THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. E. N. RHODES (Minister of Finance) moved:

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

He said: Mr. Speaker, one year ago in presenting the budget I stated that the low point in the long depression had been reached and passed, that considerable progress had already been made in this and other countries in the restoration of normal conditions, and that the prevailing economic trends were in the direction of further progress. In actual experience the accuracy of this statement and forecast has been established and it is my very good fortune to review the course of business and the trend of public finances during a year which has been marked by continued—and substantial—progress, and a nearer approach to sound and satisfactory business and financial conditions.

If we take the most comprehensive index of Canadian economic activity compiled by the Dominion Bureau of Statistics, we find that the physical volume of business in Canada was in February of this year (based on preliminary figures) no less than 48·5 per cent above the low point of the depression. When we keep in mind that this means practically a fifty per cent increase, on the average, in the number of automobiles, barrels of flour, pounds of sugar, pairs of shoes, tons of steel, tons of newsprint, feet of lumber, yards of cloth, tons of mineral, kilowatt hours of electricity and corresponding units of other articles produced by practically all our leading industries, as well as freight cars loaded, construction contracts awarded, and the volume of trade, we cannot belittle its significance. No less important is the fact that the improvement is continuing, for this index after a slight recession has again risen to the peak reached last May and is now 15·2 per cent higher than in February, 1934. Moreover, the progress in 1934 was more general than in 1933, as gains were registered in nearly all branches of activity. In view of the unsettled international conditions during the past eight or ten months, this may well be regarded as a real achievement for Canadian business.

In this respect Canada's record compares most favourably with that of other countries. The League of Nations publishes monthly a table showing general index numbers of industrial production for nearly all the leading countries. If we take the fifteen countries for which the figures are available for one of the last three months of 1934 and compare the increases in industrial production since January, 1933, we find that in the degree of advance from January, 1933, to the end of 1934 Canada easily occupies first place. Over this two-year period industrial activity in France showed a decline of 7 per cent and in the Netherlands of 5 per cent. The increases for the other countries are as follows: Belgium, 3 per cent; Japan, 13·2 per cent. Czechoslovakia, 14·7 per cent; Chile, 19·8 per cent; United Kingdom, 22·3 per cent; Norway, 23·3 per cent; Austria, 24·9 per cent; Italy, 26·5 per cent; Sweden, 30·9 per cent; United States, 32·3 per cent; Germany, 36·9 per cent; Poland, 43·1 per cent; and Canada, 46·2 per cent. Canada's progress reflects in part the world-wide recovery based on the automatic working of normal economic forces which have always brought an end to previous depressions, but it is apparent that the greater speed and consistency of our advance must have some real relation to the sound policies which this government has instituted in order to preserve the integrity of our economic and financial structure, to restore equilibrium in our economy and to stimulate the forces making for recovery.

It is not my purpose to weary you with over many statistical details but it may be well to call attention to a few of the more striking evidences of improvement in particular branches of our economic life.

Our index of manufacturing production, based on 29 factors, was in Januray 10·2 per cent higher than in January a year ago and 51·4 per cent above the low point of the depression. As measured by this index, manufacturing activity during 1934 was exceeeded by that of only five of the sixteen years of the post-war period, namely, the years from 1926 to 1930. Furthermore, during the past year considerable progress was made in adjusting the disparity between durable goods and consumers goods industries which is so characteristic a feature of major depressions. The greater recovery in durable goods industries during the last two years may be illustrated by pointing out that in February the production of pig iron, steel and automobiles was, respectively, 509, 353 and 450 per cent in excess of that for February, 1933, the low point of the depression. The output of automobiles and trucks during the full year 1934 was 116,890, an increase of 92 per cent over 1932.

Closely connected with this improvement in the manufacture of durable goods was a welcome change in the construction industry. Contracts awarded increased 29 per cent over

1933, and the index for February was approximately double that for February of last year. While building activity is still at a low level, construction will benefit materially during the balance of this year from the Public Works Construction Act appropriation, the bulk of which has still to be spent, and all signs, including the greater abundance and cheapness of mortgage money, indicate that the period of abnormally low activity for this important industry has been reached and passed.

The value of mineral production in 1934 surpassed not only that of 1933 but also that of any other year in the history of the industry except 1929 and 1930. In physical volume, the output of metals established several new all-time records. Nickel production, for instance, showed an increase of 56 per cent over 1933 and 18 per cent over 1929, the previous record year. Copper output was 22 per cent above that for 1930, the previous high year, while lead and zinc also established new records. In ounces produced, the gold mining industry did not reach the output of its maximum year 1932, but it showed a small increase over 1933 and at current world prices, averaging $34.50 per fine ounce in 1934 against $28.60 in 1933, the value of its product exceeded $102,000,000, a new high record. The figures so far available for February show substantial increases over February of last year for copper and nickel exports and the production of gold, zinc and asbestos.

In the forestry group of industries activity during 1934 was greater than in any year since 1930. Lumber production in British Columbia exceeded two thousand million board feet, representing an increase of 26 and 42 per cent as compared with 1933 and 1932 respectively. The bureau's index for employment in the logging industry was 87·5 per cent higher than in 1933. The increase in lumbering activity was reflected in an active export trade in planks and boards, the export movement being greater than in any year since 1930 and exceeding 1933 by over 34 per cent. The important newsprint industry regained in 1934 a level of activity exceeded only by that of 1929 but distressingly low prices and surplus plant capacity still leave this industry in an unsatisfactory condition.

The output of electric power in 1934 was the highest ever recorded in this country. Kilowatt hours produced registered a gain of 20·6 per cent over 1933 and one of 17 per cent over 1930, the previous maximum year. The expansion in this industry reflects increasing industrial activity but it is also in part due to the increased use of electrical appliances or processes in home and factory and the increasing sales of secondary power for steam production.

Appreciable gains were also shown by our transportation statistics which are among the more significant measures of general business improvement. In 1934, total freight cars loaded were 14·4 per cent in excess of 1933, and for the first nine weeks of 1935 the increase over the corresponding period in 1934 was approximately 6 per cent, despite the lessened movement of grain. The gain in gross operating revenues of the Canadian National for 1934 was 11 per cent while the Canadian Pacific reported an increase of 10·2 per cent over the preceding year.

When we come to agriculture, we also find substantial improvement. The wheat crop was only slightly above that of 1933 but the average cash price of No. 1 Northern at Winnipeg was 81 cents per bushel from August to December, 1934, compared with 65·1 cents in the corresponding period of 1933, and consequently the value of the crop was over 33 per cent greater. According to the estimates of the bureau of statistics the value of all field crops produced in 1934 was $544,975,000, a gain of $91,377,000 over the preceding year. For our live stock industry one of the most reassuring developments in recent years has been the revival in the last few weeks of the export of Canadian cattle to the United States. After being practically excluded from that market by the Hawley-Smoot tariff of 1930, and the very low prices prevailing in that country during 1933 and 1934, our cattle are once more on an export basis due to the recent sharp increase of prices in United States markets, and shipments during the three weeks ended March 15 were approximately double the total for the entire year 1934. This welcome development does not appear to be merely a temporary one, in view of the drastic reduction in the number of live stock in the United States resulting from last season's drought and feed shortage.

However, it must be admitted that conditions in agriculture still leave much to be desired. It is for this reason that so much of the legislation sponsored by this government during the last two or three years has been devoted to improving the condition of the farmer. I refer particularly to the Natural Products Marketing Act, the Farmers' Creditors Arrangement Act and the various amendments to the Canadian Farm Loan Act designed to provide agricultural credit at low rates, and also to the assistance given by way of guarantee to prevent demoralization in wheat prices.

The unsatisfactory conditions in agriculture and certain other primary industries are in the main due to the low level of international trade resulting from the spread throughout the world of exaggerated economic nationalism, excessive interferences with trade through quotas and exchange controls, and fluctuating currencies. In these circumstances it was inevitable that those countries which chiefly produce primary products—which must depend in large part upon world markets for their sale—were bound to be adversely affected by these world-wide conditions.

At a later stage I will discuss in some detail the statistics regarding our export and import trade. But before doing so it is well to call to mind the forces and policies which govern international trade to-day and their operation and application in every leading country in the world. In a word, it is idle to expound theories and futile to expatiate on the obvious desirability of greater freedom of trade. We are confronted with realities—in other words, we must face facts.

In 1930, when this government came into office, tariffs were higher against the products of Canada in the markets of the world than at any previous time in our history. In many countries throughout the world new and higher barriers had been erected against Canadian exports. In June, 1930, the Hawley-Smoot tariff had come into operation in the United States, increasing to practically prohibitive levels the duties on many of our leading products and imposing duties on other Canadian goods which had formerly been free of duty. In Europe, which provides the outlet for most of our wheat, drastic measures had been enacted to protect domestic producers from the effect of the marked fall in prices. The milling quota, the most effective device which could be employed in keeping out our product, was first introduced in Germany in July, 1929, and was subsequently adopted in France, Italy and many other countries which heretofore had afforded our best markets. Coincident with the introduction of this device the duties on wheat were increased to levels considerably in excess of the world price of this commodity.

With the wave of economic nationalism spreading throughout the world we accepted the logic of the situation and directed our efforts towards expanding our markets in those countries associated with us by special ties. Within a few weeks of assuming office the Prime Minister in the autumn of 1930 at the imperial conference strongly advocated the adoption of a policy of reciprocal preferential tariffs within the empire, and this policy was ultimately adopted at the conference which met in Ottawa in response to his invitation in 1932. The trade agreement concluded with the United Kingdom at the Ottawa conference gave Canadian primary products a privileged position in the world's greatest and most stable market, and also embraced larger preferences in the vast colonial empire which have been of great value to our trade in automobiles and other manufactured goods.

Other agreements were concluded at this conference with the Irish Free State, the Union of South Africa and Southern Rhodesia. Prior to the conference, trade agreements had been negotiated by the Canadian government with Australia and New Zealand, both of which have had very beneficial effects on our trade. There can be little doubt that this series of agreements with empire countries has been of vast assistance in enabling Canada successfully to weather the storm of the present depression. Upon reflection one can readily discern what would have been the dire effects upon our trade without these agreements during a period when other countries were progressively closing their markets to imported goods.

In 1933, at the world economic conference the delegates from Canada strongly advocated the general adoption of a policy of removing the excessive restrictions which were strangling world trade, and the responsibility for the failure to adopt it must rest elsewhere. Since that time we have been carrying on negotiations with various individual countries some of which have been completed, others are still in progress. During the last few days you have been made acquainted with the comprehensive trade agreement which has been concluded with France and which, it may be said, for the first time places our trade relations with that country on an entirely satisfactory basis. Negotiations have been practically completed with Poland for a treaty which will enable Canadian trade to be carried on satisfactorily with that growingly important country from which, in the absence of a treaty, our products have been hitherto almost entirely excluded.

During recent months, an opportunity has presented itself for the first time since this government assumed office to enter into negotiations with a view to effecting a trade agreement with the United States of America.

In June last, the United States congress passed an act which empowered the president to enter into trade agreements with foreign countries, and where necessary or appropriate to carry out the terms of an agreement to proclaim decreases to an amount not greater than 50 per cent in existing duties without the necessity of ratification by congress.

Pursuant to the provisions of this act, the Secretary of State on January 21 last gave formal notice of his intention to negotiate a treaty with Canada. In conformity with the terms of the act, the dates of March 11 and March 18, respectively, were fixed for the reception of written and oral representations with respect thereto by a committee appointed by the president for this purpose.

These negotiations will be actively prosecuted by the government of Canada, and every possible step is being, and will be taken with the object in mind of effecting a satisfactory trade agreement, having for its aim the lowering of trade barriers with consequent increased flow of trade resulting in mutual advantage.

It may also be added that negotiations are now in progress with the representatives in Canada of two other important countries, looking toward an agreement which will mean wider markets for some of our chief primary products.

This brief outline of trade and tariff developments would be incomplete—especially as indicating the purpose of the government to stimulate trade—without summarizing our accomplishment during a period when trade barriers have been higher and more difficult to surmount or remove than at any time in world history. We have not only maintained the trade agreements which were in effect when we assumed office, but we have also greatly improved our position by making the following additional agreements, several of which are of major importance:

1. A comprehensive preferential agreement with the United Kingdom embracing within its terms the colonial empire as well.

