	11·8	5·7	1·7	·6	8·0
Sask.	13·4	13·7	5·8	2·0	·4	8·2
Alta.	11·9	13·3	5·8	1·8	·6	8·2
B.C.	18·1	18·1	12·0	1·0	1·3	14·3
Total	181·4	198·2	86·2	14·4	23·9	124·5

(1) Average collections in latest five-year period for which data are available, viz., 1940 to 1944 inclusive.

(2) Excludes interim subsidies of $275,000 (P.E.I.), $1,300,000 (N.S.) and $900,000 (N.B.) which are included in the previous column under Wartime Tax Agreement receipts and which will become statutory upon expiration of the Wartime Tax Agreements.

NOTE: The table does not take into account the effect on provincial revenues of the dominion's proposals in regard to taxes on mining and logging operations and the contribution of half of the dominion's receipts from the taxes on certain public utility companies. Nor, of course, does it take into account any reductions in payments due to collections of the special five per cent provincial tax on corporations or the credits allowed to taxpayers where the province continues to collect succession duties. These last two factors merely change the name of part of the payment and not its total amount.

Analysis of the table will reveal that the nine provinces are now receiving from statutory subsidies, payments by the dominion under the war-time tax agreements, and succession duties, a total of $124·5 million a year. Under the new proposal, if all provinces should accept they would receive as now estimated, a total payment in 1947 of $198·2 million, and no matter how low the national income might fall at any time during the next five years they would always be sure of the minimum payment of $181.4 million.

If any province did not wish to enter the agreement it would need to raise the amount of revenue shown in the following table by personal and corporation taxation, or some other form of taxation, to have the same revenue as that estimated for 1947 under the agreement:

	million
P.E.I.	1·2
N.S.	7·4
N.B.	5·5
Que.	46·6
Ont.	49·2
Man.	9·5
Sask	11·3
Alta.	10·9
B.C.	15·8
	$157·4

I cite these figures to show the budgetary problems with which the nine provinces will be immediately confronted if no new agreement is made and also to suggest the probable resultant pressure on the tax system of Canada. The budget problems of these provinces must be solved in some way if we are to build a strong and united country. Is it not far sounder that they should be solved by a system of automatic payments objectively determined and made in return, so to speak, for the rental of an asset rather than by a system of outright subsidies or handouts? The latter, on the scale indicated, would either encourage irresponsible expenditure in the hope that any additional assistance required would always be forthcoming, or alternatively involve a control by the dominion over provincial administration, which is neither desirable nor practicable.

It has been said that the proposed payments by the dominion to the provinces are not based on the principle of fiscal need. That criticism fails to grasp the true facts of the situation. What is essentially valid in the position taken by the financially weaker provinces is their claim that the great bulk of the wealth and income of the country is concentrated in the two or three large provinces, that most of the head offices of the corporations doing business all over Canada are situated in Ontario and Quebec, and that the larger provinces, therefore, get an unfair share of the tax revenues which are based on the corporate profits and the personal incomes and estates resulting from the business done throughout the country. Now, what the dominion's proposal does is to provide a method whereby the three Maritime provinces and the three prairie provinces will be enabled to derive from these sources the same per capita revenue as Ontario and Quebec. By selling certain rights to the Dominion for the term of the agreement, they are put in a position of sharing with the two central provinces equally on a per capita basis the productivity of the three great fields of direct progressive taxation—corporation taxes, taxes on personal incomes and succession duties. Surely this is going very far to meet the test of fiscal need. If, in spite of such assistance, any one province should still find itself under normal conditions faced with a fiscal problem, that could only be due to a higher relative level of expenditures or a failure to tap other sources of tax revenue to the same extent as other provinces. In such a case, a further fiscal need subsidy would be impossible to justify, although this does not of course mean that occasionally a province or region may not be affected by a calamity which might justify special temporary assistance.

Another merit of the proposal is the greatly increased measure of stability which it would assure for the revenues of an agreeing province. The province would of course benefit from any increase in its population and in per capita gross national product but its revenues from the three tax sources would never fall below the guaranteed minimum, no matter what happened to business conditions. It would be dominion revenues which would have to bear the shock of an economic recession but the dominion government is in a far better position to carry a large deficit for a time than is any provincial government. The high floor which would be set under a substantial part of the revenues of the agreeing provincial governments would enable them to plan their developmental programmes with greater assurance and give them a financial responsibility and freedom of decision in the matters entrusted to them by the constitution not previously known. In this way also would the federal system be strengthened.

In addition to assuring to agreeing provinces a specifically and objectively determined annual revenue, adequate in amount and stable in character, the arrangement which we are offering to make with each province should go a long way toward avoiding the overlapping, discriminatory and uneconomic methods of taxation which will otherwise result when the war-time tax agreements expire. Throughout the agreeing provinces there will be uniformity of overall income and corporation tax and probably of succession duty rates as well. There will be only one agency collecting such taxes in these provinces and any differentials in the overall rates as between agreeing and non-agreeing provinces should not be of major proportions.

The proposed arrangements represent, I believe, the closest approach which can be made under present conditions towards an efficient system of income, corporation and succession duty taxation. The way in which, and the rates at which, these taxes are levied have such a bearing on enterprise, on the incentive to work, and on national income that I would urge every province to give our offer the most careful consideration. There are, of course, additional and substantial benefits which can only be achieved if and when this interim arrangement can be made with all provinces. Only then will the dominion be in a position to implement its undertaking made at the conference to reduce the element of double taxation on distributed corporate earnings, which has a tendency to discourage risk-taking investment.

Perhaps a more important point is that if and when tax agreements can be made with all provinces and the dominion has exclusive use of the three tax fields in question, it will be able to co-ordinate the management of these taxes with its employment and economic policy as a whole. If I may quote from what I said to the conference on May 1 last, "social justice requires that these progressive taxes be used to the fullest extent possible; economic common sense requires that they be limited to rates that will not stop people working hard and taking those risks which are necessary if we are to produce effectively and make progress. It requires the most careful judgment to balance these conflicting considerations under all the changing economic conditions and political pressures which a modern nation must face. Yet success is vital if we are to maintain employment and economic progress. Success would be made very much more difficult, and perhaps impossible, if it required the joint action of ten governments rather than one. The dominion is prepared and is best able to carry the responsibility of seeing that these progressive taxes are fully used, but not used so much that they do more harm than good. If, however, the provinces are also in this field, there will be a natural tendency for them to take a narrower view, a purely financial view, and to force the total of their taxes and dominion taxes to uneconomic levels. If, for example, experience showed that the corporation income tax, at some time in the future, was so high that it prevented the proper expansion of industry and employment in the nation as a whole, in the judgment of the dominion government, it would be proper to reduce it; but if the provinces were also using that tax, some of them, if not most or all of them, would be likely to raise their corporation taxes to take advantage of the reduction made by the dominion. The provinces might feel, quite rightly, that they could not afford to take as long range a view as the dominion, and if they were in need of revenue, they would probably find it difficult to reduce their taxes or to refrain from increasing their taxes because of the possible effects upon general employment and economic development in the country as a whole. This argument would be especially strong in times when employment and incomes were declining and when vigorous efforts were needed to encourage private expenditure and the expansion of industry. In such times, provinces would naturally be faced with declining revenues in other fields, and would be understandably reluctant to join in a programme of reducing income or profits taxes which however beneficial its long-run effects might be, had the immediate result of reducing substantially the revenues on which provincial expenditure depended."

For the information of the house I may say that I am mailing tonight a letter to the premier of each province, outlining the offer which I have just described and discussed.

It will be desirable if those provincial governments which wish to enter into such an agreement indicate their acceptance at an early date. Arrangements can then be promptly made for getting the agreements into a final form agreeable to all provinces which propose to sign. In some cases special arrangements to take care of special circumstances will have to be made. For instance, it is understood that the western provinces may not wish to sign a new tax agreement until a collateral agreement has been reached in regard to the refunding of their outstanding treasury bill indebtedness to the dominion. In the case of New Brunswick, Nova Scotia and Prince Edward Island, should they desire to accept the present proposal, it might also be necessary to consider an extension for a few months of the present war-time tax agreements which expire on October 31, November 30 and December 31 next respectively, if the necessary authorizing legislation in respect of the annual payments cannot be prepared in time for enactment at the present session of parliament. These and other matters of a similar kind will be the subject of discussion with representatives of the provincial governments concerned. It is my hope, however, that all points of principle can be agreed upon in sufficient time to submit the necessary legislation to parliament at an early date.

The house will have noted that the proposal I have outlined is limited strictly to matters of finance and taxation. That is an inevitable result of the failure thus far to achieve agreement with the provinces. It is obvious that the dominion cannot, for instance, assume responsibility for unemployed employable persons in some provinces but not in others. Nor can it introduce the over-all plan of social security we had contemplated without at the same time reaching a satisfactory financial agreement with the provinces. Several of the major objectives of the comprehensive dominion proposals which were announced last August must therefore be held in abeyance for the time being. They remain, nevertheless, an essential part of the programme of this government. We continue to be ready to proceed with these or similar measures as and when arrangements can be worked out which will enable us to carry them out satisfactorily. We earnestly hope that those who have it in their power to make agreement possible will not long delay in making it possible to consummate the objectives we have in mind.

Obviously, the interim programme which I have outlined will represent not an ideal solution but only a second best. It is, however, the only solution which at the moment appears to be practicable. Moreover, it is one which is capable of growth. Several provinces will, we hope, be prepared to enter into an agreement at once. Others may do so next year or the year after. In due time we expect that all provinces will see that it is to their advantage to enter into the agreement. However, any province which believes, as I think erroneously, that such an agreement would weaken autonomy or lead to undesirable centralization, or would for any other reason be against its best interests will be perfectly free to remain out of the agreement and deal with its own problems in its own way. We, for our part however, believe that unanimous agreement is the effective way to assure full employment, a high standard of living, and a wide measure of social security for the Canadian people.

PERSONAL INCOME TAX

I wish now to speak in more detail of the tax on personal incomes. As I have already said, we are proposing a substantial reduction in rates under this tax, effective from January 1, 1947. In addition we are proposing a thorough reorganization of the whole structure of this tax. Our personal income tax is now unnecessarily cumbersome, in part because the refundable tax requirement, though obsolete, is still a part of the basic tax law, and in part because it has been necessary as an interim measure to introduce a supplementary rate schedule in order to remove the duplication of benefit between family allowance payments and income tax allowances for the same child. It will also be recalled that our income tax in its present form embodies two separate taxes, namely, the normal tax, which developed from the national defence tax, and the graduated tax. Each of these taxes has its own set of allowances and credits, which are a blend of deductions from income and credits against tax. Not only is the tax structure itself complex but as the house well knows its drafting leaves much to be desired. We have already begun through an interdepartmental committee a much-needed re-writing of the entire statute but this process will not be brought to completion in time for action at the present session of parliament. However, the amendments which I am about to outline will not only reflect a radical revision and simplification of the present pattern of the income tax but also offer an important instalment in the process of re-writing and clarifying the legislation itself.

The exemption limits under the present tax are $660 for single persons and, in effect, $1,200 for married persons. As a major part of the present revision we are proposing that the exemptions be raised to $750 for single persons and $1,500 for married persons without dependents. This measure, taken in conjunction with the proposal I shall make in a moment regarding allowances for dependents, will remove entirely from the income tax roll between 550,000 and 600,000 taxpayers, or about one-quarter of the present number. The proposed exemptions will be in the form of deductions from income in the manner of the pre-war exemptions, and the $1,500 deduction will replace the combined income deduction of $660 and the tax credit of $150 granted the married man under the present law.

I am aware of suggestions, made by persons who may not be familiar with all the facts, that the exemption limits be raised to $1,000 for single persons and $2,000 for married, or even to $1,200 and $2,400. We have carefully examined these and other suggestions and have come to the conclusion that exemptions of $750 and $1,500 are as high as can be reasonably proposed under present circumstances.

In the first place, we must still raise very large amounts of revenue. Even if no tax reductions were made, our revenues will fall considerably short of our expenditures and far short of our total financial requirements for the current year. Moreover, as I have outlined, there is already a great excess of purchasing power and we must not add unnecessarily to it. In addition to these immediate considerations, we must bear in mind that the government and parliament face a post-war period in which events are likely to move swiftly and in respect of which we have accepted a large measure of responsibility for maintaining high employment. Under the circumstances we cannot afford to reduce our revenues too drastically.

Secondly, we are all, I believe, agreed that the income tax is the fairest and best tax on which to rely for the bulk of our revenue. More than any other, it takes ability to pay properly into account. We must, I consider, rely upon it as heavily as we can, subject to the limits imposed by its effects on incentive and efficiency. This applies as well in the lower brackets as in the higher. We cannot secure proper equity and fair treatment if the exemptions from income tax are so high as to exclude most of those receiving incomes. It is just as important to be fair in the distribution of taxation between persons earning $1,500 and $2,400 a year respectively as it is between these persons and those earning $5,000 or $10,000 a year. I have said that we cannot afford to reduce our revenues beyond reasonable figures. In these circumstances, if we raised unreasonably the exemptions for the income tax, or lowered the rates of income tax too drastically, we would only make it necessary to impose other less equitable, even regressive, forms of taxes.

Comparison of our proposed exemptions with those of other countries indicates clearly, I believe, that the figures now proposed are as high as Canada can reasonably go. The suggested exemption of $750 for the single person compares with one of $700 in Australia and New Zealand, of $500 in the United States, and of $490 in Britain. Similarly, the proposed exemption of $1,500 for a married person compares with $1,077 in New Zealand, $1,000 in the United States, $931 in Australia, and $800 in Britain. In addition, Britain, Australia and New Zealand have substantial social security taxes which apply at much lower levels than the exemptions I have given for income tax alone.

We are, I believe, fortunate in being able to afford after the war income tax exemptions as high as three-quarters of what they were before the war, despite the enormously heavier burdens which the war has thrust upon us. The amount of revenue that can be raised, indeed the amount of income to be taxed, in the higher brackets is disappointingly small. If we are to take a serious view of our financial responsibilities in this house, we cannot, I believe, urge such extravagant exemptions in our income tax as to lead inevitably to other less fair and open measures of taxation.

As a companion measure to the increase in the basic exemptions for single and married status, it is proposed that the present tax credits of $28 allowed against normal tax and $80 allowed against graduated tax for dependents of the taxpayer be replaced by deductions from income, and that the temporary measure by which family allowance payments are now adjusted to the income tax allowances for a child make way for a solution that will be simple and permanent. It will be recalled that under the present method of adjusting the tax of a parent in respect of whose children family allowances are paid, the parent is allowed to obtain both the family allowance and the income tax credits for the same child, but an amount of the family allowances corresponding roughly to the value of the income tax credits for the child must be repaid to the government. This method of adjustment requires that each taxpayer receiving family allowances must report the amount of such allowances to his employer in order that his tax deductions be adjusted accordingly. This method is cumbersome and complicated for the taxpayer, the employer and the income tax administration.

To overcome these complications, it is now proposed to allow a single, simple deduction from income of $100 for each child eligible to receive family allowances, and to regard all taxpayers having such children as receiving the family allowances for their children. For other dependents not eligible for family allowances, there will be allowed a straight deduction from income of $300. This step will provide a workable and permanent solution and at the same time will preserve the principle approved by this house when the Family Allowances Act was passed, namely, that a taxpayer who received family allowances for his children would not also receive a full allowance for the same children under the Income War Tax Act. The value of a deduction from taxable income of $100, plus the family allowance, will exceed the eqivalent of a $300 deduction from income for nearly all taxpayers, particularly in the lower brackets, where the excess is considerable.

I should make it clear that this proposal assumes the universal payment of family allowances to all taxpayers with eligible children from January 1, 1947. A taxpayer with a child eligible for family allowances will be assumed for purposes of income tax to have received family allowances, and will be given the deduction from income of only $100 in respect of such child. Taxpayers who are not now claiming family allowances for children eligible for them should make application for them to commence in the new year when the proposed measure will take effect.

We are also proposing a complete overhauling and simplification of the rate schedules and a substantial reduction in tax liability. The present normal tax, the graduated tax, the formula for calculating the refundable portion which is no longer collected, and the family allowance recovery tables will be replaced by a single schedule of graduated rates applying on the excess of income over the new exemptions. Under the new schedule the initial rate will be 22 per cent on the first $250 of income in excess of the exemptions, the next rate will be 25 per cent on the following $750 of income, the next 28 per cent on the next $1,000, and the rate will rise gradually until a rate of 85 per cent is reached on income in excess of $250,000. The investment income surtax will be retained at the rate of 4 per cent, but as a measure of alleviation for the lower income groups the exemption for this tax which is now $1,500, will be raised to $1,800.

In revising a tax structure so complicated as our present one, it has not been possible to assure that all taxpayers will receive the same relative amount of tax relief. We have, however, tried to make the new schedule as fair and equitable as possible. As I have said, something over 550,000 persons now paying income tax will be wholly exempt under the new law. For taxpayers immediately above the new exemptions, the reduction in tax under the new schedule is of the order of 50 per cent to 75 per cent, and this scales down to about 10 per cent to 15 per cent for the majority of taxpayers.

To illustrate in detail the effect of the new exemptions and rates, there have been prepared tables comparing the present and the proposed tax at selected income levels for single persons, married persons without children, and married persons with two children receiving family allowances. I shall now place these tables on *Hansard* for the information of hon. members and the public at large.

Present and Proposed 1947 Income Tax

	Single Person		Married person—No children	
Income $	1946 Tax $	Proposed 1947 Tax $	1946 Tax $	Proposed 1947 Tax $
700	11	—	—	—
750	25	—	—	—
850	49	22	—	—
1,000	77	55	—	—
1,250	140	118	14	—
1,500	208	180	84	—
2,000	370	313	194	118
2,500	526	453	337	243
3,000	692	593	491	383
4,000	1,070	896	810	663
5,000	1,452	1,206	1,158	973
7,500	2,495	2,058	2,117	1,793
10,000	3,622	3,038	3,160	2,723
20,000	9,264	7,900	8,634	7,488
30,000	15,453	13,400	14,655	12,988
50,000	29,319	26,091	28,185	25,641
75,000	47,953	43,515	46,399	42,991
100,000	67,483	62,016	65,509	61,491
200,000	149,776	143,441	146,122	142,841

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

Married Person with Two Children of Family Allowance Age

The table below compares the position of a taxpayer with two children of family allowance age under the new tax rates and the new treatment of family allowances proposed for 1947 with his position in 1946. To make this comparison the combined effect of the receipt of family allowances and payment of income tax must be shown in each year. This combined effect is shown in the columns headed "Net Position". Plus figures in this column indicate that the amount of the family allowance exceeds the amount of income tax payable by the amounts shown. The other figures indicate a net liability after offsetting the family allowance against the income tax. Comparison of the "Net Position" figures for 1947 with those for 1946 will give the taxpayer the net improvement in his position in 1947, reflecting either an increase in net benefit or a reduction in net liability. This computation assumes a family allowance payment of $72 for each child, which is the average payment under the family allowance scale.

	Position in 1946			Position in 1947		
Income $	Income tax(a) $	Family allowance $	Net position $	Income tax $	Family allowance $	Net position $
1,300	14	144	+130	—	144	+144
1,500	42	144	+102	—	144	+144
1,750	80	144	+64	11	144	+133
2,000	141	144	+3	68	144	+76
2,250	216	144	72	130	144	+14
2,500	276	144	132	193	144	49
2,750	338	144	194	257	144	113
3,000	403	144	259	327	144	183
4,000	561	—	561	607	144	463
5,000	892	—	892	911	144	767
7,500	1,809	—	1,809	1,725	144	1,581
10,000	2,811	—	2,811	2,647	144	2,503
20,000	8,285	—	8,285	7,378	144	7,234
30,000	14,305	—	14,305	12,878	144	12,734
50,000	27,835	—	27,835	25,521	144	25,377
75,000	46,050	—	46,050	42,851	144	42,707
100,000	65,160	—	65,160	61,351	144	61,207
200,000	145,772	—	145,772	142,681	144	142,537

(a) Includes the family allowance recovery where the family allowance is shown in the next column. It is assumed that family allowances are not generally now received above the 100 per cent recovery rate. In any case where they are received to obtain the correct amount of present income tax the full amount of the family allowance should be added to the figures shown in the first column for incomes of $4,000 and up. The net position would, however, be unchanged.

Note: In calculating the income tax payable it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

The overall effect of the proposals I have outlined will be to reduce income tax revenue in a full year, assuming the present level of incomes, by approximately $143 millions, or about 23 per cent, and will involve the payment of additional family allowances in the amount of $12 millions per year, making a total cost of $155 million, about one-quarter of our expected revenue from this tax before the proposed reduction. This illustrates the thorough-going character of the revision and the importance of the reductions which we are now making. It will be recalled that the reduction now proposed is to be added to the flat 16 per cent reduction in income tax rates announced in last year's budget. However, because the new rates will take effect only as from January 1 next, the loss of revenue in the current fiscal year will not be large—it is now estimated at about $25 million.

In addition to the overall revision of the personal income tax structure I have just outlined I am proposing several other amendments in particular provisions of the law. One of these affects the taxation of husband and wife where both have incomes of their own. Prior to 1942 where husband and wife each had incomes in excess of the exemption limits the husband lost the marital allowance and he and his wife were taxed as single persons. As a means of encouraging married women to take employment in war time the law was amended in 1942 to allow the husband to retain the marital allowance if his wife's income represented earnings received from an employment. I am now proposing that effective January 1, 1947, we return to the position as it stood prior to the enactment of this wartime measure, with the result that in 1947 a husband and wife each having incomes in excess of $750 will each be taxed as a single person.

I am also proposing a further change that will place the taxation of husband and wife on a more equitable basis than it has been in the past and bring our law into closer conformity with that of other countries. The effect of the change I am introducing will be that when a taxpayer's wife has income of her own in excess of $250, the marital allowance of $1,500 claimed by the husband will be reduced by the excess of his wife's income over $250. This rule will apply where the wife's income is $750 or less. If her income is in excess of that amount, as I stated a moment ago, the husband and wife will be taxable as single persons on their own separate incomes. If the wife's income is less than $750, then the husband may claim the married allowance of $1,500 but he must reduce the $1,500 by the amount by which his wife's income exceeds $250. In effect, the husband will be given the full marital allowance, which is granted in consideration of his wife's dependence on him, only when his wife's income does not exceed $250 a year. When the wife's income exceeds this amount, however, the $1,500 allowance granted the husband is reduced in proportion to the excess of her income over $250. This amendment will apply from January 1, 1947.

There are certain minor amendments which I should like to mention now without, however, giving complete details regarding them. For example, after January 1 of next year members of the armed forces will be treated for tax purposes on the same basis as civilians except those outside the western hemisphere who have not by that time gone into the permanent force. Also, the special provisions relating to the merchant marine will be withdrawn at the end of this year.

During last year's budget debate I said that the government would give sympathetic consideration to the suggestion that farmers and fishermen whose incomes tend to fluctuate widely from year to year should be permitted to pay tax on the basis of their average income over a period of years. We are now prepared to propose a practical method of putting the averaging principle into effect for these particular groups of taxpayers.

The proposal involves giving the farmer or fisherman the benefit of having his income taxed on the basis of a three year moving average. For the year 1946 and subsequent years, all farmers and fishermen who wish to take advantage of the right to average their incomes for tax purposes over a three-year period will be required to file returns each year whether or not they have taxable incomes. In 1948, all farmers and fishermen who have made returns for 1946 and 1947 will be entitled to average their incomes for the three years 1946, 1947 and 1948 and to pay in respect of 1948, not the tax for that year, but the tax which would have been payable over the three-year period had they earned the average income in each of the three years less the amount of tax actually paid in respect of 1946 and 1947. This means, of course, that in some cases the farmer or fisherman may be entitled to a refund in respect of 1948 of some of the taxes he has paid in respect of 1946 and 1947.

There will be no compulsion on a farmer or fisherman to accept this method of calculating his tax but it will almost certainly be to his advantage to do so. I say this in order to impress upon both farmers and fishermen the importance of making returns each year from now on. When the committee stage is reached, I shall outline the method in more detail.

Another problem affecting farmers to which a great deal of consideration has been given is the treatment of the "basic herd" in the case of a live stock farm or a ranch. The Department of National Revenue has, I believe, been following the practice of allowing adjustments of income over the preceding five-year period in the case of abnormal dispersal or liquidation sales. The general adoption of the three year forward averaging system which I have just announced should be of great assistance in more normal cases where a live stock herd is being maintained but annual live stock sales may vary from year to year. Several suggestions for carrying the basic herd principle further have been made and in this connection I must acknowledge the help received from various members. Most of these, however, involve maintenance of the farmer of accounting records of greater or less complexity and whether they will prove practicable from the standpoint of both the farmer and the tax administration is a matter which will have to be worked out by the administrative officials in consultation with the Department of Agriculture.

There are certain other amendments which I can only mention. An alternative formula to that now in the law will be provided for determining the tax exempt portion of pensions received from pension trust funds formerly under section 5 (1) (h) of the act, and a change will be made in the method of taxing lump sum payments from superannuation funds, other payments received on retirement and payments received for loss of office. A method will be adopted for spreading the return from the sale of literary, dramatic, musical or artistic work over the period in which the author was engaged in its composition. There will also be a revision of the present law as it applies to a person resident in Canada for only a part of the taxation year, and finally there will be an amendment providing that where an elected member of a provincial legislature is paid an allowance for expenses incidental to the discharge of his duties the allowance will be deemed not to be taxable income to the extent of not more than one third of the aggregate of his normal sessional indemnity as a member and the expense allowance.

CORPORATION INCOME TAX AND EXCESS PROFITS TAX

Turning to the taxes on corporations and the profits of business enterprises, the house will recall the general reduction I announced a few minutes ago when referring to the implementation of our obligations under the wartime tax agreements. Under those agreements the dominion's specific obligation is "to reduce its rate of tax on corporation incomes by at least ten per cent of such incomes." To-day the ordinary corporation income tax is 18 per cent and there is also a minimum tax on all corporate incomes of 22 per cent under the Excess Profits Tax Act, making an aggregate flat rate tax of 40 per cent. In addition, the excess profits tax takes 20 per cent of any income in excess of 116⅔ per cent of standard profits. The proposal we are now making is to reduce the flat rate tax from 40 to 30 per cent and to make it all corporate income tax rather than an aggregate of the two types of tax.

I had hoped to be able to announce in this budget the repeal of the Excess Profits Tax Act, in its entirety, effective as of January 1, 1947. As I explained last year, this tax was designed as a war measure and has received overwhelming support as a necesasry instrument of war finance, but it has distinct weaknesses and limitations in normal times and is not to be accepted as a permanent part of our tax structure. Experience, however, has shown that we are still living in highly abnormal times, the shadow of the war is still upon us, and as I have shown the financial burdens on the dominion budget arising out of the war are still of huge proportions. After careful consideration the government has reached the conclusion that the act should stay on the statute books for another year unless provision is made at the next session of parliament for its earlier repeal. However, we are proposing that it be further amended in such a way as (1) to make it apply solely to corporations, thus releasing from its provisions all partnerships and sole proprietors; and (2) to reduce the rate of tax applicable to excess profits from 20 per cent to 15 per cent.

These changes in corporate income and excess profits taxes are estimated to result in a reduction in tax revenues of $135 million for the full year 1947. However, as they are to become effective only in respect of profits earned or deemed to have been earned after January 1, 1947, the loss in revenue during the present fiscal year is likely to be small, perhaps of the order of $5 to $10 million.

Certain minor amendments will also be made affecting the corporation income tax and the excess profits tax. One of these relates to the provision introduced in 1944 for permitting half the expenditure on maintenance and repairs in an early post-war period to be charged back to the income of the war period, in order to compensate for maintenance that had to be deferred under war conditions and which had thereby increased artificially the income subject to excess profits tax. For reasosn which will be discussed when the resolution is reached in committee, the time has not yet arrived when we can proclaim the period in which this provision can be applied, and we propose to restrict its use to those who have paid tax on profits in excess of standard profits.

Other minor amendments to corporation income and excess profits taxes will provide for the extension for another year of the tax credits now granted in respect of exploration expenses incurred in the petroleum, natural gas and mining industries, with an adjustment in the amount of the credit appropriate to the reduced rate of corporation tax and an extension of a tax credit for expenditures incurred in deepening an existing oil well. The exemption from excess profits tax given certain classes of mines will be continued and exemption will also be granted from one-half the 30 per cent rate of corporation income tax on the first three years' operations of mines of this class coming into production in the three year period commencing January 1, 1947. The special limitation on the deductibility of charitable donations in computing the taxable income of corporations will be rescinded with respect to fiscal periods ending after June 30, 1947, and certain adjustments will be made in the taxation of investment trusts and non-resident-owned investment corporations.

TAX TREATMENT OF CO-OPERATIVES

I come now to the tax treatment of co-operatives. Hon. members will recall that in November, 1944, a commission under the chairmanship of Mr. Justice Errol McDougall of the court of king's bench, Quebec, was appointed to inquire into this thorny question, and that the commission made its report a very short time before the presentation of last year's budget. Accordingly, it was decided to defer action until there had been an opportunity for all concerned to give the report thorough study.

I am now in a position to say that in general the government accepts the commission's report as the basis of its proposals with respect to the taxation of trading cooperatives, credit unions and mutual insurance organizations.

The first recommendation of the commission is that we should repeal section 4 (p) of the Income War Tax Act, the section which was inserted in the act in 1930 to authorize an exemption for specified classes of cooperatives under certain conditions. The reasons for this recommendation are summarized in the report as follows:

As a result of the ambiguities of language and the difficulty of administering the section, and because we are of the opinion there is no general class or group of cooperative associations in Canada to-day whose income should be declared not to be liable to taxation, we are of the opinion that the section in its present form cannot survive the attacks made upon it.

The government accepts this recommendation and, accordingly, proposes that section 4 (p) be repealed. Apparently the section has little or no value in any case, for whatever the original intention of parliament may have been, the methods of doing business followed by our ordinary types of cooperatives are not such, in the opinion of the law officers of the crown, as to enable them to secure exemption under this section.

The commission recommended in effect that cooperatives be placed in a position of tax equality with other forms of business enterprise. This principle is sound but it is by no means easy to apply. What is the taxable income of a cooperative? There may be some cooperatives which so conduct their affairs as to have no taxable income within the meaning of the Income War Tax Act. There may be others which so conduct their affairs as to have a very limited income within the meaning of the act. There are, moreover, a variety of payments in proportion to patronage, which for want to a better term I shall call patronage dividends, the status of which is by no means clear. Let me quote a passage from the report of the McDougall commission:

. . . the (cooperative) association is, to some extent, obligated to make return to the members in proportion to patronage. These returns resemble in part an ordinary price rebate or discount. However, their amount is affected by the efficiency of management of the association and a variety of unpredictable circumstances beyond its control. It may be affected also by revenue from the investments of the association in bonds or other securities. It may be influenced as well by the policy the association follows with respect to engaging in business with non-members and granting patronage returns to the latter. On the other hand, if satisfactory returns of this kind are not made, it is probable that the membership and the business of the association will decrease. Functionally, then, the so-called patronage dividends may partake of the nature of a return of profits to the members, or a return of excess charges, or a return of investments, or an expense of the association.

While it will be seen that the commission recognized the complex and ambiguous character of these so-called patronage dividends, it took the general position that such of these payments as are made readily available to the members or customers should be considered income of the members or customers and not of the cooperative association. To avoid discrimination it advised that a similar attitude be taken towards patronage dividends distributed by ordinary companies, partnerships or individual business enterprises.

These simple rules for the tax treatment of patronage dividends would appear to offer the basis of a reasonable solution for an extremely vexatious problem. It will be observed, however, that they involve a departure from one of the cardinal principles of our tax system, for they recognize as a deductible item a distribution which represents in some cases and to some extent at least, as the commission pointed out, a distribution of trading profits. In other words, if all distributions in proportion to patronage are wholly freed from tax, a cooperative association or an ordinary company could reduce the taxes it might otherwise have to pay by distributing its income in one form rather than another, for example, in the form wholly of patronage dividends which would be non-taxable rather than in the form partly of patronage dividends and partly of dividends on share capital which are taxable. The trading cooperative which recognized an obligation to pay interest or dividends on its capital prior to the distribution of patronage dividends would under such conditions pay a greater proportionate tax on its income than the trading cooperative which did not recognize such an obligation. It will be agreed that a tax law having such a discriminatory effect and which could be used to reduce taxes that would otherwise be payable under our law is to be avoided if at all possible.

One possible alternative would be to dispense with any special legislation with regard to these so-called patronage dividends, relying on appeals to the courts to establish the status of the payments under the general tax laws. But this might mean prolonged litigation during which cooperatives and other companies would be in a very unhappy position and it is doubtful whether in the end any principles of wide and ready application would be established by the courts.

After careful consideration, the government has, therefore, come to the conclusion that it should accept the commission's recommendation that patronage dividends and similar payments be treated as a deduction from income subject to one relatively minor limitation designed to avoid at least some of the discriminatory effects I have mentioned. The limitation is this: that no company or association shall be able to go so far in its distribution of tax-free patronage dividends as to reduce its taxable income below a reasonable return on capital employed in the business. This reasonable return will be defined as three per cent on the capital employed, including borrowed capital, less the interest paid by the company or association on borrowed capital that is allowed as an expense in the computation of the taxpayer's income. The principle underlying this rule is that amounts set aside out of taxable income to be distributed in proportion to patronage by a cooperative or company which does not pay at least three per cent on the capital employed in its business contain earnings which arise from the employment of capital and ought not to escape tax entirely. For many cooperatives which pay patronage dividends this modification of the commission's recommendation will have little or no effect, for they already recognize an obligation to pay interest or dividends equal to at least three per cent on capital or retain undistributed income on which tax will be payable. Share capital with a limited dividend and with limitation of voting to one share per member rather than one vote per share was a characteristic feature of the plan of organization of the Rochdale Equitable Pioneers Society, the real founders of the cooperative movement. Cooperatives of this character will usually be able to claim the full amount of their cash patronage dividends as a deductible allowance. Any cooperative which does not set aside as taxable reserves or pay as interest or dividends a total amount equal to three per cent of capital employed, will find itself subject to tax on a portion of the amount it had set aside out of its income to distribute on the basis of patronage.

It is proposed that this provision relating to the deductibility of patronage dividends shall come into effect for taxation years ending in 1946.

The first step in determining the tax liability of a cooperative or any other company will therefore be to compute its taxable income in the ordinary way. In this computation the cooperative or company will continue to be able to claim as an expense payments that are found to be enforceable obligations of the cooperatives and not profit-sharing distributions. Having determined its taxable income the cooperative or company will then be able, if the proposed amendment is adopted, to deduct distributions in proportion to patronage paid out of income in that year subject to the limitation I have outlined above.

The government agrees with the commission that to qualify as a deduction from taxable income, patronage dividends should be paid shortly after the end of the fiscal year and on the same basis to members and customers alike. Some cooperatives which finance on the so-called "revolving fund" principle allocate their surplus each year in proportion to patronage, but make the cash distributions in respect of such allocations in a later year. Patronage dividends allocated but not paid in years subsequent to 1941 will be allowed as a deduction to the extent previously indicated in any year from 1946 on during which they are paid.

Following the commission's recommendation, the proposed amendment will also make it a condition of deductibility for the future that the cooperative or company shall hold forth the prospect to its customers prior to the commencement of its taxation year that distributions will be made on a patronage basis. In the case of a cooperative, it will be sufficient that the statute under which it is organized, its charter, its by-laws or a contract with its customers holds forth this prospect. In the case of any other company, the requirement will be an advertisement in a newspaper circulating in the area in which the company does business.

Finally, the government accepts the commission's recommendation that newly-formed cooperatives which commence business after December 31, 1946, be exempt from tax for a three-year period. This concession is intended to assist only bona fide cooperatives consisting entirely of individuals organized under provincial cooperative law going into business for the first time which do not acquire directly or indirectly the assets or good will of an existing business, and there will be other suitable safeguarding provisions to assure the true intent of the provision.

I am not sanguine enough to believe that these proposals will meet with complete approval, either in this house or outside. Some will continue to urge complete tax exemption for cooperatives or an even more liberal attitude than has been proposed with respect to patronage dividends. Others will contend that we are going too far in allowing patronage dividends as a deduction from taxable income under any circumstances. As long as it is necessary to retain a tax on corporate profits it will be impossible completely to reconcile these conflicting points of view. In the meantime the best that can be hoped for is a reasonable working arrangement which preserves substantial equity between competing forms of enterprise and safeguards the essential interests of the treasury.

So far I have been dealing with proposed changes in the law to clarify the tax position of cooperatives and patronage dividends for the future. Even if these are adopted, however, cooperatives and ordinary companies which have been paying patronage dividends during the past few years will still be uncertain as to their position under the present law. This is purely an administrative matter, but it is so important to the interests concerned as to call for some statement of government policy.

From 1930, when the section was enacted, until about 1940, section 4 (p) of the Income War Tax Act was interpreted by the tax officials as giving complete exemption to the vast majority of cooperative organizations. During 1940, however, serious doubts were raised as to the correctness of this view and in January, 1941, the Department of Justice was asked for a ruling in the cases of the Manitoba, Saskatchewan and Alberta wheat pools. In the opinion of the department all three wheat pools are taxable under the present law. This opinion was notified to the parties concerned during 1941 and 1942. Immediately thereafter the Department of Justice was asked to consider whether patronage dividends paid by the wheat pools, the United Grain Growers and certain other elevator companies were allowable deductions in the computation of income for tax purposes. In February, 1943, the department gave its opinion that in none of the cases submitted were patronage dividends an allowable deduction.

In view of these opinions the government felt it desirable to bring the wheat pool cases before the courts for final determination, and the Department of Justice advised that the most practical method of doing so was to issue an assessment which the pools might appeal. This was done. The pools thereupon appealed but when the McDougall commission was appointed further proceedings were stayed.

The commission was not asked to make recommendations with regard to the obligations of taxpayers under the existing law but it did feel called upon to make a general comment, which I shall quote:

"One proposal made to us was that any recommendations for taxing cooperative associations should apply retroactively. Were it not that this point was pressed upon us with some insistence, we would pass it in silence. We do not regard it as any part of our function to make any recommendations which, if enacted into law, would affect the rights or obligations of taxpayers under the existing law. It is the duty of those charged with the responsibility of administering the Act to apply its provisions as they understand them. If doubt or uncertainty arises, the courts are always available both to the taxpayer and to the crown to establish their respective rights and obligations. Having regard, however, to the ambiguities contained in section 4 (p) of the Income War Tax Act and the resulting (though understandable), hesitant administrative practice in applying it, we are of the opinion that cooperative associations have so conducted their affairs that great hardship would result should our recommendations be made to apply retroactively. We also feel that many of them would be prejudicially affected if the existing law should be interpreted so as to make them liable for payment of taxes for the period subsequent to the enactment of section 4(p). Believing as they did, and not discouraged in that belief by the administrative attitude, we venture the hope that those cooperative associations which have, in good faith, conducted their affairs in the light of a possible, even plausible, construction of the section in question will be accorded relief from payment of taxes on patronage dividends actually or constructively paid to their members or customers, since the enactment of section 4(p)."

In general, the government agrees with the position taken by the commission and it proposes, therefore, to act on the principle of good faith in assessing cooperatives which are found to be taxable under the existing laws. Acting on this principle, provision will be made whereby the income tax administration will not be required to collect tax from any cooperative in respect of any year during which it had reason to believe it was exempt and in respect of which it was led to believe by the income tax administration that it was exempt. While this means that the great majority of cooperatives will be substantially relieved from tax obligation with respect to years subsequent to 1930, the government agrees with the commission that to revive at this late date tax claims in cases such as those mentioned above might cause great hardship to hundreds of small enterprises.

As I have indicated, however, there are some cooperative organizations, notably the wheat pools, which have had reason to believe for some years that they would be subject to tax. The administration will endeavour to apply the same principle of good faith in making assessments in these cases. To be specific, the government is willing to relieve the wheat pools from any liability for tax for fiscal years earlier than those ending in 1942. Furthermore, the government is willing to allow as a deduction from taxable income patronage dividends, refunds of excess charges, and similar amounts actually paid in cash by the wheat pools in fiscal years ending in 1942 and 1943, but not in 1944 and 1945 because well before 1944 these organizations were aware of the legal opinion of the Department of Justice. Patronage dividends distributed or set aside for payment pending settlement of the tax issue by the private elevator companies and the United Grain Growers will be accorded the same treatment as similar payments made by the wheat pools, that is, if the wheat pools accept the foregoing basis of settlement, they will be allowed as a deduction from income for the taxation years up to and including 1943 but not for later years.

Under all the circumstances, the government believes this is a most reasonable compromise and offers it as a basis of settlement. If it is not acceptable to the organizations concerned, the courts must determine the legal position.

Before I leave the subject of cooperatives, I may add that we are accepting the main recommendations of the McDougall commission regarding the taxation of mutual organizations carrying on the business in Canada of fire, casualty and automobile insurance. Such organizations will henceforth be subject to income tax but dividends on or refunds of premiums to policyholders, whether paid in cash or applied against renewal premiums, together with any unabsorbed premiums or premium deposits returned to or payable to policyholders, and any other amount credited to a policyholder or subscriber in such a way that it is exigible by him on giving reasonable notice may be deducted in computing taxable income. To prevent discrimination, joint stock companies carrying on the same line of business will similarly be allowed to deduct dividends paid or refunds of premiums to policyholders in computing taxable income. Credit unions which derive their incomes primarily from loans made to members and federations of credit unions will continue to be exempt from tax. Also the tax free status of organizations which derive all their premium income from the insurance of churches and schools will be preserved.

APPEAL BOARDS

There is an important announcement I should like to make with regard to a proposed new feature of our income tax system.

As the house is aware, there has been an increasing demand from taxpayers for a less expensive and more convenient method of appeal from income tax assessments. A special committee set up in another place to examine into the provisions and workings of the Income War Tax Act, has made a careful study of the present appeal procedure and some recommendations which are extremely useful. Their main suggestion was for the setting up of a board of tax Appeals. It is proposed to accept this suggestion with certain modifications.

The proposed board will be appointed by the governor in council and will consist of a chairman and two assistant chairmen, having specified legal qualifications, and not less than three nor more than nine other members. The board will be a court of record and will hear in various parts of Canada appeals from income tax assessments for the year 1946 and succeeding years. Appeals may be taken from decisions of the board of tax appeals to the exchequer court. The rules of procedure before the board will be such that taxpayers will, without great expense to themselves, have a convenient method of obtaining judicial decisions in disputed income tax matters.

The proposed board will decide questions of fact and law in the same manner as any other court. It will not, however, have the power to exercise or review the discretions vested in the Minister of National Revenue by the Income War Tax Act. It is proposed to provide for the review of these discretions in a different way.

There is some complaint about the existing provisions of the law in so far as these discretions are concerned. After careful consideration, the government has concluded that an advisory board, separate altogether from the appeal board to which I have referred, should be set up to advise the Minister of National Revenue upon the exercise of certain of his discretionary powers. The house will recall that under the Excess Profits Tax Act a board of referees was set up to advise the minister with regard to standard profits. The government's proposal is to establish an income tax advisory board, consisting of a chairman and not less than two and not more than six other members, to which a taxpayer may require the Minister of National Revenue to refer for hearing, consideration and advice, decisions made by the minister in the exercise of specified discretionary powers. I may add that instructions are being given to the interdepartmental drafting committee to explore carefully the possibility of reducing the number of discretions now vested in the minister or at least of providing for their exercise under regulations approved by the governor in council.

SUCCESSION DUTIES

The only changes proposed in the Succession Duties Act are the new schedule of rates and the provision for the system of tax credits which I have already described. The new rates will apply in the case of deaths occurring on or after January 1, 1947. It is estimated that the new rates will yield a gross revenue of $48-50 million in a full year, which will, of course, be reduced by the amount of the credits allowed against the dominion duty in any province which wishes to remain in the field.

EXCISE TAXES AND DUTIES

In the general field of excise taxes only minor changes will be made. The tax on cigars, for example, will be revised by replacing the present graduated schedule of excise tax rates by a flat ad valorem rate of 25 per cent and reducing the excise duty from $3 per thousand on cigars to $1 per thousand. This revision will place the cigar tax on a more equitable and more efficient basis and will result in a slight increase in revenue. Consequent upon the adoption of the McDougall commission's recommendations in regard to the application of the income tax to mutual fire and casualty insurance companies, the rates of premium tax on the various classes of such companies will be reduced as set out in the resolutions.

TARIFF

Members of the house will recall that in connection with the budget resolutions of last session I referred to the then impending trade discussions of an international character and went on to state that "the present is not the time, by isolated or unilateral action, to change the existing tariff in any particular." Although six months have elapsed, I am to-day in much the same situation as I found myself in last November. The proposed international negotiations on various aspects of commercial policy, including tariffs, are still ahead of us. But the time-table that had appeared feasible last fall has proved impracticable, having in mind the large number of governments that have indicated a desire to participate in what are bound to be complicated and protracted discussions. In the interval there has been a quite important change in the setting of the proposed negotiations, in that these are now directly under the ægis of the united nations organization, through its economic and social council. The council has appointed a preparatory committee for an international trade conference, on which committee are represented those countries which intend to take part in the negotiations.

In the circumstances I have deemed it inadvisable to introduce at this time anything in the nature of comprehensive or important tariff changes or changes of a type that may soon be the subject of tariff negotiations with other countries from which we may desire and reasonably expect tariff concessions. Subject to this general principle there are proposed a number of minor adjustments in the tariff to which I need not refer in detail. No increases are proposed. Some changes are to facilitate administration, some embody the provisions of outstanding orders in council passed under the War Measures Act, some reflect small changes in wording of items resulting from technological advances, some affect reductions designed to reduce costs in cases where the item amended would have virtually no importance in trade negotiations and one is related to a reduction being proposed in excise duties.

CONCLUSION

The proposals which I have now announced will, it is estimated, result in a reduction of our tax revenues by about $254 million in a full year under economic conditions similar to those at present, and an increase in family allowance payments, directly related to the tax changes, of $12 million, making a total cost of $266 million. This does not take into account any further reductions due to income tax and succession duty credits that will be given to taxpayers of provinces remaining in these fields. These and other effects of the offer to provinces cannot, of course, be estimated until we know what provinces plan to accept it.

For the current fiscal year, the tax reductions and the other proposals I have announced will have only a relatively small effect on our revenues and expenditures because the important tax changes become effective only as of January 1 next, and the new agreements with the provinces will commence, at least in most cases, only at the beginning of the next fiscal year. There will probably be a reduction of personal income tax revenue of about $25 million, an increase of about $3 million in the cost of family allowances, and a decrease in excess profits tax and corporate income tax revenue, taken together, of about $10 million.

The house will recall that on the basis of the present tax structure I forecast a budget deficit for the current year of roughly $260 million. As a result of the changes proposed in this budget, the deficit appears likely to be increased to roughly $300 million. This means that we will be covering nearly 90 per cent of our expenditures from revenues, a more rapid approach to the balancing of the budget than I expected to be possible some months ago.

While it is too early to predict the situation in the following fiscal year, that is, 1947-48, we may reasonably look forward to a further substantial decline in our expenditures, particularly for national defence and for veteran's benefits, and as a result of the termination and liquidation of war contracts. There may be some moderate increases in certain other expenditures and perhaps also decreases in certain revenues such as special receipts, but if we succeed in maintaining high employment and income we should be able to look forward to something like a balanced budget in that year.

Of course, in that year, as in this one, we shall need to borrow in order to finance loans and investments. But the scale of our borrowing should be smaller than in the current year. This year we must finance not only the anticipated deficit of $300 million but also the large programme of loans, advances and investments which, as I have already indicated, may involve a sum in the neighbourhood of a billion dollars. While we began the year with a large cash balance, a considerable portion of it was in currencies other than Canadian and government requirements will necessitate a fairly high cash balance at the end of the year. Apart from refunding or repayment of debt, borrowing requirements for the year may be estimated at roughly a billion dollars. This is a great deal less than the figure for last year but it is nevertheless a substantial part of the total savings which the Canadian people and their institutions will make during the year. We must therefore continue our efforts to encourage savings and their investment in government securities, including the proposed Canada saving bonds which I announced last week.

In conclusion, I would like to stress one thought. We Canadians can achieve great objectives if we can agree among ourselves upon those objectives and devote our energies to reaching them. That is clearly shown by what happened in the war. Now that the war is over, we have an opportunity to select and to achieve objectives just as challenging, just as exciting as those of war, but of a constructive and progressive nature. I believe that the Canadian people, if properly informed, are prepared to agree, by and large, upon great peace-time objectives and to devote to their attainment something of the same spirit and energy which made our war achievements possible. It is the duty of all of us in government, in business, in labour, in agriculture, to do all that we can now to make possible that agreement upon ends and upon means which will enable Canada in peace to be worthy of the record of Canadians at war.

INCOME WAR TAX ACT

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

1. That for the 1947 and subsequent taxation years the present rules for computation of personal income tax be replaced by the following schedule of graduated rates:

On the first $250 of income or any portion thereof, 22 per cent per annum; or

$55 upon the income of $250; and 25 per cent upon the amount by which the income exceeds $250 and does not exceed $1,000; or

$242.50 upon the income of $1,000; and 28 per cent upon the amount by which the income exceeds $1,000 and does not exceed $2.500; or

$662.50 upon the income of $2,500; and 31 per cent upon the amount by which the income exceeds $2,500 and does not exceed $4,500; or

$1,282.50 upon the income of $4,500; and 34 per cent upon the amount by which the income exceeds $4,500 and does not exceed $6,500; or

$1,962.50 upon the income of $6,500; and 38 per cent upon the amount by which the income exceeds $6,500 and does not exceed $8,500; or

$2,722.50 upon the income of $8,500; and 42 per cent upon the amount by which the income exceeds $8,500 and does not exceed $10,500; or

$3,562.50 upon the income of $10,500; and 46 per cent upon the amount by which the income exceeds $10,500 and does not exceed $13,000; or

$4,712.50 upon the income of $13,000; and 50 per cent upon the amount by which the income exceeds $13,000 and does not exceed $18,000; or

$7,212.50 upon the income of $18,000 and 55 per cent upon the amount by which the income exceeds $18,000 and does not exceed $30,000; or

$13,812.50 upon the income of $30,000 and 60 per cent upon the amount by which the income exceeds $30,000 and does not exceed $50,000; or

$25,812.50 upon the income of $50,000 and 65 per cent upon the amount by which the income exceeds $50,000 and does not exceed $70,000; or

$38,812.50 upon the income of $70,000 and 70 per cent upon the amount by which the income exceeds $70,000 and does not exceed $100,000; or

$59,812.50 upon the income of $100,000 and 75 per cent upon the amount by which the income exceeds $100,000 and does not exceed $150,000; or

$97,312.50 upon the income of $150,000 and 80 per cent upon the amount by which the income exceeds $150,000 and does not exceed $250,000; or

$177,312.50 upon the income of $250,000 and 85 per cent upon the amount by which the income exceeds $250,000.

2. That for the 1947 and subsequent taxation years the following deductions from income be allowed:—

(a) $1,500 in the case of married persons and persons allowed a deduction equivalent to that of a married person and $750 in the case of all other persons;

(b) $300 in the case of dependents not eligible for family allowances, $100 in the case of children eligible for family allowances and amounts not exceeding $300 contributed to the support of partial dependents.

3. That for the 1947 and subsequent taxation years the deduction of $1,500 from the income of a married person be reduced

(a) where the spouse has an income of more than $250 and less than $750 by the amount by which the spouse's income is more than $250, or

(b) where the spouse has an income of more than $750, to $750

whether or not the wife's income is earned income.

4. That in respect of income earned after December 31, 1946, the ordinary income tax rate for corporation income be increased from 18 per cent to 30 per cent and from 20 per cent to 32 per cent in a case where a company and its subsidiaries file a consolidated return.