2. A new and enlarged agreement with Australia.

3. For the first time, formal agreements with New Zealand, South Africa, Southern Rhodesia, and the Irish Free State.

4. A trade treaty of broad scope with France, which, for the first time, is mutually binding and mutually satisfactory, in place of one which involved the granting of fixed rates by Canada without corresponding obligations by France and which did not give us the French minimum tariff on all our leading exports to that country.

5. A commercial arrangement securing most favoured nation treatment from Germany, a country with whom our trade relations had long been unsatisfactory.

6. An arrangement securing most favoured nation treatment from Austria.

7. An arrangement whereby we obtained most favoured nation treatment from Brazil.

8. A comprehensive agreement with Poland now ready for signature.

In addition, we have entered into negotiations for trade agreements with the United States of America and with two other important European countries.

This record of accomplishment speaks for itself.

Reference has been made to the expansion which has occurred in most of the major branches of economic activity. It is pertinent to ask what has been the effect of this business expansion upon the absorption of unemployment, the most pressing social and governmental problem of the depression years.

A much higher level of employment was maintained in 1934 than in the preceding year, a gain of 15·1 per cent being registered by the bureau's index of employment. On February 1st this index stood at 99·9 a rise of 3·5 per cent from February 1, 1934, and of 25·8 from April 1, 1933. Based on reports from 8,992 employers, the bureau of statistics estimates that the total increase in employment in Canada during the past year was at least 65,000 persons, and since April 1, 1933, the low point in employment, no less than 340,000 persons. Advance reports for March 1st show a substantial further improvement in the employment situation. Despite this increase in employment, the number remaining on the relief rolls is still large. For February, the latest month for which the information is available, the number of families on relief was 259,918, which represents a decrease of 23,756 families from the same month of last year and a decrease of 25,921 families from March, 1933. The total number of individuals on relief, including dependents, was 1,229,935 in February which is a decrease of 117,285 from February of last year, and of 265,031 from March, 1933. These numbers should be substantially further reduced during the next few months as a result of the public works construction program undertaken by the government which is to be augmented by legislation to be introduced later in the session.

In the budget a year ago were reviewed the steps which the government had taken to foster a rise in commodity prices and promote a lowering of interest rates. These efforts have been continued but because of obvious international factors the movement towards rising price levels has made comparatively slight progress during the past year. In Canada fluctuations in wholesale prices during 1934 were of minor importance. The index, it is true, averaged 6·7 per cent higher than during 1933 but it did not at any time move far from the line of 72 per cent of the 1926 average and on March 1, 1935, stood at 72·3 as compared with 72·2 on March 1, 1934. But while the index as a whole remained comparatively stable, a most reassuring development occurred in the form of a considerable correction of some of the disparities which the drastic fall of prices had created and which constitute the most serious aspects of a depression. Thus during the year ended March 1, the wholesale prices of Canadian farm products rose by no less than 8·6 per cent, as contrasted with practically no increase at all in the general index. Similarly the prices of raw and partly manufactured goods increased 3·7 per cent while those of fully and chiefly manufactured products showed no change. The correction of such maladjustments between the various types of prices is one of the most significant measures of the progress of economic recovery.

Interest is one of the rigid factors in our price structure, and as the burden of interest charges still constitutes a pressing problem for most public bodies and many private individuals, it is gratifying to record the rather striking success which has attended the comprehensive program sponsored by the government to bring down interest rates to a level more in line with other prices and with our present productive capacity.

The various steps in this program are a matter of record. With our encouragement, the rate paid on savings deposits by banks and other financial institutions, which is the basic rate in our interest rate system, has been lowered in two or more successive stages to a minimum of 2 per cent. Huge conversion operations have been undertaken to refund outstanding dominion direct and guaranteed loans on a lower interest basis, as such loans matured or became callable. In the last five years this government has converted over $1,100,000,000 of public debt with an attendant saving in fixed charges of over $14,600,000 per year. During the present year, if market conditions continue favourable, we expect to effect further substantial economies through the same process. In this connection it is of interest to note that if we assume that the total dominion and Canadian National Railway obligations which become due or callable before the end of 1937 could be refunded at approximately the present level of interest rates, the total saving in interest plus the increase in income tax due to the elimination of our remaining tax-free bonds, as nearly as can be estimated, would relieve the dominion exchequer of not less than 16 million dollars per year.

A beginning has been made in improving the organization of the short-term money market in Canada and we are hoping that a further substantial contribution to this end may be made by the Bank of Canada. Short-term money rates have been somewhat out of line with long-term rates in this country and their abnormally high level has been a factor retarding the trend to lower long-term rates. We have also so administered the inadequate machinery of the Finance Act and so used the resources provided by the Dominion Notes Act amendment last year as to contribute to greater monetary ease and prevent a tendency towards deflation and the consequent strain that would probably otherwise have prevailed. Finally, and perhaps of most importance, we have striven under great difficulties to press forward towards budgetary balance with all reasonable speed, and to deal with our finances generally in such manner as to deserve the high credit standing which alone justifies and secures low interest rates.

That our efforts have been successful is amply confirmed by the rise in high grade bond prices and by the high prices at which our obligations are currently selling in the investment markets. During 1934 the bureau's index of interest rates fell 21·6 per cent. The bid quotation for the dominion government 4½ per cent bond due in 1959 rose from 99·37 at the beginning of the year to 110·75 at the close. Perhaps the best indication of the improvement is to be found in the fact that in December last we were able to sell a 16 year 3 per cent guaranteed Canadian National Railways bond in the amount of $20,500,000 on a basis to yield the public 3·02 per cent. Such a rate has never before been attained in this country.

This improvement in the yield on dominion bonds has been reflected in more or less similar advances in provincial, municipal and corporate bonds, depending on the credit of the particular borrower. This is characteristic of the rise of security prices in all periods of revival; recovery comes first in the prices of bonds of the highest grade, and then spreads out gradually to the second and other grades of securities. Last fall some of the eastern provinces were able to borrow on exceptionally favourable terms and two of the western provinces succeeded in selling moderate-sized issues on a yield basis to the public of 4·36 and 4·20 per cent, respectively. It appeared that the time was fast approaching where practically all public bodies could secure the advantages of refunding outstanding issues at substantially lower interest rates, but a temporary clogging of the market and certain unfortunate, widely heralded statements have clouded the outlook for the time being. It is to be hoped that this situation is only a temporary one but it behooves all debtors to remember that credit is a tender plant and must be carefully cultivated.

Some of the provinces and many municipalities, have not yet been able to take advantage of the facilities now offered for refunding existing obligations at substantially lower rates but, provided that nothing untoward is done to affect adversely the credit of the particular borrower or the state of the general market, it should not be long before the present low interest rates can be made available to all worthy borrowers. It is recognized that for the time being the burden of fixed charges on outstanding debt incurred at relatively high rates in past years when borrowing was undertaken in some cases too optimistically, presses heavily on the financial resources of the public bodies concerned, especially when regard is had to the expenditures which have to be made for unemployment relief. This general problem has received the most careful consideration of the government and, as will be disclosed by our accounts which will be reviewed a little later, the dominion has come to the financial assistance of several of the provinces and indirectly through them of several municipalities, to the extent of approximately 75 million dollars.

From time to time suggestions have been made looking to elaborate programs for refunding the outstanding debt of all public bodies. These have all received detailed study and will continue to receive our attention. In the budget last year, I discussed some of the difficulties involved, including the technical difficulties resulting from the form in which most of our financing was done in the war and post-war years and the more important difficulty arising out of the fact that so large a proportion of our obligations is held by external investors. It may be taken for granted that neither this house nor the Canadian people would be willing to consider any program that involves any measure of repudiation. Consideration therefore has been given to the possibility of enabling the provinces to refund their floating debts by giving a dominion guarantee to new refunding issues. It will be recognized that such guarantees would imply adequate control over future provincial borrowing and the factors that might make such borrowing necessary. It is doubtful whether the provinces would be willing to meet the only conditions under which this type of solution would be practicable and sound, both in the interests of the dominion and the provinces themselves. This same type of consideration arises also in connection with the proposal to establish a loan council in Canada, somewhat along the lines of the Australian model. The wisdom of securing some such type of control as a loan council could give has long been recognized, if the financial mistakes of the post-war period are to be prevented in future, but whether the rigid type of control implied by a loan council or the more flexible and gradually evolving influence which the Bank of Canada may exert through making competent and disinterested advice available to public bodies is a question upon which opinions may well differ.

It will be recalled that last summer the Prime Minister issued an invitation for a dominion-provincial conference to be held before the close of the year. On the agenda of this proposed conference was placed amongst other matters the problem of the financial relations of the provinces and the dominion, including the consideration of a possible reallocation of tax sources as between the two jurisdictions and the practicability of various methods of cooperation in tax administration. It was not found possible for all provincial premiers to agree to a date for the holding of such a conference prior to the assembling of this parliament and the proposal had to be allowed to drop for the time being. It is unfortunate that it was necessary to postpone joint consideration of these and other similar important matters.

In the field of agriculture it was widely recognized that existing debts were in many cases clearly beyond the capacity of farmers to pay, even assuming reasonable improvement in business and commodity prices. It was the part of wisdom, therefore, to provide simple and inexpensive machinery whereby the liquidation of farm debts might be effected with due regard to the rights of debtor and creditors in each individual case and, so far as possible, by the process of negotiation and compromise. That machinery was provided by the Farmers' Creditors Arrangement Act and its success after only a few months of trial is now a matter of record. In numerous cases farmers have had their debt structures simplified and their fixed charges reduced to a point within the capacity of the farm enterprise to pay. From the national point of view, the benefit of restoring their confidence and enabling them to remain on the land as willing and efficient producers is difficult to exaggerate. Admirably supplementing this act is the new Canadian farm loan legislation which provides for releasing to agriculture ample government funds at the cost to the government plus the expense of administration. Changes in the organization of the farm loan board will make it possible to bring these funds to efficient farmers in all provinces with a minimum of red-tape and a maximum of expedition.

The benefit of these steps which have been taken to reduce interest rates is not confined to the lessened burden of fixed charges to public bodies and private borrowers. Perhaps a more important advantage will accrue from the powerful stimulus which lower interest rates exert on business recovery. It is generally agreed that in the United Kingdom the recovery which has taken place traces its origin in large part to the creation of a condition of cheap and abundant money. Lower interest costs affect profits directly and make possible expansion of plant and equipment that would otherwise have been impossible because unprofitable. Low yields on high grade bonds force financial institutions and individual investors to seek out the larger returns that come from corporate securities and from mortgages. Already in Canada there are evidences that more and cheaper money is becoming available for mortgage purposes. This augurs well for further revival of the construction industry in which activity has been abnormally depressed and unemployment serious.

In the banking field the feature of the year has been the establishment of the Bank of Canada which began operations on March 11. The management which has been provided for this new institution commands, I am certain, the entire confidence of the Canadian people. The bank begins business with the goodwill and the support of the public as well as with the cooperation of the chartered banks with which it will have largely to deal. It may not be able to work the miracles which are expected from it in certain quarters but I am confident that in the coming years its contribution to the economic welfare of this dominion will be an important one. It will provide, what has long been needed, an undivided control, solely in the public interest, of the volume of currency and credit in use. It will, it is hoped, contribute to greater stability in our economic life, so far as this may be possible by the use of monetary methods. It will provide leadership for the first time to the financial community and assist in several ways in improving the organization and working of our whole financial system. I also expect much from the disinterested and competent advice on financial matters which it should be able to give, not only to the dominion government but also to provincial governments which may have found it difficult to keep closely in touch with conditions in the world's financial markets and which may in future avail themselves of the bank's services.

The bank will also provide an effective mechanism by which Canada may at the appropriate time execute such national policies as may be determined upon in regard to our future monetary standard. I have already referred to the retarding effect upon international trade of the chaotic condition of the world's basic currencies. For Canada, so heavily interested as she is in foreign trade and with such huge obligations payable abroad, this monetary instability is a factor of major importance. For a time last year it appeared that an approach to stability was gradually being achieved and that the working of economic forces was beginning to reveal the natural rates of equilibrium between certain countries which would make de facto stabilization possible. Recent events, however, indicate upon how slender a thread hangs the integrity of certain currencies, and suggest the possibility of a period of renewed fluctuations with consequent disturbances to trade and finance.