5. That the exemption of investment income for purposes of the 4 per cent tax on investment income be increased for the 1947 and subsequent taxation years from $1,500 to $1,800.

6. That a deduction from tax be allowed in the 1946 and subsequent taxation years to a taxpayer who resides or is ordinarily resident in Canada during only a part of the taxation year of a portion of the tax that would otherwise be payable upon his income during the taxation year that bears the same relation to the whole tax as the period in the taxation year during which he is not resident or ordinarily resident in Canada bears to the whole taxation year.

7. That there be established, with provision for the expenses thereof, an income tax appeal board consisting of a chairman and two assistant chairmen having specified legal qualifications and not less than three nor more than nine other members appointed by the governor in Council, as a court of record, to hear, in any part of Canada, appeals from assessments made by the Minister of National Revenue in respect of the 1946 and subsequent taxation years and that an appeal may be taken from a decision of the appeal board to the Exchequer Court of Canada.

8. That there be established, with provision for the expenses thereof, an income tax advisory board consisting of a chairman and not less than two nor more than six other members appointed by the governor in council to which a taxpayer may require the Minister of National Revenue to refer for hearing, consideration and advice a decision to which the taxpayer objects made by the Minister in the exercise of specified discretionary powers in respect of an assessment for the 1946 and subsequent taxation years.

9. That for the 1947 and subsequent taxation years, a taxpayer, other than a corporation or joint stock company, may deduct from the tax otherwise payable by him the amount of tax on income paid by him to the government of any province in which he resides not exceeding five per cent of the tax otherwise payable by him.

10. That for the 1947 and subsequent taxation years, a corporation other than a corporation whose income is primarily obtained from mining or logging operations shall not be allowed to deduct from income any corporation tax as defined in the existing wartime tax agreements paid to the government of a province.

11. That there be allowed as a deduction from income earned after January 1, 1947, of a corporation whose income is primarily obtained from mining or logging operations taxes paid by it to the government of any province including income tax on income earned after January 1, 1947.

12. That for the 1947 and subsequent taxation years, the provision exempting the income of certain cooperative companies and associations be repealed and that for the 1946 and subsequent taxation years provision be made that there may be deducted from a taxpayer's income the aggregate of the payments made

(a) in the taxation year or within six months thereafter to his customers of the taxation year; and

(b) in the taxation year to his customers of a previous taxation year after the 1941 taxation year and not previously deducted under paragraph (a)

in respect of specified allocations in proportion to patronage for the said years the prospect of which was held forth

(c) by the statute or by-laws under which the taxpayer carries on business or by his contracts with his customers, or

(d) by the taxpayer in a specified manner prior to the commencement of the taxation year

except that portion of such payments as would if deducted leave the taxpayer with an income less than an amount determined by deducting from three per cent of the capital employed in the business, including therein borrowed moneys, the interest paid by the taxpayer on borrowed moneys and deductible as an expense in computing his income.

13. That for the 1946 and subsequent taxation years, paragraph (q) of section four which exempts from taxation the income of credit unions be amended to exempt the income of any credit union or any corporation or association the members of which are credit unions which derives its revenue primarily from loans made to members residing within the province to which it is restricted for carrying on its business.

14. That for the 1947 and subsequent taxation years, the provision exempting from tax the income of mutual corporations not having a capital represented by shares be amended to remove therefrom mutual insurance corporations except mutual insurance corporations which derive their premiums wholly from insurance of churches, schools or other religious, educational or charitable institutions.

15. That for the 1947 and subsequent taxation years, there may be deducted for the purposes of this Act, from the income of insurance companies, other than life insurance companies, whether mutual corporations or joint stock

companies, amounts credited to policyholders by way of dividends or refund of premiums or refund of premium deposits and either

(a) paid to the policyholder,

(b) credited to the policyholder on account of premiums for renewal of policies or

(c) credited on terms under which the policyholder is entitled to or may obtain payment thereof within a period not exceeding thirty days after demand for payment by him and if notice of crediting on such terms has been given to the policyholder.

16. That the income of a corporation or association commencing business after December 31, 1946, incorporated or registered under provincial cooperative legislation and organized and operated as a bona fide coöperative for the purpose of marketing natural products of or acquired from its members, or of purchasing supplies, equipment or household necessities for, or to be sold to, or of performing services for, its members be exempt from taxation during the first three complete taxation years following the commencement of business.

17. That a farmer or fisherman be permitted for the 1948 and subsequent taxation years, at his option, to compute his liability to pay tax on the average of his income for the taxation year and the two preceding taxation years.

18. That for the 1946 and subsequent taxation years, the service pay and allowances, other than travelling allowances or separation allowances in place of travelling allowances, of a member of the permanent Canadian naval, military or air forces paid at the new rates of pay and allowances established for the said permanent forces be taxable income of a member irrespective of

(a) whether he is serving within or outside of Canada; or

(b) whether he receives the pay and allowances during the first six months after his return to Canada.

19. That for the 1947 and subsequent taxation years the pay and allowances of a member of the non-permanent Canadian naval, military or air forces other than the pay and allowances received by a member serving outside of the western hemisphere or within six months of his return thereto be taxable income of the said member and that the provisions for (a) a tax credit in respect of pay and allowances exceeding $1,600 as provided by rule 2 of section 3 of paragraph A of the first schedule; and for (b) taxation of a member serving outside of Canada in the western hemisphere at one-half the effective rate of tax applicable to his total income be repealed.

20. That the exemption of amounts received by members of the merchant marine as war risk bonuses in respect of service in a war risk zone and of the value of board and lodging received on shipboard, while performing service in respect of which such bonuses are payable be repealed for 1947 and subsequent taxation years.

21. That, where an elected member of a provincial legislature is, under an act of the provincial legislature, paid an allowance for expenses incidental to the discharge of his duties as a member, the allowance received in the 1946 or a subsequent taxation year be deemed, to the extent of not more than one-third of the aggregate of his normal sessional indemnity as a member and the said allowance, not to be salary or taxable as income.

22. That where the author or joint author of a literary, dramatic, musical or artistic work on which he was engaged for a period of more than twelve months assigns the copyright therein wholly or partially and has in the 1946 or a subsequent taxation year received within one year of the assignment in consideration therefor an amount, the whole of which would otherwise be included in computing his income during the taxation year a specified part or parts of the consideration may, at his option, be attributed to his income during certain previous taxation years.

23. That the special rates provided for non-resident-owned investment corporations be reduced for the 1947 and subsequent taxation years from 22½ per cent to 15 per cent but that such corporations be taxable on all income received in Canada subject to deductions from the said income in respect of interest and dividends received from other such corporations and foreign taxes paid by the corporation.

24. That for the 1947 and subsequent taxation years investment corporations whose profits are now exempt from tax under paragraph (f) of section seven of the Excess Profits Tax Act, 1940, be exempt from tax upon income and that such corporations that would be so exempt except that they have outstanding bonds, debentures or other securities evidencing bonded indebtedness pay tax upon income at one-half the rate for corporations.

25. That for taxation years ending after June 30, 1947, a corporation be permitted to deduct from income amounts paid to charitable organizations not exceeding 5 per cent of the income of the corporation subject to taxation without the limitation presently thereon.

26. That persons entitled to a payment out of an employee's superannuation or pension fund or plan, the investment income of which has been exempt from taxation by reason of an election for such exemption by the trustees or corporation administering the fund or plan, be allowed in the 1946 and subsequent taxation years as an alternative to the present deduction from the pension or superannuation payment, an amount computed on the basis of the amounts paid by the employee together with simple interest on such amounts at 3 per cent per annum.

27. That the special provisions with regard to

(a) payments out of a superannuation or pension fund plan upon the death, withdrawal or retirement from employment of an employee or former employee in full satisfaction of all his rights in the fund or plan,

(b) payments by an employer to an employee upon retirement in recognition of long service, and

(c) payments by a person to a former employee in respect of loss of office or employment

be replaced by a provision for the taxation of amounts so received after June 27, 1946, at the option of the taxpayer either as income for the year in which he received the amounts or at a rate equal to the percentage which the tax upon the taxpayer's income during his last full year in the employment is of that income.

28. That for 1946 and subsequent taxation years the provision under which the minister may allow double depreciation in respect of plant or equipment built or acquired as a new investment in a period to be fixed by the governor in council be amended to provide that the allowance be made only in respect of such classes of plant or equipment as may be determined by the governor in council.

29. That the deduction in respect of income for a taxation year ending between the last day of December, 1942, and the first day of the year of expenditure in respect of one-half of expenditures made

(a) in connection with maintenance or repairs by a taxpayer carrying on a business, or

(b) on underground development by a taxpayer operating a mine,

in a period to be fixed by the governor in council, be restricted to an amount

(c) if the year for deduction is the 1946 taxation year not greater than the taxpayer's excess profit in that year as defined for the purposes of the Excess Profits Tax Act, 1940, or

(d) if the year for deduction is a taxation year prior to 1946, not greater than the taxpayer's profits in the said year above the point at which the tax, calculated for the said year under the first part of the second schedule to the Excess Profits Tax Act, 1940, was equal to the tax calculated for the said year under the second part of the second schedule to the said Act

and that no such deduction be allowed in respect of the income for a taxation year commencing after 1946.

30. That a corporation or joint stock company shall pay a tax at one-half the ordinary rate of income tax for corporations upon income derived on or after January 1, 1947, from the operation of a mine

(a) that has come into production during the period commencing January 1, 1944, and ending December 31, 1949, and

(b) that, in the case of a mine that has come into production before January 1, 1946, is a basic metal or strategic mineral mine and in the case of a mine that has come into production after January 1, 1946, is a metalliferous or industrial mineral mine,

during the first three complete taxation years after the mine comes into production.

31. That the deductions from tax allowed to a corporation whose principal business is the production, refining or marketing of petroleum or petroleum products in respect of drilling and exploration costs be extended to oil wells spudded in during the year 1947 and the deepening of oil wells which is commenced in 1947 but that in respect of such well the deductions be reduced from 26⅔ per cent and 40 per cent of the cost to 20 per cent and 30 per cent respectively.

32. That the deduction from tax allowed to a corporation, association, syndicate or exploration partnership formed for the purpose of exploring and drilling for oil in respect of exploration and drilling expenses be extended to expenditures incurred during the year 1947 but that in respect of expenditures in that year the deductions be reduced from 26⅔ per cent to 20 per cent thereof.

33. That the deduction from tax allowed to a corporation, association, syndicate or exploration partnership formed for the purpose of exploring and drilling for natural gas be extended to expenses incurred in the year 1947 but that in respect of such expenditures the deduction be reduced from 30 per cent to 22½ per cent.

34. That the deduction from tax allowed to a corporation, whose chief business is that of mining or exploration of minerals in respect of prospecting, exploration and development expenses incurred in searching for minerals be extended to expenses incurred in the year 1947 but that in respect of the expenses incurred in that year the deduction be reduced from 26⅔ per cent to 20 per cent.

35. That the deduction from tax allowed to a corporation, association, syndicate or exploration partnership whose principal business is production, refining, or marketing of petroleum or exploration or drilling for petroleum in respect of expenditures made in connection with a deep-test oil well, be extended to expenditures made in connection with deep-test oil wells spudded in during the year 1947.

36. That no interest shall be payable on unpaid taxes upon incomes of the 1945 or a subsequent taxation year in respect of a period commencing twenty months after the day fixed for filing the return for the taxation year and ending one month after the sending of the notice of assessment.

37. That the provision for payment of interest by corporations on the amount of taxes unpaid after payment of instalments of estimated tax commencing six months after the end of the taxation year be amended to require payment of interest on the said unpaid amount from the end of the taxation year.

EXCESS PROFITS TAX ACT

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

1. That the provision for taxation of excess profits of every person residing or ordinarly resident in Canada be amended to exclude therefrom in respect of excess profits earned after December 31, 1946, persons other than corporations or joint stock companies and to reduce the rate of tax on excess profits earned after December 31, 1946, from 20 per cent to 15 per cent.

2. That with respect to profits earned after December 31, 1946, the provision for taxation of profits of every corporation or joint stock company be repealed.

3. That for the 1947 and subsequent taxation years investment corporations that have outstanding bonds, debentures or other securities evidencing funded indebtedness be exempt from excess profits tax.

DOMINION SUCCESSION DUTY ACT

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

1. That rates of tax upon or in respect of any succession upon the death of a person after

December 31, 1946, shall be twice the rates presently in force and that the tax paid to the government of any province in respect of the same succession be allowed as a deduction from the tax payable under the Dominion Succession Duty Act up to but not exceeding one-half of the tax otherwise payable under the said act.

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 securities transfer tax be extended to apply to rights to receive shares of stock;

2. That the present graduated excise tax on cigars be changed to an ad valorem tax of 25 per cent;

3. That any enactments founded on resolutions Nos. 1 and 2 shall be deemed to have come into force on June 28, 1946 and to have applied on all goods imported or taken out of warehouse for consumption on or after that day and to have applied to goods previously imported for which no entry for consumption was made before that day;

4. That the rate of premium tax payable by mutual insurance companies other than life insurance companies and companies carrying on business under the premium deposit plan be reduced from 3 per cent to 2 per cent, and in the case of exchanges from 4 per cent to 2 per cent in respect of premiums received after December 31, 1946;

5. That the rate of premium tax payable by insurance companies carrying on business under the premium deposit plan be reduced from 4 per cent to 3 per cent in respect of premiums received after December 31, 1946; and

6. That a deduction be allowed to insurance companies from the premium taxes payable under the act of the taxes on premiums, paid to the government of any province in respect of premiums received after December 31, 1946.

EXCISE ACT

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

1. That the excise duty of $3 per thousand on cigars be reduced to $1 per thousand.

2. That any enactment founded on this resolution shall be deemed to have come into force on the twenty-eighth day of June, one thousand nine hundred and forty-six.

THE CUSTOMS TARIFF

1. Resolved, that Schedule A to the customs tariff be amended by striking thereout tariff items 4, 72e, 143, 168, 197d, 208, 216a, 219e, 272b, 326e, 438b, 438c, 438d, 438i, 442, 445j, 462a, 616 (iii), 653, 700a, 703 and 709, 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:

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Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates: B. P. Tariff	Present Rates: Intermediate Tariff	Present Rates: General Tariff
4	Horses, n.o.p. ....each	$10.00	$12.50	$25.00	$10.00	$12.50	$25.00
72e	Bent grass seed, not to include red-top grass seed.....	15 p.c.	30 p.c.	30 p.c.	15 p.c.	30 p.c.	30 p.c.
90e	Vegetables, frozen....	10 p.c.	25 p.c.	30 p.c.	15 p.c.	32½ p.c.	35 p.c.
143	Cigars, the weight of the bands and ribbons to be included in the weight for duty..........per pound	$3.50	$3.50	$3.50	$3.90	$3.90	$3.90
	....and	25 p.c.	25 p.c.	25 p.c.	25 p.c.	25 p.c.	25 p.c.
168	Malt flour containing less than fifty per centum in weight of malt; malt syrup or malt syrup powder, n.o.p.; extracts of malt, fluid or not; grain molasses—all articles in this item upon valuation without British or foreign excise duties, under regulations prescribed by the Minister....	25 p.c.	30 p.c.	35 p.c.	25 p.c.	30 p.c.	35 p.c.
	....and per pound	....	5 cts.	10 cts.	....	5 cts.	10 cts.
168a	Malt syrup, malt syrup powder, or other starch conversion products produced by the action of enzymes on starch, not including any such products used in the brewing of beer....	20 p.c.	25 p.c.	30 p.c.	25 p.c.	30 p.c. and 5 cts. per lb.	35 p.c. and 10 cts. per lb.
180e	Engineers' plans, drawings or blue-prints of machines and plant equipment, plant layouts, foundations for machinery and other plant equipment, structural supports and towers and similar outside structures, dams, spillways, and other hydro construction, wiring, piping, platforms, ladders, stairs, etc., not to include office or other buildings...............	Free	Free	Free	12½ p.c.	22½ p.c.	22½ p.c.
192f	Paperboard or fibreboard, single ply, not coated or impregnated, in rolls containing not less than five hundred square feet, when imported by manufacturers of impregnated socklining base, innersoling, welting, or similar materials, for use only in the manufacture of such materials in their own factories	Free	10 p.c.	25 p.c.	15 p.c.	25 p.c.	35 p.c.
197d	Tissue paper, not coated nor impregnated, when imported by manufacturers of stencils for duplicating machines for use exclusively in the manufacture of such stencils in their own factories......	Free	10 p.c.	25 p.c.	Free 15 p.c.	10 p.c. 22½ p.c.	25 p.c. 25 p.c.

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates B. P. Tariff	Present Rates Intermediate Tariff	Present Rates General Tariff
199i	Trays of pulp or pulp board imported for use exclusively in the packaging of apples, in their natural state..	Free	7½ p.c.	35 p.c.	20 p.c.	32½ p.c.	35 p.c.
208	Boracic acid and borax in packages of not less than twenty-five pounds weight; hydrofluosilicic acid; tannic acid; ammonia, sulphate of; cyanide of potassium; cyanide of sodium and cyanogen bromide; antimony salts, viz.: tartar emetic, chloride and lactate (antimonine); arsenous oxide; precipitate of copper (crude); verdigris or subacetate of copper, dry; sulphur and brimstone, crude or in roll or flour; argols; iodine, crude; bromine; sulphide of arsenic; carbon bisulphide, n.o.p...	Free	Free	Free	Free	Free	Free
219e	Chloropicrin, ethylene oxide, methyl bromide, methyl formate, cyanides, carbon bisulphide, acrylonitrile, or mixtures containing any of these, for use in combating destructive insects and pests..	Free	Free	Free	Free Free	Free 20 p.c.	Free 25 p.c.
272b	Paraffin wax, n.o.p................................	15 p.c.	22½ p.c.	25 p.c.	15 p.c.	22½ p.c.	25 p.c.
272c	Paraffin wax when imported for use exclusively in the manufacture of candles...........................	10 p.c.	12½ p.c.	25 p.c.	15 p.c.	22½ p.c.	25 p.c.
326e	Articles of glass, not plate or sheet, designed to be cut or mounted; articles of glassware, when imported by manufacturers of silverware to be used in receptacles made of or electro-plated with precious metals or to be equipped with tops made of or electro-plated with precious metals, in their own factories..	Free	Free	22½ p.c.	Free 10 p.c.	10 p.c. 30 p.c.	22½ p.c. 32½ p.c.
326k	High thermal shock resisting glass parts when imported by manufacturers of high thermal shock						

	resisting glassware, for use exclusively in the manufacture or in the repair of such articles, in their own factories	Free	Free	25 p.c.	Free	25 p.c.	32½ p.c.
434c	Trucks of welded design with tubular frame, cast steel cross members, rubber mountings and rubber inserted wheels, of a class or kind not made in Canada, and body shells of welded sheet steel, for use in the construction of street railway cars, not to include electric motors or magnetic truck brakes; complete parts of the foregoing	Free	10 p.c.	35 p.c.	Free	30 p.c.	35 p.c.
438b	Bearings, clutch release; bearings, graphite; bearings, steel or bronze backed, with non-ferrous metal lining; bushings, graphited or oil impregnated; ceramic insulator spark plug cores, not further manufactured than burned and glazed, printed or decorated or not, without fittings; compressors, air; commutator copper segments; commutator insulating end rings; tapered discs of hot rolled steel, with or without centre hole, for disc wheels; distributor rotors and cam assemblies; door bumper shoes; electric wiring terminals, sockets, fittings and connectors and parts thereof, not to include battery terminals; gaskets of any material except cork or felt, composite or not; ignition contact points; keys for shafting; auxiliary driving control kits, designed for attachment to motor vehicles to facilitate their operation by physically disabled persons, and parts thereof; lenses of glass for head, tail, dome, signal and cowl or parking lamps, and for light reflectors; lock washers; piston ring castings in the rough, with or without gates and fins removed; rails of lock seam section, corners, locks and catches, unplated ventilators and parts thereof, the foregoing being of metal other than aluminum, for the manufacture of window sashes for bus bodies; steel bolts, or studs, capped with stainless steel; switches for lamps, heaters and defrosters and parts thereof; vacuum control assemblies; vulcanized fibre in sheets, rods, strips and tubing; all of the foregoing when of a class or kind not made in Canada and for use in the manufacture or the repair of the goods enumerated in tariff items 424 and 438a, or for use in the manufacture of parts therefor	Free	Free	30 p.c.	Free Free	Free 25 p.c.	30 p.c. 40 p.c.

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Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates		
					B. P. Tariff	Intermediate Tariff	General Tariff
438c	Ammeters; arm rests and wheel housing lining of indurated fibre, pressed to shape; axle housings, one piece welded, machined or not; carburetors and parts thereof; chassis frames and steel shapes for the manufacture thereof; cigar and cigarette lighters, whether in combination with a cigarette holder or not, including base, and parts thereof; control ventilator gear box; cylinder lock barrels, with or without sleeves and keys thereof; dash heat indicators and parts thereof; electric gear shift switches and parts thereof; engine speed governor units and parts thereof; fluid couplings, with or without drive plate assemblies, and parts thereof; front axle cross channel king pin support section assembly of steel, in the rough; fuel pumps, vacuum pumps and combinations thereof and parts therefor; gasoline gauges and parts thereof; hinges and parts thereof, finished or not, for bodies; horns and parts thereof; instrument bezel assemblies and parts thereof; instrument board lamps; locks, electric ignition, steering gear, transmission, or combinations of such locks, and parts thereof; mouldings of metal, with nails set in position, lead filled or not; oil filters and parts thereof; oil gauges and parts thereof; pipe lines of tubing, rigid or flexible, covered or not, with or without fittings, and tubing therefor, for oil, fuel, air, or liquid for actuating hydraulic brakes; purifiers for air, and parts thereof; purifiers for oil or gasoline, parts thereof and brackets and fittings therefor; radiator, hood and other grills, assembled or not, and parts thereof, but not polished nor plated, and not to include finish or decorative moulding; radiator ornaments, and hood lift lock ornaments, unplated, and parts, thereof; radiator shutter assemblies, automatic; radiator water gauges; radiator shells and parts thereof, not plated nor metal finished in any degree; shackles, bearing spring, and parts thereof; speedometers and parts thereof; spring covers of metal and closing strips or shapes therefor; stampings, body, cowl, hood, fender and instrument board, of metal in the rough, trimmed or not, but not metal finished in any						

degree; starter switch assembly and parts thereof; steering wheels, rims and spiders therefor; sun visor blanks of gypsum weatherboard; thermostats and parts thereof; throttle, spark and choke assemblies, including buttons therefor, and parts thereof; tire clamping rings of steel, plated or not; universal joint ball assemblies; voltage control regulators; wind-shield wipers and parts thereof; all of the foregoing when of a class or kind not made in Canada and for use in the manufacture or the repair of the goods enumerated in tariff items 424 and 438a or for use in the manufacture of parts therefor..	Free	20 p.c.	30 p.c.	Free Free	20 p.c. 25 p.c.	30 p.c. 40 p.c.
(1) Provided, that if the above articles are imported for use as original equipment by a manufacturer of automobiles, motor vehicles, electric trackless trolley buses or chassis enumerated in tariff items 438a and 424 whose total factory output during the year in which importation is sought does not exceed ten thousand complete automobiles, motor vehicles, electric trackless trolley buses or chassis, and provided that not less than forty per centum of the factory cost of production of such automobiles, motor vehicles, electric trackless trolley buses or chassis, not to include duties and taxes, is incurred in the British Empire, the rates of duty under this item shall be..................	Free	Free	25 p.c.	Free	Free	25 p.c.
(2) Provided, that if the above articles are imported for use as original equipment by a manufacturer of automobiles, motor vehicles, electric trackless trolley buses or chassis enumerated in tariff items 438a and 424 whose total factory output during the year in which importation is sought exceeds ten thousand automobiles, motor vehicles, electric trackless trolley buses or chassis, and provided that not less than sixty-five per centum of the factory cost of production of such automobiles, motor vehicles, electric trackless trolley busses or chassis, not to include duties and taxes, is incurred in the British Empire, the rates of duty under this item shall be..........................	Free	Free	25 p.c.	Free	Free	25 p.c.
(3) Provided that the Governor in Council may make such regulations, if any, as are deemed necessary for carrying out the provisions of this item.						