This is but one of the international factors which must be taken into consideration if we wish adequately to appraise the outlook for the coming year. The brief review given of economic developments in Canada during the past year would seem to justify a substantial degree of optimism as to the immediate future. That would be the case if we could consider solely our own position. But in these days nations do not live unto themselves alone, perhaps least of all, Canada! And no one can look out upon the world to-day without recognizing the political frictions that exist, the apparent beginning of a new armament race among the nations, the social and economic tensions that persist in many countries, the financial and exchange uncertainties, the obstinate adherence to extreme policies of economic nationalism, and the general absence of confidence, mutual trust, goodwill and the cooperative spirit upon which alone the needed international solutions of our common problems can be based.

As long as these adverse influences continue in the international field, they must be taken into our reckoning. We in Canada have long since passed the low point of the depression. We have been making splendid progress and that progress should continue—rapidly if world conditions favor, less rapidly if they impede. We have important continuing problems still to solve—the railway deficit, unbalanced budgets, unemployment—but these will be solved at the same pace as we succeed in restoring normal business conditions. We have moreover the more fundamental problem of adjusting our economic system to enable it to function with greater stability and with a greater measure of social justice. To this problem and its solution the government has devoted itself.

TRADE OF CANADA

The expansion of our external trade has continued on an accelerated scale. In the previous fiscal year the total of imports and exports showed a gain of 15 per cent over the year before. In the eleven months' period ended February 28th last, the rate of increase was 18 per cent over the corresponding period of 1933-34. The actual increase was $168,000,000 and the total volume was the best since 1931. Imports expanded at a rate of 23 per cent over the previous year, and exports by 15 per cent. In the earlier stages of trade recovery exports were increasing faster than imports.

World statistics show that in 1934 Canada again occupied fifth place in export trade, and stood ninth in imports and eighth in total international trade.

A statement of the total trade for the eleven months ended February 28th, with comparative figures, follows:

Trade of Canada
(excluding gold coin and bullion)
(000 omitted)

	Eleven months ended February 28, 1934	February 28, 1935	Increase
Imports..	$ 386,279	$ 474,240	$ 87,961
Exports—			
Canadian produce..	521,706	601,376	79,670
Foreign produce..	5,585	6,731	1,146
	$ 913,570	$1,082,347	$ 168,777

For the fourth successive year Canada's exports have exceeded imports, the favourable balance in the eleven months' period being nearly $134,000,000. This figure is for merchandise only and does not include the export of current gold production which adds a further $100,000,000 annually to credits available in external markets for the liquidation of interest due abroad and other debit items in international settlements.

The following statement shows the balance of trade in merchandise for the past six years:

Trade of Canada
(excluding gold coin and bullion)
(000 omitted)

Eleven months ended—	Imports	Exports	Balance
February 28, 1930..	$1,135,248	$1,053,246	$(−) 82,002
February 28, 1931..	831,232	760,733	(−) 70,499
February 29, 1932..	521,056	546,547	(+) 25,491
February 28, 1933..	373,421	443,553	(+) 70,132
February 28, 1934..	386,279	527,291	(+) 141,012
February 28, 1935..	474,240	608,107	(+) 133,867

The effective operation of the empire trade agreements is reflected in the statistics of intra-empire trade. In the ten months ended January 31st, the latest date to which figures of trade by countries are compiled, exports to the United Kingdom, our largest market, recorded an increase of nearly 22 per cent. For all empire countries the increase was 24 per cent. Exports to Australia showed a gain of 52 per cent, to New Zealand, 72 per cent, to British India, 21 per cent, and to South Africa, 76 per cent.

On the other hand, exports to foreign countries increased by only 6 per cent. Exports to all countries increased by nearly $71,000,000 in the ten months' period, and of this amount, $56,000,000 or 79 per cent was accounted for in increased exports to empire countries.

Since 1932, the year of the imperial conference, the value of our export trade to the United Kingdom has increased by 52 per cent. This gain has been a material factor in improving conditions in a wide variety of Canadian industries. In 1934 the exports of agricultural products exceeded those of 1932 by $16,600,000; in animals and animal products, the advance was $24,000,000; in wood products, chiefly lumber, it was $14,500,000, and in nonferrous metals and their products, including copper, lead, nickel and zinc, the gain was $31,000,000.

Imports from the United Kingdom have increased in the last ten months by $8,000,000, or 9 per cent. In 1934 they exceeded those of 1932 by 21 per cent. The main increases in imports were in textiles, iron products and chemicals. Imports from other empire countries increased in the ten months' period as follows: Australia, 19 per cent; New Zealand, 22 per cent; and British India, 31 per cent.

Figures showing the trade with the empire in the last ten months are as follows:

Intra-Empire Trade of Canada
(excluding gold coin and bullion)

	Ten months ended January 31, 1934	Ten months ended January 31, 1935
Imports from United Kingdom..	$ 87,114,091	$ 95,292,201
Exports to United Kingdom..	191,277,804	232,987,396
Imports from British Empire..	116,599,414	134,246,466
Exports to British Empire..	231,648,330	287,587,697

Empire countries are supplying a little over 30 per cent of our purchases abroad. At the same time, they absorb over one-half of our exports.

A statement, by percentages, showing the distribution of import and export trade, excluding gold coin and bullion, follows:

Percentage Distribution of Trade of Canada
(excluding gold coin and bullion)

	Imports, Ten months ended January 31, 1934 %	Imports, Ten months ended January 31, 1935 %	Exports, Ten months ended January 31, 1934 %	Exports, Ten months ended January 31, 1935 %
United Kingdom..	24.70	21.80	39.53	42.01
British Empire..	33.06	30.71	47.87	51.85
United States..	53.73	56.91	33.04	33.74
Other Countries..	13.21	12.38	19.09	14.41

Despite many unfavourable influences, further progress has been made in the restoration of world trade from the disastrously low levels to which it had fallen. Canada has been in the forefront of the leading countries of the world ranked according to the rate of improvement, thus testifying to the effectiveness of our trade agreements and the initiative and enterprise of those engaged in industry and trade. The improvement which has taken place in this, as well as in the other fields of activity to which reference has been made, has had a favourable influence upon the dominion's financial statement, which will now be reviewed.

REVENUES 1934-35

As the current fiscal year has still some days to run and more than a month will elapse before the Dominion accounts are closed for the year, it will be understood that the figures now to be presented, both as to the year's revenues and expenditures, are to some extent estimated. Judging by past experience, however. they may not be expected to vary materially from the final result.

For the first time since 1930, receipts from taxation will yield the expected return. When presenting the budget last year, the outlook for a greater volume of business was so promising that substantially increased yields from current rates of taxation were forecast. Notwithstanding some loss in revenue due to changes made in taxation measures when the budget was before parliament, the receipts from taxation will amount to $306,050,000, almost the identical figure estimated in the previous budget. This is an increase of $34,200,000 over the previous year and is all the more satisfactory in the light of the substantial reductions in taxation effected last year, particularly the fifty per cent cut in the sugar tax and in the special excise tax on imports under the British preferential tariff which, together, involved a loss in revenue of not less than $10,000,000. It is noteworthy that every month in the year showed an increase over the corresponding month of the previous year and the rate of improvement has been maintained throughout the year.

Customs

Reflecting the continued, even though moderate, expansion in international trade, customs import duties will yield $77,300,000, an increase of $11,000,000 over the previous year. Excise duties, imposed chiefly on liquors and tobaccos, will amount to $44,600,000 exceeding the collections of 1933-34 by $9,000,000.

The income tax, the rates of which were not altered last year, will bring in a total of $65,600,000, the highest figure for four years, and $4,200,000 in excess of the previous year's collections. To the extent of about $3,100,000 this increase is due to credits transferred from the gold tax at the end of the fiscal year to be applied, in accordance with the statute, against the income tax liability of gold mining companies. This amount can be regarded as in the nature of a prepayment of income tax.

With the adjustments that have been made from time to time in the scale of taxation, the income tax has been one of the steadiest sources of income in the past four years, notwithstanding fluctuations in the general level of incomes and profits.

Upwards of $11,000,000 more than in the previous year will be obtained from the sales tax, the yield from which will be $72,600,000. The other special excise taxes will bring $39,800,000, a decline of $5,300,000 from the year before due to the reductions in taxes already referred to.

The gross collection from the gold tax to the end of the fiscal year will be $7,084,000. It is estimated that $3,100,000 of this amount will be applied as a credit on the income tax payable by the several mining companies subject to the tax. This will reduce the net return for the year from the gold tax to $3,984,000.

The following table sets out the yield from taxes for the past five years:

Taxation Revenue
(000 omitted)

—	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Customs Import Duties	131,209	104,133	70,073	66,305	77,300
Excise Duties	57,747	48,655	37,834	35,494	44,640
War Tax Revenues—					
Banks	1,429	1,390	1,328	1,336	1,386
Insurance Companies	74	12	826	742	740
Delayed Business Profits	34	3	....	....	....
Income Tax	71,048	61,255	62,067	61,399	65,600
Sales Tax	20,784	41,734	56,814	61,392	72,600
Manufacturers', importation, stamp, transportation taxes, etc	13,951	17,872	25,377	45,184	39,800
Tax on Gold	....	....	....	....	3,984
Total receipts from Taxation	296,276	275,054	254,319	271,852	306,050

Non-Tax Revenues

Revenues derived from the various departmental services of government, will amount to $53,300,000, an increase of $1,100,000 over the previous year. The main items under this heading are interest on investments, which is expected to amount to $11,400,000 (some $260,000 in excess of the amount from the same source the year before), and Post Office revenues which will be $31,184,000 an increase of almost $300,000 over the previous year. On reference to the expenditure statement, it will be found that the operations of the Post Office were conducted without any increase in cost, in fact, there was a slight reduction from the previous year the expenditure being $30,528,000. The surplus on Post Office operations will therefore be over $600,000 as compared with one-half that figure a year ago. The accounts of the Post Office do not, of course, take into consideration the rental value and other costs of premises occupied. On the other hand, no credit is given the Post Office for services rendered other departments through the free use of the mails.

A statement of non-tax revenues for the past five years follows:

Non-Tax Revenues

—	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Canada Grain Act	2,179,047	1,484,826	1,444,840	1,235,621	1,271,000
Canada Gazette	71,197	73,590	73,836	55,722	48,000
Canals	1,026,671	976,845	831,020	877,630	858,000
Casual	3,210,394	3,757,821	3,192,144	3,613,157	3,569,000
Chinese Revenue	21,996	10,059	8,652	6,237	7,000
Dominion Lands	1,655,401	485,364	458,934	418,729	499,000
Electricity	632,151	402,189	298,352	440,290	465,000
Fines and Forfeitures	433,716	233,512	212,075	177,812	93,000
Fisheries	73,937	40,519	4,429	39,508	41,000
Gas Inspection	94,255	81,359	84,078	76,186	91,000
Insurance Inspection	148,942	149,902	160,298	148,535	139,000
Interest on Investments	10,421,224	9,330,125	11,220,989	11,148,232	11,410,000
Marine	199,000	191,905	178,118	207,532	204,000
Mariners' Fund	201,768	184,485	179,461	188,054	188,000
Military College	19,882	20,045	20,116	20,317	20,000
Military Pensions Revenue	159,000	163,229	166,414	165,207	164,000
Ordnance Lands	29,384	14,250	16,677	17,855	15,000
Patent and Copyright Fees	559,646	525,248	539,341	429,341	352,000
Penitentiaries	183,288	166,111	121,426	97,962	63,000
Post Office	30,212,326	32,234,946	30,928,317	30,893,157	31,184,000
Premium, Discount and Exchange	501,610	....	145,938	....	500,000
Public Works	362,391	280,591	212,829	249,721	244,000
Radio Licences	468,093	528,924	1,414,132	1,291,485	1,488,000
R.C.M.P. Officers' Pensions	6,357	14,787	12,050	12,444	9,000
Weights and Measures	419,750	406,529	394,222	399,717	402,000
	53,291,426	51,757,161	52,318,688	52,210,451	53,324,000

Special Receipts

There has been received by way of transfer from the custodian of enemy property, the sum of $3,000,000. With this addition, the revenue from all sources will amount to $362,370,000, as compared with $324,480,000 in 1933-34, an increase of $37,890,000.

The aggregate revenues for the five-year period are shown in the following tabulation:

Summary of all Revenues
(000 omitted)

—	1930-31	1931-32	1932-33	1933-34	Estimated 193 -35
	$	$	$	$	$
Receipts from taxation	296,276	275,054	254,319	271,852	306,050
Non-tax revenues	53,291	51,757	52,318	52,210	53,324
Consolidated fund receipts	349,567	326,811	306,637	324,062	359,374
Special receipts	6,622	7,028	4,493	418	3,000
Grand Total	356,189	333,839	311,130	324,480	362,374

EXPENDITURES 1934-35

Ordinary Expenditures

The ordinary expenditures for the year, it is estimated, will be $356,600,000, which is approximately $2,200,000 lower than the amounts authorized by vote and statute. While there is an increase of $10,000,000 over the figure of the year before, it is $26,000,000 below the ordinary expenditure in the year 1930-31. The increase has not resulted from any general expansion in departmental activities but rather is accounted for, in the main, by increases in several of the uncontrollable expenditures and by provision made for some new services. The largest single item of increase is for Old Age Pensions which will require $2,600,000 over the figure of the previous year. The expenses of the dominion franchise commissioner in connection with the registration of voters and preparation of the election lists, will involve a new expenditure of $1,560,000. An increase of $1,500,000 under the Department of Railways and Canals is made up, in part, of the special vote of $500,000 for the railway grade crossing fund, $100,000 for the encouragement of tourist traffic and $785,000 being the dominion's contribution towards the cost of a subway tunnel under the

Lachine Canal in the city of Montreal. Under the Department of Pensions and National Health an additional expenditure of $500,000 has been required for war veterans' allowances. In addition, there has been absorbed, as new services, the cost of administration of the Farmers' Creditors Arrangement Act and the Natural Products Marketing Act.

A statement of ordinary expenditures for the last five years follows:

Statement by Departments of Expenditure for the Last Five Fiscal Years

(000 omitted)

Ordinary Account	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Agriculture	10,119	10,212	8,066	6,996	7,273
Auditor General's Office	416	436	380	376	378
Civil Service Commission	343	306	244	221	225
External Affairs, including Office of the Prime Minister	928	994	863	974	1,481
Finance—					
Interest on Public Debt	121,290	121,151	134,999	139,725	138,529
Premium, Discount and Exchange (net)	....	728	....	167	....
Subsidies to Provinces	17,436	13,695	13,677	13,728	13,769
Special Grants to Maritime Provinces	1,600	1,600	1,600	1,600	1,600
Other Grants and Contributions	778	536	499	398	471
Civil Pensions and Superannuation	1,476	1,405	1,075	1,009	953
General Expenditure	1,794	1,845	2,046	3,148	3,945
Fisheries	2,435	2,046	1,787	1,596	1,662
Governor General's Secretary's Office	142	148	136	136	132
Immigration and Colonization	2,588	2,200	1,689	1,369	1,297
Indian Affairs	6,069	5,081	4,499	4,380	4,340
Insurance	178	180	161	152	165
Interior	8,104	4,647	3,454	2,833	2,837
Justice	2,538	2,560	2,458	2,435	2,766
Penitentiaries	3,237	2,737	2,870	2,677	2,748
Labour	797	633	605	560	586
Technical Education	391	283	202	129	150
Old Age Pensions	5,658	10,032	11,513	12,314	14,900
Legislation—					
House of Commons	1,721	1,982	2,210	986	1,803
Library of Parliament	76	81	65	69	71
Senate	568	650	747	286	495
General	65	79	81	62	95
Dominion Franchise Office	....	....	....	....	1,560
Chief Electoral Officer, including elections	2,256	145	56	32	135

Statement by Departments of Expenditure for the Last Five Fiscal Years—*Concluded*
(000 omitted)

Ordinary Account	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Marine	8,030	7,262	5,801	5,439	5,911
Canadian Radio Broadcasting Commission	....	....	149	1,025	1,252
Mines and Geological Survey	1,420	1,264	1,048	909	1,009
Movements of coal and Dominion Fuel Act	514	721	1,220	2,772	2,450
National Defence—					
Militia Service	10,953	9,700	8,719	8,774	9,335
Naval Service	3,598	3,043	2,167	2,171	2,222
Air Service	7,147	4,040	1,731	1,685	2,262
Sundry Services	1,928	1,347	1,078	791	371
National Revenue (including Income Tax)	13,972	13,920	10,846	10,354	10,264
Pensions and National Health—					
Treatment and after-care of returned soldiers	9,774	11,154	10,066	9,124	9,687
Pension, war and military	45,541	48,249	45,079	43,883	43,638
Health Division	1,342	1,246	924	802	817
Post Office	37,892	36,052	31,607	30,554	30,528
Privy Council	54	53	47	49	46
Public Archives	212	212	174	157	210
Public Printing and Stationery	295	289	231	172	388
Public Works	25,453	17,648	13,108	10,827	10,106
Railways and Canals	4,479	3,997	3,667	3,315	4,864
Maritime Freight Rates Act	3,615	2,555	1,921	1,989	2,573
Royal Canadian Mounted Police	3,192	3,488	5,626	5,315	6,000
Secretary of State	479	483	418	387	385
Soldier Settlement Board	1,300	1,036	818	810	766
Trade and Commerce—					
Department	4,955	6,417	3,277	3,007	3,197
Mail subsidies and steamship subventions	1,323	2,999	2,081	2,221	2,280
Canada Grain Act	2,356	2,306	2,026	1,759	1,711
Total ordinary expenditure	382,827	365,873	349,811	346,649	356,638

Capital Expenditures

Under capital expenditures, the chief item amounting to $4,900,000 is for dredging the river St. Lawrence ship channel. Comparatively small amounts have been required for the Welland ship canal and towards completion of the Hudson Bay railway and terminals. The total for the year will be $7,100,000, an increase of $600,000 over the expenditure of the previous year. The estimates provided for an expenditure on capital account of $7,246,000.

A comparative statement of capital expenditure over the five year period follows:

Capital Expenditures
(000 omitted)

—	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Canals	9,842	3,299	3,027	1,975	317
Railways	6,371	6,242	1,503	737	530
Public Works	12,009	7,439	4,018	3,778	6,289
Total capital expenditure	28,222	16,980	8,548	6,490	7,136

Special Expenditures

Special expenditures will total $66,100,000, of which $60,400,000 represents payments in the fiscal year for unemployment relief measures. This amount is much greater than in any previous year as will be seen from the following statement of expenditures for unemployment relief since 1930-31:

1930-31	$ 4,432,000
1931-32	38,295,000
1932-33	36,721,000
1933-34	35,898,000
1934-35	60,448,000
Total	$175,794,000

[Mr. Rhodes.]

The estimated expenditure in the present fiscal year has been made for the following purposes:

Direct relief..	$33,500,000
Dominion contribution to provincial and municipal works and undertakings..	5,110,000
Public Works Construction Act, 1934..	8,500,000
Dominion contribution to relief in Saskatchewan drought area.. ..	5,000,000
Other expenditures, including dominion projects, camps for single homeless unemployed men, etc..	8,338,000
Total..	$60,448,000

The disbursements for direct relief have been much greater than the actual expense incurred in the fiscal year period. In the first place, it will be remembered that the Relief Act of 1933 limited the amount which could be expended for direct relief to $20,000,000. This resulted in a carryover from last year amounting to $9,360,000, which has been disbursed in the present fiscal year. Furthermore, the institution of monthly grants in aid to the provinces covering the dominion's contribution for relief expenditure from August 1st last, has had the effect of bringing up to date the dominion's share of direct relief expenditure, whereas in previous years the usual delay in the presentation of accounts first by the municipality to the province and then by the province to the dominion, had the effect of creating a very considerable lag in the disbursements. At the present time, the monthly grants to the provinces amount to $1,751,000.

It is estimated that up to the end of March, $5,000,000 will be paid out by way of advance to the province of Saskatchewan for relief in the drought area and actual disbursements by the province are being checked by a representative of the dominion stationed at Regina. A final decision has not yet been reached with the province as to the amount of the cost of these relief measures which will be assumed by the dominion and, in the meantime, the sums which have been advanced have been accepted by the province as loans for which security has been given. In order, however, that our statement of expenditures for the year may be as inclusive as possible of obligations relating to the year, our estimated expenditures as listed above include the whole of the $5,000,000 made available to Saskatchewan to date for disbursement to farmers in the drought area.

The program of dominion public works under the Public Works Construction Act passed at the last session, provided for a total expenditure of $39,690,000. While the actual disbursements to the end of the fiscal year will be about $8,500,000, contracts and commitments actually made to date are in the neighbourhood of $25,000,000.

A comparative statement showing Special Expenditures under the different heads for the past five years follows:

Special Expenditures
(000 omitted)

—	1930–31	1931–32	1932–33	1933–34	Estimated 1934–35
	$	$	$	$	$
Adjustment of war claims	110	91	55	56	60
Cost of loan flotations	193	1,350	1,639	2,550	2,860
Miscellaneous charges	2,955	3,500	2,951	2,517	2,383
Reparations-claims for compensation	500	1,331	188	....	6
Unemployment relief, 1930	4,432	13,190	548	4	3
Unemployment relief, 1931	....	25,106	17,048	564	55
Unemployment relief, 1932	....	....	19,125	6,948	310
Unemployment relief, 1933	....	....	....	28,382	2,430
Unemployment relief, 1934	....	....	....	....	49,150
Wheat bonus	....	10,908	1,811	....	....
Reduction of loans to soldier settlers	8,599	....	....	1,766	400
Public Works Construction Act	....	....	....	....	8,500
Total special expenditures	16,789	55,476	43,365	42,787	66,157

Loans to Provinces

It has again been necessary, as in the previous three years, for the dominion to assist the four western provinces by the granting of loans to enable them to finance, in part, provincial and municipal expenditures for relief and to make loans to farmers in distressed areas for the purchase of seed grain, feed, etc.

During the year, several of the provinces were able, by reason of their improved budgetary position and the strength of investment markets, to make public issues of securities and they were not obliged to rely wholly upon the dominion for their borrowings. The aggregate of the loans by the dominion, however, was large, the net amount, after crediting repayments, being $23,300,000, divided among the provinces as follows:

Manitoba..	$ 2,900,000
Saskatchewan..	10,500,000
Alberta..	1,900,000
British Columbia..	8,000,000
	$23,300,000

The net amount of loans outstanding at the end of the previous fiscal year was $51,300,000 which, with the net loans granted in the current year of $23,300,000, brings the total of dominion assistance to the four western provinces by way of loan under the relief acts, to $74,600,000. Short date Treasury Bills bearing interest at the rate of 5 per cent to July 1st last and 4½ per cent thereafter, have been tendered by the provinces in respect of the loans. Interest has been paid in cash by the provinces of Manitoba, Alberta and British Columbia as it became due, but the province of Saskatchewan, being unable to meet such payments, has covered the interest accruals by tendering their treasury bills.

A statement of the loans to date by provinces, showing the purposes for which they were granted, follows:

Loans to Provinces under Relief Acts
Estimated Net Outstanding March 31, 1935

—	Loans to meet maturing obligations and interest	Loans specifically for Agricultural Relief, including feed and seed grain	Loans for provincial purposes generally including public works and direct relief	Total
	$	$	$	$
Manitoba	3,425,316	265,000	9,418,313	13,108,629
Saskatchewan	3,934,341	7,892,633	22,662,452	34,489,426
Alberta	3,142,000	2,235,000	6,600,000	11,977,000
British Columbia	5,298,664	....	9,715,571	15,014,235
	15,800,321	10,392,633	48,396,336	74,589,290

Loans and Advances—Non-active

The total outlay under this head will be $1,700,000, as compared with over $3,000,000 last year. These are amounts paid for deficits and capital requirements of the Canadian National Steamships, the deficit of the Jacques Cartier bridge, Montreal, and for loans to several of the harbour commissions. Being non-interest producing, these advances are treated as additions to the net debt.

It is gratifying to note that the operations of the Canadian National Steamships have shown a marked improvement over the previous year. The cash deficit of the West Indies Service amounted to $567,000, as compared with $968,000 in 1933. The ships remaining in the Canadian Government Merchant Marine fleet operated in 1934 at a cash loss of $127,000, as compared with $18,000 in the previous year. In addition, $43,000 was provided from dominion funds for capital expenditures on the West Indies ships. The total amount required for the steamships in respect of operations in 1934 was therefore $737,000. The merchant marine, due to curtailment in operations, found it possible to return to the dominion a further $250,000 advanced some years ago for working capital, and with the application of this credit, the net amount required for shipping services this year will be $487,000. The amount paid to the Montreal harbour commission for the deficit on the Jacques Cartier bridge was $434,000, bringing the total amount which the dominion has had to pay since 1930, to $2,022,000.