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates B. P. Tariff	Present Rates Intermediate Tariff	Present Rates General Tariff
438d	Front and rear axles; brakes; clutches; internal combustion engines; steering gears; magnetos; rims for pneumatic tires larger than thirty inches by five inches; transmission assemblies, hydraulic or fluid couplings and torque convertors; drive shafts; universal joints; steel road wheels; and parts of the foregoing, when of a class or kind not made in Canada, and imported by manufacturers of the goods enumerated in tariff items 424 and 438a for use only in the manufacture of motor trucks, motor buses and electric trackless trolley buses, or for the manufacture of chassis for the same..............	Free	17½ p.c.	27½ p.c.	Free	17½ p.c.	27½ p.c.
					Free	25 p.c.	40 p.c.
	(1) Provided that if the above articles are imported for use as original equipment for motor trucks, motor buses and electric trackless trolley buses, or for chasses for the same, by a manufacturer of the goods enumerated in tariff items 424 and 438a, and provided also that during the year during which importation is sought, not less than forty per centum of the factory cost of production of such motor vehicles and chassis therefor, not to include duties and taxes, is incurred in the British Empire, the rates of duty under this item shall be.	Free	7½ p.c.	27½ p.c.	Free	7½ p.c.	27½ p.c.
	(2) Provided that the Governor in Council may make such regulations, if any, as are deemed necessary for carrying out the provisions of this item.						
438i	Body bottom cross members and steel shapes for the manufacture thereof; bumpers, front and rear, and parts thereof, including spring steel bumper plates; casket tables or platforms for hearses; destination and route sign assemblies, illuminated or not, and parts thereof; direction signals, illuminated or not; door and step mechanism, hand, vacuum or air operated, and parts thereof; door locks and catches and parts thereof; electric switches, buzzers, bells, push buttons, fuse assemblies and parts thereof; forward drive control conversion assem-						

	blies and parts thereof; lamps of all kinds, illuminating and indicating, including sockets, flanges, terminals, glassware, lenses and gaskets therefor, assembled or not, but not to include lamp bulbs; metal stampings, oiled and primed or not, and assemblies thereof; rubber fenders; seat operating mechanisms; ventilators, including motor driven fan type, and grills, and parts thereof; window operating mechanisms; all of the foregoing when imported to be used only in the manufacture of motor truck bodies, motor bus bodies, electric trackless trolley bus bodies, motor ambulances and hearses..	Free	Free	20 p.c.	Free Various	Free Various	20 p.c. Various
442	Articles and materials which enter into the cost of manufacture of the goods enumerated in tariff items 409, 409a, 409b, 409c, 409d, 409e, 409f, 409g, 409h, 409i, 409j, 409k, 409l, 409m, 409n, 409o, and 439c, when imported for use in the manufacture of the goods enumerated in the aforesaid tariff items, or in the manufacture of parts therefor, under regulations prescribed by the Minister..................	Free	Free	Free	Free Various	Free Various	Various Various
445j	Electric dry shaving machines for use in removing human hair, and parts thereof....................	Free	Free	10 p.c.	Free 10 p.c.	Free $27\frac{1}{2}$ p.c.	10 p.c. 35 p.c.
446h	Bathtub stampings of metal........................	Free	10 p.c.	25 p.c.	10 p.c.	$27\frac{1}{2}$ p.c.	35 p.c.
462a	Photographic cameras and equipment, and complete parts of the foregoing, for use by professional photographers and commercial photo-finishers in their own business, as follows:— Cameras for professional purposes, for making negatives $4\frac{3}{4}$ inches by $6\frac{1}{2}$ inches and larger, and the following accessories for use with such cameras: lenses, shutters, exposure meters, range finders, film and plate holders, lens hoods, lens boards, ground glass carriages, reducing backs, reversible adapter backs, lantern slide attachments, film sheaths, combination paper and plate holders, kits, carrying cases, camera stands, camera tripods, camera tripod tops, vignetters, diffusion disks, diffusion disk holders, colour filters, colour filter holders, polarizing screens, polarizing screen holders and backgrounds. Printers, enlargers, heaters, dryers, mounting presses, print washers, automatic film processors, printing frames and tanks for developing, fixing and washing..	Free	Free	Free	Free $7\frac{1}{2}$ p.c.	Free 25 p.c.	Free 30 p.c.

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates: B. P. Tariff	Present Rates: Intermediate Tariff	Present Rates: General Tariff
475e	Matrices of non-advertising news pictures for reproduction in newspapers and periodical publications enjoying second-class mailing privileges............	Free	Free	Free	Free	½ ct. per sq. in.	½ ct. per sq. in.
569d	Woven fabrics, not exceeding two inches in width, made with unserrated selvages, generally known as single, double or four shot corded ribbon, imported by the manufacturers of men's hats for use exclusively in their own factories in making the bands for, or in binding the edges of, men's hats only.........	Free	Free	Free	22½ p.c.	32½ p.c.	35 p.c.
616	(iii) Latex, being crude rubber in liquid form, not compounded beyond the addition of preservatives.	Free	Free	Free	Free	Free	Free
653	Brushes of all kinds, n.o.p.........................	15 p.c.	30 p.c.	40 p.c.	15 p.c.	30 p.c.	40 p.c.
703	*(a)* Travellers' baggage, under regulations prescribed by the Minister.........................	Free	Free	Free	Free	Free	Free
	(b) Goods valued at not more than one hundred dollars included in the baggage accompanying residents of Canada returning from abroad after an absence from Canada of not less than forty-eight hours and acquired by them for personal or household use or as souvenirs or gifts, but not bought on commission or as an accommodation for other persons or for sale, under regulations prescribed by the Minister......................................	Free	Free	Free	Free	Free	Free
	Provided that a resident of Canada shall not be entitled to the exemption herein granted within a period of four months from the date of the last exemption allowed, nor shall the exemption be allowed on alcoholic beverages in excess of one quart, or on tobacco in excess of fifty cigars, two hundred cigarettes and two pounds of manufactured tobacco. Provided further that goods entitled to entry under this Item shall be exempt from all imposts, notwithstanding the provisions of this Act, The Customs Tariff Amendment Act, 1939 or any other Act.						

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709	(*a*) Goods, including containers or coverings filled or empty, the growth, produce or manufacture of Canada, after having been exported therefrom...	Free	Free	Free	Free	Free	Free
	(*b*) Goods, including containers or coverings filled or empty, which have once been entered for consumption in Canada and have been exported therefrom..	Free	Free	Free	Free	Free	Free
	All the foregoing under such regulations as the Minister may prescribe.						
	Provided that the goods are returned within five years from the time of exportation without having been advanced in value or improved in condition by any process of manufacture or other means, or combined with any other article abroad;						
	Provided also that any such goods on which a refund of duty or allowance of drawback has been made shall not be admitted to entry under this item except upon payment of duties equal to the refund or drawback allowed;						
	Provided further that any of such goods manufactured in bond or under excise regulations in Canada and exported shall not be admitted to entry except upon payment of the Customs or Excise duties to which they would have been liable had they not been exported from Canada.						
786	Semen of horses, cattle, sheep, goats, asses, swine and dogs, pure bred, for the improvement of stock, under regulations prescribed by the Governor in Council..	Free	Free	Free	15 p.c.	25 p.c.	25 p.c.
826a	Dies in the rough, not being complete parts of machinery, for use in the manufacture of bolts, nuts, nails, screws, rivets and tacks...............	Free	10 p.c.	35 p.c.	10 p.c.	27½ p.c.	35 p.c.
836	Ultra-violet ray lamps, and complete parts thereof, designated for detecting scheelite ore..............	Free	Free	Free	15 p.c.	25 p.c.	30 p.c.
847	Distillers' solubles obtained from the liquid residue remaining after the alcohol has been removed in the process of distilling grain or molasses mash, whether or not subjected to a fermentation process, when imported without admixture except that necessary for the said fermentation process, for use exclusively in the manufacture of feeds for livestock, poultry or fur-bearing animals, under such regulations as the Minister may prescribe.............	Free	Free	Free	Free 17½ p.c.	Free 25 p.c.	Free 25 p.c.

2. Resolved, that schedule A to the customs tariff be further amended by deleting from the Customs Tariff Amendment Act, 1939, as amended, the following enumerations of goods and rates of additional duties of customs:

Tea, when the value for duty thereof under the provisions of the Custom Act:	
(a) is less than 22½ cents per pound	5 cents per pound
(b) is 22½ cents or more but less than 30 cents per pound	7½ cents per pound
(c) is 30 cents or more per pound	10 cents per pound
All goods specified in customs tariff item 25a	10 cents per pound
All goods specified in customs tariff item 26, except coffee, roasted or ground	10 cents per pound
Coffee, green, and coffee, roasted or ground	10 cents per pound

3. Resolved, that any enactment founded upon the foregoing resolutions to amend the customs tariff or schedule thereto shall be deemed to have come into force on the twenty-eighth day of June, one thousand nine hundred and forty-six, and to have applied to all goods mentioned in the foregoing resolutions imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

APPENDIX

TO

THE BUDGET, 1946-47

Budget Papers presented by the
Right Honourable J. L. Ilsley, M.P., for the
information of Parliament on the occasion of the
Budget of 1946-47

A. Review of Government Accounts, 1945-1946.
B. Tables on Economic Conditions, 1945-1946.

66411—7½

DOMINION OF CANADA

A. GOVERNMENT ACCOUNTS, 1945–46

Comparative Summary Statement of Revenues and Expenditures

1. Although the Dominion's fiscal year ends March 31st, the books of the Dominion for each fiscal year remain open for some time thereafter in order to record expenditures made to April 30th as provided by Section 32 of the Consolidated Revenue and Audit Act, and to provide for adjustments which affect revenue and expenditure accounts as well as asset and liability accounts. Final figures for the fiscal year 1945-46 are not yet available, and accordingly the statements which follow, in so far as they relate to 1945-46 revenue, expenditure, investment and balance sheet items, must be regarded as preliminary. In particular they do not reflect the cancellation of $425,000,000 of accumulated liabilities of the United Kingdom under the British Commonwealth Air Training Plans, which are provided for in the Financial Agreement with the United Kingdom. The relevant article of that Agreement and the section of the United Kingdom Financial Agreement Act, 1946, implementing it have not yet come into effect, pending action by the United States Congress on the Anglo-American Financial Agreement. If and when the Anglo-American Financial Agreement is approved by Congress, immediate action will be taken to implement this provision of the Canadian-United Kingdom Agreement. This would result in a cancellation of the item of $425,000,000 listed in the balance sheet given on Page 87 of this appendix under the heading of "Loans and Advances". It will also result in an increase of $425,000,000 in War Expenditures and Total Expenditures and a similar increase in the deficit.

2. The following tables show, by main categories and in detail, revenues, expenditures and the increase in net debt for the fiscal year 1945-46 together with comparable figures for the four preceding fiscal years:

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
Tax Revenue—					
Direct Taxes—					
Direct Taxes on Incomes—					
Individual Income Tax, including National Defence Tax	296,139	534,138	813,435	767,755	691,586
Tax on Interest and Dividends	26,643	26,711	25,671	27,053	26,824
Taxes on Rents and Royalties	1,626	1,370	1,272	1,546	1,486
Corporation Income Tax	185,836	347,970	311,379	276,404	217,834
Excess Profits Tax	135,168	454,581	468,718	465,805	494,196
Total Direct Taxes on Incomes	645,412	1,364,770	1,620,475	1,538,563	1,431,926
Succession Duties	6,957	13,273	15,020	17,251	21,448
Total Direct Taxes	652,369	1,378,043	1,635,495	1,555,814	1,453,374
Indirect Taxes—					
Customs Import Duties	142,392	118,963	167,882	115,091	128,877
Excise Duties—					
Spirits, malt, etc	46,776	65,594	65,922	72,133	91,275
Cigars, cigarettes and tobacco	65,050	76,372	79,906	83,142	98,228
Licences	40	38	37	37	38
Less Refunds	−1,775	−3,283	−3,741	−3,390	−2,815
Total Excise Duties	110,091	138,721	142,124	151,922	186,726
Excise Taxes—					
Taxes on Commodities—					
Sales Tax	246,553	250,478	339,256	404,109	326,253
War Exchange Tax	100,874	94,553	118,913	98,164	41,198
Automobiles, rubber tires and tubes	16,742	3,062	6,000	6,480	6,701
Beverages	6,247	14,119	19,059	19,442	16,657
Candy and chewing gum	....	8,185	12,602	12,874	11,904
Cigars, cigarettes and tobacco	333	26,295	54,688	62,306	70,228
Cigarette papers and tubes	3,948	5,056	6,159	6,658	4,645
Electric and gas appliances	8,470	5,306	3,302	4,057	1,272
Furs	....	3,170	4,199	5,217	4,976
Gasoline	24,752	24,898	24,930	29,671	29,836
Matches and lighters	2,766	2,855	2,874	3,117	3,675
Phonographs, radios and tubes	2,361	1,191	491	1,112	646
Special excise on importations	861	480	508	545	787
Sugar	22,009	14,950	13,048	11,744	9,975
Toilet preparations and soaps	3,539	4,542	5,327	6,347	7,107
Trunks, bags, luggage, etc	....	2,187	4,170	4,134	4,711
Wines	1,445	2,007	1,710	1,772	2,066
Sundry	877	1,938	2,579	2,977	3,811
Taxes on Amusements and Services—					
Amusements	7,710	10,778	12,019	12,284	13,387
Tax on pari-mutuel bets	1,082	1,287	1,683	1,904	2,188
Transportation and communication	8,131	16,083	22,379	24,205	26,893
Stamps, including payment of taxes on jewellery, chinaware, cabaret attendance, etc	4,893	12,586	16,734	18,296	21,697
Licences, interest and miscellaneous	202	255	331	369	302
Less refunds (mainly sales tax)	−10,370	−17,549	−34,342	−194,719	−114,005
Total Excise Taxes	453,425	488,712	638,619	543,065	496,910
Other Taxes—					
Chartered bank note circulation	786	665	457	350	270
Insurance Companies	1,148	10,893	6,481	7,182	7,951
Miscellaneous	702	723	753	702	751
Total Indirect Taxes	708,544	758,677	956,316	818,312	821,485
Total Revenue from Taxes	1,360,913	2,136,720	2,591,811	2,374,126	2,274,859

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
NON-TAX REVENUE—					
Post Office	45,994	48,869	61,071	66,056	68,613
Return on Investments	25,826	41,242	48,281	60,749	70,915
Bullion and coinage	4,767	5,883	8,732	4,586	4,954
Premium, discount and exchange	11,855	395	2,154	....	....
Other	14,469	19,690	13,045	14,080	16,206
Total Non-tax Revenue	102,911	116,079	133,283	145,471	160,688
Total Ordinary Revenue	1,463,824	2,252,799	2,725,094	2,519,597	2,435,547
SPECIAL RECEIPTS AND CREDITS—					
Refunds of previous years' Special Expenditure	102	239	221	53	21
Special Receipts—War Appropriation Acts	16,384	18,651	98,918	360,061	569,150
War Donations	459	275	216	177	161
Canadian Wheat Board—					
Reduction in Reserve Account	....	6,660	2,971	589	....
Surpluses in certain special accounts	....	....	....	2,625	....
Canadian National Railways—					
Net credit due to increase in Canadian National Railways Securities Trust Stock (contra)	1,576[1]	31,560[1]	37,838	22,400	22,631
Previous years' war expenditure on investment in Crown plants transferred to Active Assets	....	....	53,448	....	174
Other	....	1	26	....	....
	18,521	57,386	193,638	385,905	592,137
Capital and Non-active Accounts—					
Capital Accounts—					
Refunds of previous years' expenditure	38	102	93	728	375
Net insurance proceeds on the P.E.I. Car Ferry	984	....	....	....	....
Non-active Accounts—					
National Harbours Board, reduction of indebtedness	33	15	....	19	....
Canadian National (West Indies) Steamships, Limited, reduction of indebtedness	....	....	164	549	....
Canadian Pacific Railway—repayment of loan made under Unemployment Relief Act, 1932	....	....	1,000	....	....
Write-downs to Consolidated Deficit Account—					
Seed Grain and Relief Loans	58	42	29	36	45
Total Capital and Non-active Accounts	1,113	159	1,286	1,332	420
Total Special Receipts and Credits	19,634	57,545	194,924	387,237	592,557
GRAND TOTAL REVENUE	1,483,458	2,310,344	2,920,018	2,906,834	3,028,104
Less estimated amount of Income and Excess Profits Taxes refundable after the war	....	70,000	155,000	219,500	72,500
	1,483,458	2,240,344	2,765,018	2,687,334	2,955,604

([1]) Revised to be comparable to the presentation used in Public Accounts of 1943-44, by netting the adjustments affecting the Canadian National Railways Securities Trust Stock.

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

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
ORDINARY EXPENDITURE					
Agriculture	8,430	8,492	8,841	9,424	10,318
Auditor General's Office	457	441	348	361	379
Civil Service Commission	399	427	456	461	480
External Affairs, including Office of Prime Minister	1,052	1,156	1,596	1,974	4,770
Finance—					
Interest on Public Debt	155,018	188,556	242,681	318,995	408,960
Cost of Loan Flotations and Annual Amortization of Bond Discounts and Commissions	16,350	13,838	19,285	20,679	22,310
Premium paid on redemption of called bonds	....	....	....	....	5,842
Subsidies to Provinces	14,409	14,490	14,449	14,445	14,447
Wartime Prices and Trade Board—					
Dominion Fuel Board Administration, coal subsidies and subventions	4,880	(1) —	(1) —	(1) —	(1) —
Miscellaneous Grants and Contributions	531	526	528	531	951
Civil Pensions and Superannuation	445	398	356	325	297
Government contribution to Superannuation Fund	2,347	2,341	2,299	2,341	2,700
Old Age Pensions, including pensions to blind persons	29,612	29,976	30,377	32,187	(2) —
Premium, Discount and Exchange	—	—	—	16,348	14,735
Compensation to Provinces under Dominion-Provincial Taxation Agreements—					
Income and Corporation Taxes	21,120	85,942	83,678	82,977	94,343
Gasoline Tax	—	8,273	11,757	10,357	3,709
Administrative and Sundry Expenditure	3,807	4,181	4,472	4,724	7,580
Fisheries	1,679	1,699	1,696	2,159	3,322
Governor General and Lieutenant Governors	226	225	222	223	228
Insurance	181	182	183	185	198
Justice	2,657	2,667	2,673	2,696	2,843
Penitentiaries	2,786	2,772	2,799	2,936	3,258
Labour	762	698	1,147	1,419	1,591
Technical Education	41	19	23	25	29
Unemployment Insurance Act, 1940—					
Administration	2,344	4,657	5,171	5,115	6,202
Government contribution	7,287	11,487	12,344	12,746	12,514
Government Annuities—					
Payments to maintain reserve	617	498	32	257	294
Legislation—					
House of Commons	1,408	1,827	1,915	1,612	2,236
Library of Parliament	72	76	77	72	73
Senate	424	555	562	485	727
General	47	61	86	95	98
Chief Electoral Officer, including elections	282	1,447	88	179	3,089
Mines and Resources—					
Administration	178	160	167	161	166
Immigration	1,289	1,268	1,262	1,311	1,523
Indian Affairs	5,000	4,978	5,177	6,164	(3) 4,479
Lands, Parks and Forests	1,959	1,753	1,586	1,832	2,608
Surveys and Engineering	1,128	1,129	1,272	1,610	1,322
Mines and Geological Survey	1,156	1,140	1,125	1,217	1,303
Munitions and Supply	12	12	14	19	(4) —
Dominion Fuel Board Administration Coal subsidies and subventions	(5) —	4,965	2,165	2,737	(4) —
National Defence—					
Administration	43	44	36	40	40
Sundry Services	223	371	32	29	82

(1) See Departments of Munitions and Supply and Reconstruction and Supply.
(2) See Department of National Health and Welfare.
(3) Medical care of Indians transferred to Department of National Health and Welfare in 1945-46.
(4) See Department of Reconstruction and Supply.

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

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
ORDINARY EXPENDITURE—*Con.*					
National Health and Welfare	1,246	1,244	1,617	1,725	6,133
Old age pensions, including pensions to blind persons	(5) —	(5) —	(5) —	(5) —	33,715
Family Allowances	....	....	....	....	172,632
National Film Board	(6) —	(6) —	(6) —	(6) —	1,146
National Revenue (including Income Tax)	13,428	15,190	17,721	20,114	22,631
National War Services	682	428	547	838	4
Post Office	41,502	44,742	48,485	54,629	57,730
Privy Council	54	62	80	81	85
Public Archives	123	123	124	124	127
Public Printing and Stationery	195	245	235	232	237
Public Works	11,937	12,014	12,281	13,169	16,263
Reconstruction and Supply	—	—	—	82	914
Dominion Fuel Board Administration, Coal subsidies and subventions	(5) —	(7) —	(7) —	(7) —	2,341
National Research Council	(8) —	(8) —	(8) —	887	1,195
Royal Canadian Mounted Police	5,985	6,242	6,678	7,183	7,284
Secretary of State	823	820	831	864	955
Trade and Commerce	(9) 6,200	4,566	4,196	3,497	4,057
Canada Grain Act	1,909	1,918	2,089	2,333	2,302
Mail Subsidies and Steamship Subventions	616	616	800	869	994
Transport—					
Administration	388	375	397	402	420
Air Service	3,386	3,334	3,593	3,939	4,199
Marine Service	4,010	4,257	4,504	4,897	4,844
Railways and Canals	3,694	3,340	4,090	4,260	4,374
Maritime Freight Rates Act	3,935	4,894	5,058	4,733	4,346
Railway Grade Crossing Fund	25	12	17	34	32
Veterans Affairs—					
Departmental Administration	182	162	176	195	1,141
Pensions (War 1914–18 and military)	40,569	39,684	38,998	39,372	40,004
War service gratuities and re-establishment credits	—	—	—	20,228	(10) —
Treatment and after-care of returned soldiers and allowances to dependents	12,667	12,689	14,050	19,845	28,531
Soldier Settlement and Veterans Land Act	564	567	837	1,391	3,163
Total ordinary expenditure	444,778	561,251	630,381	767,376	1,061,845
CAPITAL EXPENDITURE					
Railways	4	38	692	630	2,313
Public Works	3,426	3,238	1,930	2,534	2,290
Total Capital Expenditure	3,430	3,276	2,622	3,164	4,603
WAR AND DEMOBILIZATION EXPENDITURE					
National Defence—Army—					
Army Services	502,773	1,021,944	1,312,348	1,243,732	853,606
Internment Operations	1,370	1,556	1,100	1,580	1,014
Inspection Board of the U.K. and Canada	4,876	10,946	10,522	8,362	6,124
U.K. Settlement—War Claims	—	—	—	—	71,250
Sundry	2,150	3,344	4,835	8,080	8,474
	511,169	*1,037,790*	*1,328,805*	*1,261,754*	*940,468*
National Defence—Naval Services	*129,368*	*210,182*	*369,556*	*417,099*	*241,800*

(5) See Department of Finance.
(6) Included under Department of National War Services.
(7) See Department of Munitions and Supply.
(8) Included under Department of Trade and Commerce.
(9) Includes an amount of $2,615,000 for census of population of Canada.
(10) See War and Demobilization.

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

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
WAR AND DEMOBILIZATION EXPENDITURE —*Continued*					
National Defence—Air Services—					
Overseas War Establishment	13,333	23,666	383,888	759,070	—
Overseas Operations	—	—	—	—	142,539
Home War Establishment	109,820	226,550	312,761	227,942	—
Western Hemisphere Operations	—	—	—	—	93,215
Air Training	247,383	366,897	233,893	272,342	—
Training Organization	—	—	—	—	60,669
Repatriation and Demobilization	—	—	—	—	72,153
U.K. Settlement—War Claims	—	—	—	—	82,815
Restricted Servicing Units	—	—	—	—	39,539
General Servicing Units	—	—	—	—	14,896
Surplus Equipment Units	—	—	—	—	815
Headquarters and Commands Administration	—	—	—	—	17,871
Sundry	113	122	124	103	96
	370,649	*617,235*	*930,666*	*1,259,457*	*524,608*
Reconstruction and Supply (formerly Munitions and Supply)—					
Administration	4,930	9,457	9,957	8,841	6,900
Expansion of Industry	247,761	469,675	672,804	205,039	106,000
Acquisition of U.K. Assets	—	200,000	5,000	1,964	—
Termination of Contracts	—	—	—	—	145,000
National Research Council	1,125	2,091	2,640	2,932	2,382
Sundry	—	—	—	—	3,133
	253,816	*681,223*	*690,401*	*218,776*	*263,415*
Agriculture—					
Disposal of agricultural products rendered surplus by the war	2,260	2,901	1,876	1,194	355
Subsidy to increase export bacon price to secure adequate supplies for the U.K.	2,281	—	—	—	—
Payment on cheese exports to the U.K.	1,784	—	—	—	—
Freight assistance on western feed grains	3,972	10,318	17,754	15,943	17,316
Payment to increase the income of farmers in the spring wheat area of Western Canada	16,299	2,678	19	2	1
Fertilizer subventions and freight allowance	—	1,036	903	350	713
Subsidy on western wheat used exclusively as feed for live-stock	—	836	4,500	7,471	7,863
Subsidy on milk and milk products	—	—	29,505	42,330	41,659
Premium on hog carcasses suitable for export to U.K.	—	—	3,855	14,091	9,573
To provide for reserve stocks of feed grains	—	—	1,292	715	1,277
Sundry	791	2,211	4,589	5,958	4,221
	27,387	*19,980*	*64,293*	*88,054*	*82,978*
Finance—					
Comptroller of the Treasury	3,866	6,493	8,404	9,216	9,373
Payment of premiums on the purchase of Dominion of Canada Registered Stock	8,100	126	13	14	12
Wartime Prices and Trade Board— Administration	1,437	9,278	13,705	12,720	14,761
Subsidies due to application of Order placing a ceiling over all prices	3,242	67,715	81,519	107,338	97,850
Advances for payment of drawback claims to millers and other manufacturers of wheat products	—	(11) —	20,500	19,700	14,750
Advances to the Canadian Wheat Board to cover deficits in certain Board operations	—	—	—	13,058	—
House Conversion Program	—	—	841	4,053	1,787

(11) See Department of Trade and Commerce.

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

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
WAR AND DEMOBILIZATION EXPENDITURE —*Continued*					
Finance—*Concluded*					
Old Age Pensions, increased benefits..	—	—	3,062	8,788	(12) —
Halifax V-E Day disorders and explosion—					
Payment of claims..................	—	—	—	—	4,611
Expenses of investigations..........	—	—	—	—	260
Sundry..............................	80	1,051	417	1,632	955
	16,725	*84,663*	*128,461*	*176,519*	*144,359*
Labour—					
Industrial training....................	4,569	4,360	3,478	1,617	701
Training aircraft mechanics...........	1,489	2,019	1,378	333	3
National Selective Service program...	—	4,737	9,346	11,098	11,319
Removal of enemy aliens from protected areas.........................	—	4,328	2,545	2,137	2,114
Vocational training for discharged members of the Canadian Armed Forces............................	3	22	167	602	4,357
Sundry..............................	493	1,361	2,724	3,877	4,413
	6,554	*16,827*	*19,638*	*19,664*	*22,907*
Mines and Resources—					
Prince Rupert—Terrace—Cedarvale Highway..........................	10	2,965	5,750	2,499	8
Employment of Japanese...............	71	1,686	894	511	262
Sundry..............................	678	1,626	2,761	2,804	3,205
	759	*6,277*	*9,405*	*5,814*	*3,475*
National War Services—					
War charities—Auxiliary services......	1,175	6,499	10,910	15,933	13,062
National Film Board.................	10	122	1,220	1,341	(12) —
Censorship...........................	22	1,070	1,727	1,856	846
Sundry..............................	2,011	954	1,330	6,852	338
	3,218	*8,645*	*15,187*	*25,982*	*14,246*
National Health and Welfare—					
Old Age Pensions, increased benefits..	—	—	(13) —	(13) —	9,103
National Film Board..................	(14) —	(14) —	(14) —	(14) —	1,403
Canadian Information Service (formerly Wartime Information Board)............................	—	1,474	759	1,700	1,229
Sundry..............................	(15) —	(15) —	(15) —	1,340	745
	—	*1,474*	*759*	*3,040*	*12,480*
Public Works........................	*4,497*	*6,880*	*6,467*	*6,500*	*6,231*
Royal Canadian Mounted Police........	*3,001*	*3,870*	*4,267*	*3,709*	*4,776*
Trade and Commerce—					
Gift of wheat to Greece..............	—	3,835	8,798	6,749	—
Canadian Wheat Board—					
Advances for payment of drawback claims to millers and other manufacturers of wheat products........	—	3,000	(13) —	(13) —	(13) —
Special administration expenses......	—	—	—	—	963
Canada's contribution to UNRRA.....	—	—	—	(16) —	(16) 104,830
Sundry..............................	80	529	745	670	808
	80	*7,364*	*9,543*	*7,419*	*106,601*
Transport............................	*5,228*	*5,762*	*9,941*	*16,077*	*14,592*
Acquisition of Airfields and Works from United States Government.....	—	—	*66,600*	*18,661*	—
Veterans Affairs—					
Treatment—Defence Forces...........	—	—	—	11,449	26,380
Pensions—Defence Forces.............	—	—	—	11,939	22,213

(12) See National Health and Welfare.
(13) See Department of Finance.
(14) See National War Services.
(15) Included in Pensions and National Health.
(16) Additional amounts contributed to UNRRA are included as follows: in 1943-44, $55,500 expended by the Department of External Affairs is listed in this table under "Other Departments"; in 1944-45, $11,093,000 and in 1945-46, $38,022,000, expended by the Mutual Aid Board, are listed under "The War Appropriation (United Nations Mutual Aid) Acts."

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

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
WAR AND DEMOBILIZATION EXPENDITURE —*Concluded*					
Veterans Affairs—*Concluded*					
Additions, alterations and improvements to departmental hospitals, including land purchases	—	—	—	5,738	7,131
Post-discharge re-establishment—rehabilitation benefits	—	—	—	2,468	32,131
War service gratuities and re-establishment credits	—	—	—	(17) —	239,592
Sundry	—	—	—	1,165	968
	—	—	—	*32,759*	*328,415*
Pensions and National Health—					
Treatment—Defence Forces	2,696	4,175	6,456		
Pension—Defence Forces	886	2,760	5,637		
Air Raid Precautions	619	5,027	1,724		
Post-discharge re-establishment	104	296	472		
Sundry	1,308	2,062	3,663		
	5,613	*14,320*	*17,952*		
Canadian Mutual Aid Board—					
Military Relief	—	—	—	50,199	34,000
Mutual Aid	—	—	—	—	(18) 725,900
	—	—	—	*50,199*	*759,900*
Other Departments	*1,610*	*1,757*	*2,479*	*3,617*	*3,161*
	1,339,674	2,724,249	3,674,420	3,615,100	3,474,412
The War Appropriation (U.K. Financing) Act, 1942	—	1,000,000	—	—	—
The War Appropriation (United Nations Mutual Aid) Acts	—	—	912,603	803,346	84,042
Total War Expenditure	1,339,674	3,724,249	4,587,023	4,418,446	3,558,454
SPECIAL EXPENDITURE					
Agricultural and Relief Projects	8,500	5,013	3,751	3,869	4,422
Western Drought Area Relief—					
Prairie Farm Assistance Act, 1939—					
Administration	423	157	217	188	327
Advances to Prairie Farm Emergency Fund	11,848	249	2,578	1,295	12,052
Wheat acreage reduction plan—					
Administration	980	1,342	848	261	163
Payments of awards to farmers	29,654	24,527	30,102	1,707	394
Provision of reserve to meet deficits resulting from the operations of the Canadian Wheat Board not previously provided for	12,571	—	—	186	—
Total Special Expenditure	63,976	31,288	37,496	7,506	17,358
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Deficit Account—					
Prince Edward Island Car Ferry and Terminals	424	591	698	773	688
National Harbours Board	33	—	30	59	86
Total Charged to Consolidated Deficit Account	457	591	728	832	774

(17) Included in ordinary expenditure
(18) Excluding amounts for UNRRA listed above and amounts provided from separate Appropriation. Acts listed below.

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

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
GOVERNMENT OWNED ENTERPRISES—*Concluded*					
Loans and advances non-active— National Harbours Board	758	657	579	526	560
Total non-active advances	758	657	579	526	560
Total government-owned enterprises	1,215	1,248	1,307	1,358	1,334
OTHER CHARGES					
Write-down of assets chargeable to Consolidated Deficit Account—					
Reduction of soldier and general land settlement loans	271	51	553	325	36
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources	58	42	29	36	45
Cancellation of Canadian Farm Loan Board Capital Stock	10	7	5	1	1
To provide a reserve for possible losses on ultimate realization of Active Assets	25,000	25,000	25,000	25,000	25,000
Canadian National Railways Securities Trust Stock—					
Net changes in Dominion's equity in Canadian National Railways	1,576	31,560	37,838	22,400	22,631
Total other charges	26,915	56,660	63,425	47,762	47,713
Grand total expenditures	1,879,988	4,377,972	5,322,254	5,245,612	4,691,307

SUMMARY OF REVENUES AND EXPENDITURES

(Thousands of Dollars)

—	1941-42	1942-43	1943-44	1944-45	Estimated 1945-46
	$	$	$	$	$
Ordinary revenues	1,463,824	2,182,799	2,570,094	2,300,097	2,363,047
Capital refunds	1,022	102	93	728	375
Special receipts and other credits	18,612	57,443	194,831	386,509	592,182
Total revenues	1,483,458	2,240,344	2,765,018	2,687,334	2,955,604
Ordinary expenditures	444,778	561,251	630,381	767,376	1,061,845
Capital expenditures	3,430	3,276	2,622	3,164	4,603
War expenditures	1,339,674	3,724,249	4,587,023	4,418,446	3,558,454
Special expenditures	63,976	31,288	37,496	7,506	17,358
Government Owned Enterprises	1,215	1,248	1,307	1,358	1,334
Other charges	26,915	56,660	63,425	47,762	47,713
Total expenditures	1,879,988	4,377,972	5,322,254	5,245,612	4,691,307
Total deficit or increase of direct net debt	396,530	2,137,628	2,557,236	2,558,278	1,735,703

ANALYSIS OF REVENUES, 1945-46

3. The grand total of revenues of the Dominion Government for the fiscal year ended March 31, 1946, are estimated to amount to $2,955,604,000, representing an increase of $268,270,000 from the previous year. Revenue from tax sources declined by $99,267,000 from 1944-45, reflecting reductions in tax rates made after the end of the war, but increases of $15,217,000 in non-tax revenues and of $205,320,000 in special receipts more than offset this reduction. A table on page 58 gives a detailed comparison of the actual revenue results with the forecast presented in the Budget Speech of October 12, 1945.

4. Tax revenues again reflected the predominance of direct taxes on incomes and profits characteristic of the war years. Of total tax revenue in 1945-46, almost 64% arose from direct taxation as compared with 32·6% in 1938-39, the last pre-war year.

5. The amount of reserve established in the fiscal year under review for the refundable portion of income and excess profits taxes was $72,500,000, of which $5,000,000 was in respect of personal income tax and $67,500,000 in respect of the excess profits tax. This has been deducted in arriving at the revenue total given above. When added to the reserves previously set aside, this addition brings the gross total liability established at March 31, 1946, to $265,000,000 for refundable personal income tax and $252,000,000 for excess profits tax, or a gross total of $517,000,000. After deducting repayments of refundable taxes made to March 31, 1946, the net liability as at that date amounted to $515,737,000. The distribution of the gross reserves of the two taxes by the taxation years to which they relate is now estimated as follows:

Taxation Year	Refundable Personal Income Tax	Refundable Excess Profits Tax
	$	$
1942	58,000,000	31,200,000
1943	135,000,000	67,500,000
1944	72,000,000	72,700,000
1945	....	70,500,000
1946*	....	10,100,000
Gross Total	265,000,000	252,000,000
Less repayments	1,259,382	3,783
Net Total	263,740,618	251,996,217

*Corporation fiscal years ending in 1946 prior to March 31st.

Ordinary Revenues

6. The personal income tax, which yielded $691,586,000, was again the largest single source of tax revenue, although yielding $76,169,000 less than during the previous year. This decrease reflected the 16% reduction in tax effective from October 1, 1945, as provided in the budget of last Fall, and in part also the moderate decline in incomes which followed the end of the war. The decline due to these causes was, however, partly offset by the recovery of family allowance payments from taxpayers through deduction at the source which was in effect during nine months of the fiscal year 1945-46.

Mention has been made previously of the reserves now established for the refundable portion of the personal income tax. The additional amount of

$5,000,000 set aside in 1945-46 represented an increase in the reserves provided previously against the years 1942, 1943 and 1944, when this tax was in effect and brings the net total liability at March 31, 1946, to the amount of $263,740,618.

7. Corporation income tax and the excess profits tax are both levied on business profits and may appropriately be discussed together. The yield of the corporation income tax revenue amounted to $217,834,000, and revenue from the excess profits tax to $494,196,000, giving a combined total of $712,030,000, compared with a combined total of $742,209,000 in the previous year. This decline reflected principally a moderately lower level of corporation profits in 1945 and to a minor degree the changes in the excess profits tax introduced in the 1945 budget. The nature of these changes was such that their main effect will be felt in the fiscal year 1946-47.

The amount of refundable excess profits tax reserve has been shown previously in tabular form by the individual taxation years to which the total applies. The liability to pay this tax has been lifted in respect of profits earned after January 1, 1946, but must be paid by any company having a fiscal year ending after that date on the proportionate part of its profits falling in the calendar year 1945. The full final liability for the refundable excess profits tax, therefore, has not yet been established as companies having a part of their fiscal year falling in the calendar year 1945 will be required during 1946 to pay this tax on a part of their profits proportionate to the portion of their fiscal year which was included in 1945.

8. Revenues under the headings "Taxes on Dividends and Interest" and "Taxes on Rents and Royalties" are derived from special taxes imposed largely on income going to non-residents of Canada under authority of Section 9b of the Income War Tax Act. In 1945-46 revenue under these two headings amounted in total to $28,310,000, and was derived principally from the 15% tax on interest and dividends paid to non-residents.

9. Succession duties, which have been levied only since 1941 by the Dominion Government, have shown a gradual increase from year to year since their inception. The revenue from this source was $21,448,000 in 1945-46 compared with $17,251,000 in 1944-45, $15,020,000 in 1943-44, $13,273,000 in 1942-43 and $6,957,000 in 1941-42.

10. Gross revenue from customs duties in 1945-46 amounted to $174,076,000 compared with gross revenues of $173,730,000 in the previous year, while net revenue after deducting refunds and drawbacks amounted to $128,877,000 compared with $115,091,000 in 1944-45.

As explained in the Appendix to the 1945 Budget Speech, very substantial amounts of customs and excise revenue have been remitted in recent years in respect of munitions and war supplies exported from Canada to Allied Governments either as cash sales or under the Mutual Aid Acts. These remissions reached their peak in the fiscal year 1944-45, and their decline to a lower level in 1945-46 accounted almost entirely for the increased net revenue in the latter year. In the fiscal year 1946-47 refunds and drawbacks of customs revenue will return to a normal level with the cessation of the shipment of war supplies abroad.

11. Excise duties are levied exclusively on alcoholic beverages and tobacco products under the Excise Act. Total revenue in the fiscal year 1945-46 amounted to $186,726,000, an increase of $34,804,000 over the previous year. Of this increase alcoholic beverages, due to an increase in consumption following the rescinding of the restrictions imposed by the Dominion Government under the Wartime Alcoholic Beverages Control Order, contributed $19,142,000,

while tobacco products contributed $15,086,000. The extent of the smokers' contribution to the Federal Treasury is indicated by the over-all revenue from tobacco products (including the yield of the additional taxes imposed under the Special War Revenue Act on tobacco, cigars, cigarettes, cigarette papers and tubes, pipes and smokers' accessories) which amounted in the fiscal year 1945-46 to over $174,000,000, a sum equal to about 40% of the total tax revenue of the government in the last pre-war year, 1938-39.

12. Under the heading "Excise Taxes" are included the wide variety of taxes on commodities and services levied under the Special War Revenue Act, of which the sales tax and the taxes on tobacco products were the largest sources of revenue in 1945-46. Gross collections of $610,915,000 were lower by $126,-869,000 than during the previous year, due in substantial part to the exemption of building materials from sales tax in May, 1945, and the further exemption from sales tax of machinery and apparatus and the rescinding of the War Exchange Tax in the budget of October 12, 1945. Refunds of excise taxes declined from $194,719,000 in 1944-45 to $114,005,000 in 1945-46, however, due to reduced remissions on munitions of war exported to our Allies, with the result that the net revenue declined by only $46,155,000 as compared with the decline in gross revenue of $126,869,000.

The tax sources which showed the largest reductions in 1945-46 and the amounts by which revenue was reduced in each case are set forth below:—

Sales Tax	$ 77,856,000
War Exchange Tax	56,966,000
Beverages	2,785,000
Electric and gas appliances	2,785,000
Sugar	1,769,000

Curtailment of available supplies of sugar accounted for the decline in the sugar tax and the tax on beverages. The tax on electric and gas appliances was repealed in May, 1945, and was, therefore, not in effect during the greater part of the fiscal year. The reason for the reduction in sales tax and War Exchange Tax receipts has already been mentioned.

Tax sources from which increased revenue was derived, and the amounts of the increase in each case were:—

Cigars, cigarettes and tobacco	$ 7,922,000
Stamps, including taxes on jewellery, chinaware, cabaret attendance, etc.	3,401,000
Transportation and communication	2,688,000

13. Small amounts of tax revenue are derived from the tax on the note circulation of the chartered banks, which decreases from year to year with the decline in such notes as provided by statute; from taxes on the net premium income of insurance companies; from a tax on the export of electric energy from Canada; and from a tax on the export of furs from the Northwest Territories. Revenue from all these taxes amounted to $8,972,000 in 1945-46.

14. Non-tax revenues for 1945-46 are estimated at $160,688,000, an increase of $15,217,000 over 1944-45. Receipts from the Post Office amounted to $68,613,000, an increase of approximately $2,557,000. These receipts exceeded the cost of operating the Post Office by about $10,883,000, if we take no account on the credit side of the value of services rendered free of charge to other departments and on the debit side, of rentals and other costs of premises occupied by the Post Office. It will be recalled that postage rates were increased in 1943 to obtain additional revenue. Return on Investments realized $70,915,000, an increase over the previous year of about $10,166,000. The larger items making up this total are: interest on advances to Canadian National Railways, $18,400,-000; Bank of Canada profits, $22,542,000; interest on loans to Foreign Exchange Control Board, $8,155,000; interest on bonds held in Securities Investment Account, $9,555,000; interest on loans to National Harbours Board, $3,950,000;

interest on loans to Provinces, $2,762,000; interest on loans to Canadian Farm Loan Board, $746,000; Soldier Land Settlement loans $588,000; and interest on advances to Canadian National Railways for purchase of railway equipment, $2,155,000.

SPECIAL RECEIPTS AND CREDITS

15. The unrevised total of Special Receipts and Credits for the fiscal year 1945-46 is $592,557,000 as compared with $387,237,000 for the previous year. Of this total, $569,150,000 represents receipts developing from war expenditures and consists of Refunds of Previous Years' War Expenditures, $454,549,000, Sale of Surplus War Assets, $44,950,000 and Miscellaneous War Revenues, $69,651,000.

A breakdown of Refunds of Previous Years' War Expenditures by Departments, with details of the larger items, follows:

Canadian Mutual Aid Board.......................$	3,716,000
National Defence—Army..........................	13,888,000
National Defence—Navy..........................	6,660,000
National Defence—Air— Proceeds from sales of equipment, material and supplies furnished and services rendered, $20,101,000; savings on civilian operated air training schools, $2,890,000; refunds on contracts after cost audits and re-negotiation, $4,017,000; refunds on joint operations R.C.A.F. station at Gander, $926,000; sale of surplus and condemned stores, $3,566,000; Sundries $577,000—total..................	32,077,000
Reconstruction and Supply—Credit from Munitions Production Allotment Fund representing mainly return of working capital advances from pre-financed plants, $310,000,000; refunds on contracts in connection with cost audits, re-negotiation, and voluntary refunds, $12,700,000; amortization of Government capital on War Supplies Limited contracts, $55,000,000; amount transferred from suspense upon liquidation of Government equity in plant of Sorel Industries, Ltd., $10,000,000; Sundries $5,353,000—total..........................	393,053,000
Sundry Departments..............................	5,155,000
Total.................................$	454,549,000

It should be noted that most of these refunds of previous years' war expenditures are made out of current war expenditures of other Departments, and that consequently the bulk of these transactions are merely bookkeeping changes and not actual refunds of expenditures. There are offsetting items in the expenditure accounts corresponding to most of the refunds listed above.

In connection with the amount of $44,950,000 realized during the year through the disposal of surplus war assets, it might be mentioned that it does not include residual cash balances or value of inventories in the hands of War Assets Corporation as at March 31, 1946.

The larger amounts making up the total of Miscellaneous War Revenues, $69,651,000, are from the Departments of National Defence—Army, Navy and Air Services, $3,646,000; Reconstruction and Supply, $62,100,000; Transport,

$2,030,000; and sundry, $1,875,000. Included in the total for Reconstruction and Supply is the sum of $50,000,000 derived from the operation of Park Steamships Limited.

The remaining large item of Special Receipts and Credits is the sum of $22,631,000 which represents the net result of the change in the Government's equity in the Canadian National Railways for the calendar year 1945. This arises from the Government being the owner of the Railway Company at a time when the latter is using its surplus earnings to reduce its debts. The surplus earnings of the Railway Company, amounting to $24,756,000, were paid to the Government and show up in the accounts as a repayment of active advances (see paragraph 36 on page 78). This reduction of debt increases the net book value of the Government's investment in the Railway Company by a corresponding amount. It is offset, in part, by a book loss on capital abandonments of $2,125,000. The remainder, $22,631,000, is the net increase in the book valuation of the Canadian National Railway's Securities Trust capital stock. This is carried on the books as an inactive asset, and the increase in it is shown here as a special receipt. It is offset, however, by a contra item of the same amount on the expenditure side, appearing under the heading "Other Charges."

16. The table which follows gives a summary of the forecast made at the time of the last budget of the probable receipts from the various sources of revenue during the fiscal year 1945-46, and a comparison of these forecasts with receipts for the fiscal year.

DETAILED STATEMENT OF BUDGET FORECAST COMPARED WITH ACTUAL REVENUE FOR 1945-46

Source of Revenue	Budget Forecast of Revenue	Actual Revenue	Increase (+) or decrease (−) in revenue as compared with budget forecast
TAX REVENUES	(thousands of dollars)		
Customs Duties	120,000	128,877	+ 8,877
Excise Duties	175,000	186,726	+ 11,726
Excise Taxes:			
Sales Tax (net)	210,000	212,248	+ 2,248
War Exchange Tax	45,000	41,198	− 3,802
Other Excise Taxes	250,000	243,464	− 6,536
Total Excise Taxes	505,000	496,910	− 8,090
Income Taxes:			
Tax on personal incomes	680,000	691,586	+ 11,586
Corporate Income Tax and Excess Profits Tax	693,000	712,030	+ 19,030
Interest and Dividends	29,000	28,310	− 690
Total Income Taxes	1,402,000	1,431,926	+ 29,926
Succession Duties	20,000	21,448	+ 1,448
Miscellaneous Taxes	8,000	8,972	+ 972
Total Tax Revenues	2,230,000	2,274,859	+ 44,859
Non Tax Revenues	150,000	160,688	+ 10,688
Total	2,380,000	2,435,547	+ 55,547
Special Receipts and Credits	100,000	592,557	+ 492,557
Total Revenue	2,480,000	3,028,104	+ 548,104
Less Refundable Taxes	65,000	72,500	− 7,500
Net Total Revenue	2,415,000	2,955,604	+ 540,604

ANALYSIS OF EXPENDITURES, 1945–46

17. Expenditures are dealt with under the usual classifications of Ordinary, Capital, War and Demobilization, Special, Government owned Enterprises and Other Charges. All disbursements under these categories with the exception of active loans and investments charged to War Appropriations are included as expenditures in arriving at the over-all deficit or increase in the net debt.

Ordinary Expenditures

18. Ordinary expenditures are estimated at $1,061,845,000 compared with $767,376,000 in the previous fiscal year, an increase of $294,469,000. The largest increase was in the payments of family allowances which reached a total of $172,632,000 in 1945-46—the first year in which such payments were made. Other estimated increases over 1944-45 are as follows:

Increased interest and public debt charges..............	$ 97,438,000
Increased compensation (1) paid to provinces under Wartime Tax Agreements for vacating income and corporation tax fields $11,366,000, less reduction of $6,648,000 under guarantee of gasoline tax revenues.	4,718,000
Increase in Chief Electoral Officer's expenditure due to 1945 general election..........................	2,910,000
Increase in Post Office expenditures....................	3,101,000
Increase in Public Works expenditures...................	3,094,000
Increase in cost of treatment and after-care of returned soldiers..	8,686,000

Other increases as well as decreases effected during the year are revealed in the five-year table.

It might be noted that of the aggregate estimated ordinary expenditures during 1945-46 of $1,061,845,000, the larger contractual and uncontrollable items total $887,143,000 or 83·5% of the total. These items are: interest and other charges on the public debt, subsidies and payments to provinces under the Dominion-Provincial taxation agreements, family allowances, Premium Discount and Exchange, unemployment insurance, post office and pensions.

Capital Expenditures

19. Estimated capital expenditures totalled $4,603,000 in the fiscal year ended March 31, 1946, compared with $3,164,000 in the previous fiscal year. The main items are costs of dredging the St. Lawrence Ship Channel, improvements in connection with civil airways and airports and the construction of the new Prince Edward Island car ferry.

War and Demobilization Expenditures

20. Under the authority of the War Expenditure and Demobilization Acts and the War Appropriation (United Nations Mutual Aid) Acts an estimated amount of $3,570,666,000 was disbursed. Of this amount $12,212,000 was for loans, advances and investments treated as active assets, and the remainder,

(1) An amendment of the agreement with the province of Alberta as authorized at the last session of Parliament resulted in an increased payment to Alberta of $11,394,000.

$3,558,454,000, was classed as war and demobilization expenditures. The following table gives the corresponding figures for each fiscal year from the beginning of the war.

Fiscal Year	Charged to Active Assets	War Expenditures	Total
	$	$	$
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	65,231,622	3,724,248,890	3,789,480,512
1943-44	91,906,305	4,587,023,094	4,678,929,399
1944-45	35,238,956	4,418,446,315	4,453,685,271
1945-46 (estimated)	12,212,000	3,558,454,000	3,570,666,000
	282,877,367	18,498,182,799	18,781,060,166

21. The following table gives a summary of disbursements from the War Appropriation Acts, War Expenditure Demobilization Appropriation Acts, and other Acts authorizing expenditure for war purposes, classified by Departments administering the expenditures and segregating disbursements resulting in active assets.

ESTIMATED WAR AND DEMOBILIZATION EXPENDITURES, 1945-46

Department of National Defence—Army Services $	940,468,000
" " Naval Services	241,800,000
" " Air Services	524,608,000
Department of Reconstruction and Supply	263,415,000
Miscellaneous Departments—	
Agriculture	82,978,000
Auditor General's Office	267,000
Canadian Mutual Aid Board (including Mutual Aid Appropriations)	843,942,000
Civil Service Commission	641,000
External Affairs, including Prime Minister's Office	432,000
Finance	144,359,000
Fisheries	248,000
Justice	19,000
Labour	22,907,000
Mines and Resources	3,475,000
National Harbours Board	318,000
National Health and Welfare	12,480,000
National Revenue	975,000
National War Services	14,246,000
Post Office	185,000
Privy Council	42,000
Public Works	6,231,000
Royal Canadian Mounted Police	4,776,000
Secretary of State	34,000
Trade and Commerce (including UNRRA Contributions)	106,601,000
Transport	14,592,000
Veterans Affairs (including War Service Grants Act)	328,415,000
Total estimated War and Demobilization Expenditures $	3,558,454,000

ACTIVE ASSETS

Purchase of railway equipment—1945 Orders ....$	11,399,000
Construction of dock and rail facilities for Steep Rock Iron Mines, Limited	778,000
Loan to Village of Dawson Creek for construction of a sewage disposal system	35,000
Total estimated active loans, advances and investments from the War Expenditure and Demobilization Appropriations, 1945–46 ....$	12,212,000
Total estimated disbursements from the War and Demobilization Appropriations, 1945–46 ....$	3,570,666,000

22. The table in the preceding section does not include recoverable outlays made under the provisions of section 3 of the War Appropriation Acts which are classed as active assets rather than expenditure. Under this section, the Government of Canada may act as the agent of an allied government for any purpose which will aid directly or indirectly in the prosecution of the war and any obligations or costs incurred temporarily or assumed may be paid out of unappropriated moneys in the Consolidated Revenue Fund. Furthermore, any expenditure required to be made by the Government under any contract for war supplies entered into for the purpose of enabling any company wholly owned by the Government to fulfil its obligations in respect of orders received by such company from an allied government may also be paid out of unappropriated moneys.