Non-active loans to the harbour commissions at Chicoutimi, Halifax, Quebec, Saint John and Three Rivers, will total $802,000.

A statement of non-active advances for the past five years follows:

Loans and Advances, Non-Active
(000 omitted)

	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Loans to Can. National Steamships..	1,827	1,199	1,383Cr.	14Cr.	487
Loans to Harbour Commissioners..	3,661	1,913	4,898	2,110	1,237
Can. Pacific Railway (Relief Acts)..	—	—	1,447	1,000	—
Accounts carried as Active Assets transferred to Non-active.....	—	—	62,938*	—	11
	5,488	3,112	67,900	3,096	1,735

* Canadian National Railways—Loans of 1931-32 .. .. $41,121
Sundry Harbour Commissions—Advances prior to 1932-33 21,817

In addition to the advances to harbour commissions treated in our accounts as non-active, there has been made in the past year a comparatively small amount of loans to the harbour commissions at Montreal and Vancouver. As interest is paid by these commissions on the loans which they have received from the treasury, they are carried in the accounts as active assets.

For purposes of record, there is submitted a statement showing loans to all harbour commissions for the past five years and the aggregate to date, which has now reached the large sum of $138,000,000:

Advances to Harbour Commissions
(000 omitted)

—	1930–31	1931–32	1932–33	1933–34	Estimated 1934–35
	$	$	$	$	$
Chicoutimi	846	465	324	332	256
Halifax	3,539	2,752	1,023	151	65
Montreal	2,291	1,412	584	449	97
Montreal Bridge deficit	170	534	395	489	434
New Westminster	....	189	66	19	....
Quebec	3,491	1,379	341	107	4
Saint John	1,094	5,764	2,654	924	471
Three Rivers	1,544	747	160	107	6
Vancouver	2,802	809	....	1,208	296
	15,777	14,051	5,547	3,786	1,629

Advances to Date
(000 omitted)

Chicoutimi	$ 3,539
Halifax	8,833
Montreal	58,519
Montreal Bridge deficit	2,022
New Westminster	275
Quebec	26,261
Saint John	13,219
Three Rivers	2,700
Vancouver	22,921
	$138,289

Canadian Farm Loan Board

New capital furnished to the Canadian Farm Loan Board in the year will amount to $353,000, bringing the total investment of the dominion to $8,856,000.

Bonds of the board are now purchased on a basis of 4 per cent instead of 5 per cent, as formerly, and a corresponding reduction has been made in the cost of money to farmers who borrow from the board.

Canadian National Railways

The amount required in cash from the dominion treasury for deficit of the Canadian National Railways decreased by $10,500,000 in 1934, as compared with 1933. Increased earnings, on the one hand, and decrease in the charges for exchange involved in payment of interest abroad, were the main factors in this improvement. Gross earnings were greater by $16,400,000, or 11 per cent, and while operating expenses were somewhat larger than the estimated figures presented in the railway budget, the outcome on the whole was slightly better than anticipated at the beginning of the year. The amount required for deficit, after payment of interest due the public, and taken into the accounts of the dominion as an expenditure for the year, amounted to $48,400,000, as compared with $58,900,000 in 1933. While this reduction in the deficit affords a very welcome relief to the treasury and tax-payer, the deficiency which still remains is of such proportions as to constitute a most serious drain on our resources.

Actually, the books of the company show a loss in 1934 of $89,600,000. This figure can be reconciled with the amount of our payment by deducting $36,000,000 for accrued—but unpaid—interest on government advances and $5,200,000 for various charges not involving cash outlay on the part of the railway.

In addition to provision for the deficit, the dominion furnished by way of loan $579,000 for capital expenditures and $10,170,000 for retirement of miscellaneous maturing debt, making a total paid on all accounts in respect of the operations in the year 1934, of $59,100,000. The budget of the railways, as presented to parliament, provided for a total amount of $65,200,000. It will be seen, therefore, that the net requirements for the year were $6,000,000 less than estimated, accounted for mainly by savings in capital expenditures.

In addition to the assistance granted in cash, the dominion guaranteed an issue of 3 per cent 16-year bonds to the amount of $20,500,000 issued and payable in Canada only, for the purpose of refunding $17,060,000 Canadian Northern dominion guaranteed 4 per cent debenture stock which fell due on September 1st last and $3,510,000 Great Northern Railway Company of Canada 4 per cent bonds due October 1st last. The cost of this flotation to the company was 3·10 per cent, the resultant saving in interest charges being about $200,000 annually.

On February 15th last, another issue of Canadian Northern Railway Company 4½ per cent dominion guaranteed bonds fell due, payable in Canada and New York, and was provided for, pending a suitable opportunity for the issue of long-term securities, by the issue of 2 per cent temporary guaranteed bonds. No public sale took place in this connection, $6,831,000 having been advanced from the dominion treasury and the balance of $10,169,000 having been secured by the sale of temporary bonds to trustees of railway equipment issues.

The debt of the Canadian National Railway system, outstanding in the hands of the public is now $1,238,000,000, having been reduced by $15,000,000 in the past year. Of the amount outstanding, $956,000,000 are obligations guaranteed by the dominion.

A further improvement in railway earnings is anticipated in the year 1935 and the estimates of the company are based upon a further reduction of $4,400,000 in the deficit, bringing the loss to $44,000,000. In addition, the company will require $5,500,000 for capital expenditures and $25,700,000 for retirement of capital obligations, including sinking funds and equipment principal payments and the $17,000,000 bond maturity on February 15, 1935, already referred to. The total of these amounts is $75,200,000.

The following statement summarizes the financial requirements of the Canadian National Railway system in respect of the calendar year 1934, as compared with their budget figures and with their actual requirements in 1933:

Canadian National Railways

Financial Requirements

—	Actual 1934	Budget 1934	Actual 1933
	$	$	$
By Cash:			
Deficit—			
System (ex. eastern lines)	42,589,825	43,240,298	52,263,819
Eastern lines	5,818,076	5,600,000	6,691,569
	48,407,901	48,840,298	58,955,388
Capital expenditures	578,991	4,202,007	1,958 116
Debt retirement	10,170,618	12,185,828	11,269,985
	59,157,510	65,228,133	72,183,489
Less working capital available	....	....	5,000,000
Total	59,157,510	65,228,133	67,183,489
By guarantee:			
1934 Long Term Refunding (Maturities $20,573,583)	20,500,000	20,500,000	....

Summary of Expenditures

The grand total of expenditures for the year, under all heads, including relief and railway deficit, will be $480,000,000. This is an increase of $22,000,000, as compared with 1933-34, which is more than accounted for by the increase in unemployment relief outlays.

A summary of expenditures, with comparisons for the previous four years, is now submitted:

Summary of Expenditures
(000 omitted)

—	1930-31	1931-32	1932-33	1933-34	Estimated 1934-35
	$	$	$	$	$
Ordinary expenditures	382,827	365,873	349,811	346,649	356,638
Capital expenditures	28,222	16,980	8,548	6,490	7,136
Special expenditures	16,789	55,476	43,365	42,787	66,157
Loans and advances, non-active	5,488	3,112	67,900	3,096	1,735
Canadian National Railway deficits—					
System ex. eastern lines*	....	....	53,423	52,264	42,590
Eastern lines	6,712	6,632	8,717	6,691	5,818
	440,038	448,073	531,764	457,977	480,074

*Corresponding figures for operations in the years 1930 and 1931 were $28,425,000 and $52,256,000 respectively. The losses in 1930 and 1931 were financed by loans and/or guarantee of securities. Government loans of $41,121,000 in respect of 1931 operations appear in the above statement under Loans and Advances Non-active for the year 1932-33.

Net result of Year's Operations

Taking the ordinary revenues for the year at $359,300,000 and ordinary expenditures at $356,600,000, there is a resulting surplus on ordinary account of $2,700,000. This is the first surplus on ordinary account since 1929-30, and compares with a deficit of $22,000,000 last year and $43,000,000 the year before.

There are, of course, to be taken into consideration, capital and special expenditures, less special receipts, and loans and advances non-active, to arrive at the net result for the year on government operations. These amount to $72,000,000, and wipe out the surplus on ordinary account, producing a deficit of $69,300,000.

Adding the railway deficit of $48,400,000, the total increase in debt for the year becomes $117,700,000. The corresponding figure for the previous year was $133,500,000, indicating an over-all improvement of $15,800,000.

It may be useful at this point to analyze the increase of debt which the dominion has had to assume in the past five years and to indicate briefly the purposes for which the added obligations have been incurred. The net debt has risen by $669,900,000 since the end of 1929-30. The present administration took office in August, 1930, after the budget for 1930-31 had been determined and, with the exception of unemployment relief expenditure of $4,400,000, the deficit of $83,800,000 incurred in that year cannot properly be attributed to its period of office. For the purpose of making a complete presentation, however, the year 1930-31 is included in this computation.

The largest single factor contributing to the increase of our debt has been the deficits of the Canadian National Railway system. The total expenditure in that connection has been $223,900,000, accounting for 34 per cent of the increase in debt in the period. Undoubtedly, the falling-off in traffic due to the depression would in any event have imposed serious burdens on the public, but the problem was rendered particularly acute by reason of the dead-weight of railway debt incurred for railway expansion in the previous eight-year period, much of it payable in external currencies.

Next in order of importance comes the expenditure for unemployment relief and wheat bonus, aggregating $188,500,000, representing 28 per cent of the total increase in debt.

Deficits on ordinary account, due to the falling off in taxation revenues and notwithstanding drastic curtailment in expenditures and personnel of government departments, amounted to $135,350,000, or 20 per cent of the additional debt incurred in the period.

Capital expenditure on public works totalled $67,300,000, or 10 per cent. Of this amount $28,200,000 was incurred in the year 1930-31 alone.

Loans and advances, non-active, chiefly to harbour commissions and steamships, amounted to $40,200,000, or 6 per cent. The greater part of the expenditure for harbour commissions, amounting to $35,600,000, arises out of projects initiated and carried on before the present government took office. The expenditure was then carried in the accounts as active assets and excluded from the net debt. These so-called assets were written down in 1932-33, as the commissions had no revenues over operating expenses to support this debt.

The balance of the debt increase is made up of miscellaneous special expenditures, totalling $14,500,000, or 2 per cent.

A brief statement accounting for the increase of debt is now submitted:

Increase of Net Debt, March 31, 1930, to March 31, 1935

	Amount	Per cent
Canadian National Railway deficits	$223,970,000	34
Unemployment relief and wheat bonus	188,500,000	28
Deficits on ordinary account	135,350,000	20
Capital expenditures	67,380,000	10
Loans and advances, non-active	40,200,000	6
Other special expenditures, less special receipts	14,500,000	2
Increase in net debt, 1930-35	$669,900,000	100

While the debt figures have grown in the five year period to the extent indicated, fortunately the annual interest burden has not increased in anything like the same proportion, due to the notable savings made through debt refunding operations. In actual fact, the annual charges on the total interest-bearing debt of the dominion, funded and unfunded, have increased by only $14,300,000 in the five years. This is the measure of the additional burden in fixed charges in the period of the depression. Had the new debt been incurred at the average rate now prevailing, and had there been no such savings through refunding. the addition to the debt charges would have been almost twice as large.

Furthermore, it should be pointed out that $3,450,000 of the increased debt charge of $14,300,000, arises out of the transfer this year of 3 per cent dominion bonds to the Bank of Canada in respect of the outstanding note issue not covered by gold or silver. There will be on the revenue side an off-setting item, at least in part, to the interest payable on these bonds in the profits which the bank will turn back to the government. The transaction is more in the nature of an internal financial arrangement than the creation of a new debt, an interest bearing liability having, for the purposes of the establishment of the bank, been substituted for the non-interest bearing liability formerly represented by the uncovered note issue.

Controllable and Uncontrollable Expenditures

The fixed and uncontrollable expenditures of government in the current year will total about $233,000,000 and the controllable, $138,000,000; that is, out of every $100 spent by the government, nearly $63 is required for interest, pensions, provincial subsidies, ex-soldiers' care, and similar items. This computation, as in past years, excludes the cost of unemployment relief and the Canadian National Railway deficit.

It may be opportune to call attention again to the reduction which has been made in controllable expenditures since 1930-31. While uncontrollable items exceed those of 1930-31 by $21,500,000 the main increases being in interest on public debt and old age pensions, the controllable expenditures on ordinary account now stand at $45,500,000 below the figure of four years ago, a reduction of 26 per cent. Capital and other expenses are down by $33,600,000, making a total reduction of $79,100,000.

The decrease in ordinary expenditures has involved not only the closest scrutiny of estimates and careful administration on the part of the spending departments, but a continuous supervision of personnel and spending policy through the treasury board. The actual decrease in the number of government employees since 1930, including fluctuating as well as permanent staffs, has been 12,700, with a resultant saving in salaries and wages exceeding $12,000,000 a year, apart altogether from the amount of $7,300,000 arising from the operation of the Salary Deduction Act.

The first and fundamental step in the strengthening of treasury control of expenditures in the past four years, was the revision of the Consolidated Revenue and Audit Act and the consequent reorganization of governmental accounting staffs instituted at the instance of the Prime Minister in 1931. Since that date, there has been an increasing degree of treasury control of expenditures. The advantage to the tax-payer has been apparent from the figures cited above. It is to be expected that with the addition of new governmental functions under the legislation of parliament, as, for example, unemployment insurance, there will be some expansion in the ordinary expenditures of government and, with improvement in business and expanding revenues, some additional amounts will be required for existing services which have been placed upon short ration in recent years. Nevertheless, the dominion's fixed obligations are such as to require, for some years in the future at least, most prudent and economical administration. To that end, the technique of control, which has been developed in recent years, will need to be maintained and strengthened wherever possible.

In submitting the expenditure statement classified under the headings "Controllable" and "Uncontrollable," the comparative figures for the year immediately before the war, 1913-14, are given as a matter of record. It will be recalled that last year attention was drawn to the fact that after eliminating Post Office expenditures, for which there are compensating revenues, the ordinary controllable services were costing on a per capita basis practically the same figure as in 1913-14. The same situation holds in so far as the current year's expenditures are concerned. As pointed out last year, this fact is all the more impressive in indicating the economies which are now being observed when one considers the large amounts involved in expenditures to-day for which there was no counterpart in 1913-14, for example, air services, radio services and broadcasting, research bureau and coal movement subsidies.

A statement comparing the controllable and uncontrollable expenditures in the years 1913-14, 1930-31 and 1934-35, showing the percentages of the total required for the various services, is now submitted:

Expenditure, Uncontrollable and Controllable

(000 omitted)

—	1913–14		1930–31		1934–35	
	Actual Expenditure	Percentage of total Expenditure	Actual Expenditure	Percentage of total Expenditure	Based on Estimates	Percentage of total Estimates
	$		$		$	
In General Uncontrollable—						
Interest on Public Debt	12,894	9·36	121,290	28·28	138,529	37·32
European war pensions	...	...	44,234	10·31	42,000	11·31
Old age pensions	...	...	5,658	1·33	14,900	4·01
Other pensions and superannuation	756	0·55	4,628	1·07	4,626	1·25
Care of returned soldiers	...	...	10,183	2·37	10,137	2·73
Subsidies to provinces	11,280	8·19	19,036	4·44	15,369	4·14
Other items	3,101	2·25	6,657	1·56	7,540	2·03
Total Uncontrollable	28,031	20·35	211,686	49·36	233,101	62·79
Controllable—						
Ordinary—						
Agriculture, including Marketing Act	3,271	2·37	10,119	2·36	7,273	1·96
Fisheries	1,655	1·20	2,275	0·53	1,502	0·41
Indian Affairs	2,120	1·54	5,847	1·36	4,104	1·11
Interior	5,132	3·73	8,104	1·89	2,837	0·76
Justice—including penitentiaries	2,469	1·79	5,775	1·35	5,206	1·40
Marine—including radio commission	4,915	3·57	8,030	1·87	7,163	1·93
Mines—including movements of coal	741	0·54	1,934	0·45	3,459	0·93
National Defence	12,011	8·72	23,626	5·51	14,190	3·82
National Revenue	5,124	3·72	13,972	3·26	10,264	2·77
Post Office	13,566	9·85	37,892	8·83	30,528	8·22
Public Works	20,288	14·73	25,453	5·94	10,106	2·72
Railways and Canals	2,279	1·65	4,043	0·94	4,639	1·25
Royal Canadian Mounted Police	1,101	0·80	3,005	0·70	5,773	1·56
Trade and Commerce	5,323	3·87	8,407	1·96	7,021	1·89
Other services	7,009	5·09	16,723	3·90	15,601	4·20
	87,004	63·17	175,205	40·85	129,666	34·93
Capital—						
Railways	7,103	5·16	9,842	2·29	530	0·14
Canals	2,847	2·07	6,371	1·49	317	0·09
Public Works	10,100	7·33	12,009	2·80	6,289	1·70
	20,050	14·56	28,222	6·58	7,136	1·93
Special, including Miscellaneous Charges	32	0·02	9,456	2·21	635	0·17
Loans and advances non-active	2,612	1·90	4,325	1·00	680	0·18
Total Controllable	109,698	79·65	217,208	50·64	138,117	37·21
Total uncontrollable and controllable	137,729	100·00	428,894	100·00	371,218	100·00
Not included in the above—						
Canadian National Railways Deficits	...	...	35,137	...	48,408	...
Unemployment Relief	...	...	4,432	...	51,948	...
Public Works Construction Act	...	...	...	...	8,500	...
Canadian Government Railways—						
Capital and deficit	17,295	...	...	...	...	...
Railway subsidies	19,036	...	...	...	...	...

LOAN FLOTATIONS

In the fiscal year 1934-35 the dominion issued loans in three markets—London, New York and Canada. These loans were made for refunding, as well as for current requirements.

[Mr. Rhodes.]

In May last, an issue of £10,000,000 3½ per cent registered stock was sold in London at a price of 96.50, or at an interest cost of 3.48 per cent. The issue will mature May 1, 1955 with the right to call at par on or after May 1, 1950. Part of the proceeds of this issue was used to pay off the 3½ per cent sterling loan dated June 1, 1884, and maturing June 1, 1934. The amount of this loan outstanding was £4,822,029, of which £2,086,776 was held in the sinking fund. The balance of the proceeds was used for current purposes, including a temporary loan to the Canadian National Railways to enable it to redeem stock on the London register of the issue maturing September 1st, already referred to. The government was later reimbursed by the issue of guaranteed railway securities in Canada.

The $60,000,000, 4 per cent notes due October 1, 1934, in New York, were called for redemption on September 1st. A one-year banking credit was obtained from New York banks at a rate of 2 per cent to the amount of $50,000,000 to pay off the called notes. The balance of $10,000,000 was met out of current cash resources.

On November 1st, last, the unconverted balance of the 1919-34 Victory loan amounting to $222,216,850 matured. To meet this maturity, the 1934 Refunding loan was issued in Canada on October 15th. This loan was offered in four maturities; two-year bonds with interest at 2 per cent, five-year with interest at 2½ per cent, eight-year with interest at 3 per cent and fifteen-year bonds with interest at 3½ per cent. The fifteen year bonds were made subject to call, at the option of the government after ten years. The two-year bonds were offered at 98.90 to yield 2.57 per cent, the five-year at 98.15 to yield 2.90 per cent, the eight-year at 97.00 to yield 3.43 per cent and the fifteen-year at 96.50 to yield 3.81 per cent.

A small concession in interest and, on the two longer maturities, a premium on the maturing bonds, was offered to those who converted into the new issue. The total amount of Victory bonds converted into the new issue was $157,369,900, or nearly 71 per cent of the amount outstanding. Cash subscriptions totalled $119,405,100, of which only $86,170,200 was accepted.

The practice of issuing treasury bills by public tender was continued. The most recent issue, was made yesterday when $15,000,000 of three months' bills were sold at an average discount rate of 1·76 per cent. The following is a statement of the issues made:

Treasury Bills Sold by Public Tender

April 18, 1934—		
due July 1, 1934—	$ 1,600,000 sold at an average cost of	2.41 per cent
due Oct. 1, 1934—	13,400,000 sold at an average cost of	2.71 per cent
November 1, 1934—		
due Feb. 1, 1935—	1,600,000 sold at an average cost of	2.35 per cent
due May 1, 1935—	18,400,000 sold at an average cost of	2.47 per cent
February 1, 1935—		
due May 1, 1935—	18,300,000 sold at an average cost of	2.05 per cent
March 22, 1935—		
due June 22, 1935—	15,000,000 sold at an average cost of	1.76 per cent

The School Lands 5 per cent debenture stock, issued to the provinces of Manitoba, Saskatchewan and Alberta, matured on July 1, 1934, and was extended for a period of one year at the same rate of interest.

The issue of one-year 3⅞ per cent treasury bills to the amount of $50,000,000 that matured on August 1, 1934, was replaced by an issue of one-year treasury bills bearing interest at 2⅞ per cent.

In connection with the opening of the Bank of Canada there was issued to that institution in accordance with the Bank of Canada Act, $115,013,636.82 of 3 per cent five-year bonds. This issue was to provide for the portion of the dominion note issue that was not covered by gold or silver. On the same date $35,000,000 of three-months treasury bills were sold to the Bank of Canada at a discount of 1¼ per cent, to replace a similar amount of 4 per cent treasury bills held by the chartered banks.

Reference has already been made to the large savings in interests charges arising from refunding operations in the past four years. It is noteworthy that as a result the average interest rate on the dominion's funded debt and treasury bills has now been reduced to 4.15 per cent, compared with a hight point of 5.204 per cent in 1922.

The following is a statement of the unmatured funded debt and treasury bills of the dominion outstanding at March 31st, 1935, showing also the annual interest charges thereon:

Unmatured Funded Debt and Treasury Bills, as at March 31, 1935, and Annual Interest Charges

Date of Maturity	Rate	Where Payable	Amount of Loan	Annual Interest Charges
	%		$ cts.	$ cts.
1935 April 30	1¾	Canada	2,540,100 00	44,451 75
April 30	2	Canada	3,407,630 26	68,152 61
April 30	2	New York	2,737,986 67	54,759 73
July 1	5	Canada	33,293,470 85	1,664,673 54
Aug. 1 (a)	5	Canada and New York	874,000 00	43,700 00
Aug. 1	2⅞	Canada	50,000,000 00	1,437,500 00
Sept. 1	2	New York	50,000,000 00	1,000,000 00
Oct. 15	4	Canada	25,000,000 00	1,000,000 00
Oct. 15	3½	Canada	89,393,000 00	3,128,755 00
1936 Feb. 1	4½	New York	40,000,000 00	1,800,000 00
Oct. 15	2	Canada	63,336,000 00	1,266,720 00
Nov. 15	5	Canada	79,535,200 00	3,976,760 00
1937 Mar. 1 (a)	5	Canada and New York	89,787,100 00	4,489,355 00
Dec. 1 (a)	5½	Canada	236,299,800 00	12,996,489 00
1938 July 1	3	London	8,071,230 16	242,136 90
July 1	3	London	18,250,000 00	547,500 00
July 1	3	London	10,950,000 00	328,500 00
July 1	3½	London	15,056,006 66	526,960 23
1939 Oct. 15	4	Canada	47,269,500 00	1,890,780 00
Oct. 15	2½	Canada	7,933,000 00	198,325 00
1940 Mar. 1	3	Canada	115,013,636 82	3,450,409 10
Sept. 1	4½	Canada	75,000,000 00	3,375,000 00
1941 Nov. 15	5	Canada	141,663,000 00	7,083,150 00
1942 Oct. 15	3	Canada	40,409,000 00	1,212,270 00
1943 Oct. 15	5	Canada	147,000,100 00	7,350,005 00
1944 Oct. 15	4½	Canada	50,000,000 00	2,250,000 00
1945 Oct. 15	4	Canada	88,337,500 00	3,533,500 00
1946 Feb. 1	4½	Canada	45,000,000 00	2,025,000 00
1947 Oct. 1	2½	London	4,888,185 64	122,204 64
1949 Oct. 15	3½	Canada	138,322,000 00	4,841,270 00
1950 July 1	3½	London	137,058,841 00	4,797,059 43
1952 May 1	5	New York	100,000,000 00	5,000,000 00
Oct. 15	4	Canada	56,191,000 00	2,247,640 00
1955 May 1	3¼	London	48,666,666 67	1,581,666 67
1956 Nov. 1	4½	Canada	43,125,700 00	1,940,656 50
1957 Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958 Sept. 1	4	London	73,000,000 00	2,920,000 00
Nov. 1	4½	Canada	276,687,600 00	12,450,942 00
1959 Nov. 1	4½	Canada	289,693,300 00	13,036,198 50
1960 Oct. 1	4	London	93,926,666 66	3,757,066 67
Oct. 1	4	New York	100,000,000 00	4,000,000 00
Treasury Bills due May 1, 1935	2·47	Canada	18,400,000 00	454,480 00
Treasury Bills due May 1, 1935	2·05	Canada	18,300,000 00	375,150 00
Treasury Bills due June 11, 1935	1·75	Canada	35,000,000 00	612,500 00
Treasury Bills due June 22, 1935	1·76	Canada	15,000,000 00	264,000 00
			3,061,940,421 39	127,074,231 27

	$ cts.	%
Payable in Canada	2,268,673,737 93	74·09
Payable in Canada and New York	90,661,100 00	2·96
Payable in New York	292,737,986 67	9·56
Payable in London	409,867,596 79	13·39
	3,061,940,421 39	100·00
Less—Bonds and Stocks of the above loans held as Sinking Funds	54,532,688 09	
	3,007,407,733 30	

(a) Tax free in Canada.