23. The principal items of War Expenditure for the fiscal year ended March 31, 1946, and the four preceding fiscal years are detailed on pages 49 to 52. The expenditures for 1945-46 include both War and Demobilization costs and while there were substantial reductions in actual war costs, these reductions were offset in a measure by new items of expenditure more closely associated with demobilization. The net reduction last year over 1944-45 amounted to $859,992,000. Some of the larger reductions are accounted for by: National Defence, Army $321,286,000; National Defence, Naval Services $175,299,000; National Defence, Air Services, $734,849,000; Agriculture, $5,076,000; Finance $32,160,000; National War Services, $11,736,000. Some of the services showing increases are: Reconstruction and Supply, $44,639,000; National Health and Welfare, $9,440,000; Trade and Commerce—Canada's contribution to UNRRA $131,759,000 (including that under Mutual Aid) and Veterans Affairs, $295,656,000 including increases of $219,364,000 in War Service Gratuities and Re-establishment credits and $29,663,000 in Post Discharge Rehabilitation Benefits. Not including the amounts paid to UNRRA from the War Appropriation (United Nations Mutual Aid) Acts, the amount expended for Mutual Aid was $771,920,000 compared with $792,253,000 in the previous year. Details of War and Demobilization Expenditure by departments and services for 1945-46 follow:

Estimated War and Demobilization Expenditures by Departments and Services—Fiscal Year 1945-46

Agriculture—			
Agricultural Supplies Board—			
Administration	$ 24,000		
Programmes to encourage production of essential war supplies	568,000		
Assistance in disposal of agricultural products rendered surplus by the war	355,000		
Feeds administrator	26,494,000		
Flax fibre administrator	20,000		
Fertilizers and pesticides administrator	727,000		
Seeds administrator	105,000		
		$ 28,293,000	
Meat Board	9,721,000		
Dairy Products Board	16,000		
Special Products Board	197,000		
Agricultural Food Board	44,750,000		
Special farm income payments	1,000		
		54,685,000	
			$ 82,978,000
Auditor General's Office—			
Auditing and checking war appropriation accounts			267,000
Canadian Mutual Aid Board—			
Military Relief		34,000,000	
Mutual Aid:			
Contributions to UNRRA (*See also* below Trade and Commerce)	38,022,000		
General—Ex UNRRA (*see* details in paragraph 24)	771,920,000		
		*809,942,000	
			843,942,000
Civil Service Commission—			
Supply of personnel for war services		631,000	
Payment of minimum rate railway fare *re* stenographers and typists		10,000	
			641,000
External Affairs including Prime Minister's Office—			
Departmental Administration and Passport Offices		96,000	
Representation abroad		56,000	
Legation building and residence, Chunking, China		11,000	

* Includes $84,042,000 charged under Mutual Aid Acts.

External Affairs including Prime Minister's Office—Concluded		
San Francisco Conference	$ 118,000	
Sundries	91,000	
Canadian Representatives at meeting of U.N.O	60,000	
		$ 432,000
Finance—		
Payment of premium on purchase of Dominion of Canada registered stock	12,000	
Comptroller of Treasury's Office	9,373,000	
Wartime Prices and Trade Board—		
Administration	14,761,000	
Canadian Wool Board Ltd	447,000	
Commodity Prices Stabilization Corporation—		
Administration and Subsidies	97,850,000	
Payments to millers and manufacturers of wheat products	14,750,000	
Dominion-Provincial Conference	120,000	
Conversion of large dwellings into multiple housing units	1,787,000	
Administration of Employees Instalment Purchase Plan, Victory Loans	235,000	
Royal Commission on Co-operatives	97,000	
Assistance in operation of old Vancouver Hotel	20,000	
Payment of claims *re* V-E Day disorders at Halifax and explosion at the Naval Magazine, Dartmouth, N.S	4,611,000	
Investigation Expenses *re* the above claims	260,000	
Sundries	36,000	
		144,359,000
Fisheries—		
Subsides for the construction of packer-seiner vessels	34,000	
Subsidies for the construction of dragger vessels	89,000	
Construction of fishermen's floats, Prince Rupert, B.C	35,000	
Construction, etc., of experimental long line vessel	22,000	
Expenses *re* supply of frozen fish for British Ministry of Food	24,000	
Bonus to crews of fisheries vessels in war zones	18,000	
Compensation for war damage to fishing boats and gear	4,000	
Salt Fish Regulations—Administration	14,000	
Canned Fish Regulations—Administration	8,000	
		248,000
Justice—		
War Measures Act	2,000	
Expenses *re* enquiry into Halifax disorders	10,000	
Prize Courts	5,000	
Sundries	2,000	
		19,000

Labour—

Industrial training for war work..........		$ 701,000
Training of young men for aircraft manufacturing, etc..........		3,000
War emergency training—Administration...		67,000
Vocational training for discharged members of the Canadian Armed forces..........		4,357,000
National War Labour Board..........		435,000
Wartime Labour Relations Board—Administration..........		96,000
Western War Labour Board—Administration..........		12,000
Wartime Bureau of technical personnel..........		147,000
Personnel Management training..........		3,000
National Selective Service Programme—		
Labour Supply Administration..........	$ 764,000	
Mobilization Division..........	815,000	
Manpower statistics units...	137,000	
Expenses of work done by Unemployment Insurance Commission..........	9,290,000	
National Registration—Administration..........	313,000	
		11,319,000
Co-ordination of shiploading and unloading operations at Halifax..........		100,000
Stabilization of longshore labour, Halifax...		362,000
Universities—Accelerating courses and loans to students..........		60,000
General labour transference in war industries and agriculture..........		613,000
Harvest assistance to Provinces..........		425,000
Japanese Division..........		2,114,000
Deportation of Japanese..........		7,000
Japanese Wood Projects—Revolving Fund..		37,000
Organization and operation of day nurseries, etc..........		427,000
Army Labour Account—Revolving Fund....		72,000
Compulsory transfer of ex-coal mine workers back to coal industry..........		32,000
Transportation expenses of members of the armed forces for harvest leave..........		122,000
Assistance to Provinces in transporting labourers to farms..........		305,000
Industrial Production Co-operation Board—Administration..........		108,000
Industrial Selection and Release Board and Committees—Administration..........		252,000
Vocational Training Co-ordination Act—Payments to the Provinces under agreements—		
Training and retraining former war workers		2,000
Dominion assistance to vocational schools		608,000
Educational film programmes..........		37,000

Labour—Concluded		
Commission of Enquiry *re* crediting discharged members of the Armed Forces with trades, technical training or experience gained while in the Forces	$ 65,000	
Sundries	19,000	
		$ 22,907,000
Mines and Resources—		
Mines and Geology—		
Development of tar sands	287,000	
Oil explorations	130,000	
Strategic minerals—exploration and development work	8,000	
Air surveys	572,000	
New Metallurgical Laboratory	309,000	
Investigation of radio active ores	17,000	
Explosives Division—Administration of regulations *re* explosives	30,000	
Metallic Minerals Division—Services to war departments	272,000	
Post-war planning	77,000	
Sundries	5,000	
	1,707,000	
Lands, Parks and Forests—		
National Parks Bureau—Alternative service work camps	250,000	
Dominion Forest Service—		
Alternative service work camps	64,000	
Internment and prisoner of war operations	28,000	
Post-war planning	29,000	
Forest Products Laboratories	50,000	
Bureau of Northwest Territories and Yukon Affairs—		
Survey of office accommodation—White Horse	2,000	
Land Registry—		
Alaska Highway, legal services, etc	37,000	
	460,000	
Surveys and Engineering Branch—Administration—Post-war planning	1,000	
Engineering and Construction Service—		
Prince Rupert–Cedarvale Highway	8,000	
Employment of persons of the Japanese race and Japanese nationals	262,000	
Post-war planning	135,000	
Geodetic Service—		
Post-war planning	158,000	
Expenses of Engineers—Alaska Highway	12,000	
Legal Surveys and Map Service—		
Post-war planning	61,000	

Mines and Resources—Concluded		
Legal Survey of Alaska Highway	$ 16,000	
Air Navigation maps	49,000	
Dominion Observatory—Ottawa—		
Post-war planning	14,000	
Hydrographic Service—		
Post-war planning	11,000	
War Risk Zone Bonus	3,000	
Dominion Water and Power Bureau—		
Post-war planning	15,000	
	745,000	
Immigration—		
Canadian interests abroad	429,000	
Grants to National Advisory Committee for children from overseas	30,000	
British evacuee children	49,000	
Medical inspection of dependents of members of the Canadian Armed Forces, etc.	49,000	
Sundries	6,000	
	563,000	
		$ 3,475,000
National Defence—Army Services—		
Departmental administration	1,360,000	
Dependents' Allowance Board	707,000	
Dependents' Supplementary Grants Fund	4,911,000	
Army	853,606,000	
Army—United Kingdom Settlement—War Claims	71,250,000	
Internment Operations	1,014,000	
Inspection Board—United Kingdom and Canada	6,124,000	
Imperial War Graves Commission	54,000	
Chemical Warfare Experimental Station	1,254,000	
Northwest Highway System	188,000	
		940,468,000
National Defence—Naval Services—		
Navy	241,134,000	
Royal Canadian Sea Cadets	666,000	
		241,800,000
National Defence—Air Services—		
Departmental Administration	96,000	
Western Hemisphere Operations	93,215,000	
Training Organization—Air	60,669,000	
General Servicing Units	14,896,000	
Overseas Operations	142,539,000	
United Kingdom Settlement—War Claims	82,815,000	
Repatriation and Demobilization	72,153,000	
Surplus Equipment Units	815,000	
Restricted Servicing Units	39,539,000	
Headquarters and Commands Administration	17,871,000	
		524,608,000

National Harbours Board—			
Halifax—Operation of Fire Boat *Rouille*.....$		71,000	
Special fire protection....................		44,000	
Reconstruction of transit shed 21.........		185,000	
Platform and shelter roof at embarkation area...............................		16,000	
Vancouver—			
Dredging False Creek Channel...........		2,000	
		$	318,000
National Health and Welfare—			
Old age pensions, including pensions to blind persons................................		9,103,000	
Industrial hygiene including inspection of industrial plants........................		30,000	
Laboratory of hygiene.....................		4,000	
Public health engineering..................		23,000	
Food and drugs............................		20,000	
Quarantine service........................		48,000	
Processing of blood for dried serum........		263,000	
Maintenance of non-resident seamen........		23,000	
Grant to Canadian Nurses Association......		160,000	
Chlorination of Water Systems—Pacific Coast		47,000	
Dawson Creek, B.C., water supply..........		11,000	
Treatment Canadian fishermen and seamen..		19,000	
Hire of Boat—Halifax Harbour.............		13,000	
Maintenance of Health Unit, Prince Rupert, B.C..................................		4,000	
Contribution toward Health Services, Halifax....................................		70,000	
Women's Voluntary Services................		10,000	
National Film Board—			
Special War Library.........$	57,000		
Wartime Information Film Programme..............	1,084,000		
Stills production and distribution....................	136,000		
Revolving Fund............	126,000		
		1,403,000	
Canadian Information Service (and Wartime Information Board)......................		1,229,000	
			12,480,000
National Revenue—			
Government Office Economies Control.......		7,000	
Canadian Broadcasting Corporation Short Wave Station—Construction and maintenance..............................		968,000	
			975,000
National War Services—			
Departmental administration...............		57,000	
War Charities—General....................		56,000	
War Charities—Rental of Burrard Hall, Vancouver...............................		8,000	
Auxiliary services........................		13,062,000	
Salvage Division..........................		54,000	
Voluntary War Relief Division.............		13,000	

National War Services—Concluded		
Canadian firefighters for United Kingdom..$	142,000	
Canadian Prisoners of War Next-of-Kin Division	8,000	
Censorship Division	846,000	
	—$	14,246,000
Post Office—		
Canadian Postal Corps	182,000	
Purchase of tobacco labels for service purchases	3,000	
		185,000
Privy Council—		
Statutory Orders and Regulations Division	26,000	
Expenses of Special Commission for defence projects in the Northwest	16,000	
		42,000
Public Works—		
Chief Architect's Branch—		
Armoury Accommodation for Canadian Officers' Training Corps Units	55,000	
Repairs, alterations, operation and maintenance of buildings	2,263,000	
Rental of premises occupied for war purposes	1,621,000	
Furniture, etc. for war employees	354,000	
Post-war construction program—preparation of plans	55,000	
Halifax—		
Temporary Office Building for Department of Veterans Affairs	105,000	
Quebec—		
Temporary Office Building	416,000	
Ottawa—		
Temporary Annex to Records Building	37,000	
London—		
Purchase and alterations, Garvey Building	76,000	
Norman Wells, N.W.T.—		
Office and living accommodation for government departments	14,000	
Vancouver—		
Construction of temporary office building for Department of Veterans Affairs	165,000	
Sundries	3,000	
	5,164,000	
Chief Engineer's Branch—		
Saint John Harbour (Courtenay Bay) N.B.—Dredging..$	35,000	
North Sydney, N.S.—Reconstruction of wharf and terminal facilities	46,000	
Post-War Construction Programme—Preparation of plans	232,000	
Waterways, Alta.—		
Improvements	3,000	
Dredging	59,000	

Public Wcrks—Concluded		
Chief Engineer's Branch—*Concluded.*		
Seymour Narrows, B.C.—Removal of Ripple Rocks Nos. 1 and 2	$ 301,000	
War risk zone bonus	1,000	
	677,000	
Telegraph Branch—		
To provide for a 24-hour telegraph service on the Pacific Coast	56,000	
Telephone service—Ottawa	310,000	
	366,000	
Contingencies	24,000	
		$ 6,231,000
Reconstruction and Supply—		
Reconstruction Division—		
Expenses of surveys and investigation	127,000	
Forest Insect Control Board	102,000	
Canadian Arsenals Ltd	1,200,000	
Surplus assets of British Commonwealth Air Training Plan sold by War Assets Corporation to March 31, 1945	1,643,000	
Sundries	61,000	
	3,133,000	
Supply Division—		
Departmental Administration	6,900,000	
Expansion of war industry	106,000,000	
Termination of contracts	145,000,000	
	257,900,000	
National Research Council—		
Special war activities	2,382,000	
		263,415,000
Royal Canadian Mounted Police—		
Increased activities of the Force due to the war	4,734,000	
Securities control	42,000	
		4,776,000
Secretary of State—		
Citizenship Branch	26,000	
Sundries	8,000	
		34,000
Trade and Commerce—		
Canadian Shipping Board	96,000	
Export Permit Branch	168,000	
Shipping Priorities Committee	43,000	
Steamship Stabilization Fund	347,000	
Canadian Export Board—Administration	154,000	
Canada's contribution to UNRRA	104,830,000	
To reimburse Canadian Wheat Board for expenditure incurred *re* allocation of railway cars and deliveries of grain	963,000	
		106,601,000

Transport—		
Departmental administration	$ 34,000	
Transport Controller's Office	229,000	
Director of Merchant Seamen, including administration, manning pools, nautical schools and welfare facilities	3,542,000	
Air Service—		
Special radio interception and monitoring services—		
Radio service	2,111,000	
Meteorological service	1,959,000	
Civil Aviation—		
Operation and maintenance of airports	386,000	
Airways and airports traffic control	512,000	
Airways and airports—Construction and improvements	213,000	
Northeast (Crimson) Staging Route	248,000	
Northwest Staging Route	1,096,000	
Mackenzie River Route	676,000	
R.C.A.F. airfields transferred to Department of Transport (maintenance)	151,000	
Canadian Government Trans-Atlantic Air Service	1,955,000	
Moncton to Newfoundland Airline	30,000	
Saskatoon Airport—reconstruction and enlargement	122,000	
Dorval and North Bay airports—Construction of additional hangar space, etc	105,000	
	9,564,000	
Marine Service—		
Aids to navigation	47,000	
Marine Service Steamers	160,000	
War risk zone bonus	96,000	
Nautical services	63,000	
Compensation to crews of Canadian vessels for personal effects	25,000	
	391,000	
Railway Service—		
Degaussing equipment for Canadian vessels	236,000	
Additional harbour and transportation facilities at Halifax	297,000	
Contribution *re* freight rates on ore from Steep Rock Iron Mines	275,000	
	808,000	
Miscellaneous—		
Joint United States-Canada defence—Acquisition of Properties	24,000	
		$ 14,592,000

Veterans Affairs—

Treatment, Armed Forces		$ 26,298,000
Treatment, Royal Canadian Mounted Police.		85,000
Pensions, Armed Forces		22,213,000
Civil Defence		106,000
Investigation, Dependents' Allowance Board.		37,000
Post-discharge re-establishment—Rehabilitation benefits		32,131,000
War service gratuities and re-establishment credits		239,592,000
Detention allowances—Canadian seamen		32,000
War Veterans' Allowance Board—Pensions under the dual service pension order, etc.		155,000
Gratuities—Canadian Firefighters		162,000
Gratuities—Auxiliary Services		125,000
Advertising campaign *re* available housing		62,000
Contributions for construction of additions to Charlottetown Hospital and Prince Edward Island Hospital		15,000
Contribution toward additional accommodation at Kingston General Hospital		84,000
Contribution to Port Arthur General towards construction of a wing		50,000
Grant to Saskatchewan Anti-Tuberculosis League for extension to Fort Qu'Appelle Sanatorium		85,000
Provision of additional accommodation in Departmental Hospitals—		
Halifax, Camp Hill Hospital	$ 280,000	
Saint John, Lancaster Hospital	16,000	
St. Anne de Bellevue, St. Anne's Hospital	299,000	
Montreal, Currie Memorial Hospital	65,000	
Peterborough, Hostel	52,000	
Kingston, Women's Hostel	24,000	
Toronto, Christie Street Hospital	283,000	
Sunnybrook Park Veterans' Memorial Hospital	3,118,000	
Lyndhurst Lodge	20,000	
London, Westminster Hospital	125,000	
Winnipeg, Deer Lodge Hospital	452,000	
Academy Road Annex	21,000	
Regina, General Hospital	66,000	
Government House	4,000	
Calgary, Col. Belcher Hospital	46,000	
Edmonton, University Hospital	4,000	

Veterans Affairs—Concluded			
Provision of additional accommodation in Departmental Hospitals—*Concluded*			
Vancouver, Shaughnessy Hospital	$ 661,000		
Victoria, Veterans' Hospital	470,000		
Dawson Creek, B.C., purchase of former United States Military Hospital	68,000		
Amherstburg, Ont., purchase of land and buildings for establishment of Veterans Home	50,000		
		$ 6,124,000	
Provision of Health and Occupational Centres—			
Saint John	78,000		
Saint Anne de Bellevue	62,000		
Gloucester Township (Ottawa)	235,000		
Toronto	165,000		
London	375,000		
Winnipeg	4,000		
Burnaby	88,000		
		1,007,000	
Sundries		52,000	
			$ 328,415,000
Total Direct War and Demobilization Expenditures, 1945-46			3,558,454,000

MUTUAL AID

24. Under the War Appropriation (United Nations Mutual Aid) Acts, and the War Appropriation Acts, 1945, $771,920,000 was expended for Mutual Aid in the fiscal year ended March 31, 1946, apart from sums expended on behalf of UNRRA which are listed elsewhere.

The following tables give the distribution by countries and by the type of aid provided. The distribution indicated is subject to revision when complete reports are received of finished goods not shipped at September 1, 1945, the date Mutual Aid shipments ceased. These supplies were later transferred to War Assets Corporation.

Distribution of Mutual Aid Expenditures by Countries

United Kingdom (including ships later recovered)	$ 662,586,000
Union of Soviet Socialist Republics	44,069,000
Australia	15,651,000
China	6,852,000
France	7,545,000
New Zealand	7,382,000
West Indies	761,000
Greece	12,000
	744,858,000
India—Deduct: sales tax recovered—charged in previous year	1,112,000
	743,746,000
Costs not allocated to countries (administration, surplus supplies on hand at end of hostilities, etc.)	28,174,000
	771,920,000

Distribution of Mutual Aid by Type of Aid

Munitions and military supplies, including ships—		
Aircraft and parts	$ 91,124,000	
Automotive equipment and mechanical transport	74,949,000	
Tanks and other fighting equipment	15,591,000	
Chemicals and explosives	4,347,000	
Guns and small arms	55,915,000	
Shells and ammunition	81,918,000	
Merchant vessels—construction	119,580,000	
repairs and servicing	5,892,000	
Naval vessels and equipment	62,916,000	
Cloths, clothing and fabrics	6,580,000	
Radio, electrical and telephone equipment	15,342,000	
Lumber and heavy materials	3,464,000	
Machine tools and heavy equipment	3,647,000	
Small tools, stores and miscellaneous	2,297,000	
Aluminum	562,000	
Other base metals	1,845,000	
Locomotives and railway rolling stock	5,886,000	
Freight	13,357,000	
		565,212,000

Foodstuffs and farm products—		
Bacon	$ 23,790,000	
Canned pork	95,000	
Offals	207,000	
Casings	180,000	
Beef	849,000	
Other meats	7,000	
Lard	5,000	
Tallow	60,000	
Cheese	11,489,000	
Milk	1,487,000	
Eggs	6,512,000	
Dehydrated vegetables	451,000	
Dried beans	20,000	
Garden seeds	22,000	
Forage crop seeds	662,000	
Seed potatoes	219,000	
Canned salmon	3,648,000	
Canned herring	55,000	
Frozen fish	1,395,000	
Other fish and products	589,000	
Wheat	90,896,000	
Flour	21,636,000	
Oats	2,071,000	
Oatmeal	452,000	
Rolled oats	1,056,000	
Linseed oil	18,000	
Miscellaneous	96,000	
		$ 167,967,000
General supplies—		
Asbestos	353,000	
Paper	3,708,000	
Farm machinery	2,899,000	
Boots, clothing and fabrics	302,000	
Fertilizers and chemicals	519,000	
Tires and tire cord fabric	260,000	
Blasting caps	156,000	
Ocean freight	449,000	
Miscellaneous	1,155,000	
		9,801,000
Air Training Services under B.C.A.T.P		766,000
		743,746,000
Surplus aircraft transferred to R.C.A.F	27,308,000	
Declared surplus to War Assets Corporation	763,000	
General costs not allocated to countries	49,000	
Administration	54,000	
		28,174,000
		$ 771,920,000

Special Expenditures

25. Special expenditures are estimated at $17,358,000 for the fiscal year ended March 31, 1946, an increase of $9,852,000 over 1944-45. The increase is mainly accounted for by the advance of $12,052,000 to meet the deficit in the Prairie Farm Emergency Fund. The amount required to meet the deficit in the preceding year was only $1,295,000.

Government Owned Enterprises

26. The classification of expenditures entitled Government Owned Enterprises comprises the losses of and non-active advances to Government Owned Enterprises which had been established before the war and are operated as separate corporations. As the Canadian National Railways has shown substantial annual surpluses since 1940, expenditure under this heading since the fiscal year 1940-41 has been of minor importance, the total for 1945-46 being $1,334,000.

Canadian National Railways

27. The operating revenues of the Canadian National Railways for the calendar year 1945, totalled $433,773,000, a decrease of 1·7% from those of 1944. Operating expenses of the Railway amounted to $355,294,000, or 2% less than in 1944.

The net operating revenue of the Railway was $78,479,000 and after deducting $10,601,000 for taxes, equipment and joint facility rentals, there remained a net railway operating income of $67,878,000. Other income, less deductions, totalled $3,206,000, resulting in $71,084,000 being available for interest. After payment of $26,022,000 in interest on debt held by the public and $20,306,000 in interest to the Government in respect of temporary loans for capital and refunding purposes, there was a net cash surplus of $24,756,000. This cash surplus was paid to the Government in redemption of temporary loans for refunding, as shown in paragraph 36.

The operating deficit of the Prince Edward Island Car Ferry and Terminals for 1945 was $688,000 compared with $773,000 in the previous year.

Canadian National Steamships

28. The Canadian National (West Indies) Steamships, Limited, in the calendar year 1945 had an operating surplus of $1,563,000 and earnings from the Vessel Replacement Fund totalled $217,000. From this total income of $1,780,000 there was paid $521,000 for bond interest and exchange and $143,000 for interest on Government advances, leaving an income surplus of $1,116,000. This income surplus was utilized as follows: $632,000 was paid to the Government in final discharge of all capital and working capital advances; $217,000 was retained in the Vessel Replacement Fund; and $267,000 was set aside as additional depreciation in view of the decision to dispose of certain of the older vessels in the immediate future.

National Harbours Board

29. The operating income of the National Harbours Board for the calendar year 1945, after payment of interest to the public but before depreciation, reserve for replacements and interest on Government advances was $5,596,000 compared with $5,581,000 in the previous year. Interest paid to the Government in the fiscal year totalled $3,950,000.

Financial assistance provided by the Government to the National Harbours Board and charged to expenditure under the category of Government Owned Enterprises totalled $646,000, divided as follows: $86,000 for the operating deficit of Churchill Harbour; $558,000 for non-active advances to meet the deficit of the Jacques Cartier Bridge at Montreal; $1,000 for capital expenditures at Halifax Harbour; and $1,000 for capital expenditures at Three Rivers Harbour. Details of expenditures charged to the War Appropriation are given under "War Expenditures".

The elevators at Port Colborne and Prescott operated at a profit during the year and $233,000 was paid to the Government.

Other Charges

30. Total expenditures in this final category are estimated at $47,713,000 compared with $47,762,000 in 1944-45.

The sum of $25,000,000 has again been added to the debt of Canada and credited to the reserve to meet possible losses on the ultimate realization of active assets, bringing the total amount of the reserve to $150,000,000. The annual write-off of Soldier and General Land Settlement Loans and Canadian Farm Loan Board Capital Stock, amounting in all, to but $37,000 for the fiscal year 1945-46, resulted in a similar increase in the Dominion's net debt, as the write-off is from Active Assets. The yearly established loss of $45,000 on Seed Grain and Relief Account administered by the Department of Mines and Resources does not increase the net debt as the write-off is from an amount already set aside in the non-active accounts to provide for revaluations and losses.

The Dominion's equity in the Canadian National Railways as reflected in the Canadian National Railways Securities Trust Stock increased during the year by the amount of the surplus earnings of the system for 1945 of $24,756,000 less line abandonments of $1,167,000 and retirement of rolling stock of $958,000 resulting in a net increase of $22,631,000. This amount is shown as the final item under Other Charges and as it is also credited to the Consolidated Fund on the revenue side of the Dominion's books, the net debt of Canada is not affected by these transactions.