Indirect Liabilities

Bonds bearing the guarantee of the dominion outstanding in the the hands of the public, at present amount to $987,300,000, a decrease of $6,000,000 in the year.

With reference to guarantees under the relief acts, no new commitments were entered into during the year and substantial reductions occurred in the amounts outstanding under guarantees given in previous years.

[Mr. Rhodes.]

The guarantee in connection with the financing of the completion of the Beauharnois power project terminated during the year without cost to the government. The Canadian Pacific Railway repaid bank loans to the extent of $12,000,000, reducing the amount of the guarantee correspondingly. The guarantee in connection with the province of Manitoba savings office was reduced by some $1,500,000. The guarantee of bank advances arising out of the operations of the Canadian Cooperative Wheat Producers Limited in connection with the marketing of wheat, was continued.

Apart from the wheat guarantee, which is for an unstated amount and is subject to fluctuation from day to day, the aggregate of guarantees under the relief acts is $65,717,000, a decrease of $27,500,000 in the fiscal year. The amounts of the different guarantees are as follows:

Guarantees Under Relief Acts	Estimated principle amount of guarantee outstanding Mar. 31, 1935
Province of British Columbia.. .. ..$	626.533
Province of Manitoba..	5,894,127
Province of Manitoba Savings Office..	9,327,327
Algoma Steel Corporation..	445,000
Dominion Steel and Coal Corporation..	800,000
Canadian Pacific Railway Company..	48,000,000
Government of Newfoundland..	625,000
Canadian Co-operative Wheat Producers Limited..	Unstated

The following is a statement of the guaranteed bonds presently outstanding:

Bonds Guaranteed by Dominion Government as at March 31, 1935

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	$
Sept. 1, 1936	Grand Trunk	6	24,220,000 00
Oct. 1, 1940	Grand Trunk	7	23,740,000 00
Dec. 1, 1940	Canadian Northern	7	23,779,000 00
July 1, 1946	Canadian Northern	6½	24,238,000 00
April 1, 1948	New Westminster Harbour Commission	4¾	700,000 00
Dec. 15, 1950	Canadian National	3	20,500,000 00
Sept. 1, 1951	Canadian National	4½	50,000,000 00
Aug. 1, 1952	Saint John Harbour Commission	5	667,953 04
July 10, 1953	Canadian Northern	3	9,359,996 72
Feb. 1, 1954	Canadian National	5	50,000,000 00
Sept. 15, 1954	Canadian National	4½	26,000,000 00
Mar. 1, 1955	Canadian National (West Indies) Steamships	5	9,400,000 00
June 15, 1955	Canadian National	4¾	50,000,000 00
Feb. 1, 1956	Canadian National	4½	70,000,000 00
July 1, 1957	Canadian National	4½	65,000,000 00
July 20, 1958	Canadian Northern	3½	7,896,553 51
May 4, 1960	Canadian Northern Alberta	3½	3,149,993 66
May 19, 1961	Canadian Northern Ontario	3½	34,229,996 87
Jan. 1, 1962	Grand Trunk Pacific	3	34,992,000 00
Jan. 1, 1962	Grand Trunk Pacific	4	8,440,848 00
Dec. 1, 1968	Candian National	4½	35,000,000 00
July 1, 1969	Candian National	5	60,000,000 00
Oct. 1, 1969	Canadian National	5	60,000,000 00
Nov. 1, 1969	Harbour Com. of Montreal	5	19,000,000 00
Feb. 1, 1970	Canadian National	5	18,000,000 00
By tenders or drawings	Canadian National	2	26,152,580 93
Various dates, 1935–54	City of Saint John Debs., assumed by Saint John Harbour Commissioners	Various	1,233,527 74
Various dates, 1935–36	Canadian National (temporary)	2	10,169,000 00
Serial—Feb. 1 and Aug. 1, 1935–38	Canadian National Equip. G	5	5,250,000 00
Perpetual	Grand Trunk Guaranteed Stock	4	60,833,333 33
"	Grand Trunk Debenture Stock	5	20,782,491 67
"	Great Western Debenture Stock	5	13,252,322 67
"	Grand Trunk Debenture Stock	4	119,839,014 33
"	Northern Ry. of Canada Deb. Stock	4	1,499,979 67
			987,326,599 14

The following statement of the assets and liabilities of the dominion, estimated as at March 31, 1935, completes the presentation of the financial record of the year:

Liabilities, March 31, 1935 (Estimated)

Bank circulation redemption fund		$ 6,696,000
Insurance and superannuation funds—		
Government annuities	$ 46,329,000	
Insurance fund, civil service	9,178,000	
Insurance fund, returned soldiers	13,474,000	
Retirement fund	7,968,000	
Superannuation funds	48,622,000	
		125,571,000
Trust funds—		
Indian funds	13,792,000	
Common school funds	2,675,000	
Contractors' securities deposits	850,000	
Other trust funds	2,575,000	
		19,892,000
Contingent and special funds		3,650,000
Post Office money orders, postal notes, etc., outstanding		3,750,000
Province accounts		9,624,000
Post Office savings bank deposits		22,500,000
Funded debt—		
Unmatured	3,007,408,000	
Matured but not presented for payment	4,050,000	
		3,011,458,000
Interest coupons matured but not presented for payment		1,700,000
		$ 3,204,841,000

Assets, March 31, 1935 (Estimated)

Active Assets—		
Cash, working capital advances and other current assets		$ 25,155,000
Gold Bullion account		2,750,000
Loans to provinces—		
Housing	$ 9,771,000	
Relief Acts	74,649,000	
		84,420,000
Loans to foreign governments—		
Greece	6,525,000	
Roumania	23,969,000	
		30,494,000
Loans to harbour commissioners—		
Montreal	58,519,000	
Vancouver	22,921,000	
New Westminster	275,000	
		81,715,000
Bond-holding account		4,444,000
Canadian National Railways		27,053,000
Canadian Farm Loan Board		8,857,000
Soldier and general land settlement		44,700,000
Seed grain and relief advances		2,385,000
Canadian government railways open and stores accounts		15,749,000
Deferred debits—		
Unamortized discount and commission on loans		29,441,000
		$ 357,163,000
Net debt March 31, 1935 (estimated)		2,847,678,000
Represented by—		
Non-active assets March 31, 1935 (estimated).		
Capital expenditures—		
Public Works, Canals	242,397,000	
Railways	443,712,000	
Public buildings, harbour and river improvements	258,414,000	
Military property and stores	12,035,000	
Territorial accounts	9,896,000	
		966,454,000

Loans, non-active—		
Canadian National Railways		655,527,000
Railway accounts (old)		88,399,000
Canadian National Steamships		15,840,000
Harbour Commissioners—		
Quebec	26,261,000	
Chicoutimi	3,538,000	
Halifax	8,833,000	
Saint John	13,219,000	
Three Rivers	2,700,000	
Montreal South Shore Bridge	2,022,000	
		56,573,000
Seed grain and relief advances		536,000
Soldier and general land settlement		16,514,000
Miscellaneous advances		3,538,000
Consolidated fund—		
Balance consolidated fund, brought forward from March 31, 1934	935,419,000	
Excess of expenditure over revenue, fiscal year ended March 31, 1935 (estimated)	108,878,000	
		1,044,297,000
		$ 2,847,678,000

WAYS AND MEANS, 1935-36

There remain to be considered proposals affecting our revenue position for the coming year. The gain of 12 per cent in the yield from taxation in the current year, after absorbing losses from downward revisions effected in the last budget, gives ground for satisfaction. The upward trend is continuing and I believe we are justified in anticipating with confidence further substantial additions to our income based upon the existing rates of taxation. It must not be overlooked, however, that some new expenditures will have to be met, including grants to the maritime provinces and British Columbia, reinstatement of a portion of salary deductions and expenses incidental to the operation of several of the important measures being dealt with by parliament at this session. Furthermore, although employment is increasing and railway earnings are higher, there will still be a heavy drain on our resources for unemployment and farm relief and payment of railway deficit.

Under these circumstances and with the expectation that improved conditions will render the burden somewhat less onerous than in the past few years, it seems to be the part of wisdom to budget for a further substantial increase of revenue, retaining, except for some adjustments that are not expected to alter the yield materially, the present scale of excise duties and taxes and securing some additional amounts from the income tax.

Income tax

In an address delivered a few weeks ago the Prime Minister made certain references to the necessity of changes in our income tax structure. It was pointed out at that time that incomes may be regarded generally as falling into two categories, which may be described broadly as earned income and investment income, and that this distinction which is recognized in the tax systems of other countries might fairly be held in mind when the question of distributing the burden incidental to providing increased social security was being considered.

With this principle in mind an important amendment to the Income Tax Act is being made. In order to provide additional revenue, it is proposed to levy a surtax on investment income. By investment income is meant interest, dividends, royalties, and like returns. This tax will not apply to wages and salaries up to $14,000. All income in excess of $14,000, for the purposes of this tax is to be regarded as investment income. A specific exemption of $5,000 is provided. That is to say, income up to $5,000 will not be subject to surtax even though all such income be investment income. Furthermore, if the ordinary personal exemption and the allowance for dependents exceed $5,000, exemption to the higher amount will be allowed.

The rates of surtax which are to apply to investment income range from 2 per cent on such income in the lowest category to 10 per cent on all income in excess of $200,000 and are as follows:

Included in any income exceeding..	$ 5,000	but not exceeding	$ 10,000	— 2 per cent
Included in any income exceeding..	10,000	but not exceeding	14,000	— 3 per cent
On any income exceeding..	14,000	but not exceeding	20,000	— 3 per cent
On any income exceeding..	20,000	but not exceeding	30,000	— 4 per cent
On any income exceeding..	30,000	but not exceeding	50,000	— 5 per cent
On any income exceeding..	50,000	but not exceeding	75,000	— 6 per cent
On any income exceeding..	75,000	but not exceeding	100,000	— 7 per cent
On any income exceeding..	100,000	but not exceeding	150,000	— 8 per cent
On any income exceeding..	150,000	but not exceeding	200,000	— 9 per cent
On any income exceeding..	200,000			—10 per cent

Further changes in the Income War Tax Act are to be made as a result of new arrangements regarding the tax on the premium value of gold. You will remember that the Prime Minister, when discussing this tax last year, emphasized its temporary nature and also that specific provision was made in the act for its termination. It was recognized that increasing costs due to a rising price level must inevitably wipe out the extraordinary gains which were the basis of this tax. Consequently, the tax was levied only for a definite period which expires May 31, 1935. It has been decided to adhere to the original intention and the tax therefore lapses on that date.

However, changes are to be made in the income tax regulations providing for depletion allowances, which, together with the remaining two months' yield from the gold tax, should compensate for the termination of the gold tax.

With regard to the existing regulations allowing depletion to mines, it is believed that several of these provisions have been unduly generous in their operation. Not only has it been pointed out that the specific rate of 50 per cent, in the case of precious metal mines could fairly be reduced, but also that the granting of depletion at the present rates to both corporation and shareholder cannot well be defended.

The rate of depletion allowance granted to precious metal mines is to be reduced from 50 per cent to 33⅓ per cent.