Summary of Expenditures

31. The estimated grand total of expenditure for the fiscal year 1945-46 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, was $4,691,307,000.

32. 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 $72,500,000 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 REVENUE AND EXPENDITURE, 1945-46

—	Amount in thousands of dollars	Percentage of Total Revenue	Percentage to Total Expenditure
	$	%	%
Ordinary Revenue—			
Customs Import Duties	128,877	4·36	2·75
Excise Duties	186,726	6·32	3·98
Excise Taxes—sales tax and other excise taxes	455,712	15·42	9·71
War Exchange Tax	41,198	1·39	0·88
Income tax on persons, corporations, etc. (net)	932,730	31·56	19·88
Excess Profits Tax (net)	426,696	14·44	9·09
Succession Duties	21,448	0·72	0·46
Other Tax Revenues	8,972	0·30	0·19
Total Revenue from Taxes	2,202,359	74·51	46·94
Non-tax Revenue	160,688	5·44	3·43
Total Ordinary Revenue	2,363,047	79·95	50·37
Special Receipts and Credits	592,557	20·05	12·63
Grand Total Revenue	2,955,604	100·00	63·00

—	Amount in thousands of dollars	Percentage of Total Expenditure	Percentage to Total Revenue
	$	%	%
Ordinary Expenditure—			
Interest on Public Debt	408,960	8·72	13·84
Other Public Debt Charges	28,479	0·60	0·96
Subsidies and payments to provinces under taxation agreements	112,499	2·40	3·81
Family Allowances	172,632	3·68	5·84
Old Age Pensions and pensions to blind persons	33,715	0·72	1·14
Unemployment Insurance Act, administration and Government's contribution	18,716	0·40	0·63
Agriculture	10,318	0·22	0·35
Mines and Resources	11,401	0·24	0·39
National Revenue	22,631	0·48	0·77
Post Office	57,730	1·23	1·95
Public Works	16,263	0·35	0·55
Transport	18,215	0·39	0·62
Veterans' Affairs	72,839	1·55	2·46
All other	77,447	1·65	2·62
Total Ordinary Expenditure	1,061,845	22·63	35·93
Capital Expenditure	4,603	0·10	0·16
War and Demobilization Expenditure—			
National Defence—Army	940,468	20·05	31·82
Navy	241,800	5·15	8·18
Air	524,608	11·18	17·75
Reconstruction and Supply	263,415	5·62	8·91
Veterans' Affairs	328,415	7·00	11·11
Canada's contribution to UNRRA	142,852	3·05	4·83
Mutual Aid	771,920	16·45	26·12
Other Departments	344,976	7·35	11·67
Total War and Demobilization Expenditure	3,558,454	75·85	120·39
Special Expenditure	17,358	0·37	0·59
Government Owned Enterprises	1,334	0·03	0·05
Other Charges	47,713	1·02	1·61
Grand Total Expenditure	4,691,307	100·00	158·73

Over-All Deficit

33. As total revenues for the fiscal year ended March 31, 1946 were, $2,955,604,000 and expenditures aggregated $4,691,307,000, the over-all deficit or increase in net debt for the year was $1,735,703,000.

LOANS, ADVANCES AND INVESTMENTS

34. In addition to the expenditures already detailed, the Government makes disbursements for the acquisition of investments which are treated as "active" and are deducted from total gross liabilities in arriving at the figure of net debt. The net increase in loans, advances and investments for 1945-46 was $666,055,000 compared with $457,458,000 in 1944-45. Details of these increases together with those for the four previous fiscal years will be found in the table on page 81.

Railway and Steamship Companies—

35. The net increase in this category in the fiscal year ended March 31, 1946, was $43,163,797, and relates to transactions with the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited.

36. In the fiscal year the Government made net payments to the Canadian National Railways in the amount of $43,613,797 classified as follows:

Advances—		
Under Canadian National Railways Refunding Act, 1944—for retirement of called or matured issues	$	65,500,000
Under Canadian National Railways Financing & Guarantee Act, 1940—Purchase of Grand Trunk Railway Company of Canada 4% Perpetual Consolidated Debenture Stock		79,645
Under Canadian National Railways Financing & Guarantee Acts, 1941 and 1942—Purchase of securities from Canadian holders		20,401
Under The War Appropriation (United Kingdom Financing) Act, 1942—Purchase of securities from Government of the United Kingdom		231,447
Total advances by way of loan	$	65,831,493
Equipment purchased by Government and leased to Railway under Hire-Purchase Agreement: 1945 Agreement		11,399,341
Total Loans and Equipment Purchased	$	77,230,834
Repayments—		
Application of 1945 Net Income Surplus to advances under Refunding Act, 1938	$	24,756,130
Surplus available from Depreciation Reserves and Debt Discount Amortization after providing for capital expenditures during 1945—Applied to advances under the Refunding Act, 1938		2,545,411
Release of trust funds held *re* Canadian Northern Ontario Railway 3½% Debenture Stock—Applied to advances under the Refunding Act, 1938		958,113
Financing & Guarantee Act, 1941—Purchase of Securities		35,213
Total Repayment of Loans	$	28,294,867

Repayments of Instalments under Hire-Purchase Agreements:		
1936 Agreement	$	517,173
1940 Agreement		991,968
1941 Agreement		1,382,634
1943 Agreement		1,561,667
1944 Agreement		868,728
Total Equipment Repayments	$	5,322,170
Total Repayments of Loans and Equipment Repayments	$	33,617,037
Net Total Payments on account of Loans and for Equipment Purchased	$	43,613,797

37. During the fiscal year the Canadian National (West Indies) Steamships Limited repaid from its surplus an amount of $450,000 advanced to it in 1937-38 for working capital purposes.

Foreign Exchange Control Board—

38. During the fiscal year $700,000,000 was advanced to the Foreign Exchange Control Board to enable the Board to finance the purchase of gold and foreign exchange.

Sundry Government Agencies—

39. The net change in advances to the National Harbours Board during the year was a reduction of $66,000. Advances of $22,000 were made for capital purposes at the port of Montreal, while a capital refund of $88,000 was received from Vancouver.

40. The net increase in the fiscal year in advances for Soldier and General Land Settlement aggregated $18,677,000. This increase was occasioned by net advances of $24,012,000 under the Veterans' Land Act, less net repayments by settlers and $36,000 written off and charged to Consolidated Deficit Account.

41. Net advances to sundry Crown Companies decreased during the fiscal year by $8,486,000. Repayments of $6,500,000 by the Canadian Wool Board and $5,946,000 by various companies operating under the Department of Reconstruction and Supply were partially offset by advances of $2,000,000 to the Export Credits Insurance Corporation for capital surplus and $1,960,000 to the War Assets Corporation.

United Kingdom and Other Governments—

42. Net advances under this heading increased by $91,886,000 during the fiscal year. The Canadian dollar obligation of the Government of the United Kingdom under the authority of the War Appropriation (United Kingdom Financing) Act, 1942, was reduced by $63,946,000, leaving a balance outstanding at the fiscal year end of $538,564,000. The Government of the Union of Soviet Socialist Republics repaid $2,500,000 of the $10,000,000 loan made for the purchase of wheat. Advances made to the Government of the United Kingdom under Section 3 of The War Appropriation Act for the purchase of food and other essential supplies decreased during the year by $9,841,000.

43. Advances made to foreign governments and their agencies pursuant to agreements made under The Export Credits Insurance Act totalled $67,412,000, as follows: Belgium, $25,000,000; Czechoslovakia, $3,192,000; Netherlands, $25,150,000; Netherlands Indies, $1,800,000; Norway, $9,495,000, and Union of Soviet Socialist Republics, $2,775,000.

44. Other large advances made under Section 3 of The War Appropriation Acts and outstanding at the end of the year were as follows: Belgium $2,159,000; France, $88,346,000; Netherlands, $12,442,000; Union of Soviet Socialist Republics, $8,819,000; and the United Kingdom, $32,123,000.

45. Under the British Commonwealth Air Training Plan No. 1, which terminated on June 30th, 1942, there was established during the fiscal year 1943-44 a net liability of the United Kingdom to Canada of $200,000,000. This amount has since been maintained as a book debt owing by the United Kingdom. Under Plan No. 2, in effect from July 1st, 1942, to March 31st, 1945, the net accumulated amount owing to the Government of Canada was shown as $249,-504,000 as at March 31, 1945. After eliminating expenditures properly chargeable to other appropriations and making allowance for various adjustments, in accordance with the terms of the Agreement, some necessarily on an estimated basis, the net liability of the United Kingdom was finally agreed to be $225,-000,000.

The Financial Agreement between the Government of Canada and the Government of the United Kingdom, dated March 6, 1946, provides that the combined total obligations under the two Plans, namely, $425,000,000, will be cancelled. The article of the Agreement providing for this cancellation, however, and the article in the United Kingdom Financial Agreement Act, 1946, to implement it have not yet come into effect, pending action by the United States Congress on the Anglo-American Financial Agreement. If and when that Agreement is approved by Congress, immediate action will be taken to implement this provision of the Canadian-United Kingdom Agreement. This will result in the cancellation of this item in Loans and Advances, and a corresponding increase in War Expenditures for the year 1945-46.

Investments—

46. Under the provisions of the Central Mortgage and Housing Corporation Act, $25,000,000 was paid to the Corporation for capital purposes. The Corporation in turn paid the Government $14,721,000, representing outstanding balances of loans made under the Dominion and National Housing Acts (shown under Loans and Advances—Miscellaneous). The Corporation also paid $250,000, representing the capital stock of the Central Mortgage Bank.

47. The Government's investment in the Canadian Farm Loan Board decreased during the year by $2,401,000. The Board purchased out of surplus funds $4,500,000 of its 3½% bonds due January 2nd, 1960, and approximately $1,000 of the Board's capital stock was written off to Consolidated Deficit Account. On the other hand, the Dominion purchased from the Board $2,100,000 of 3% bonds due January 2nd, 1970. At the end of the fiscal year the Government's investment in the Canadian Farm Loan Board totalled $21,623,000.

48. During the fiscal year a further $2,000,000 of The Export Credits Insurance Corporation's capital stock was purchased by the Dominion.

49. Miscellaneous investments decreased by $183,544,000. The main item in this category is the Securities Investment Account, consisting chiefly of the cost of acquisition of Dominion Government direct securities, which decreased by $184,382,000 during the year. Other miscellaneous investments increased by $838,000.

50. The following table gives the details of the annual changes in loans, advances and investments in the fiscal year ended March 31, 1946, and the four previous fiscal years.

ANNUAL CHANGES IN ACTIVE LOANS AND ADVANCES AND INVESTMENTS FOR THE LAST FIVE FISCAL YEARS

(Thousands of Dollars)

	Fiscal Years Ended March 31				
	1942	1943	1944	1945	Estimated 1946
Loans and Advances					
RAILWAY AND STEAMSHIP COMPANIES—					
Canadian National Railways	251,240	142,539	Cr. 3,907	83,608	43,613
Canadian National Steamships—					
Canadian Government Merchant Marine Ltd.	Cr. 800	...	...	...	...
Canadian National (West Indies) Steamships, Ltd.	...	...	...	...	Cr. 450
Canadian Pacific Railway Company	Cr. 2,085	Cr. 12,814	...	...	...
Net Total, Railway and Steamship Companies	248,355	129,725	Cr. 3,907	83,608	43,163
Foreign Exchange Control Board	400,000	Cr. 325,000	185,000	265,000	700,000
SUNDRY GOVERNMENT AGENCIES—					
Canadian Broadcasting Corporation	Cr. 283	Cr. 503	...	...	...
National Harbours Board	Cr. 980	Cr. 267	Cr. 127	8	Cr. 66
Soldier Settlement of Canada	Cr. 1,791	Cr. 1,692	Cr. 2,090	3,948	18,677
Sundry Crown Companies	15,397	45,140	63,317	Cr. 16,774	Cr. 8,486
Sundry Crown Plants, privately managed	...	...	57,007	Cr. 10,909	...
Other	8	4	Cr. 11	38	Cr. 40
Net Total, Sundry Government Agencies	12,351	42,682	118,096	Cr. 23,689	10,085
Provincial and Municipal Governments	Cr. 629	Cr. 899	Cr. 437	15,599	Cr. 4,351
UNITED KINGDOM AND OTHER GOVERNMENTS—					
United Kingdom, loan under The War Appropriation (U.K. Financing) Act, 1942	...	700,000	Cr. 42,392	Cr. 55,098	Cr. 63,946
Union of Soviet Socialist Republics—Loan for purchase of wheat	...	917	9,083	...	Cr. 2,500
United Kingdom, Australia and New Zealand—Air training accounts	72,199	56,360	5,403	81,586	Cr. 249,504
United Kingdom-British Commonwealth Air Training Plan—Settlement	...	...	200,000	...	225,000
United Kingdom, food advance accounts	...	6,755	13,244	10,613	Cr. 9,841
War Supplies, Ltd	...	83,042	Cr. 11,884	Cr. 71,158	...
Other (U.K. and Other Governments)	7,405	661	16,766	Cr. 4,215	192,677
Net Total, U.K. and Other Governments	79,604	847,735	190,220	Cr. 38,272	91,886
MISCELLANEOUS—					
Dominion and National Housing Acts	2,644	239	Cr. 532	Cr. 1,240	Cr. 14,72
Sundry munitions contractors, etc. (Department of Reconstruction and Supply)	9,260	3,640	Cr. 3,964	7,975	Cr. 738
Sundry Loans and Advances	Cr. 651	Cr. 329	Cr. 61	Cr. 74	Cr. 74
Net Total, Miscellaneous	11,253	3,650	Cr. 4,557	6,661	Cr. 15,533
Net Total, All Loans and Advances	750,934	697,793	484,415	308,907	825,250

ANNUAL CHANGES IN ACTIVE LOANS AND ADVANCES AND INVESTMENTS FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(Thousands of Dollars)

—	Fiscal Years Ended March 31				
	1942	1943	1944	1945	Estimated 1946
INVESTMENTS					
Central Mortgage and Housing Corporation Capital Stock	....	....	....	....	25,000
Canadian Farm Loan Board	Cr. 985	Cr. 2,507	Cr. 5,005	Cr. 5,001	Cr. 2,401
Central Mortgage Bank Capital Stock	....	....	....	....	Cr. 250
Export Credits Insurance Corporation Capital Stock	....	....	....	500	2,000
Other Investments	6,530	Cr. 7,645	155,931	153,052	Cr. 183,544
Net Total, Investments	5,545	Cr. 10,152	150,926	148,551	Cr. 159,195
Net Total of changes in Loans and Advances and Investments	756,479	687,641	635,341	457,458	666,055

LOAN FLOTATIONS

51. In the fiscal year ended March 31, 1946, the Dominion issued securities in the domestic market in an estimated amount of $4,565,703,898. This amount includes the net increase of $70,000,000 in Treasury Bills outstanding, but does not include the amount of the recurring issues of Treasury Bills and Deposit Certificates issued to refund similar securities maturing during the year. In the fiscal year $1,813,748,885 of Dominion obligations matured or were called for redemption, leaving $2,751,955,013, less cost of flotations, available for Government expenditures. During the year, no issues were sold to the chartered banks except renewals of Deposit Certificates and Treasury Bills. Since March 5, 1946 Deposit Certificates have been issued bearing an interest rate of $\frac{5}{8}$ of 1 per cent as compared with the former rate of $\frac{3}{4}$ of 1 per cent.

52. The following table gives the details of issues sold during the year, classified as to original issue by sales to the Bank of Canada and the general public (excluding the $33,293,471 4% School Lands Debentures held by the Prairie Provinces which were renewed for one year).

LOAN FLOTATIONS, 1945-46

—	Issue Date	Maturity Date	Interest Rate	Price to Government	Yield at Price to Government	Total Amount Issued	Renewals or Conversions included in Amount Issued	Amount Issued for cash
			%	$	%	$	$	$
Treasury Bills (net increase)						70,000,000		70,000,000
Sold to Bank of Canada								
One Year Notes	April 15, 1945	April 15, 1946	1	100 00	1·00	250,000,000	250,000,000	
Six Months Notes	April 16, 1945	Sept. 1, 1945	$\frac{3}{4}$	100 00	0·75	102,000,000	102,000,000	
Six Months Notes	Sept. 1, 1945	Mar. 1, 1946	$\frac{3}{4}$	100 00	0·75	256,000,000	256,000,000	
Treasury Certificates	Mar. 1, 1946	Sept. 1, 1946	$\frac{5}{8}$	100 00	0·625	256,000,000	256,000,000	
						864,000,000	864,000,000	
Sold to General Public								
Eighth Victory Loan	May 1, 1945	Nov. 1, 1949	$1\frac{3}{4}$	99 61	1·81	267,800,000		267,800,000
Eighth Victory Loan	May 1, 1945	Oct. 1, 1963	3	99 35	3·05	1,295,819,350		1,295,819,350
Ninth Victory Loan	Nov. 1, 1945	Nov. 1, 1950	$1\frac{3}{4}$	(1)99 66	(1)1·82	335,690,000		(1)335,690,000
Ninth Victory Loan	Nov. 1, 1945	Sept. 1, 1966	3	(1)99 40	(1)3·04	1,689,021,200		(1)1,689,021,200
War Savings Certificates and Stamps (net)			3(2)	100 00	(2)3·00	10,079,877		10,079,877
						3,598,410,427		3,598,410,427
Grand Total						4,532,410,427	864,000,000	3,668,410,427

(1) Preliminary figures, subject to revision. Amount issued includes only the actual amount received to the close of the fiscal year.

(2) Yield to investor if held to maturity, seven and one-half years after issue date, amount issued includes interest accrued during the year on outstanding certificates.

53. During the fiscal year 1945-46, the Eighth and Ninth Victory Loans were sold, both being larger than any previous Canadian loan sold for cash. The Eighth Victory Loan was sold entirely for cash in the amount of \$1,563,619,350, the number of subscriptions being 3,178,275. The Ninth Victory Loan was sold entirely for cash in the amount of \$2,024,711,200 (the figures for the Ninth Victory Loan include only the actual amount ofcash received at the close of the fiscal year and are not final), the number of subscriptions being 2,947,636.

54. The following table gives the details of Dominion of Canada bond redemptions during the fiscal year ended March 31, 1946:

DOMINION OF CANADA BOND REDEMPTIONS 1945-46

Maturity or Call Date	Interest Rate	Where Payable	Amount
	%		$
April 15, 1945	1	Canada	250,000,000
April 16, 1945	$\frac{3}{4}$	Canada	102,000,000
July 1, 1945	4	Canada	33,293,471
July 2, 1945	$1\frac{1}{2}$	Canada	450,000,000
September 1, 1945	$\frac{3}{4}$	Canada	256,000,000
November 15, 1945(1)	3	New York	40,000,000
January 15, 1946(2)	3	New York	55,000,000
January 16, 1946(3)	3	New York	30,000,000
January 16, 1946(4)	3	New York	30,000,000
February 1, 1946	$4\frac{1}{2}$	Canada	45,000,000
March 1, 1946	$\frac{3}{4}$	Canada	256,000,000
May 1, 1955(5)	$3\frac{1}{4}$	London	121,983
September 1, 1958(5)	4	London	84,338
July 1, 1963(5)	$3\frac{1}{2}$	London	15,381
Deposit Certificates (net)	$\frac{3}{4}$	Canada	260,000,000
Non-Interest Bearing Certificates (net)	—	Canada	6,233,712
Total			1,813,748,885
Less amounts renewed or converted(6)			897,293,471
Provided from cash resources			916,455,414

(1) Maturity date November 15, 1968, called for redemption on November 15, 1945.
(2) Maturity date January 15, 1967, called for redemtion on January 15, 1946.
(3) Maturity date January 15, 1953, called for redemption on January 16, 1946.
(4) Maturity date January 15, 1958, called for redemption on January 16, 1946.
(5) 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 1945-46 were cancelled.
(6) Total from previous table \$864,000,000 and School Lands Debenture Stock, viz. \$33,293,471.

55. The fortnightly issue of three months' Treasury Bills was continued during the year and the amount outstanding was increased by \$70,000,000 to \$450,000,000. The last issue in the fiscal year was sold at a discount of 0·371 per cent.

56. The average rate of interest on the Dominion's direct funded debt (including Treasury Bills and Deposit Certificates) outstanding at March 31, 1946, was 2·59 per cent. This figure compares with 2·51 per cent on the debt outstanding at the close of the preceding year, the increase being accounted r by the amount of Eighth and Ninth Victory Loan bonds issued which bore three per cent coupon.

CASH DEFICIENCY

57. The total cash deficiency of the Government for the fiscal year ended March 31, 1946, is estimated at $2,451,600,000 compared with $2,955,000,000 for the previous fiscal year.

It should be noted that while the budgetary deficit for 1945–46 is estimated at $1,735,703,000, the cash deficiency (that is the excess of cash requirements over receipts other than borrowing) exceeded this amount by $715,897,000. Thus borrowing from the Canadian people supplied the total cash deficiency of $2,451,600,000 although a large portion of the cash thus raised was required, not to finance expenditure but to finance the net increase in assets.

Cash requirements for this latter purpose were much heavier in 1945–46 than in the preceding fiscal year as can be seen from the fact that while the budgetary deficit for 1945–46 was $822,575,000 less than for 1944–45, the cash requirements decreased by $503,400,000, a much smaller amount.

58. The following table sets out requirements for and sources of cash as estimated for the fiscal period ended March 31, 1946.

REQUIREMENTS FOR AND SOURCES OF CASH, FISCAL YEAR 1945–46(1)
(Millions of dollars)

REQUIREMENTS FOR CASH		
Non-War Expenditure—		
Interest on the public debt	$ 409·0	
Payments to provinces under wartime tax agreements	98·1	
Family allowances	172·6	
Other ordinary expenditure	352·3	
Total ordinary cash expenditure	$ 1,032·0	
Capital expenditure	4·6	
Special expenditure	17·4	
Government owned enterprises	1·3	
Total non-war cash expenditure(2) (3)		$ 1,055·3
War Expenditure—		
Department of National Defence—		
Air Force(4)	524·6	
Army(5)	940·5	
Navy	241·8	
Department of Reconstruction and Supply	263·4	
Department of Veterans Affairs	328·4	
Mutual Aid, UNRRA and Military Relief	948·8	
Other Departments	311·0	
Total War Expenditure in Cash	....	3,558·5
Outlays that Increased Assets or Decreased Liabilities—		
Purchase price of increase in holdings of gold and U.S. dollars (6)	31·7	
Reduction in New York indebtedness (6)	162·6	
Purchase price of increase in sterling balances	28·4	
Reduction in London indebtedness	0·3	
Cost of loan flotations, portion to be amortized	20·7	
Advances to F.E.C.B.	700·0	
Advances to C.N.R.	43·6	
Advances to United Kingdom and other governments (7)	91·9	
Securities investment account	−184·4	
Other outlays	16·9	
Total outlays that increased assets or decreased liabilities		911·7
Grand total requirements for cash(9)		$ 5,525·5

(1) "Cash" and "non-cash" transactions are sometimes difficult to define; for example, interest payments to certain trust and other accounts are left on deposit with the Receiver General. Those here treated as non-cash are limited to adjustments to the valuation of assets and liabilities, and the amortization of loan flotation charges.

(2) Excluding the amortization of bond discounts and commissions, $14·9 million, and premium, discount and exchange, $14·9 million.

(3) Excluding the write-down of assets $25·1 million and adjustments of the valuation of C.N.R. Securities Trust Stock due to net income surplus less capital losses, $22·6 million.

(4) Includes $82·8 million *re* U.K. Settlement—War Claims—previously classified as Active Assets.

(5) Includes $71·3 million *re* U.K. Settlement—War Claims—previously classified as Active Assets.

(6) Computed by adding the 10% exchange premium to the change during the year.

(7) Excludes $154·1 million U.K. Settlement—War Claims—transferred to war expenditure.

REQUIREMENTS FOR AND SOURCES OF CASH, FISCAL YEAR 1945-46—*Concluded*

(Millions of Dollars)

SOURCES OF CASH

Revenue—			
Ordinary Revenue—			
Customs duties, excise duties and excise taxes	$ 812·5		
Other indirect taxes	9·0		
Personal income tax	691·6		
Corporate income tax	217·8		
Excess profits tax	494·2		
Other direct taxes	49·8		
Total tax revenue	$ 2,274·9		
Post Office revenue	68·6		
Return on investments	70·9		
Other ordinary revenue	21·1		
Gross ordinary revenue	$ 2,435·5		
Less estimated refundable portion of income and excess profits tax	−72·5		
		$ 2,363·0	
Capital refunds		0·4	
Special receipts and credits in cash (8)(9)		569·4	
Total revenue in cash			$ 2,932·8
Other receipts			141·1
Borrowing in Canada—			
New Issues of Funded Debt—			
Treasury Bills—net increase	$ 70·0		
General public	3,598·4		
Total new issues		$ 3,668·4	
Less maturities paid in cash		−761·2	
Add estimated refundable portion of personal income and excess profits tax—net		71·4	
Net increase in funded debt payable in Canada		$ 2,978·6	
Net increase in floating debt payable in Canada		9·6	
Cash—			
Less increase in cash balances held in domestic currency		−536·6	
Net cash deficiency			2,451·6
Grand total sources of cash (9)			$ 5,525·5

(8) Excludes entry recording increased value of C.N.R. Securities Trust Stock, adjustment *re* Crown plants and write-off of Seed Grain and Relief Loans.

(9) The over-all requirements and sources are considerably inflated because the greater proportion of special receipts included as a source of cash consists of credits to certain departments where expenditures initially charged to them and requiring cash at that time, later became charges to other departments. These credits do not constitute new sources of cash nor do the corresponding debits constitute new requirements for cash; but information is not presently available to offset them in this statement.

NATIONAL DEBT

59. It is estimated that the gross unmatured funded debt (including Deposit Certificates, Treasury Bills and the estimated refundable portion of personal income tax and excess profits tax) of the Dominion outstanding at the close of the fiscal year 1945-46 will amount to $16,807,178,000. Other liabilities consisting chiefly of Deposit and Trust Accounts, Insurance, Pension and Guaranty Accounts are estimated at $2,198,478,000. The gross liabilities of the Dominion on March 31, 1946, therefore, are estimated at $19,005,656,000. On the other side of the balance sheet there are active assets estimated at a total of $5,971,591,000 consisting of cash loans and advances and investments less a reserve of $150,000,000 for possible losses on their ultimate realization. If the amount of net active assets is deducted from the amount of gross liabilities, there results a figure of $13,034,065,000 representing the estimated net debt of the Dominion as at March 31, 1946. The increase in the net debt for the year is estimated at $1,735,703,000, or the amount of the over-all estimated deficit for the fiscal year 1945-46.

BALANCE SHEET

60. The following is a condensed estimated balance sheet of the Dominion, together with details of non-active assets:

BALANCE SHEET—MARCH 31, 1946

(estimated)

(Thousands of Dollars)

Liabilities—			
Floating Debt—			
Matured Funded Debt Outstanding		$ 22,604	
Stock and other obligations payable on demand		169	
Interest due and outstanding		59,110	
Outstanding cheques and warrants		94,700	
Post Office Account		5,207	
			$ 181,790
Deposit and Trust Accounts—			
Post Office Savings Bank		35,537	
Bank Circulation Redemption Fund		1,689	
Indian Trust Funds		17,096	
Minister of Finance Special Accounts		1,167,973	
Miscellaneous		140,027	
			1,362,322
Insurance, Pension and Guaranty Accounts—			
Government Annuities		287,495	
Insurance Fund—Civil Service		19,014	
Insurance Fund—Returned Soldiers		23,355	
Unemployment Insurance Fund (cash portion only)		8,588	
War Damage Insurance Accounts		12,196	
Other Insurance and Guaranty Accounts		10,065	
			360,713
Civil Service Superannuation Account		85,444	
Civil Service Retirement Fund		10,307	
Other Pension Funds		1,532	
			97,283
Deferred Credits			25,349
Sundry Suspense Accounts			115,604
Province Debt Accounts			11,919
Reserves for contingent liabilities, crown companies			43,498
Funded Debt Unmatured—			
Payable in Canada—			
Bonds, Deposit Certificates and Treasury Bills		$ 16,101,597	
Refundable portion of personal income tax and excess profits tax (estimated)		515,737	
Payable in New York		178,000	
Payable in London		11,844	
			16,807,178
			$ 19,005,656
Assets—			
Cash—			
In Current Deposits		794,312	
In Special Deposits		2,673	
			$ 796,985
partmental Working Capital Advances			9,260
ans and Advances—			
To Canadian National Railways		699,528	
To Foreign Exchange Control Board		1,550,000	
To Sundry Government Agencies—			
Soldier Settlement of Canada	$ 52,732		
National Harbours Board	84,965		
Crown Companies	108,460		
Crown Plants Privately Managed	46,098		
		292,255	
To Provincial and Municipal Governments—			
Unemployment Relief Loans	156,080		
Province of Alberta—Subsidy overpayment	350		
Province of Saskatchewan—Seed Grain Loans Guarantees, 1938	11,949		
Municipal Improvements Assistance Act	5,312		
Other	212		
		173,903	

BALANCE SHEET—MARCH 31, 1946—*concluded*

(estimated)

(Thousands of Dollars)

Assets—Concluded			
Loans and Advances—			
To United Kingdom and Other Governments—			
United Kingdom—War Appropriation (United Kingdom Financing) Act	$ 538,564		
Government of Greece	6,525		
Government of Roumania	24,329		
Government of the U.S.S.R.	7,500		
United Kingdom—British Commonwealth Air Training Plan—Settlement	425,000		
Other (U.K. and Other Governments)	241,820		
		$ 1,243,738	
Miscellaneous		19,533	
			$ 3,978,957
Investments—			
Bank of Canada Capital Stock		5,920	
Central Mortgage and Housing Corporation Capital Stock		25,000	
Canadian Farm Loan Board— Advances and Capital Stock		21,623	
Miscellaneous		162,169	
			214,712
Province Debt Accounts			2,296
Deferred Charges—Unamortized Discounts and Commissions on Loans			92,551
Sundry Suspense Accounts—			
Minister of Finance Special Custody Account		1,025,000	
Miscellaneous		1,830	
			1,026,830
			$ 6,121,591
Less—Reserve for possible losses on ultimate realization of active assets			150,000
			$ 5,971,591
Net Debt, March 31, 1946			13,034,065
			$ 19,005,656

NET DEBT—MARCH 31, 1946 (estimated)

(Thousands of Dollars)

Net Debt represented by—		
(A) Expenditures for Capital Purposes and Non-Active Assets—		
Public Works—		
Canals		$ 240,215
Railways		429,327
Miscellaneous		316,942
Military Property and Stores		12,617
Territorial Accounts		9,896
Canadian Pacific Railway (old)		62,791
Canadian National Railways Securities Trust Stock		381,712
Canadian National Railways Stock		18,000
Loans Non-Active—		
Canadian National Steamships		13,158
National Harbours Board—		
Chicoutimi	$ 3,838	
Churchill	10	
Halifax	12,503	
Montreal (Jacques Cartier Bridge)	6,398	
Quebec	27,766	
Saint John	17,056	
Three Rivers	3,981	
		71,552
Soldier and General Land Settlement		16,526
Seed Grain and Relief Advances		194
Saskatchewan Seed Grain Loans Guarantee Act, 1936		2,637
Seed Grain Loans Guarantee Act, 1937		7,136
Miscellaneous Non-Active Accounts		2,458
		1,585,161
(B) Consolidated Deficit Account—		
Balance, Consolidated Deficit Account brought forward from March 31, 1945	$ 9,740,575	
Excess of expenditure over revenue, less amounts charged under (A) above, fiscal year ended March 31, 1946	1,708,329	
		11,448,904
		$ 13,034,065

61. The following table gives the details of the various obligations included in the unmatured funded debt of the Dominion outstanding as at March 31, 1946, and the annual interest charges thereon:

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1946, AND ANNUAL INTEREST THEREON

Date of Maturity	Rate Per Cent	Where Payable	Amount of Loan	Annual Interest Charges
			$ c.	$ c.
1946, April 15	1	Canada	250,000,000 00	2,500,000 00
April 15	1⅜	Canada	100,000,000 00	1,375,000 00
May 1	1¾	Canada	144,253,000 00	2,524,427 50
July 1	4	Canada	33,293,470 85	1,331,738 83
Sept. 1	⅝	Canada	256,000,000 00	1,600,000 00
Nov. 1	1¾	Canada	197,455,000 00	3,455,462 50
Dec. 15	2	Canada	193,286,000 00	3,865,720 00
1947, May 1	1¾	Canada	373,259,000 00	6,532,032 50
Oct. 1	2½	London	103,084 94	2,577 12
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
Mar. 1	1¾	Canada	239,713,000 00	4,194,977 50
Nov. 1	1¾	Canada	344,267,000 00	6,024,672 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
Nov. 1	1¾	Canada	267,800,000 00	4,686,500 00
1950, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
Nov. 1	1¾	Canada	335,690,000 00	5,874,575 00
1951, Feb. 1	3¼	Canada	(1) 50,250,000 00	1,625,000 00
June 15	3	Canada	(2) 649,969,592 50	19,306,027 50
Nov. 15	3¼	Canada	60,000,000 00	1,950,000 00
1952, Feb. 1	3¼	Canada	(3) 50,500,000 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
1954, Mar. 1	3	Canada	(4) 676,355,489 00	20,089,767 00
1955, May 1	3¼	London	4,836,418 74	157,183 61
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	(5) 855,607,410 50	25,414,081 50
1957, May 1	3	Canada	1,111,261,650 00	33,337,849 50
Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958, June 1	3	Canada	88,200,000 00	2,646,000 00
1958, Sept. 1	4	London	3,260,844 50	130,433 78
Nov. 1	4½	Canada	276,687,600 00	12,450,942 00
1959, Jan. 1	3	Canada	1,197,324,750 00	35,919,742 50
Nov. 1	4½	Canada	289,693,300 00	13,036,198 50
1960, June 1	3	Canada	1,165,300,350 00	34,959,010 50
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
1962, Feb. 1	3	Canada	1,315,639,200 00	39,469,176 00
1963, July 1	3¼	London	3,643,482 41	118,413 18
Oct. 1	3	Canada	1,295,819,350 00	38,874,580 50
1966, June 1	3¼	Canada	54,703,000 00	1,777,847 50
Sept. 1	3	Canada	1,689,021,200 00	50,670,636 00
Perpetual	3	Canada	55,000,000 00	1,650,000 00
1946, April 12 Treasury Bills	·363	Canada	75,000,000 00	272,250 00
April 26 Treasury Bills	·364	Canada	75,000,000 00	273,000 00
May 10 Treasury Bills	·363	Canada	75,000,000 00	272,250 00
May 31 Treasury Bills	·363	Canada	75,000,000 00	272,250 00
June 14 Treasury Bills	·362	Canada	75,000,000 00	271,500 00
June 28 Treasury Bills	·371	Canada	75,000,000 00	278,250 00
April 2 Deposit Certificates	·75	Canada	95,000,000 00	712,500 00
April 9 Deposit Certificates	·75	Canada	95,000,000 00	712,500 00
April 16 Deposit Certificates	·75	Canada	95,000,000 00	712,500 00
April 23 Deposit Certificates	·75	Canada	95,000,000 00	712,500 00
Sept. 3 Deposit Certificates	·625	Canada	75,000,000 00	468,750 00

(1) Redeemable at 100½ per cent. Amount outstanding includes $ 250,000.00 redemption bonus.
(2) Redeemable at 101 per cent. Amount outstanding includes $6,435,342.50 redemption bonus.
(3) Redeemable at 101 per cent. Amount outstanding includes $ 500,000.00 redemption bonus.
(4) Redeemable at 101 per cent. Amount outstanding includes $6,696,589.00 redemption bonus.
(5) Redeemable at 101 per cent. Amount outstanding includes $8,471,360.50 redemption bonus.

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1946, AND ANNUAL INTEREST THEREON—*Concluded*

Date of Maturity	Rate Per Cent	Where Payable	Amount of Loan	Annual Interest Charges
			$ c.	$ c.
1946, Sept. 10 Deposit Certificates	·625	Canada	95,000,000 00	593,750 00
Sept. 17 Deposit Certificates	·625	Canada	95,000,000 00	593,750 00
Sept. 24 Deposit Certificates	·625	Canada	95,000,000 00	593,750 00
1947, June 15 Non-interest Bearing Certificates		Canada	5,631,472 81	....
1950, June 15 Non-interest Bearing Certificates		Canada	387,017 94	....
War Savings Certificates	3	Canada	273,760,075 80	8,212,802 27
War Savings Stamps		Canada	5,304,573 50	....
			16,291,440,933 49	430,949,114 29
Refundable portion of personal income tax and excess profits tax (estimated)	2 (6)	Canada	515,736,835 92	(6) 5,274,812 38
			16,807,177,769 41	436,223,926 67
Payable in Canada			$16,617,333,938 82	98·87%
Payable in New York			178,000,000 00	1·06%
Payable in London			11,843,830 59	0·07%
			16,807,177,769 41	100·00%

(6) Interest on refundable portion of personal income tax only.

Indirect Liabilities

62. Bonds and debenture stocks bearing the guarantee of the Dominion and outstanding in the hands of the public, totalled $541,000,000 at March 31, 1946, a decrease of $65,665,000 from the amount outstanding at the close of the preceding fiscal year. This decrease is occasioned mainly by the redemption of two Canadian National Railway bond issues one of which in the amount of $50,500,000 was to come due December 15, 1950, but was called for prior payment on December 15, 1945, and the other, in the amount of $15,000,000, came due on January 15, 1946 and was paid off. The funds required to meet these maturities were loaned to the Company by the Government.

63. There were also outstanding at the close of the fiscal year, other contingent liabilities authorized by various statutes.

64. Pursuant to the terms of an Order in Council dated August 11, 1943, the Commodity Prices Stabilization Corporation, a Government-owned Corporation, guaranteed 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 twenty-five per cent of the aggregate advances made by each bank. The contingent liability of the Corporation at March 31, 1946, was $1,515.

65. Under the terms of an Order in Council dated April 17, 1945, the Commodity Prices Stabilization 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 1945. The liability of the Corporation is limited to ten per cent of the aggregate amount of advances made by each bank, but the maximum amount of guarantee is $500,000. The contingent liability of the Corporation at March 31, 1946 was $32,032.

66. Under the terms of an Order in Council dated May 4, 1943, the Government guaranteed bank overdrafts obtained by certain Crown companies and management-fee companies doing business under the Department of Munitions and Supply. Prior to the establishment of this system of financing, funds advanced by the Government to the contractors remained idle for considerable

periods. The amounts of the various overdrafts are repaid monthly, so no liability is outstanding at the close of the fiscal year in connection with this guarantee. The maximum amount of guarantees authorized at March 31, 1946, was $23,590,000.

67. Before operations under the Home Improvement Loans Guarantee Act were discontinued (October 30, 1940) 125,720 loans had been made by banks and other approved loaning institutions to home owners under the terms of this Act and the total amount of such loans was $49,959,055. The Dominion's contingent liability arising out of these loans is limited to 15 per cent of the aggregate of such loans made by approved lending institutions, but as the balance of these loans on March 31, 1946, was $98,667, the contingent liability of the Government is limited to this amount. Up to March 31, 1946, 1,268 loss claims for an aggregate amount of $462,873 had been paid. In terms of total losses to total volume of loans, this loss ratio is only 0·93 of one per cent.

68. Under the provisions of the Appropriation Act No. 5, 1942, the Home Extension Plan was started. It provided for loans not exceeding in the aggregate $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. To March 31, 1946, 59 loans for a total amount of $109,238 had been made. The Dominion's contingent liability arising out of these loans amounted to 15 per cent. of the aggregate of such loans made by the banks or $16,309. There have been no claims for loss made by the banks.

69. Under the Dominion Housing Act, 1935, the National Housing Act, 1938, and the National Housing Act, 1944, the Dominion has accepted and is accepting certain obligations arising out of its contracts with approved lending institutions which, while not expressed in the form of a guarantee, may nevertheless be regarded as contingent or indirect liabilities. On January 1, 1946, the Central Mortgage and Housing Corporation Act, 1945, was proclaimed and since that date the Corporation has been acting as the agent of the Minister of Finance in connection with loans under these acts.

The manner in which losses in respect of any loan are to be shared by the Dominion and the lending institution was fixed by the contract. The general principle under the Dominion Housing Act and the National Housing Act, 1938, was 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 amount due, is equal to or less than the amount advanced by the Dominion and one-third of the loss if at the time the loss is sustained the principal amount repaid, less any other amounts due, is more than the amount advanced by the Dominion. In the case of small loans (that is, loans not in excess of $4,000 in the case of single family dwellings or not in excess of $700 per habitable room in the case of multiple family dwellings), 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. Under the National Housing Act, 1938, a new provision was added to encourage the making of small loans in such small or remote communities and in such districts or other communities as may be designated by the Minister of Finance in any contract. In respect of such loans, the Dominion has agreed in contracts with certain lending institutions to pay losses sustained by any such lending institution up to certain amounts determined by the contract which are not less than 7 per cent and do not exceed 25 per cent of the total amount of such loans made in such areas by each such lending institution. Under the National Housing Act, 1944, the Dominion bears the first one-quarter of the loss and agrees to pay losses sustained by any lending institution up to fifteen per centum of the total amount of loans made in any area by each such lending institution.

Loans to the number of 27,368 covering 32,612 dwelling units have been approved as at March 31, 1946, under the Dominion Housing Act, 1935, the

National Housing Act, 1938, and the National Housing Act, 1944, the total amount of such loans being $113,617,150.00 Losses recorded and paid to March 31, 1946, amounted to $2,644.78 covering the Dominion's proportion of the loss on seven loans. This amount represents total losses to that 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 $497.74 realized by the sale of eleven properties. The net loss to March 31, 1946, is therefore only $2,147.04. There have been no losses under the National Housing Act, 1944.

70. Under the terms of two Orders in Council passed under the Export Credits Insurance Act, the Dominion Government guaranteed the payment to certain contractors for goods sold to V.O. Machinoimport, an agency of the Government of the U.S.S.R. The maximum amount authorized was $236,000. Payment having been made for these goods prior to March 31, 1946, there was no liability to the Government.

71. Under the provisions of the Farm Improvement Loans Act, 1944, the Government guarantees loans made by chartered banks to farmers for authorized purposes. The amount of the guarantee is limited to 10 per cent of the aggregate principal amount of the guaranteed farm loans made by each bank. At March 31, 1946, 6,156 loans had been made by the chartered banks in the amount of $4,726,153. The contingent liability of the Government at that date was $472,615.

72. Order in Council dated May 22, 1945, P.C. 3636, passed pursuant to the War Measures Act, authorized the guarantee of bank loans to merchants or business men in Halifax and Yarmouth whose places of business were damaged or looted in the disturbances on May 7 and 8, 1945, in order to enable them to make essential repairs and replacements of premises and fixtures and to purchase stock-in-trade. Sixteen loans totalling $68,000 were made under this authority, all of which had been repaid by March 31, 1946.

73. The following is a statement of bonds, debenture stocks and other indebtedness guaranteed by the Dominion outstanding on March 31, 1946:

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE DOMINION GOVERNMENT AS AT MARCH 31, 1946

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	$
July 1, 1946	Canadian Northern	6½	23,752,000
April 1, 1948	New Westminster Harbour Commissioners	4¾	700,000
Sept. 1, 1951	Canadian National	4½	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	1,162,768
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	4¾	48,496,000
Feb. 1, 1956	Canadian National	4½	67,368,000
July 1, 1957	Canadian National	4½	64,136,000
July 20, 1958	Canadian Northern	3½	5,636,508
Jan. 15, 1959	Canadian National	3	35,000,000
May 4, 1960	Canadian Northern Alberta	3½	551,505
May 19, 1961	Canadian Northern Ontario	3½	3,610,074
Jan. 1, 1962	Grand Trunk Pacific	3	26,465,130
Jan. 1, 1962	Grand Trunk Pacific	4	7,999,074
Oct. 1, 1969	Canadian National	5	57,728,500
Nov. 1, 1969	Harbour Commissioners of Montreal	5	19,000,000
Feb. 1, 1970	Canadian National	5	17,338,000
Various dates 1946–54	City of Saint John Debentures assumed by Saint John Harbour Commissioners	Various	590,229
Perpetual	Grand Trunk Debenture Stock	5	1,475,442
"	Great Western Debenture Stock	5	861,059
"	Grand Trunk Debenture Stock	4	6,012,042
"	Northern Railway of Canada Debenture Stock	4	27,458
			540,999,742

OTHER GUARANTEES OR CONTINGENT LIABILITIES

	Principal Amount Outstanding March 31, 1946
Bank Advances, *re* Province of Manitoba Savings Office . . . . $	4,968,078
Province of Manitoba Treasury Bill	3,500,000
Loans made by approved lending institutions under Dominion and National Housing Acts	Indeterminate
Loans made by approved lending institutions under The Home Improvement Loans Guarantee Act, 1935.	98,667
Loans made by approved lending institutions under the Home Extension Plan	16,309
Deposits maintained by the chartered banks in the Bank of Canada	518,135,599
Bank Advances, *re* Government War Contracts—Department of Reconstruction and Supply	8,700
Bank Overdrafts—Government War Contracts—Department of Reconstruction and Supply (closed out monthly)	—
Bank Advances, *re* production of logs or lumber—Commodity Prices Stabilization Corporation	1,515
Bank Advances, *re* coal, coke or briquette purchases—Commodity Prices Stabilization Corporation	32,032
Guarantee under Dominion-Provincial Taxation Agreements of Provincial receipts from gasoline taxes at amounts received in fiscal years ending nearest December 31, 1940	Indeterminate
Guarantee under Dominion-Provincial Agreements of Provincial liquor revenues at amounts received during the twelve months ended June 30, 1942 . .	Indeterminate
Guarantees under Part II, Export Credits Insurance Act	Indeterminate
Loans made by chartered banks under The Farm Improvement Loans Act, 1944	472,615

(B.) CANADIAN ECONOMIC CONDITIONS

ANNUAL FIGURES

	Calendar Years						
	1926	1928	1932	1937	1939	1943	1945
Group I.—Comprehensive Indexes (1935-39=100)							
Physical volume of business	87	103	69	107	107	236	213
Volume of manufacturing	89	100	66	109	105	294	249
Mining	55	65	59	104	118	242	157
Forestry	84	87	57	117	103	123	127
Carloadings	131	148	88	106	102	139	145
Electric power output	46	61	61	106	108	154	153
Employment (a)	100	112	88	114	114	184	175
National income (b)	110	129	69	107	103	222	236
Retail sales	(f)	(f)	92	105	105	161	187
Group II.—Price Levels and Financial Factors (1926=100)							
Wholesale prices	100	96	67	85	75	100	103
Farm product prices	100	101	48	87	64	96	105
Cost of living (c)	122	121	99	101	102	118	120
Common stock prices (c)	92	147	51	117	92	84	100
Bank deposits	100	115	100	120	132	199	270
Active currency circulation	100	105	81	103	111	353	488
Group III.—Gross Value of Production in Major Industries ($ millions)							
Agriculture	1,191	1,239	487	731	900	1,524	(d)1,702
Forestry	556	586	267	494	466	810	(d) 944
Fisheries	73	71	34	51	53	119	(d) 155
Mining (including Smelting)	277	313	234	663	663	974	(d) 856
Construction	424	571	267	390	373	572	(d) 458
Manufacturing	3,101	3,582	1,980	3,625	3,475	8,733	(d)8,266
Group IV.—Foreign Trade and International Transactions ($ millions)							
Exports (gold excluded)	1,277	1,364	498	1,012	936	2,971	3,218
Net non-monetary gold exports (e)	30	40	70	145	184	142	96
Total exports, including non-monetary gold	1,307	1,404	568	1,157	1,120	3,113	3,314
Imports (gold excluded)	1,008	1,222	453	809	751	1,735	1,586
Total trade	2,315	2,626	1,021	1,966	1,871	4,848	4,900
Export balance	+299	+182	+115	+348	+369	+1,378	+1,728
Net tourist receipts	53	79	65	79	68	52	(f)
Net interest and dividends going abroad	201	221	262	226	249	202	(f)

(a) 1926=100.

(b) Indexes from 1939 are based on a new series and are not strictly comparable with those of earlier years.

(c) 1935-39=100.

(d) Estimated.

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

(f) 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	1944	247	242	248	240	242	239	232	233	231	228	228	233
	1945	229	217	225	232	219	220	214	213	205	195	190	194
	1946	195	181	191	193								
Volume of manufacturing	1944	304	305	301	291	297	292	288	292	285	286	285	284
	1945	274	270	271	271	256	253	249	248	244	232	211	206
	1946	203	198	191	190								
Mining	1944	250	256	263	248	239	226	225	215	206	209	192	189
	1945	174	148	174	183	189	175	161	156	150	133	131	114
	1946	120	98	144	142								
Forestry	1944	114	125	125	115	119	121	113	122	116	129	125	126
	1945	117	127	138	119	124	125	125	125	124	133	135	135
	1946	138	151	147	144								
Carloadings	1944	155	158	157	145	157	153	147	143	126	125	141	143
	1945	152	148	149	149	154	156	151	142	119	129	138	143
	1946	156	147	150	144								
Electric power output	1944	156	154	155	153	165	160	155	153	152	152	149	145
	1945	152	150	154	166	165	164	161	155	146	145	140	142
	1946	152	153	156	164								
Employment (b)	1944	193	190	189	191	185	181	180	179	178	174	176	181
	1945	187	186	186	187	182	175	172	170	166	161	164	169
	1946	174	174	174									
Retail sales (c)	1944	140	139	163	175	178	178	155	161	179	183	191	237
	1945	143	147	194	175	182	196	171	178	187	204	213	256
	1946	167	167	210	212								
Group II.—Price Level and Financial Factors— (1926=100)													
Wholesale prices	1944	103	103	103	103	103	103	103	102	102	102	102	103
	1945	103	103	103	103	103	103	104	103	103	103	103	103
	1946	104	105	106	108								
Farm product prices	1944	104	104	105	104	102	102	102	101	101	103	103	103
	1945	104	105	105	105	105	106	108	106	104	106	106	106
	1946	107	107	107	108								

CANADIAN ECONOMIC CONDITIONS

MONTHLY FIGURES

—		Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Cost of living (d)	1944	119	119	119	119	119	119	119	119	119	119	119	119
	1945	119	119	119	119	119	120	120	121	120	120	120	120
	1946	120	120	120	121								
Common stock prices (d)	1944	82	82	82	79	80	84	88	87	85	86	86	87
	1945	89	93	93	94	97	103	101	100	102	104	107	113
	1946	124	122	119	125								
Bank deposits (e)	1944	215	211	213	222	237	238	239	235	233	243	259	260
	1945	257	253	251	255	273	281	268	264	264	273	300	299
	1946	297	293	294	295								
Active currency circulation (e)	1944	391	399	411	419	413	415	427	437	445	458	457	467
	1945	461	467	477	482	477	479	486	495	504	512	505	507
	1946	493	495	502	505								
Group III.—Other Significant Factors													
Exports (f) ($ millions)	1944	242	227	283	283	368	343	279	257	265	314	313	267
	1945	230	236	301	312	315	323	283	295	221	228	239	235
	1946	189	153	178	178								
Imports (f) ($ millions)	1944	126	138	151	137	159	152	148	157	160	160	142	127
	1945	130	112	132	133	144	146	139	128	122	134	142	121
	1946	140	117	140	161								
Net non-monetary gold exports (g) ($ millions)	1944	9	8	13	9	9	17	7	10	9	8	10	6
	1945	9	8	10	7	10	5	8	9	7	8	10	6
	1946	9	10	10	7								
Construction contracts awarded ($ millions)	1944	9	16	31	28	32	37	32	24	25	26	19	13
	1945	12	13	20	34	38	59	51	41	42	29	45	26
	1946	27	33	58	76	82							

(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.