And, dividends received by shareholders are to be taxed by reducing the allowance from 50 to 20 per cent.

Other changes in the Income War Tax Act include an increase in the corporation income tax from 12½ per cent to 13½ per cent and more drastic provisions with regard to consolidated income returns designed severely to restrict this privilege and, when consolidation of returns is allowed, the rate of tax is to be 15 per cent as compared with the present 13½ per cent rate.

Finally, it is proposed to levy a tax on gifts. This form of tax, adopted by many countries, is being imposed primarily to operate as a deterrent to transfers of property by gift, chiefly within family groups which would have the effect of reducing personal income to lower brackets and thus securing income tax assessment at rates lower than would otherwise be applicable. It is particularly expedient to introduce this measure at this time in view of the higher rates of taxation provided for in the new surtax on investment income. Not only should this tax put our income tax structure on a more secure foundation but also it should operate in a like manner with regard to succession and inheritance taxes levied by the provinces.

The rates at which gifts are to be taxed are as follows:

Up to and including	$ 25,000..			2%
Exceeding	25,000	but not exceeding	$ 50,000..	3%
Exceeding	50,000	but not exceeding	100,000..	4%
Exceeding	100,000	but not exceeding	200,000..	5%
Exceeding	200,000	but not exceeding	300,000..	6%
Exceeding	300,000	but not exceeding	400,000..	7%
Exceeding	400,000	but not exceeding	500,000..	8%
Exceeding	500,000	but not exceeding	1,000,000..	9%
Exceeding	1,000,000..			10%

The tax shall not apply to gifts between husband and wife, nor to gifts to minors, as under the present act the donor in such cases continues to be taxed on the income from the property so transferred.

Certain classes of gifts are to remain free from tax such as, for example, gifts made for charitable, religious, educational, scientific or literary purposes, or to the dominion, any province or political sub-division thereof for public purposes. Furthermore, gifts in the aggregate not exceeding $1,000 a year are to be free from tax.

The above amendments are to come into force as from the commencement of the 1934 taxation period and to be applicable to fiscal periods ending therein, and to all subsequent periods, except in regard to depletion allowances to those mining companies whose principal product is gold and which have been subject to the gold tax, in which case the change will be effective as from the commencement of the 1935 taxation period and will be applicable to fiscal periods ending therein and to all subsequent periods. The gift tax also shall only be applicable with respect to gifts made after the commencement of the 1935 taxation period.

It is estimated that on account of the above changes in the Income Tax Act revenues therefrom will be increased by not less than $12,-000,000.

Sales tax

The proposed changes in the taxes levied under the Special War Revenue Act are few in number and of minor importance. Most of the changes are merely to remove existing anomalies.

With regard to the sales tax the present 6 per cent rate will be continued and the only changes in the exemption list are the addition of casein, grain separators or seed cleaning machines, pit props and packwood for use exclusively in mines. Two other alterations have been made in order to provide that goods given away or distributed free, that is to say, advertising samples, will not be subject to the sales tax and that articles produced in institutions for the deaf and dumb shall be taxed at only half the standard rate.

Excise taxes

The present excise taxes now being levied will remain unaltered. It is proposed, however, in order to prevent the falling off in revenue now obtained from the tax on matches, to impose a new tax of 20 per cent on cigarette lighters.

With regard to the 3 per cent special excise tax on imports you will remember that last year a reduction of one-half was made in the rate applying to imports under the British preferential tariff. It is now proposed to grant complete exemption to these imports in future. Otherwise, apart from a minor addition to the exemption schedule, the special excise tax remains unaltered.

Excise duties

With regard to excise duties we are making an important change in order to protect our revenues. The present levy on spirits, which is $7 per gallon, is to be reduced to $4. Our revenues from spirits, including customs and excise duties, have fallen from 41 million dollars in 1930 to 12¼ million in 1934. It is apparent from these figures that drastic action is necessary. Not only from our own point of view is this reduction expedient, but many of the provinces also have indicated the extreme difficulty of maintaining revenues which it is claimed are being seriously undermined through the unduly high rates of excise now obtaining and the wide discrepancy which exists between our rates of duty and those which are in effect in the United States. This lowering of the rate will bring our levies on spirits into line with those which prevail south of the border, and should be effective in eliminating illicit sales which would otherwise continue as a constant menace to our revenues. Our object is to secure increased returns by diverting into legal channels purchases which are now made illegally. Our gain will be at the expense of the existing illicit trade.

In order to ensure that the consumer will obtain the full benefit of this reduction and that our efforts to stamp out the smuggling trade will not be nullified, it is provided that in event of the failure of other authorities to pass on to the public the full amount of this decrease the governor in council may at any time suspend the operation of the new rate and the existing $7 rate will then again come into force.

It might be mentioned here in passing that appropriate reductions are also being made in the customs duties on spirits imported into Canada.

Customs Tariff

Proposed amendments to schedule A of the customs tariff, while not numerous, are of considerable interest, from both a Canadian and an empire point of view. In a general way, these may be tabulated as follows:

Reductions under all tariffs..	12
Reductions under British preferential tariff only..	34
Reductions under intermediate tariff only..	1
Reductions under British preferential and intermediate tariffs	1
Increases in intermediate and general tariffs only..	3
Increases under all tariffs..	1
Clarifications of wording..	24
	76

I may here interject that any and all increases thus indicated were arrived at as a result of the findings of the tariff board in a number of cases, which I shall file at the conclusion of my address.

Reductions in the British preferential tariff are numerous and important. The following goods are accorded free entry under that tariff: fire brick; chequered steel plates; piston-ring castings, not machined; box-end machines; diesels and semi-diesel engines; low-rating internal combustion engines; chassis for electric trolley buses and for motor-driven cars for use on railway lines; artists' and pupils' colours; chloride of lime; aircraft and parts; press matrices, and advertising matter descriptive of empire products; toy construction sets; brass band instruments; unbound and paper bound books; wooden doors; melton cloth and slipper cloth; and mining locomotives.

Under the same tariff—and that only—the following are reduced in rate: Certain woollen and worsted fabrics (following an inquiry by the tariff board); various essences and extracts; cigarette papers, whether gummed, ungummed or in books or tubes; cut, pressed and moulded glass products; fire engines; pressed steel railway wheels; linen fire hose; leather belting; toys of pressed steel; and rugs and carpets of stated values per square yard.

One other commodity group has been selected for a drastic reduction, limited also to the British Preferential tariff, viz.; spirituous liquors. It is proposed to reduce by $3 per gallon of proof the preferential tariff rate on imported spirits, to accompany the excise reductions previously referred to. Further, action by order in council is contemplated whereby, in future, the internal excise duties levied in British countries will be disregarded in ascertaining the value for duty of liquors imported into Canada under the British preferential tariff. A feature of these downward revisions in the spirits schedules is provision for a three dollar per gallon reduction in the duty levied on rum from the British West Indies.

Enumeration of those goods in which tariff reductions are limited to the British preferential column leads, at this point, to a brief reference to the fact that, under a resolution moved to-day, the governor in council is empowered to extend within the confines of the empire the benefits of the most favoured tariff treatment accorded to any foreign country. Anomalous as it may seem, no empire area has, in the past, been treated as a "most favoured nation" in that sense of the term, and to-day's proposed legislation is, for various reasons, of more than academic interest and value. It may be announced at once that the first order to issue under this enabling legislation will be one extending these benefits to the United Kingdom and Northern Ireland.

Reference to the fact that to-day's resolutions add no fewer than twenty important commodities to the free list under the British preferential tariff provides an opportunity to point to the record of this government in that regard. Since the emergency session of 1930—in spite of the distressing conditions then and later prevailing, with increases in tariff the order of the day rather than reductions—more than 250 items of the Canadian schedules have been definitely reduced in rate under the British preferential tariff, and of these at least 150 have been made entirely free of duty. These calculations are in general, and are not meant to include those reductions in duties, or removal of restrictions, which have been incidental to amendments in the wording or arrangement of items in the schedules.

Reductions are not confined to the British preferential tariff. Those intended to apply under all tariffs relate, inter alia, to diabetic breads, titanium pigments, certain films, several gauges of fence wire, chock releases, backed burlap, cocoa matting and various parts for motor trucks.

Increases under all tariffs number one: On slide or hookless fasteners. Three commodities will bear higher rates under the intermediate and general tariffs only, namely, adhesive materials in flake or grit form, dressed or dyed rabbit skins and toiletware of sterling silver.

The preference provided in our tariff for Australian raisins and currants is extended until March 31, 1936; and provision is made whereby oranges the produce of Palestine may be imported into Canada by way of British areas, rather than direct, as heretofore required.

The outstanding amendment to the drawback schedule is to the effect that, in order to qualify for the drawback of duty on imported bituminous coal used in its manufacture, coke produced in Canada must be actually sold for use as fuel. Another drawback item sets a precedent in that its benefits will apply only as regards importations under the British preferential tariff.

Empire Content

One change in respect of empire content of imported goods is contemplated. From 50 to 25 per cent in the case of antimony oxide. Action will be taken by order in council.

The Tariff Board

Apart altogether from its work as a forum of appeal from administrative decisions regarding customs and excise, the tariff board has dealt during the year with many important matters referred to it by the Minister of Finance. There will be tabled to-day some twelve or more of its reports, which are reflected in certain of the budget resolutions to which brief reference has been made. Outstanding among these is the report on reference No. 1—the first sent to the present board—re wool goods of various kinds. Other reports to be tabled to-day include those on sterling silver toiletware, fence wire, zipper fasteners, cocoa mats and matting, paper caps, wooden doors, rabbit skins, skelp iron, adhesive flakes, diabetic breadstuffs and dextrines. Information from the board is to the effect that several other reports will shortly be presented to the minister and these will, in their turn, be presented to parliament.

ESTIMATED REVENUE, 1935-36

After giving effect to the changes which have been enumerated, it is estimated that the revenues for the year will aggregate $392,100,000 from the following sources:

Taxation revenue—	
Customs duties..	$ 88,000,000
Excise duties..	48,500,000
Income tax..	76,000,000
Sales tax..	82,500,000
Manufacturers', stamp, importation and other special taxes..	41,200,000
	$336,200,000
Non-tax revenue—	
Post Office..	32,000,000
Interest on investments..	11,500,000
Other sources..	12,400,000
	$55,900,000
Total..	$392,100,000

The ordinary expenditures for the year will, it is estimated, amount to $370,600,000. With receipts of $392,100,000, the resulting surplus will be $21,500,000. This will be a substantial amount to be applied upon capital expenditures, for which the estimates are about $6,000,000, and special expenditures including unemployment relief and railway deficit.

This is the last budget to be presented before a general election, and while fully aware of the popular reaction to reduction in taxation, the government recognizes its paramount duty is to the state and its wellbeing. Reduction in taxation can only be justified when it is associated with a fully balanced budget accompanied by a reduction —however gradual—in the national debt.

Whilst it is gratifying in these difficult days to be able to forecast a surplus on current account for the ensuing year of the considerable sum of $21,500,000, it must not be overlooked that not only will this amount be absorbed in special requirements for deficits on the Canadian National Railway, unemployment relief and capital expenditures, but that these inescapable obligations will entail still further borrowings with consequent additions to the national debt.

Meantime recovery will be hastened if we face our obligations courageously. To attempt to run away from them by failing at least to strive to pay our way, would not only retard recovery but this course would in the long run entail much greater sacrifice.

Without attempting to minimize in the least our difficulties, we must keep in mind that we have borne the shock of a world war, we have paid—and will continue to pay—the attendant price in blood, in suffering, and in treasure, and we have had added thereto five years of the miseries of a world depression as great in magnitude and as disrupting in its effects as the war itself. And yet we have won our way through. There is on every hand unmistakable evidence that we are making steady progress toward that complete recovery which I am fully confident will be our portion.

RESOLUTIONS

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

Income War Tax Act

Resolved That it is expedient to amend the Income War Tax Act and to provide—

1. That (a) "earned income" be defined to include salaries, wages, and other personal earnings, including income derived from the carrying on of a trade (as a sole proprietor or in partnership), vocation or calling; provided however that the total amount of the "earned income" derived from any source, or combination of sources, shall in no case exceed $14,000 per annum;

(b) "investment income" shall mean any income not defined as "earned income."

2. That rates of surtax be imposed on all persons, other than joint stock companies, in respect of investment income as follows: