THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. CHARLES A. DUNNING (Minister of Finance) moved:

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

He said: Mr. Speaker, I rise to address you to-day, sir, not only with a due sense of the high privilege which is mine, but also with a deeper sense of grave responsibility than I have ever felt before. In times such as these through which we are passing, the responsibility of endeavouring to place before the house and the people of this country a clear and complete statement of the economic position of Canada, the facts regarding our governmental finances, and proposals for meeting the situation thus revealed for the present fiscal year, is unusually great. I know I shall not ask in vain for the sympathetic attention of all my fellow members, although the presentation of figures will inevitably be rather trying to the patience of the house.

Before dealing with the government accounts I propose to survey briefly the recent trends of business and trade in Canada.

The most welcome feature in the fiscal year which has just closed has been what it indicates of a movement toward recovery. I do not wish to exaggerate the extent of that recovery, for to those who are charged with responsibilities of government in these hard days the distance yet to go and the problems still to be solved are the features of our economic record which are most impressive—and at the same time most distressing. Nevertheless, one cannot view the picture broadly without realizing that improvement—however gradual—is real and steady, and that the general undertone is one of definite strength. In spite of prevailing uncertainties in the international political outlook and the persistence of extreme nationalistic policies, the pressure of the economic forces making for recovery continues. These forces may be retarded but they appear now to be sufficiently powerful to make continuing progress, unless war, the great destroyer, should again intervene.

Analysis of the Canadian figures indicates that our past gains are being consolidated and that the upward swing of the business cycle is currently establishing higher levels of activity generally throughout the industrial and commercial field. The index of the physical volume of business compiled by the Dominion Bureau of Statistics to indicate the broad movements of economic activity, stood at 103·3 in March of this year as compared with 94·2 for March of last year. This is an improvement of approximately 10 per cent. However, to appreciate fully the significance of this improvement, one should compare the present level of 103·3 with the figure 67·0 which was the level recorded at the low point of the depression in February, 1933. In other words, the increase during this period has been over 54 per cent. The average level of this index in each of the past three calendar years was 79·7, 94·2 and 102·4. These increases are impressive, particularly when one recalls that this index measures the physical volume of output in nearly all our leading industries as well as freight traffic on our railways, building activity and domestic trade.

While I desire to avoid complicated statistics as far as possible, it is necessary to refer to the progress made by a few of the more important Canadian industrial groups.

For the first three months of this calendar year, 1936, manufacturing of all kinds showed an average expansion of 8·5 per cent over the first quarter of 1935. Within this broad field, the substantial improvement in the output of the primary iron and steel industry is particularly heartening. In the latter half of 1935, this industry showed striking advances, steel output increasing 23 per cent and pig iron 48 per cent over 1934, and the improvement was continued during the first quarter of 1936, notably in January. This, in itself, is important, but it is especially significant as indicating a broadening out of the recovery movement into the heavy or durable goods industries. The construction industry, while still operating on abnormally low levels, enjoyed substantial percentage gains in 1935 over 1934, and the present outlook for building appears to be the best in several years.

The forestry group of industries showed marked expansion in 1935. Lumber production on the Pacific coast was about 20 per cent greater than in 1934 and reached the highest point since 1929. Shingles found better markets abroad and exports increased 96 per cent. The newsprint industry, although still beset with abnormally low prices and financial difficulties, increased production to new record levels. Perhaps the most satisfactory evidence of improvement in this whole group of industries is found in the increase of employment afforded by the industry—8 per cent in lumbering and 4 per cent in pulp and paper plants.

The mineral industry continues to establish new records of output. Canada's mineral output, valued at over 308 million dollars in 1935, recorded a gain of 11 per cent over the previous year and was only 1 per cent below the record year 1929 when prices for most metals were higher. Production of gold,

[Mr. Speaker.]

copper, nickel, zinc and several of the minor metals made new high records. Total output of gold amounted to 3,283,000 fine ounces with a total value at current market prices of nearly $115,000,000. Increase in mineral output continued unabated during the first quarter of this year. In February, for instance, the export of copper was greater than in any other February, and exports of nickel exceeded any other month in history, the bureau's index standing at 490·2 as compared with 317·9 in February, 1935.

Unfortunately, our most important primary industry cannot boast such results. Agriculture has again suffered from climatic hazards, restricted markets and low prices. According to the bureau's estimates, total farm revenue in 1935 amounted to $943,081,000, an increase of less than one per cent as compared with the previous year. Most disappointing was an 8 per cent decline in the value of the principal field crops, chiefly as a result of the price factor. Wheat prices were generally higher than in 1934, but the low grading resulting from rust and frost reduced the value of the crop to about that of the previous year. Increases in yield of oats and barley were more than offset by reduced prices. On the other hand, the contribution of animal products to farm purchasing power more than made up for the loss in field crops. The live stock industry showed considerable improvement. Higher marketings of cattle and better prices increased the value of live stock sales in 1935 by 22 per cent. Milk prices improved somewhat and exports of hog products to Great Britain expanded. The prairie provinces shared in the better returns from cattle and milk and a more uniform distribution of farm income prevailed than in 1934. In this connection I may point out that the advantages of access to wider markets to the south are already being realized. Three months' operation of the recent trade treaty offers evidence of its value to the farmers of this country. Every step which helps to provide markets for agriculture brings nearer that day when the Canadian farmer, receiving more for his products than it costs to produce them, will once more provide, through the stimulus of his purchasing power, a sound basis for national prosperity.

My colleague, the Minister of Labour (Mr. Rogers), has recently placed on Hansard comprehensive statistics in regard to the numbers of unemployed in various classifications. One of the most disappointing features of the business improvement so far is that the numbers of those on relief do not decline at the same pace as business activity recovers. The causes of this are chiefly to be found in the continuing growth of population bringing annually a new supply of workers into the industrial field, the customary initial effects of invention of new machines and processes, the gradual decline in the number of those unemployed or dependent who are taken care of by charity or by relatives, and the surplus labour power employed by many corporations which preferred to retain redundant staff or to work short time rather than to dismiss employees during the years of depression.

While for these reasons, expanding employment makes only slow progress in reducing the numbers on the relief rolls, nevertheless the increase in employment appears to be real and substantial. The bureau of statistics tabulates monthly statements on employment from over 9,000 of the larger firms engaged in manufacturing, logging, mining, transportation, communications, construction and maintenance, services and trade, and employing some 45 per cent of the total persons at work in all industries. From 93·4 on April 1, 1935, the index for all industries rose to a peak of 107·7 on November 1, an increase of 15·3 per cent, and with the usual seasonal decline during the winter months the index stood at 97·4 on April 1 this year, an increase of 4·3 per cent over April 1 a year ago. The index for manufacturing industries rose 10·2 per cent from April to November and on April 1 this year was still about 8 per cent above the level of the same date in 1935.

Supplementing this information it is encouraging to note from data published by the Department of Labour that remuneration to wage earners in 1935 was greater than in 1934 as a result of increases in various industries and localities. Part time and short time work were less prevalent. In logging, wages advanced generally throughout the maritime provinces and Quebec, while in Ontario and British Columbia rates had risen considerably in 1934. In coal mining, wages increased appreciably in Nova Scotia and Alberta, and there were some increases in metal mining wages. Improvement was also witnessed in manufacturing, particularly in clothing and furniture factories. Rates were raised in the construction trades in Quebec and Ontario, and railway wage rates also increased. Longshoremen's wages rose in most of the ocean ports and in some of the lake ports. Common factory labour was up 2·4 per cent, miscellaneous factory trades 2·3 per cent, and logging and sawmilling 5 per cent.

One of the most important signs of a more healthy business condition is that industrial and commercial earnings are continuing to show improvement. An analysis of the record of earnings of 241 leading Canadian corporations discloses that net earnings are about 8 per cent greater for the latest fiscal year than for the previous fiscal period. When business is showing an increasing scale of earnings there are excellent grounds for anticipating further industrial and commercial improvement with increased volume of employment.

A very interesting feature of our Canadian economy is the remarkable degree of stability in the price level during the last two years. For March the bureau's index was 72·4 as compared with 71·9 a year ago, and since February, 1935, the range of variation from the line of 72 per cent of the average level of prices during 1926 has been extremely small. Further progress, however, was made during the year in correcting some of the disparities between various types of prices created by the drastic fall in the price level during the early years of the depression. One important feature of this corrective process was that farm product prices, particularly the prices of animal products, improved more rapidly than the general level. It is of vital importance that this corrective process should continue.

One price whose falling tendency is watched with considerable enthusiasm in many quarters is the cost of money; in other words, the rate of interest. In this case, of course, the decline is a favourable factor. This factor is usually measured by the yield on long term bonds. The bureau computes an index of the yield on long term Dominion of Canada bonds, using the average monthly yield for 1926 as the base or 100. The course of this index during the past year provides an interesting record of the investor's reaction to enactments or threatened enactments by provincial legislatures, to administrative decisions, to official pronouncements by radio or in the press or on the public platform, and to the manifold other hazards that may affect the capital markets. It bears eloquent testimony to the oft-repeated saying that capital is timid. Beginning at 70·9 in January the index of interest rates rose to 73·2 in February, dropped to 71·4 in March, rose to 72·2 in April, declined to 71·4 in May, rose to 73·4 in June, declined to 71·6 in August, then rose sharply to 79·8 in September, and thereafter with a slight interruption in December dropped steadily to 69·9 in March, the latest month for which the index is available. The March index is the lowest rate of interest figure recorded since the bureau began compiling this series in 1919 and probably represents the lowest yield on long term funds in the history of our country. Considering also the steady decline in the yield on our three-months treasury bills—our latest issue of these bills was sold on April 15th on a yield basis of approximately seven-eighths of one per cent—and I should interject here that another issue was sold yesterday at the slightly higher rate, if my memory serves me correctly, of just over nine-tenths of one per cent per annum—we have ample evidence of the progress which the dominion has made in securing that stimulus to economic recovery through low interest rates which has been so important a factor in the United Kingdom.

Unfortunately, these low rates are not available to all borrowers, particularly the most needy ones who are not usually considered the most credit-worthy. Nevertheless the low rates are beginning to permeate the interest rate structure as a whole. One evidence of this is the increasing volume of security flotations, not only by governments but also by private corporations, both for refunding and for new capital purposes. In 1935 the total volume of new issues offered has been estimated at 571 million dollars, an increase of 83 million dollars over 1934. Of this total, 325 million dollars were for refunding and the balance for new capital purposes. During the first quarter of this year, activity was greatly accelerated. In this period total new Canadian bond financing amounted to 241 million dollars, an increase of 180 million dollars over the first quarter of 1934. Of this total 70 million dollars were for refunding purposes. It is also significant that financing by corporations accounted for 105 million dollars or over 43 per cent of the financing of the first quarter of 1936 compared with 9 million dollars or less than 15 per cent for the first quarter of last year.

One factor retarding the full revival of confidence and the healthy functioning of the capital markets has been the cloud of uncertainty which has been overhanging the financial position of several of the provinces. It is revealing no secret to say that the credit of the four western provinces has been maintained during the last few years only by the financial support of the dominion. Despite the efforts—in some cases, the heroic efforts—of these provinces to cut expenditures and increase revenues, the burden of unemployment relief added to heavy interest charges on outstanding debt has been so heavy and the taxpaying ability of the people reduced so drastically by the economic conditions which prevailed that it has been impossible to provide out of taxes for the cost of unemployment relief, and even in some cases for a portion of ordinary governmental expenditures. In view, in part, of their own financial position and in part of conditions in the investment market, particularly in the early years of the depression, these provinces have not been able to borrow economically, in the public markets. Whether wisely or not, the dominion government of the day faced with what it regarded as an emergency problem, initiated the policy of making loans to these provinces in order to enable them to meet their share of relief costs, maturing obligations, and in some cases even ordinary governmental expenditures. As I shall show later, such loans now amount to $116,500,000.

It has long been clear to everyone, I believe, that this process can not go on indefinitely. We are rapidly reaching—if we have not already reached—the impossible position where the dominion government will be the largest single creditor of these provincial governments. Moreover, if we continue this process of handing out funds without security and without control of any sort, we shall be in danger of undermining dominion credit, which, in my opinion, must be protected at all costs.

Recognizing the importance of this problem, the government has for the past six months been devoting a great deal of time and attention to working out a solution with the cooperation of the provinces. It was one of the major questions placed on the agenda of the dominion-provincial conference in December last, and initial discussions at this conference led to the appointment of a continuing committee on financial questions which held sessions in January and again in March. During these discussions, agreement was reached on a general method of procedure. The dominion undertook to initiate an amendment to the British North America Act which would (1) validate certain taxes now imposed by one or more of the provinces and give the provinces power to levy a tax on retail sales, thus providing an enlarged and more elastic provincial tax structure; and (2) enable the dominion to guarantee existing or future debts of a province as well as enable a province to give the dominion adequate security for such guarantee by the pledge of dominion subsidies and, if necessary, other specific revenues. If and when these enabling powers should be secured, the dominion undertook to sponsor legislation providing for the setting of up (1) a national finance council, which would consist of the dominion Minister of Finance and the provincial treasurer of each province, with the governor of the Bank of Canada as technical adviser, and which would provide a permanent mechanism for mutual discussion of taxation, investment and other financial problems, with advisory powers only; and (2) individual loan councils which would consist in each case of the dominion Minister of Finance and the treasurer of the province desiring to participate, with the governor of the Bank of Canada as technical adviser, and which would have power both to approve any program providing for refunding of the debt of a province under dominion guarantee and also to supervise future borrowing by such province. Dominion guarantee would be available to the province only when loan council approval to the proposed issue of securities had been obtained. Moreover, no compulsion was involved; the legislation contemplated would merely provide machinery which any province might take advantage of if it considered it to be in accordance with its own interests.

Since March 31 the government has not had any statutory authority to make loans or give guarantees to any province and even in the relief bill which is now before parliament such authority as is being asked for relates only to loans, advances or guarantees in connection with relief measures or undertakings. It is not proposed, except through loan council legislation, to ask parliament for authority to grant financial assistance to enable a province to meet a maturing obligation or to provide for other ordinary governmental expenditures.

Provincial obligations that have matured in recent weeks or are about to mature have led to extended discussion with the interested provinces. The correspondence exchanged with the province of Alberta has been tabled. That record speaks for itself. In brief, the federal government has taken the position that not only must it have adequate security for the financial assistance which it is called upon to give but also that the dominion government must be in a position to determine the extent to which and the conditions under which dominion credit is made use of now and in the future. It was a matter of great regret to us that the government of Alberta did not see its way clear to accept the conditions under which alone our assistance could have been made available. The province of Saskatchewan, which has an issue maturing to-day, May 1, has expressed a willingness to participate in the loan council arrangement and with the understanding that the dominion will proceed with its legislation, the province, I am advised, has made arrangements with the Bank of Canada to enable it to meet this maturity. I am also advised that the province of British Columbia will be able to redeem its obligation falling due on May 15 without recourse to outside assistance.

The government believes it essential to provide the necessary machinery for any province that may deem it desirable to take advantage of the facilities I have outlined. The government will therefore proceed with the resolution now on the order paper designed to initiate the proposed constitutional amendment, and thereafter with the legislation providing for the establishment of loan councils and a national finance council. I may add that after the most careful consideration we are prepared to recommend certain modifications to the loan council arrangement originally suggested. These modifications would make it possible for a province which had submitted a borrowing proposal to the loan council, and which had not obtained the council's approval, to make such offering on its own credit in the domestic market. Approval of the loan council, however, would be mandatory for all external issues and also for domestic issues in those cases where the outstanding debt of the province is refunded under dominion guarantee. These changes, it is believed, will make the arrangement more acceptable to some of the provinces and still make it possible to secure the primary objectives which the dominion has in mind.

I might advise the house that the modification to which I have just referred is being communicated to all the provinces, particularly those primarily concerned, and of course will have their consideration, and we shall hear from them with respect to it before very long.

I trust that the position which the government has taken in these matters and the action which it proposes to take will commend themselves generally to the good judgment of members of this house. The record of Canadian securities in the investment markets of the world has been a most enviable one. It would be unfortunate if that record were seriously marred at this late stage when the outlook appears to be for continuing recovery and a probable rise in the world price level which will ease the burdens of debtor classes and debtor communities. The arrangement which we contemplate should provide a method for reducing interest burdens in a way acceptable to creditors. It should provide a means whereby provinces, fully cooperating, may restore their credit and place themselves in a position gradually to secure necessary funds for justifiable capital purposes. It should provide a regular and permanent mechanism for the mutual study, with expert assistance, of the difficult, technical financial problems with which all governments are faced. It should make for an avoidance in future of some at least of the costly mistakes made by dominion and provincial governments alike in the past, the continuing burden of which has made it so difficult to assume the new burdens of the present prolonged depression.

It is our hope that the arrangement which is now offered will appeal to all provinces which find it impossible economically to finance their own requirements. We are convinced that it will remove a factor which is now retarding economic recovery. As long as we have an economy based on private enterprise—based on the willingness of thousands of individuals to make commitments for the future in the hope that profits will accrue—so long will the factor of confidence play an important part. As long as fear of the safety of investments or uncertainty in any form persists, private enterprise will not go forward vigorously. We in Canada are powerless to remove the uncertainties in the world political outlook which unfortunately have been aggravated in recent months. We are in duty bound, however, to endeavour to remove all those factors in our domestic situation which tend to retard economic recovery.

TRADE OF CANADA

I turn now to a brief outline of the trends in our external trade. It is not putting it too strongly to say that foreign trade is the very life-blood of Canada. We have seen only too clearly in recent years the appalling effects on our internal economy of the decline of international commerce to about two-thirds of its former physical volume. The fruits of economic nationalism in reduced business activity, shrinking governmental revenues and widespread unemployment are such as to justify in abundant measure the efforts which the present government has made, and will continue to make, to free the channels of international trade and expand the markets for our primary and other industries which must otherwise suffer stagnation and drastic readjustment.

A start in this direction has already been made with the negotiation of a trade agreement with the United States. The conclusion of this agreement is probably the most significant step taken by two leading trading nations to reverse the trend of economic nationalism. Not only does the agreement open up wider markets for the products of each country, but it is also hoped that it will serve as a lead to other countries and thereby promote progressive lowering of the barriers which have been damming up the trade of the world. Such a movement would be of the greatest value to Canada, the prosperity of the whole dominion being so largely dependent on export outlets for the disposal of our surplus production.

An adjustment was also made of the difficulties which had arisen in relation to our trade with Japan. Without foregoing the safeguards necessary to legitimate Canadian enterprise, we succeeded in securing the cancellation of the duty surtaxes on a number of important products for which Japan has been a valuable customer.

Other steps taken to promote our export trade have been the extension of the trade agreement with New Zealand, which was due to expire on November 24, 1935, for a further period until July 31, 1936; an exchange of notes with France providing for certain adjustments in duties and quotas to supplement the agreements which had been concluded with that country; and the extension of the modus vivendi with Haiti whereby Canada is guaranteed the minimum tariff of that country for a further period of one year from April 15, 1936, or until the entry into force of a trade agreement, proposals for which have been submitted to the Haitian government.

Canada has long enjoyed profitable and pleasant trading relations with Belgium, and is anxious to strengthen our traditional friendship with that country. Representations having been made by the Belgian government that the specific duties imposed in 1935 on dressed and dyed rabbit skins have had the effect of very seriously curtailing exports of these to Canada, the government has decided to remove the duties in question, and to revert to the ad valorem rate formerly effective. In consideration of this treatment, I may say to hon. gentlemen who are smiling, the Belgian government has agreed to remove the turnover tax which for some time has been imposed on Canadian goods imported into that country and, also, to classify as cheddar the cheese received from this dominion. These concessions, the removal of the heavy turnover tax in particular, should stimulate our exports to Belgium in many lines of goods.

The government continues to give careful study to our trade relations with other countries having in view a steady increase in opportunities for the sale of Canadian exportable products. It may be expected that steps will be taken in the near future to enter into active negotiations for the conclusion of trade agreements with several important countries, in accordance with the policy of the government to bring about by the negotiation of bilateral agreements the progressive removal of the hindrances now hampering our international trade.

Serious attention is now being given to our trade relations with the most important of our customers, the United Kingdom. I am happy to be able to state that discussions will shortly take place between representatives of the two governments. I shall make more extended reference to this matter when discussing tariff changes.

I am pleased to be able to report, for the fiscal year just ended, an important gain in our total trade with other countries, amounting in round figures to 152 million dollars. This is an increase of 12·8 per cent over the previous year. It is true that world trade generally has improved during the past year, but it should be noted that while the average increase in trade of 24 leading countries in the calendar year 1935 was 4·1 per cent our own trade increase was 11·3 per cent. As a result of this marked expansion in our foreign commerce Canada has moved up from eighth to sixth place among the nations in total world trade.

A statement of total trade for the twelve months ended March 31, 1936, with comparative figures for 1935, follows:

Trade of Canada
(excluding gold coin and bullion)

	Fiscal year ended March 31, 1935	Fiscal year ended March 31, 1936	Increase
Imports..	$ 522,416,844	$ 562,803,001	$ 40,386,157
Exports:			
Canadian produce..	659,899,994	765,615,563	105,715,569
Foreign produce..	7,658,963	13,441,659	5,782,696
	$1,189,975,801	$1,341,860,223	$151,884,422

Both imports and exports shared in the increase, but while imports rose by 40·4 million dollars, a gain of 7·7 per cent, exports were 111·5 million dollars higher, having increased by 16·7 per cent. This expansion of our exports gave us, for the year, a favourable balance of trade of 216 million dollars. This is the fifth successive yearly balance in our favour and is the largest since 1927. The importance to be attached to a favourable balance of trade must, of course, be considered in relation to total trade.

The figure for the balance of trade just mentioned does not include our exports of gold—the usual practice among nations being to show this item separately because of its monetary use. With us, however, gold is a commodity and a very important part of our regular export trade. In the fiscal year just ended the adjusted estimate of our gold sold abroad was about 119 million dollars. By adding this to the merchandise balance of 216 million dollars already referred to it is seen that the total balance of commodity trade for the fiscal year just ended was 335 million dollars in our favour. Our tourist trade is also an extremely important credit item in Canada's international account. Preliminary estimates for 1935 show tourist expenditures in Canada of about 201 million dollars against Canadian expenditure in other countries of about 91 million dollars giving us a net credit balance in tourist traffic of about 110 million dollars.

The house will see, therefore, that if to our credit balance of 335 million dollars on merchandise and gold we add the net figure of 110 million dollars from tourists, the total balance in our favour from these items is 445 million dollars without taking into account the movement of securities, Canada is thus in a strong position with respect to payments which must be made abroad on account of our foreign financial obligations. Obviously there is here a solid foundation supporting our dollar in the foreign exchange market.

Upon analyzing our export trade, it is found that the United Kingdom is still our largest market having taken 293 million dollars or 41½ per cent in value of our goods exported in the eleven months ended February 29, 1936, which is approximately the same proportion of the total as in the previous similar period. The British empire as a whole purchased 362 million dollars worth, which was 15½ per cent more than for the same eleven months a year ago. Within the empire the increased purchases from us were distributed as follows; the United Kingdom 15·6 per cent, Australia 35·1 per cent, New Zealand 28·7 per cent, and South Africa 7·1 per cent. Exports to British India decreased by 17·2 per cent.

Not only do our increased exports bear witness to the steady growth of our trade with empire countries, but the same trend is also revealed in the figures of our purchases from these countries. While our exports to empire countries gained by 48·5 million dollars, our imports increased 19·4 million dollars or 13½ per cent in the eleven months period. This increase in imports from British countries was shared as follows: the United Kingdom 5·4 per cent, Australia 16 per cent, British India 13·4 per cent, New Zealand 21·7 per cent, and South Africa 41·3 per cent.

Figures showing trade with the United Kingdom and with other empire countries in the eleven months ended February 29, 1936, and in the previous year are as follows:

Trade of Canada with Empire Countries
(excluding gold coin and bullion)

—	Eleven months ended	
	Feb. 28, 1935	Feb. 29, 1936
Imports from the United Kingdom..	$102,602,618	293,002,334
Exports to the United Kingdom..	253,488,637	163,429,300
Imports from the British Empire..	143,989,314	362,178,462
Exports to the British Empire..	313,665,822	$108,177,173

Turning now to foreign countries, our trade with the United States is of particular interest following the recent agreement. Exports to the United States for the full year ended March 31, 1936, amounted to 291·3 million dollars as compared with 230·8 million dollars for the previous year. This is a gain of 60·5 million dollars or 26·2 per cent in our exports to the United States. Thus out of a total increase in exports for the year of 111·5 million dollars over 54 per cent of the gain was accounted for by additional sales to the United States. While it is too soon to expect to have realized the full expansion of trade which is expected to follow from the agreement, the latest monthly figures clearly indicate a growing volume of goods moving in both directions across the border.

Exports to the United States for the three months January, February and March of this year totalled $70,868,053 as compared with $57,061,713 for the same three months of 1935. This is a gain of 24·2 per cent for the period.

Imports from the United States for the full year just ended were $319,610,706 which is an increase of 16 million dollars over the preceding year. 7·2 million dollars of this increase were recorded in the first three months of this year under the operation of the trade agreement.

Over 56 per cent of our imports come from the United States. At the same time they take only 37 per cent of our exports. From empire countries we purchase about one-third of our imports and sell to them just over one-half our goods exported. Approximately 89 per cent of our total trade is with the British empire and the United States.

There is in this brief survey of our foreign commerce much to cheer us, and I believe this steadily expanding trade with other countries testifies strongly to the fundamental soundness of the movement toward recovery in Canada.

Turning now to the government accounts, may I state that, while the fiscal year ended on March 31, the final accounting has not yet been completed. Consequently, minor changes, and minor changes only, may later be made in the figures now given.

I trust the house will allow for my difficulties in dealing with a fiscal year seven months of which had elapsed before the present government came into office. We were faced with the commitments of our predecessors, which, in large measure, prevented important changes in financial policy during a year more than half of which had already passed.

In order to simplify the presentation of the accounts, I shall, with the permission of the house, now place on Hansard a number of tables showing the usual five-year comparisons of revenues and various classes of expenditure. This will enable me to present a clearer explanation of a technical and complicated series of accounting and statistical facts. The tables follow:

Statement of Revenues for the last Five Fiscal Years
(000 omitted)

Tax Revenues	1931-32	1932-33	1933-34	1934-35	Estimated 1935-36
	$	$	$	$	$
Customs import duties	104,133	70,073	66,305	76,562	74,000
Excise duties	48,655	37,834	35,494	43,190	44,410
War tax revenues—					
Banks	1,390	1,328	1,336	1,368	1,305
Insurance companies	12	826	742	750	760
Delayed business profits	3	....	....	....	....
Income tax	61,255	62,067	61,399	66,808	82,700
Sales tax	41,734	56,814	61,392	72,447	77,000
Manufacturers' importation, stamp, transportation taxes, etc	17,872	25,377	45,184	39,745	35,700
Tax on gold	....	....	....	3,573	1,413
Total revenues from taxes	275,054	254,319	271,852	304,443	317,288
Non-Tax Revenues					
Canada Grain Act	1,485	1,445	1,236	1,205	1,219
Canada Gazette	74	74	56	47	49
Canals	977	831	878	838	883
Casual	3,758	3,192	3,613	4,337	4,372
Chinese revenue	10	9	6	6	6
Dominion lands	485	459	419	516	455
Electricity	402	298	440	485	530
Fines and forfeitures	234	212	178	90	199
Fisheries	40	5	39	43	41
Gas inspection	81	84	76	96	91
Insurance inspection	150	160	149	139	147
Interest on investments	9,330	11,221	11,148	10,963	10,600
Marine	192	178	208	218	223
Mariners' fund	184	180	188	181	189
Military college	20	20	20	20	20
Military pensions revenue	163	166	165	174	172
Ordnance lands	14	17	18	16	15
Patent and copyright fees	525	539	429	426	450
Penitentiaries	166	121	98	74	60
Post Office	32,235	30,928	30,893	31,248	32,507
Premium, discount and exchange	....	146	....	752	50
Public Works	281	213	250	254	241
Radio licences	529	1,414	1,291	1,487	1,562
R.C.M.P. officers' pensions	15	12	12	9	9
Weights and measures	407	394	400	407	402
	51,757	52,318	52,210	54,031	54,492
Total ordinary revenues	326,811	306,637	324,062	358,474	371,780
Special Receipts					
Sundry receipts and credits	7,028	4,493	418	3,397	320
Total revenues	333,839	311,130	324,480	361,871	372,100

Statement of Expenditures by Departments for the last Five Fiscal Years
(000 omitted)

Ordinary Expenditures	1931-32	1932-33	1933-34	1934-35	Estimated 1935-36
	$	$	$	$	$
Agriculture	10,212	8,066	6,996	7,107	9,703
Auditor General's office	436	380	376	377	428
Civil Service Commission	306	244	221	221	260
External Affairs, including office of the Prime Minister	994	863	974	1,427	1,324
Finance—					
Interest on public debt	121,151	134,999	139,725	138,533	134,550
Cost of loan flotations	1,350	1,639	2,550	2,890	3,575
Premium, discount and exchange (net)	728	....	167	....	....
Subsidies to provinces	13,695	13,677	13,728	13,769	13,769
Special grants to provinces	1,600	1,600	1,600	1,600	3,975
Other grants and contributions	536	499	398	467	761
Civil pensions and superannuations	1,172	1,098	1,032	943	868
Government contribution to superannuation fund	2,229	2,270	1,986	1,947	1,875
Old age pensions	10,032	11,513	12,314	14,942	16,760
General expenditure	1,845	2,046	3,148	3,925	3,724
Fisheries	2,046	1,787	1,596	1,641	1,727
Governor General's secretary's office	148	136	136	133	137
Immigration and Colonization	2,200	1,689	1,369	1,269	1,334
Indian Affairs	5,081	4,499	4,380	4,362	4,886
Insurance	180	161	152	156	171
Interior	4,647	3,454	2,833	2,744	2,952
Justice	2,793	2,691	2,712	2,718	2,753
Penitentiaries	2,737	2,870	2,677	2,667	2,477
Labour	633	605	560	581	662
Technical education	283	202	129	91	100
Government annuities—Payment to maintain reserve	262	289	184	146	272
Legislation—					
House of Commons	1,982	2,210	986	1,796	1,505
Library of parliament	81	65	69	71	77
Senate	650	747	286	491	491
General	79	81	62	95	60
Dominion Franchise office	....	....	....	1,545	503
Chief Electoral office including elections	145	56	32	146	1,093
Marine	7,262	5,801	5,439	5,742	5,959
Canadian Radio Broadcasting Commission	....	149	1,025	1,249	1,510
Mines and Geological Survey	1,264	1,048	909	965	1,102
Movement of Coal and Domestic Fuel Act	721	1,220	2,772	2,124	2,055
National Defence—					
Militia service	9,700	8,719	8,774	8,853	10,197
Naval service	3,043	2,167	2,171	2,222	2,379
Air Service	4,040	1,731	1,685	2,258	3,865
Sundry services	1,347	1,078	791	799	825
National Revenue, including Income Tax	13,920	10,846	10,354	10,165	10,983
Pensions and National Health—					
Treatment and after-care of returned soldiers	11,633	10,510	9,571	10,127	11,328
Pensions, war and military	47,770	44,185	42,923	43,232	42,870
Health Division	1,246	924	802	809	879
Post Office	36,052	31,607	30,554	30,252	31,607
Privy Council	53	47	49	46	47
Public Archives	212	174	157	209	162
Public Printing and Stationery	289	231	172	368	168
Public Works	17,648	13,108	10,827	9,905	12,951
Railways and Canals	3,997	3,667	3,315	4,581	4,305
Maritime Freight Rates Act	2,555	1,921	1,989	2,529	2,352
Railway grade crossing fund	959	318	310	275	128
Royal Canadian Mounted Police	3,488	5,820	5,528	5,970	6,192
Secretary of State	483	418	387	389	704
Soldier Settlement	1,036	818	810	746	761
Trade and Commerce—					
Department	6,417	3,277	3,007	3,058	3,528
Canada Grain Act	2,306	2,026	1,759	1,679	1,852
Mail subsidies and steamship subventions	2,999	2,081	2,221	2,274	2,431
Adjustment of war claims	91	55	56	48	71
Reparations—Claims for compensation	1,331	188	....	6	....
Sundry charges to consolidated fund	50	74	37	20	4
Total ordinary expenditure	372,145	354,644	351,772	359,700	373,987

[Mr. Dunning.]

Statement of Expenditures by Departments for the last Five Years—*Continued*
(000 omitted)

Capital Expenditures	1931-32	1932-33	1933-34	1934-35	Estimated 1935-36
	$	$	$	$	$
Canals	3,299	3,027	1,975	331	460
Railways	6,242	1,503	737	507	305
Public Works	7,439	4,018	3,778	6,189	5,811
Total capital expenditures	16,980	8,548	6,490	7,027	6,576
Special Expenditures					
Unemployment Relief Act 1930	13,190	548	4	3	24
Unemployment Relief Act 1931	25,106	17,048	564	52	24
Unemployment Relief Act 1932	....	19,125	6,948	399	105
Unemployment Relief Act 1933	....	....	28,382	2,420	491
Unemployment Relief Act 1934	....	....	....	49,114	1,121
Unemployment Relief Act 1935	....	....	....	....	47,704
Total unemployment relief	38,296	36,721	35,898	51,988	49,469
Public Works Construction Act	....	....	....	8,673	30,232
Canadian Pacific Railway (Relief acts—advances non-active)	....	1,447	1,000	....	....
Reduction of loans to soldier settlers	....	....	1,766	469	439
Wheat bonus	10,908	1,811	....	....	....
1930 Wheat Crop Equalization Payments Act	....	....	....	....	6,600
Loss on 1930 wheat pool and stabilization operations—Payment to Canadian Wheat Board of net liability assumed as at December 2, 1935	....	....	....	....	15,856
Loss on 1930 oats pool under guarantee of bank advances to Canadian Cooperative Wheat Producers Limited	....	....	....	....	174
Total special expenditures	49,204	39,979	38,664	61,130	102,770
Government Owned Enterprises					
Losses charged to consolidated fund—					
Canadian National Railways system ex eastern lines	(1)	53,423	52,264	42,590	41,796
Eastern lines	6,632	8,717	6,691	5,818	5,625
Canadian National Steamships	....	....	....	....	270
Harbour commissions	....	....	....	....	1,139
Total charged to consolidated fund	6,632	62,140	58,955	48,408	48,830
Loans and advances non-active—					
Canadian National Steamships	1,199	1,383*	14*	487	333*
Harbour commissions	1,913	4,898	2,110	1,242	2,461
Accounts carried as active assets, transferred to non-active assets	....	(2)62,938	....	11	....
Total non-active advances	3,112	66,453	2,096	1,740	2,128
Total government owned enterprises	9,744	128,593	61,051	50,148	50,958
Grand total expenditure	448,073	531,764	457,977	478,005	534,291

* Cr.
(1) $52,256,000 for fiscal years 1931-32 was financed by loans and /or guarantee of securities.
(2) Canadian National Railways—Loans for 1931-32—$41,121,000. Sundry harbour commissions—Advances prior to 1932-33—$21,817,000.

Summary of Revenues and Expenditures
(000 omitted)

—	1931-32	1932-33	1933-34	1934-35	Estimated 1935-36
	$	$	$	$	$
Ordinary expenditures	372,145	354,644	351,772	359,700	373,987
Ordinary revenues	326,811	306,637	324,062	358,474	371,780
Deficit on ordinary account	−45,334	−48,007	−27,710	−1,226	−2,207
Special expenditures	49,204	39,979	38,664	61,130	102,770
Less special receipts	7,028	4,493	418	3,397	320
Balance	42,176	35,486	38,246	57,733	102,450
Add capital expenditures	16,980	8,548	6,490	7,027	6,576
Add government owned enterprises	9,744	128,593	61,051	50,148	50,958
Total	68,900	172,627	105,787	114,908	159,984
Add deficit on ordinary account	45,334	48,007	27,710	1,226	2,207
Total deficit or increase of net debt	114,234	220,634	133,497	116,134	162,191

It is also proposed to depart from what I have sometimes called the "bridge score" method of accounting—so much above the line and so much below the line—and to present clearly the over-all deficit in the government's accounts. In the past we have too frequently misled ourselves by the form in which our government accounts were presented. We have pointed with pride to a small surplus on ordinary account and we have tended somewhat to minimize the importance of large deficits resulting from capital and special expenditures. It is time to look the facts squarely in the face. If the people of Canada are fully aware of all the facts, I am confident they will support us in taking the steps necessary to achieve that balance of government revenues and expenditures which in my opinion cannot safely be postponed much longer.

REVENUES 1935-36

Our total revenue from taxation and other sources during the past year aggregated $372,100,000. This total is $10,229,000 in excess of the total revenue for the preceding fiscal year.

The revenue from taxes alone amounted to $317,288,000, an increase of $12,845,000 over the preceding year.

The increase in tax revenue is more than fully accounted for by the income tax which yielded $82,700,000 as compared with $66,808,000 in 1934-35. This is the highest yield ever recorded from the income tax, the largest figure for any previous year being that of $78,684,000 in 1921-22. The increase during the past year arises in part from the improvement in individual and corporate incomes, but in part also from the surtax on investment income which was imposed for the first time last year.

The sales tax which was the second largest contributor to government revenue last year was responsible for a total collection of $77,000,000, an increase of $4,553,000 over the previous year.

Excise duties, imposed chiefly on liquors and tobacco, yielded $44,410,000, exceeding the collections of 1934-35 by $1,220,000, notwithstanding the substantial reduction made last year in the duty on liquors.

The yields from our other major types of taxation were lower last year than in the preceding fiscal year. The total revenue from customs import duties amounted to $74,000,000 as compared with $76,562,000 collected in 1934-35. A substantial increase in customs revenue had been budgeted for by my predecessor, because of an expected increase in the volume of imports. While the anticipated rise in imports, materialized, the increase was almost wholly in the non-dutiable items. The volume of dutiable imports increased only three per cent and the duties collected actually decreased, largely because of a decline in raw sugar imports and a shift of such imports from foreign countries to countries enjoying the British preferential tariff rates, and because of the reductions made in the duties on liquor last year.

Special excise taxes produced a total revenue of $35,700,000. This represents a decrease of $4,045,000, which is accounted for chiefly by the changes made last year under which the excise tax on beer was reimposed in the form of an excise duty on malt and by the elimination last year of the remaining half of the special three per cent tax on imports entitled to entry under the British preferential tariff or under trade agreements between Canada and other British countries.

Non-tax revenues, that is, the revenues derived from various departmental services of government, aggregated $54,492,000, an increase of $461,000 over the previous year. The main items under this heading are interest on investments which amounted to $10,600,000, and Post Office revenues which totalled $32,507,000, or nearly $1,260,000 in excess of the previous year. The so-called surplus on Post Office operations approximated $900,000. It must be remembered, of course, that the Post Office accounts do not include the rental value and other costs of premises occupied and equipment used, nor, on the other hand, do they include any credit to the Post Office for services rendered to other departments through the free use of the mails.

Special receipts during the last fiscal year amounted to only $320,000. This compares with $3,397,000 received in 1934-35 when the custodian of enemy property made a special transfer of $3,000,000 to the consolidated revenue fund.

EXPENDITURES 1935-36

While, as already indicated, I wish to draw special attention to the aggregate expenditure for which the government is responsible both on its own and on railway account, it will facilitate comparison with previous years if comment is first made on the various classes of expenditures which have traditionally been shown in the public accounts.

ORDINARY EXPENDITURES

The ordinary expenditures for the year have aggregated $373,987,000. This is $14,287,000 in excess of the expenditures for 1934-35. Nevertheless it is $16,000,000 lower than the total of the amounts authorized by vote and statute. This substantial reduction below the appropriations is accounted for, in part at least, by the measures taken by the present government when it came into office last October. One of its first acts was to initiate a careful examination of the trend of revenues and expenditures and an analysis of the financial commitments which had been made. The results of such examination were such as to lead to an immediate direction to all departments to effect every possible economy in ordinary and special expenditures and to defer any undertakings which could not be clearly justified on grounds of necessity or of substantial assistance in providing employment. Had such action not been taken, expenditures for the year would have been much higher than they actually were.

Some of the increase in ordinary expenditures last year was due to special causes, for instance the expenses involved in holding a national election. I suppose some of us think that expense was justified. Others may quarrel with it. The cost of old age pensions increased $1,818,000 and there were additional special grants to provinces amounting to $2,375,000.

Of special interest was the decrease of $3,983,000 in interest on the public debt, reflecting the economies resulting from conversion of outstanding securities into obligations bearing a lower interest rate, and the lower cost of treasury bills. Our interest burden last year was $134,550,000, which was lower than in any years since 1931-32. Nevertheless, it used up 36·2 per cent of our total revenue.

CAPITAL EXPENDITURES

Total expenditures charged to capital account amounted to $6,576,000, a decrease of $451,000 from the previous year. The chief item was $5,361,000 for dredging the river St. Lawrence ship channel.

SPECIAL EXPENDITURES

We come now to that important group of items which are classified as special expenditures. Some of the items so classified in previous budgets cannot be regarded as special in any real sense of the term and they are now included in ordinary expenditures. These items include $3,575,000 cost of loan flotations, representing flotation costs of new loans and annual charges for amortisation of bond discount; $1,875,000 government contribution to superannuation fund; $272,000 payment to maintain reserve in government annuities fund; and $128,000 representing expenditure made under the Railway Grade Crossing Act. In the tables showing expenditures for the past five years the necessary adjustments have been made in order to place the group totals for the various years on a comparable basis.

The importance of this category of special expenditures is indicated by the total expenditure of $102,777,000 which is $41,640,000 in excess of the preceding year and much higher than in any previous year.

Of this total $49,469,000 represents payments for unemployment relief purposes. This includes not only the cost of direct relief and provincial grants in aid, but also the maintenance of the relief camps, the care of single homeless unemployed persons, land settlement relief, special assistance to the Saskatchewan drought area and public works and undertakings carried out under authority of relief legislation. The following table compares the expenditures made for these various purposes during 1935-36 with the similar expenditures in the preceding fiscal year:

Unemployment Relief Expenditures

—	1934-35	Estimated 1935-36
Direct relief	$19,211,557	$ 262,388
Grants in aid (from August 1, 1934)	14,024,000	26,274,875
Public works and other projects	4,493,432	9,831,375
Land settlement relief	277,973	176,000
Relief camps—Department of National Defence	7,648,371	8,212,000
Care of single homeless unemployed persons	629,611	219,000
Department of the Interior, relief including works in national parks	515,911	180,000
Saskatchewan drought area relief	5,000,000	4,000,000
Miscellaneous, including administration	186,452	313,362
	$51,987,307	$49,469,000

It will be noted that as in the previous year, special assistance was given to the province of Saskatchewan for relief in the drought area of the province. This form of relief was by way of accountable advances totalling $4,000,000. During the fiscal year 1934-35, the sum of $5,000,000 was advanced for the same purpose and the total of $9,000,000 was intended to cover the dominion's obligation for the provincial relief year extending from September 1, 1934, to August 31, 1935. It is estimated that when all the accounts are received from the province the total of $9,000,000 will not be sufficient to take care of the dominion's obligation. Any excess will be applied in reduction of a loan made to Saskatchewan for that specific purpose. This excess, not yet determined, has not been included in the statement of expenditures.

When the present government took office on October 23 last, we found that through agreements with provincial governments certain commitments had been made for the year ending March 31, 1936. These commitments have of course been met and, in addition, as an emergency measure, the monthly grants in aid to provinces for direct relief were increased by seventy-five per cent for the four winter months of December, January, February and March for the purpose of enabling the provinces to grant greater assistance to their municipalities.

Another item under special expenditures which might well have been included in the cost of unemployment relief relates to expenditures made pursuant to the Public Works Construction Act, 1934, and the Supplementary Public Works Construction Act, 1935. Expenditures under these two acts during the last fiscal year aggregated $30,232,000 as compared with $8,673,000 in 1934-35. As at March 31, 1936, there remained unexpended $18,726,000 of the amounts authorized by these acts. Uncompleted projects and other projects authorized by these enactments which the government believes it advisable to proceed with have been provided for in the new fiscal year by the special supplementary estimates recently brought down in this house.

Included in the special expenditure for last year are three items representing losses incurred as a result of the wheat policy in effect during the past five years. The payment of $6,600,000 to primary producers of wheat who delivered wheat during the crop year 1930 has been amply debated in this house. The item of $15,856,645 represents the debit balance in the bank account of Canadian Cooperative Wheat Producers Limited as of December 2, 1935, which was assumed by the Canadian Wheat Board as a result of the transfer to it as of that date of the wheat and wheat contracts held by Canadian Cooperative Wheat Producers Limited in connection with the 1930 wheat pool account and stabilization account. As advances by the chartered banks to Canadian Cooperative Wheat Producers Limited were guaranteed by the dominion government, further supplementary estimates for 1935-36 will authorize payment to the Canadian Wheat Board of the amount of this liability assumed by it.

The operations of the Canadian Cooperative Wheat Producers Limited, in connection with oats of the 1930 crop resulted in a loss of $170,130 as at December 2, 1935, and under the terms of the government guarantee this amount with accrued interest to the date of payment will be paid to liquidate the bank liability.

Unfortunately, these three items totalling $22,630,000 may not represent the total cost of governmental wheat marketing operations. To them will have to be added any further losses that may result before the wheat and wheat contracts resulting from the 1930 pool and stabilization operations have been finally disposed of, and also any losses which the

Canadian Wheat Board may incur in marketing wheat of the 1935 crop for which a minimum price to primary producers of eighty-seven and one-half cents per bushel, basis No. 1 northern, Fort William, was fixed last September. Whether such losses will accrue and what their magnitude will be will depend on the prospective harvests in wheat producing countries of the world, on the demand of importing countries, and on the trend of wheat prices. These factors it is of course impossible to forecast. It may be emphasized, however, that the government does not believe itself warranted in assuming responsibility for holding such colossal quantities of wheat as have been held during the last few years. Without resort to dumping, its policy will be to market surplus wheat in an orderly manner as rapidly as world conditions will permit, with due regard to the progress of the next Canadian crop, and at the same time endeavouring to restore and expand in every possible way the demand for Canadian wheat and wheat products in world markets.

The remaining items under the caption of Special Expenditures are of minor importance.

Another important class of expenditures for which the government is responsible may be considered under the caption, "Government-owned Enterprises." This new category appears to be a convenient one in which to group together any losses of, or non-active advances to, government-owned enterprises which are operated as separate corporations. It will include the net income deficit of the Canadian National Railways, and any operating deficits of the Canadian National Steamships or of any harbours previously operated by harbour commissions but in future to be administered by the National Harbours Board, as well as any non-active advances to such enterprises. Non-active advances do not earn interest and are treated in the government accounts as expenditures.

CANADIAN NATIONAL RAILWAY COMPANY

Further improvement in operating revenues of the Canadian National Railway Company took place in 1935. The gain amounted to $8,200,000, or 5 per cent. Operating expenses were higher than in 1934, one of the important factors being the increase in wages brought about by the removal of a part of the payroll deduction. After providing for operating expenses and other charges such as taxes, rentals, etc., the company's accounts showed a net amount of $6,800,000 available for interest on debt. This result was not as satisfactory as in the previous year, when the amount available for this purpose was $7,400,000. After applying the sum of $6,800,000 available from earnings against interest charges of $54,200,000, there resulted a cash deficit of $47,400,000. This amount has been paid by the dominion and charged in our accounts as an expenditure for the year and compares with $48,400,000 in 1934, the improvement of nearly one million dollars being entirely accounted for by savings made in interest charges through refunding of securities.

It should be borne in mind that there are certain charges in the accounts of the railways not involving cash which should be taken into account in reconciling the above-mentioned figure of cash deficit with the net loss for the year as shown by the annual report of the railway company.

In addition to the provision for deficits, the government advanced $7,574,000 to the Canadian National Railways in the fiscal year period for capital expenditures and retirement of debt. This amount is shown in the public accounts under Loans and Investments. The figure is made up as follows: capital expenditures under the 1935 budget, $687,000; purchase of and repairs to equipment under the Supplementary Public Works Construction Act, $5,068,000; retirement of debt (net), $1,819,000.

Important refunding operations in connection with the long-term funded debt of the railway company took place during the year. Four issues of bonds aggregating $108,519,000 were called for redemption prior to their maturity dates and were replaced by securities bearing lower rates of interest. These issues were:

$35,000,000 4½% bonds due December 1, 1968;

$26,000,000 4½% bonds due September 15, 1954;

$23,740,000 7% bonds due October 1, 1940;

$23,779,000 7% bonds due December 1, 1940.

In addition, temporary loans obtained in connection with the maturity of $17,000,000 4½ per cent bonds on February 15, 1935, were funded. This made a total of securities included in the refunding operations of $125,519,000. Provision for this amount, together with premiums payable upon call of the bonds and discounts on the new issues, was made by the sale of railway company securities guaranteed by the dominion to the principal amount of $128,400,000 and a temporary loan of $2,043,000 from the dominion treasury. The details of the new issues and the interest cost to the company, are shown in the following statement:

Canadian National Railway Company
Guaranteed Bonds issued for Refunding, 1935-36

Issue date	Maturity date	Interest rate	Cost to company	Amount
May 1, 1935	May 1, 1938	2%	2.35%	$13,400,000
	May 1, 1944	3%	3.29%	35,000,000
February 15, 1936	February 15, 1943	2%	2.31%	55,000,000
	February 15, 1953	3%	3.25%	25,000,000

The annual saving to the company, after providing for the amortization of the premiums paid upon the called bonds, will be approximately $3,000,000 a year as a result of this refunding. All of the redeemed bonds were payable, either optionally or solely outside of Canada, and the new issues are payable in Canada only. In connection with the redemption of the three issues in September, October and December last, the necessary funds were first obtained by the sale in New York of direct obligations of the dominion and later the company recouped the dominion from the proceeds of the sale of its securities in Canada.

On March 31, 1936, the amount of the debt of the Canadian National railway system outstanding in the hands of the public was $1,217,000,000, having been reduced by $21,000,000 in the past year. Of the amount outstanding, $964,000,000 are obligations guaranteed by the dominion.

CANADIAN NATIONAL STEAMSHIPS

Proceeding further to deal with the provision which it has been necessary to make for government-owned enterprises, it is satisfactory to report that the operations of the Canadian National Steamships showed a considerable improvement over the previous year. The cash loss on the West Indies service was $270,000, as compared with $567,000 in 1934. The Canadian Government Merchant Marine had operating earnings of $312,000, as compared with a deficit of $127,000 in 1934. An amount of $179,000 was advanced for capital expenditures on the West Indies fleet, but this expenditure was more than offset by the return to the government of a further $200,000 advanced in previous years to the merchant marine for working capital. Taking into consideration all these transactions, there was a credit of $63,000 on account of steamship services.

HARBOUR COMMISSIONS

Assistance to harbour commissions appearing in our expenditure accounts amounted to $3,600,000. This amount is made up of $1,139,000 paid to liquidate bank loans obtained for operating deficits in Quebec, Chicoutimi and Halifax, and represents losses incurred not only in 1935 but also in previous years. The balance is comprised of advances (non-active) of $482,000 for deficit on the Jacques Cartier bridge, Montreal, and $1,979,000 for expenditures in the harbours of Saint John, Halifax, Three Rivers and Quebec.

To sum up, the total amount treated as expenditures in our accounts in connection with the operation of the railways and other government owned interprises, was $50,958,000, as compared with $50,148,000 in the previous year. This is exclusive of the amounts carried as investments to which reference will be made later.

SUMMARY OF EXPENDITURES

Adding together ordinary, capital and special expenditures, as well as losses of and non-active advances to government owned enterprises we find that the grand total of expenditures for which the government was responsible was $534,291,000. This is an increase of $56,286,000 during the last fiscal year as compared with 1934-35 and of $2,527,000 as compared with 1932-33, the worst year of the depression. The increase over the previous year, it will be remembered, is more than fully accounted for by the rise of $14,287,000 in ordinary expenditures, the $21,559,000 increase in expenditure under the Public Works Construction Acts and the $22,630,000 payments made and losses taken in respect of wheat and oats.

I direct attention to the fact that in the last fiscal year nearly 62 per cent of the dominion's revenues were required to meet fixed and uncontrollable expenditures, such as interest; war and old age pensions and superannuation; care of returned soldiers; subsidies to provinces and certain other outlay of this nature. In the year 1913-14, the last fiscal year prior to the war, only 19 per cent of the revenues were allotted to items generally regarded as uncontrollable, and even in 1929-30, when the effect of the war cost had been shown in our expenditures, the proportion was but 44 per cent, as compared with 62 per cent last year. Although it is not possible at this date, except by certain arbitrary assumptions, to make exact calculations, nevertheless it is obvious from an examination of the expenditure statements that the burden of the war cost, both direct and indirect, is even to-day a major factor in our budgetary situation.

A statement showing the proportion of the revenues required for fixed and uncontrollable expenditures in the years 1913-14, 1929-30 and 1935-36, follows:

Proportion of Dominion Revenues Required for Certain Uncontrollable Expenditures

—	1913–14	1929–30	1935–36
	%	%	%
Interest on debt	8.61	27.54	36.19
European war pensions	....	8.86	11.19
Old age pensions	....	.35	4.51
Other pensions and superannuation	.51	1.01	1.22
Care of returned soldiers	....	1.93	2.90
Subsidies to provinces	7.53	2.83	3.70
Other items	2.07	1.22	2.25
	18.72	43.74	61.96

DEFICIT 1935-36

Taking the total revenues for the year at $372,100,000 and the total expenditures at $534,291,000, there is an over-all deficit for the last fiscal year of no less than $162,191,000.

This, of course, takes into account the railway deficit as well as all direct governmental expenditures and makes allowance for special receipts. It compares with a total deficit in the previous year of $116,134,000. It represents the gap between total income and total outgo which must be bridged. I shall have some comments to make on this deficit at a later stage.

LOANS AND INVESTMENTS

In addition to provision for the expenditures of the year as already outlined, loans and investments to the amount of $60,400,000 were made.

LOANS TO PROVINCES

The most important of these were loans to the four western provinces aggregating $42,300,000, under authority of the relief acts. The net amount loaned was very much greater than in any previous year due chiefly to large loans to the provinces of Alberta and British Columbia to meet maturing obligations. For this purpose $5,400,000 was advanced to Alberta and $5,900,000 to British Columbia. Loans were also granted for the financing of relief expenditures including public works and agricultural relief and for seed grain and seeding operations. The amount of loans to each province, classified as to purpose, are shown on the following statement:

Loans to Provinces under Relief Acts, Fiscal Year 1935-36

Purpose	Manitoba	Saskatchewan	Alberta	British Columbia	Total
	$	$	$	$	$
For provincial purposes including public works, direct relief and agricultural relief	4,183,655[1]	8,146,044	7,232,000[2]	6,195,000	25,756,699
To meet maturing obligations	....	....	5,435,000	5,971,000	11,406,000
For re-loan to municipalities	537,000	145,000	450,000	400,000	1,532,000
For seed grain and seeding operations	....	6,000,000	....	....	6,000,000
	4,720,655	14,291,044	13,117,000	12,566,000	44,694,699
Less cash re-payments and credits applied	2,324,429	45,565	13,000	7,555	2,390,549
Net loans during 1935-36	2,396,226	14,245,479	13,104,000	12,558,445	42,304,150

[1]Includes $408,155 for drought area relief including seed grain.
[2]Includes $1,050,000 for agricultural relief including seed grain.

The amount due by the provinces at the beginning of the fiscal year was $74,200,000. With the addition of the loans made during the year, the total of dominion assistance by way of loan to the four western provinces under the relief acts, now stands at $116,500,000. The dominion holds one-year treasury bills of the provinces bearing interest at the rate of 4½ per cent to July 1, 1935, and 4 per cent thereafter, in respect of these loans. The provinces of Manitoba, Alberta and British Columbia have paid the interest in cash as it became due, but the province of Saskatchewan, being unable to meet all of such payments, has covered the interest accruals on the major portion of its outstanding loans by tendering treasury bills to the dominion. A statement of the loans to date by provinces, showing generally the purpose for which they were granted, follows:

Loans to Provinces under Relief Acts

Net Amount outstanding at March 31, 1936

—	Loans specifically to meet maturing obligations and interest	Loans specifically for agricultural relief including purchase of seed grain	Loans for provincial purposes generally including public works and direct relief	Total
	$	$	$	$
Manitoba	1,139,455	244,400	14,121,000	15,504,855
Saskatchewan	3,934,341	13,892,633	30,541,655	48,368,629
Alberta	8,577,000	3,322,000	13,182,000	25,081,000
British Columbia	11,262,109	....	16,310,571	27,572,680
	24,912,905	17,459,033	74,155,226	116,527,164

OTHER LOANS AND INVESTMENTS

Loans to the Canadian National Railway Company for capital expenditures and retirement of debt, as already referred to, amounted to $7,574,000. Purchases of equipment for the Canadian Pacific Railway Company and loans to that company for equipment repairs —all as provided under the Supplementary Public Works Construction Act—amounted to $4,629,000. Agreements between the government and the company provide for the payment of interest and repayment of the principal by instalments over a period of years.

The government's investment in the Canadian Farm Loan Board was increased in the year by $7,933,000. Of this amount, $175,000 was for the purchase of capital stock of the board, $7,550,000 for purchase of bonds, and $208,000 for the purchase from various provinces of capital stock subscribed by them during the period in which the provinces participated in the farm loan scheme. The total investment of the government in the board now amounts to $16,790,000. While the board operated at a loss during the fiscal year, provision therefor will be made from the reserves set aside in previous years. Bonds of the board are now being purchased on a 3½ per cent basis.

Under investments there are also included $1,439,000 advanced during the year to the harbour commissions at Montreal and Vancouver. These loans are carried as active assets as both these commissions have paid a substantial proportion of the interest charged on their indebtedness.

During the year, repayments totalling three and a half millions were received in reduction of soldier settlement loans and loans to provinces for housing.

The following statement shows the amount of loans and investments (active assets) during the last fiscal year, with comparisons for the four previous years:

Loans and Investments Active

(000 omitted)

—	1931-32	1932-33	1933-34	1934-35	Estimated 1935-36
	$	$	$	$	$
Provinces—under relief legislation	22,634	15,565	13,115	22,909	42,304
Canadian Farm Loan Board	1,608	871	416	353	7,933
Canadian National Railway	41,121	14,677	2,628	16,579	7,574
Canadian Pacific Railway	....	....	....	....	4,629
Harbour Commissioners	12,138	650	1,677	393	1,439
Soldier land settlement	483 Cr.	92 Cr.	2,492 Cr.	571 Cr.	555 Cr.
Provinces—housing	150 Cr.	139 Cr.	213 Cr.	397 Cr.	3,003 Cr.
Other	115 Cr.	469	....	....	82
	76,753	32,001	15,131	39,266	60,403

LOAN FLOTATIONS

New issues of dominion obligations during the year totalled $500,000,000, exclusive of temporary financing in connection with which repayment was made before the close of the fiscal period. These issues, to the extent of $297,000,000, were for the purpose of refunding maturing obligations. The balance of $203,000,000, representing the net increase in funded debt and treasury bills during the year, was issued for deficit and other current purposes. This large amount of financing was successfully carried out at lower rates of interest both for short and long term issues than ever before. At the close of the fiscal year the average rate of interest on the outstanding funded debt and treasury bills, was 3·9 per cent as compared with a corresponding figure of 4·15 per cent a year ago.

Three issues amounting in the aggregate to $164,000,000 were made in the United States for refunding purposes, including redemption of Canadian National Railway bonds already referred to. These were the first public flotations by the dominion government in that market for several years and necessitated registration under the United States Securities Act. The interest cost to the government was 2·09 per cent for three-year notes, 2·96 per cent for ten-year and 3·63 per cent for twenty-five year bonds.

The issues in Canada, exclusive of treasury bills, totalled $303,000,000. The sale of $135,000,000 of one-year and three-year notes was made to Canadian chartered banks in September last, mainly to meet maturing short term obligations held in large part by those institutions. Two public offerings were made, one dated June 1 for $60.000,000 and one dated November 15 for $75,000,000. The interest cost to the government ranged from 1·90 per cent for one-year notes to 3·10 per cent on twenty-year bonds.

The $33,293,000 of 5 per cent school lands debenture stock held by the prairie provinces were again renewed for one year at the same rate of interest.

The policy of selling three-months treasury bills in the Canadian market was continued during the year, and the amount of issues outstanding was increased by $33,300,000. The rate of discount on these bills dropped from 1·698 per cent on April 15, 1935, to ·999 on March 16, 1936. Since that date, further issues have been made, the record low cost of ·879 per cent being obtained on April 15.

I now place on Hansard a statement giving the essential details of the new issues made during the year:

Loan flotations 1935-1936

Issue date	Maturity date	Interest rate	Where payable	Price	Cost to Govt.	Amount Issued
		per cent			per cent	
1935—						
June 1	June 1/43	2½	Canada	99·50	2·57	20,000,000}
June 1	June 1/55	3	Canada	98·50	3·10	40,000,000}
July 1	July 1/36	5	Canada (School Lands)	100·00	5·00	33,293,471
Aug. 15	Aug. 15/45	2½	New York	96·00	2·96	76,000,000
Sept. 15	Sept. 15/36	1½	Canada	99·61	1·90	45,000,000}
Oct. 15	Oct. 15/38	2	Canada	99·2175	2·275	90,000,000}
Nov. 15	Nov. 15/39	2	Canada	99·43	2·15	20,000,000
Nov. 15	June 1/55	3	Canada	98·75	3·08	55,000,000
1936—						
Jan. 1	Jan. 1/39	2	New York	99·75	2·09	40,000,000
Jan. 15	Jan. 15/61	3¼	New York	93·86	3·63	48,000,000
						467,293,471
Increase in short term treasury bills outstanding March 31, 1936, over March 31, 1935						33,300,000
						$500,593,471

The following is a statement of the unmatured funded debt and treasury bills of the dominion outstanding at March 31, 1936, showing also the annual interest charges thereon:

Unmatured Funded Debt and Treasury Bills, as at March 31, 1936, and Annual Interest Charges

Date of Maturity	Rate per cent	Where Payable	Amount of Loan	Annual Interest Charges
			$ cts.	$ cts.
1936 July 1	5	Canada	33,293,470 85	1,664,673 54
Sept. 15	1½	Canada	45,000,000 00	675,000 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	89,787,000 00	4,489,350 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
Oct. 15	2	Canada	90,000,000 00	1,800,000 00
1939 Jan. 1	2	New York	40,000,000 00	800,000 00
Oct. 15	4	Canada	47,269,500 00	1,890,780 00
Oct 15	2½	Canada	7,933,000 00	198,325 00
Nov. 15	2	Canada	20,000,000 00	400,000 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 June 1	2½	Canada	20,000,000 00	500,000 00
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 Aug. 15	2½	New York	76,000,000 00	1,900,000 00
Oct. 15	4	Canada	88,337,500 00	3,533,500 00
1946 Feb. 1	4½	Canada	45,000,000 00	2,025,000 00
1947 Oct. 1	2½	London	4,888,185 64	122,204 64
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
June 1	3	Canada	40,000,000 00	1,200,000 00
June 1	3	Canada	55,000,000 00	1,650,000 00
1956 Nov. 1	4½	Canada	43,125,700 00	1,940,656 50
1957 Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958 Sept. 1	4	London	73,000,000 00	2,920,000 00
Nov. 1	4½	Canada	276,687,600 00	12,450,942 00
1959 Nov. 1	4½	Canada	289,693,300 00	13,036,198 50
1960 Oct. 1	4	London	93,926,666 66	3,757,066 67
Oct. 1	4	New York	100,000,000 00	4,000,000 00
1961 Jan. 15	3¼	New York	48,000,000 00	1,560,000 00
Treasury bills due April 1, 1936, 1·19 per cent, Canada			25,000,000 00	297,500 00
Treasury bills due April 15, 1936, 1·15 per cent, Canada			25,000,000 00	287,500 00
Treasury bills due May 1, 1936, 1·09 per cent, Canada			30,000,000 00	327,000 00
Treasury bills due May 15, 1936, 1·05 per cent, Canada			20,000,000 00	210,000 00
Treasury bills due June 15, 1936, 0·999 per cent, Canada			20,000,000 00	199,800 00
			3,265,287,604 46	128,597,577 18

Payable in Canada	$2,401,633,007 67	73·55%
Payable in Canada and New York	89,787,000 00	2·75%
Payable in New York	364,000,000 00	11·15%
Payable in London	409,867,596 79	12·55%
	$3,265,287,604 46	100·00%
Less bonds and stocks of the above loans held as sinking funds	58,168,944 35	
	$3,207,118,660 11	

(a) Tax free in Canada.

Now with regard to our old friend the national debt.

THE NATIONAL DEBT

At March 31, 1936, the unmatured funded debt and treasury bills of the dominion outstanding, less sinking funds, amounted to $3,207,000,000. To this amount are to be added other liabilities, mainly composed of insurance and superannuation funds, post office savings deposits and certain trust and contingent accounts, amounting to $225.000,000, to arrive at the gross liabilities of $3,432,000,000. Active assets, including cash on hand and investments, amounted to $424,000,000. After deducting the latter figure from the gross liabilities, the net debt at the close of the fiscal year amounted to $3,008,000,000. When we left office in August, 1930, the net debt of the dominion stood at $2,141,000,000, the increase in the interval being $867,000,000. The total funded debt increased almost one billion dollars in the period.

I now place on Hansard a statement showing the assets and liabilities as at March 31, 1936:

Liabilities, March 31, 1936 (estimated)

Bank Circulation Redemption Fund		$ 6,858,000
Insurance and superannuation funds—		
Government annuities	$ 66,835,000	
Insurance fund, civil service	9,990,000	
Insurance fund, returned soldiers	14,777,000	
Retirement fund	8,361,000	
Superannuation funds	51,140,000	
		151,103,000
Trusts funds—		
Indian funds	13,929,000	
Common school funds	2,676,000	
Contractors' securities deposits	1,551,000	
Other trust funds	2,870,000	
		21,026,000
Contingent and special funds		5,877,000
Post Office money orders, postal notes, etc. outstanding		2,736,000
Province accounts		9,624,000
Post Office savings bank deposits		22,050,000
Funded debt—		
Unmatured	3,207,119,000	
Matured but not presented for payment	4,228,000	
		3,211,347,000
Interest coupons matured but not presented for payment		2,050,000
		$3,432,671,000

Assets, March 31, 1936 (estimated)

Active assets—		
Cash, working capital advances and other current assets		$ 24,043,000
Gold bullion account		2,287,000
Loans to provinces—		
Housing	$ 6,768,000	
Relief Acts	116,996,000	
		123,764,000
Loans to foreign governments—		
Greece	6,525,000	
Roumania	23,969,000	
		30,494,000
Loans to harbour commissioners—		
Montreal	59,134,000	
Vancouver	23,744,000	
New Westminster	275,000	
		83,153,000
Loans under Dominion Housing Act		82,000
Bond holding account		659,000
Canadian National Railways		41,458,000
Canadian Pacific Railway		4,629,000
Canadian Farm Loan Board		16,790,000
Soldier and general land settlement		43,630,000
Seed grain and relief advances		2,358,000
Canadian government railways open and stores accounts		15,749,000
Deferred debits—		
Unamortized discount and commission on loans		35,284,000
		$ 424,380,000
Net debt March 31, 1936 (estimated)		3,008,291,000
Represented by—		
Non-active assets, March 31, 1936 (estimated)		

Assets, March 31, 1936 (estimated) Concluded

Capital expenditures—		
Public Works—		
Canals	$ 242,871,000	
Railways	443,190,000	
Public buildings, harbour and river improvements	264,929,000	
Military property and stores	12,035,000	
Territorial accounts	9,896,000	
		972,921,000
Loans non-active—		
Canadian National Railways		655,527,000
Railway accounts (old)		88,399,000
Canadian National Steamships		15,508,000
Harbour commissioners—		
Quebec	26,293,000	
Chicoutimi	3,539,000	
Halifax	9,515,000	
Saint John	14,046,000	
Three Rivers	3,144,000	
Montreal (Jacques Cartier bridge)	2,504,000	
		59,041,000
Seed grain and relief advances		536,000
Soldier and general land settlement		16,514,000
Miscellaneous advances		3,525,000
Consolidated fund—		
Balance, consolidated fund, brought forward from March 31, 1935	1,042,806,000	
Excess of expenditure over revenue, fiscal year ended March 31, 1936 (estimated)	153,514,000	
		1,196,320,000
		$3,008,291,000

INDIRECT LIABILITIES

Bonds and debenture stocks bearing the guarantee of the dominion outstanding in the hands of the public at the close of the fiscal year amounted to $994,600,000. The increase during the year was $7,300,000, accounted for by changes in Canadian National Railway issues, including the funding of a temporary loan from the government outstanding a year ago.

Other contingent liabilities are those arising out of guarantees given pursuant to the relief and other acts. During the year the government gave guarantees under authority of the Canadian Wheat Board Act. The amount of these guarantees at March 31, 1936, was about $58,000,000.

The guarantee of bank loans to the Canadian Pacific Railway Company, the original amount of which was $60,000,000, was further reduced during the fiscal year by $12,000,000, the indebtedness at March 31 being $36,000,000. The government is advised that the company has made arrangements to liquidate the balance of the loans on May 1 and the dominion will be relieved of its liability without loss.

The guarantee arising out of the assumption by the chartered banks of the liability of the Province of Manitoba Savings Office was further reduced during the year by $1,500,000.

The amounts of the bonds and debenture stocks and other indebtedness guaranteed by the dominion are shown in the following statement:

Bonds and Debenture Stocks Guaranteed by Dominion Government

As at March 31, 1936

Date of maturity	Issue	Interest rate	Amount outstanding
		per cent	$ cts.
Sept. 1, 1936	Grand Trunk	6	24,220,000 00
May 1, 1938	Canadian National	2	13,400,000 00
Feb. 15, 1943	Canadian National	2	55,000,000 00
May 1, 1944	Canadian National	3	35,000,000 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
Feb. 15, 1953	Canadian National	3	25,000,000 00
July 10, 1953	Canadian Northern	3	9,359,996 72
Feb. 1, 1954	Canadian National	5	50,000,000 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	7,896,548 57
May 4, 1960	Canadian Northern Alberta	3½	3,149,998 66
May 19, 1961	Canadian Northern Ontario	3½	34,229,996 87
Jan. 1, 1962	Grand Trunk Pacific	3	34,992,000 00
Jan. 1, 1962	Grand Trunk Pacific	4	8,440,848 00
July 1, 1969	Canadian National	5	60,000,000 00
Oct. 1, 1969	Canadian National	5	60,000,000 00
Nov. 1, 1969	Harbour Commissioners of Montreal	5	19,000,000 00
Feb. 1, 1970	Canadian National	5	18,000,000 00
By tenders or drawings	Canadian National	2	25,189,243 73
Various dates, 1936-54	City of Saint John debentures, assumed by Saint John Harbour Commission	Various	1,208,527 74
Serial, Feb. 1 and Aug. 1, 1936-1938	Canadian National eqpt. "G"	5	3,750,000 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 Railway of Canada debenture stock	4	1,499,979 67
			$994,550,255 00

Other Indebtedness Guaranteed

	Estimated principal amount outstanding March 31, 1936
Bank advances, re Province of Manitoba Savings Office	$ 7,305,541
Bank advances, re government of Newfoundland	625,000
Bank advances, re Canadian Pacific Railway Company	36,000,000
Bank advances, re Dominion Steel and Coal Corporation (order for rails)	217,134
Province of British Columbia treasury bills	626,533
Province of Manitoba treasury bills	5,894,127
Bank advances, re Canadian Cooperative Wheat Producers Ltd	370,000
Bank advances and other liabilities, Canadian Wheat Board	58,260,000
Reserve of chartered banks on deposit in Bank of Canada	188,202,917

BUDGET FORECAST 1936-37

I have already announced that the overall deficit for the last fiscal year is estimated at $162,191,000. The size of that deficit cannot fail to have impressed the house. Its seriousness is enhanced by the fact that it is but the latest in a series of deficits which have averaged over $138,000,000 per year during the past six depression years. The magnitude of these deficits, and particularly of the latest one, is such that in my opinion few honourable members will be disposed to question the declared purpose of the government to end in the shortest practicable time the era of recurring deficits. That purpose the government intends to pursue steadily as an essential condition of the restoration of business confidence and the free functioning of private enterprise. This, it is believed, will contribute more effectively to the solution of the problems of unemployment and depression than any other single thing which governments can do.

I am not an alarmist. On the contrary, I am confident that common sense and sound economic policies can solve our immediate problems. Moreover I am convinced that this country can bear all the burdens which the war and the depression and past mistakes have saddled upon it, great as they have been. Nevertheless I believe that no country can go on indefinitely with heavily unbalanced budgets and continue to maintain either the confidence of investors or the basis upon which her economy can function healthily and vigorously. We have now reached the stage where delay should no longer be tolerated. We must make an immediate approach to a balanced budget and we must be able to show that complete equilibrium can be reached within a reasonable time.

I am well aware that this will be called a doctrine of deflation. Indeed, I have heard it said recently that Canada has been following a policy of "heroic deflation" and that she should take a leaf out of the book of the mother country. It is not easy for me to understand how departure from the gold standard, recurring deficits, financing by borrowing, of the magnitude of those which I have outlined, and a monetary policy which has allowed the Canadian dollar to fluctuate approximately at par with the managed sterling standard and with the devalued United States dollar and which has made possible an expansion of the country's cash base just as rapidly as that of Great Britain, can be described as deflation. More careful analysis would rather appear to indicate that in these financial matters about the only point in the British program which we have not already adopted is her policy of keeping the budget balanced. That, as everyone knows, was regarded by Great Britain as the very cornerstone of the recovery program. So much so that the latest British budget imposes substantial increases in a tax structure of already harassing proportions in order to provide funds for increased expenditures considered necessary for purposes of national defence.

In my opinion it is not feasible for us to achieve a complete balancing of our budget immediately. That I am bound to admit would involve deflation and to a degree that would probably prove intolerable. What we can and must do is to make an immediate, appreciable approach to a balanced budget as the first step in a definite, positive program which will assure the attaining of our final objective within a limited period. I shall now outline the measures which we propose to take and indicate the considerations which have influenced us in each case.

On the expenditure side our first step has been to put an end to the era of "blank cheques" and to reestablish the control of parliament over both the character and the amount of government expenditures. Before the house rises a complete presentation will have been made of the amounts which the executive branch of government believes it will be necessary to spend during the year and these amounts will have been duly authorized by parliament. The main estimates for 1936-37 which were brought down some time ago were designed to cover the ordinary operations of government. Unquestionably they should be, and they will be, more than amply provided for by ordinary revenues. The special supplementary estimates, recently tabled, were intended to make provision for those special or emergency needs, chiefly the costs of unemployment relief and the deficits of government owned enterprises, which arise out of the abnormal conditions now prevailing. Later, the usual provision may be necessary by way of further supplementary estimates for a moderate amount of additional expenditures not taken care of in the main estimates. With this procedure the public will be assured that the aggregate of those authorizations will represent at least the maximum to be expended during the present fiscal year. I am convinced that this traditional procedure will make far sounder and more economical administration.

Such savings as can be made in ordinary expenditures by more effective control on the part of spending departments and by a painstaking search for economies, elimination of waste and duplication of effort, will be effected to the maximum possible extent. It is apparent, however, that the opportunity for reductions, except by elimination of essential services is limited.

The two major obstacles to a balanced budget are the cost of unemployment relief including relief undertakings and the Canadian National Railways deficit. Canada's success in reducing these two classes of expenditure will be the measure of her progress both in achieving a balanced budget and also in furthering the march of recovery.

In so far as the Canadian National is concerned, the house is now familiar with the progress already made. As shown by the special supplementary estimates, the railway is asking us this year for $39,900,000 on account of its net income deficit for the present calendar year. This compares with $47,400,000 in 1935 and with the depression peak of $62,100,000 in 1932. In view of the railway measures now before the house, this is not the appropriate time at which to discuss the government's railway policy. I may say, however, that we are confident that this cash deficit can be further substantially reduced as a result of the measures which will be taken to place the management of the road on a more responsible basis.

In regard to the other major cause of our deficits, the outlines of a well-knit and comprehensive program designed to meet the unemployment problem have already been presented to the house. For the first time since the depression began, a serious effort has been made to compile the statistics necessary to give us the essential factual basis for analyzing the range and specific character of the problem with which we are faced. If diagnosis should precede remedy, that step should commend itself. In the second place, we have provided for the appointment of a representative national commission which will be charged with the functions of investigating relief methods and policies now in effect of enlisting the cooperation of the provinces, the municipalities, employers and employees' organizations and other public and private agencies throughout the dominion, and of making recommendations as to the best methods of handling relief and providing remunerative employment. In other words, we are seeking to mobilize all our resources in a nation wide cooperative attack on this, the most urgent of our immediate national problems. Finally, we are providing in the special supplementary estimates for the money necessary to meet direct relief costs and to carry on a program to provide employment through constructive undertakings on a scale commensurate with our financial resources.

Knowing what our total expenditures are likely to be, we are now in a position to consider what taxation and other revenues we should budget for. On the basis of the tax and tariff rates now in effect, it is estimated that the revenues for the present fiscal year will aggregate $387,850,000 derived from the usual sources as follows:

Taxation revenue:	
Customs duties..	$ 75,000,000
Excise duties..	46,000,000
Income tax..	87,000,000
Sales tax..	80,000,000
Manufacturers', stamp, importation and other special taxes..	42,000,000
Total taxation revenue..	$330,000,000
Non-tax revenue:	
Post Office..	$ 33,500,000
Interest on investments..	11,350,000
Other sources..	13,000,000
Total non-tax revenue..	$ 57,850,000
Grand total revenue..	$387,850,000

As the main estimates and the special supplementary estimates call for expenditures of over $509,000,000 to which will have to be added any further supplementary estimates, it is apparent that the deficit for the year would probably total over $125,000,000 without taking into account possible losses on wheat, unless provision is made for additional revenue by way of new or increased taxes. For the reasons already given, vitally affecting, as I believe, our national welfare, I feel it necessary to budget for a deficit this fiscal year of less than $100,000,000, not taking into account any further losses resulting from wheat marketing operations which of course are unpredictable. If this can be accomplished, it will represent a definite improvement compared with the deficit of $162,000,000 for the last fiscal year.

It therefore becomes necessary to provide for additional taxation revenue in the amount of approximately twenty-eight to thirty million dollars. In imposing new tax levies, one must bear in mind the desirability of avoiding any undue retarding effect on business recovery. The information which I have given in the early part of this address indicates that the national income is surely and steadily rising. I am confident, therefore, that the amount of new taxation which we feel it necessary to impose will not have a deterrent effect on the business trend which is now definitely upward. Rather do I believe that business men and the public generally will gain new confidence from our endeavour to grapple vigorously with our problems of national finance and will be willing to cooperate wholeheartedly in sharing the new burdens which are believed necessary.

It is now my task to outline the changes in our taxation and tariff structure which are proposed.

INCOME TAX

The most important change to be made under the Income Tax Act and the first proposal for raising additional revenue is an increase in the ordinary rate of tax on corporations from 13½ per cent to 15 per cent. At the same time, where returns are consolidated, the rate will be raised from 15 per cent to 17 per cent. In view of the extent to which provincial governments are now levying personal income taxes, and in view also of the surtax on investment income imposed by the dominion last year, it is not proposed to alter the existing schedule of rates on individual incomes.

My next proposal relates to the metal mining industry. The contribution which this industry has made to the economic well-being and indeed to the financial integrity of the dominion during the depression years is well known. Great as its development has already been, a much greater future appears to lie in store. In the opinion of many, we have little more than begun to tap the varied mineral wealth of this country. Moreover, the most important branch of the industry, namely, gold mining, is in the fortunate position of producing a commodity for which the demand appears to be unlimited. In other industries production cannot be speeded up without creating oversupply and breaking the market. In the case of gold, however, overproduction seems under present conditions to be impossible and the price remains fixed at least for long periods of time. On the other hand, the industry is one in which the risks are great, especially in the initial stages. Exploration and development require expenditure of large amounts of capital over a considerable period of time. Private enterprise, therefore, can only be induced to enter the field if the prizes to be gained for the relatively few successes are attractive.

Because of these special characteristics, the industry appears to offer a unique opportunity for a constructive governmental policy designed to stimulate an expansion of mining activity with its resultant effects on employment and purchases of supplies and materials. The government therefore proposes to grant exemption from corporate income tax to any metalliferous mine coming into production between May 1, 1936, and January 1, 1940, such exemption to apply to its income for the first three years following the commencement of production. This definite step to encourage the development of the mining industry combined with the additional provision for geological surveys and investigations and for transportation facilities into new mining areas made in the main and special supplementary estimates should do much to accelerate new exploration and development work during the present year and the following two or three years. I desire to add that as uncertainty of taxation is a definite deterrent to the making of new commitments in a hazardous industry, the mining industry may rely upon it that this government will not impose discriminatory taxation with respect to mines. While the present government is in power, mining enterprises can depend upon treatment at least as favourable as that accorded to other industries under the corporation income tax.

In view of the decline in interest rates, it is intended to reduce the rate of interest on unpaid instalments of income tax from 6 per cent to 5 per cent, and to lower the penalty rate of interest with respect to overdue tax from 4 per cent to 3 per cent.

The gift tax is to be altered by requiring that payment of the tax shall be made annually rather than at the time each gift is made. Furthermore, gifts up to $1,000 annually to any one person will be exempt from the provisions of the gift tax in future.

Finally, important changes are being made in the treatment of companies which have technically come to be known as "4 (k) companies"—in other words, incorporated companies "whose business is not only carried on but whose assets, also, are situate entirely outside of Canada." This category will be reserved exclusively for the type of industrial or commercial operating company for which it was originally created. A new category will be provided for investment holding companies wholly owned by non-residents, which will be required to pay a tax on their income at a rate equal to half the ordinary rate on corporate incomes. Credit on this tax will be given in respect of the 5 per cent tax paid on last year's income distributed to non-resident shareholders, but such companies will be required to pay the 5 per cent non-resident tax on income accumulated but not distributed during the period after the 5 per cent tax first went into effect and up to the coming into effect of this new tax. In future these companies will, of course, not have to pay the 5 per cent tax on dividends paid to their non-resident shareholders but will be taxed at the higher rate on their income.

These changes in income tax, it is anticipated, will provide for an increase in revenue of approximately $6,000,000.

SALES TAX

As a means of raising a substantial amount of the additional revenue which must be obtained in the ensuing year it is proposed to increase the rate of sales tax from 6 per cent to 8 per cent. It was our view that a moderate increase in the existing sales tax which covers the broad field of merchandise transactions and for which efficient and economical machinery for collection is already in operation would be clearly preferable to singling out a few particular items to bear an unjustly heavy burden. I do not intend to impose "nuisance" taxes in an effort to raise more revenue but rather to utilize our existing taxation structure.

A few changes are to be made in the schedule of exemptions from the sales tax. With a view to simplifying administration and eliminating double taxation certain materials consumed in the process of manufacture commonly known as "consumable materials" but not including lubricating or fuel oils or plant equipment will be placed on the exempt list. Paper and ink used in magazines and periodicals will also be given exemption. The only other items to be granted relief from sales tax are crushed stone and crushed gravel used in the building or maintenance of provincial, county and township roads; liver extract for use in the treatment of anaemia; educational films; and handmade drawings, or designs for use in a number of manufacturing industries.

It is estimated that as a result of the above changes in the sales tax the revenue therefrom will be increased by approximately $23,000,000.

EXCISE TAXES

The most important changes in excise taxes arise through the recent report of the Tariff Board regarding the automobile industry. At present there is a 5 per cent and 10 per cent tax on automobiles imported or produced in Canada with exemptions given in terms of price and extent of cost of production, incurred in Canada or in British countries. Following the recommendations of the Tariff Board in connection with this item, it is proposed to replace the existing rates with a flat rate tax of 5 per cent on all automobiles, regardless of Canadian or empire content, on the value in excess of $650. At the same time, it is provided that in no case shall the tax per automobile exceed $250.

A further recommendation which is being accepted is that tires and tubes shall not be subject to excise tax when purchased by manufacturers producing less than 10,000 automobiles or chassis each year if at least 50 per cent of factory cost is incurred in the British empire. However, a manufacturer producing more than 10,000 automobiles must have incurred at least 60 per cent of factory cost in the British empire in order to qualify for this exemption.

Other changes in excise taxes levied under the Special War Revenue Act are of minor importance. It is proposed to reduce the tax on cigarette paper tubes from three cents to two cents per hundred in order to equalize the rates on flat papers and tubes. With regard to the 3 per cent special excise tax on imports, the changes contemplated are confined to a few additions to the schedule of exemptions, including materials used in the manufacture of binder twine and fishing rope, paintings under tariff item 695a; educational films; and handmade drawings or designs for use in a number of manufacturing industries.

EXCISE DUTIES

Proposed changes in the Excise Act are limited to a few relatively unimportant adjustments. The first of these equalizes the excise duty on Canadian brandy with the customs duty on brandy imported from South Africa and Australia by lowering the excise duty rate from four dollars per gallon to three dollars. The second proposed adjustment is a reduction of one dollar per gallon in the rate of excise duty on spirits used in medicines, extracts and pharmaceutical preparations in order to bring it into line with the rate applying to spirits used in the manufacture of perfumes. Finally the excise duties on imports of leaf tobacco are to be removed from the Excise Act and transferred at the same rates to the customs tariff.

CUSTOMS TARIFF

To-day's customs tariff proposals relate to both the Tariff Act and the various schedules thereto. Having in mind that they follow closely upon the tariff revision effected by the Canada-United States trade agreement and immediately precede negotiations with the United Kingdom, it will, I think, be generally admitted that they are extensive and important. For purposes of record, the proposed amendments may be classified as follows:

Reductions under all tariffs..	37
Reductions under British preferential tariff only..	30
Reductions under British preferential and intermediate only..	20
Reductions under intermediate only..	11
Reductions under intermediate and general only..	6
	104

Increases under intermediate and general only..	7
Increase under intermediate only..	3
Increases under general tariff only..	2
	12

Changes in the act itself include provisions for a clearer definition of the heretofore indefinite phrase "of a class or kind made in Canada" and for a more just and equitable administration of the so-called "dumping clauses."

Amendments proposed in the tariff schedules, while not unusually great in number, affect many commodities of extreme importance in our national economy. Obviously it is impossible for me to touch upon all of these in the course of my remarks: I trust that hon. members will read the resolutions of which I shall give notice at the conclusion of this address, and which will form part of it in Hansard in the morning, for details with respect to many items. I shall, however, make brief reference to some items, or groups of items, in respect of which changes in duties are contemplated.

By direction of my immediate predecessor in office, the Tariff Board has been reviewing duties applying to motor vehicles, cotton products, gasoline, and yarns and fabrics of artificial silk; and, at my request, has conducted an investigation into the present state of the furniture industry. I am to-day able to lay on the table—in fact I have presumed upon the goodness of the house to have them placed on the table in advance of my address, because of their bulk—reports from the board relating to these subjects. After careful consideration, the government has decided to accept in each instance the rates of duty recommended by the board.

Broadly speaking, the policy proposed in respect of automobiles is, I believe, one that will maintain the industry in Canada and, at the same time, guarantee fair prices to consumers. The relation—a vitally inter-dependent one—of the so-called "parts" industry to that of the huge manufacturing and assembling plants has been closely studied, and a feature of the new schedule is the manner in which the attainment of a high degree of Canadian content in the completed vehicle is encouraged. It will be remembered that under the Canada-United States agreement recently approved by parliament, the duties on automobiles were reduced from 20, 30 and 40 per cent, respectively, on the three price ranges, to 17½, 22½, and 30 per cent, respectively. It has been decided to make the existing intermediate tariff of 17½ per cent apply to all automobiles and trucks—all of which, (including parts for original equipment, replacement or repair) will be free of duty under the British preferential tariff.

The reference to the Tariff Board on yarns and fabrics of cotton arose from a request by His Majesty's Government in the United Kingdom, under the provisions of the agreements of 1932, for a review of the duties on these goods under the British preferential tariff. The board was obliged, therefore, in its appraisal of the situation—domestic and British—to use the yardstick stipulated by those agreements, namely: the equation of the relative costs of production in the two countries. The board has kept within the terms of its reference and within the letter and spirit of the agreement; and the government, in tabling its report and accepting its recommendations, desires to do the same. It is proposed, therefore, to remove entirely the specific duties on yarns and fabrics of cotton, under the British preferential tariff. It is proposed, further, as properly following the reduction on yarns and fabrics, to revise the specific duties applying to cotton clothing, wearing apparel and manufactured articles of cotton, by removing these duties entirely on imports under the British preferential tariff and by reducing them by one-half on imports under the intermediate tariff.

The vital feature of the changes in the petroleum schedule is the reduction of the intermediate rate on gasoline to one cent per gallon as compared with a rate, until recently effective, of 2½ cents. This reduction should be of great importance to users of gasoline throughout Canada and it is confidently believed that it can be effected without injury to the Canadian refining industry.

In accordance with the results of the board's inquiry into the tariff situation surrounding artificial silk, it is proposed, under the British preferential tariff, to remove entirely the specific duties on both yarns and fabrics, to reduce also the ad valorem rate on acetate yarns, and to adjust the ad valorem rate on the fabrics. As a corollary to this reduction, the government proposes to reduce both the British preferential and intermediate duties on clothing, wearing apparel and manufactured articles of artificial silk, this reduction on the completely-finished articles being designed to pass on to the consumer the advantage in reduction of raw material duties given to those who cut up the materials and manufacture the garments.

The report on furniture is an interim one and recommends no change in the existing intermediate tariff rate of 30 per cent.

In the case of many commodities covered by to-day's resolutions, downward revision of duty has been confined to the British preferential tariff. These—additional to cotton and artificial silk products already dealt with—include many of outstanding importance to United Kingdom producers and Canadian consumers. I may illustrate by stating that scheduled reductions which are confined to the British preferential tariff—and entailing in several instances the removal of all duty—include such goods as chemical earthenware, steel machinery of a class or kind not made in Canada, tea waste, malt extracts and powders, dental forgings, fire engines, iron and steel machinery not separately enumerated, desiccated cocoanut, and all non-enumerated articles of iron or steel. Closely related to these are those items on which reductions, while operative under both British preferential and intermediate tariffs, will, in most instances, give the United Kingdom producer a better trading position in this market; in this connection I might refer to glass articles for mounting, heat-resisting glassware, nickelled and other plated ware and polished steel tubing.

May I at this point say a few words regarding changes at this time in the British preferential tariff. In negotiating recently with the United States, this government took scrupulous care to respect in letter and spirit every syllable of the agreements effected in 1932 with various countries of the British empire. Although the Liberal opposition of that day had registered disapproval of the conference agreements on the ground that in too many instances they established preferences by raising duties against other countries, nevertheless that opposition, now become the government of the day, has seen to it that every commitment was respected. No guaranteed British margin was impaired. Indeed, many preferences that might with warrant have been deemed not to be in that class were deliberately set aside as not open to negotiation, sometimes at considerable cost to Canada in the matter of bargaining.

And yet it is obvious that, although the agreements have been respected, the trading advantage here of British countries—notably, of course, the United Kingdom—is not so great as it was prior to the Canada-United States agreement. The very fact of admitting the United States to the benefits of our intermediate tariff produced that result. In the near future Canada must again sit at a table with the United Kingdom to consider a new agreement. It is obvious that, in such negotiations, Great Britain will seek such concessions as will, in her opinion, enable her to increase her trade with Canada. In such negotiations, needless to say, the Canadian government will take equally scrupulous care to observe the letter and the spirit of the Canada-United States trade agreement.

Canada cannot give everything to-day and bargain to-morrow, but Canada can, and this government does, give to-day to empire countries such concessions as will, I am sure, be accepted in the spirit in which the British preference was conceived. In this spirit this government, since coming into office, has seen to it that unnecessary impediments to inter-empire trade have been removed, that vexatious restrictions have been lessened and that arbitrary regulations have been altered or abolished. It has interested itself in the increase of inter-empire trade both by imports from the empire as well as exports to the empire; and under to-day's resolutions it proposes easier access to this country for certain empire commodities. The proposed reductions in the British preferential tariff are in no sense elements in a bargain. Concessions they are, both to Canadian consumers and to British producers, but concessions made in the firm belief that only from mutually advantageous exchange of commodities can come that common benefit in which should lie both the origin and the objective of intra-empire trade arrangements. Canada knows full well that Great Britain, when the day of conference comes, will not be unmindful or forgetful of Canada's past record in the matter of preferential treatment in this market for British products—a record crystallized to-day in the fact that close upon seven hundred items in Canada's tariff schedules, practically half the items in the entire list, have against them the word "free" in the British preferential column.

Reductions under all tariffs are proposed on a wide range of varied commodities, including biologicals for the diagnosis or treatment of diseases, materials used in the production of periodical publications, numerous petroleum products other than gasoline, ditchers and tractors of all kinds, safety equipment of all kinds, printing and press-room equipment, precision tools, draughtsmen's and surveyors' instruments, various articles for use in hospitals, certain soya bean products, all articles used by the blind, rolling mill and paper mill rolls and feeds for fur-bearing animals.

The effective tariff on agricultural implements, now the intermediate, is reduced to $7\frac{1}{2}$ per cent, being further to the reduction from 25 per cent to $12\frac{1}{2}$ per cent effected under the Canada-United States agreement.

As a gesture of good will and an earnest of intention to widen Canadian trade with the Irish Free State, reductions in duty, to be applicable under the British preferential tariff only, are proposed on certain products peculiarly identified with the Irish Free State and requested by that country, namely: stout, prune wine and Irish poplin.

Preferential treatment for empire-grown tobaccos is provided, in the belief that Southern Rhodesia may be able thereby to cater effectively to Canada's requirements in tobaccos of the oriental type, hitherto imported entirely from non-empire countries.

The preference in favour of Australia on raisins and dried currants, which lapsed on March 31, last, is renewed, at four cents per pound.

An interesting and much anticipated item is that giving statutory recognition to the undertaking in connection with the United States under the recent agreement, relative to the privilege to be accorded to Canadians returning from abroad of bringing into Canada, free of duty, personal purchases to a value of $100.

Solely on the grounds of public health, the importation of textile waste derived from used mattresses is prohibited, unless such mattress waste be certificated as to proper fumigation, cleaning, etcetera.

In introducing the budget of May 1, 1930, I made the following statement regarding countervailing duties:

> There are certain commodities which are or will become of double significance in Canada's trade with the world, both as imports and exports. On such commodities our policy has been, and is, to avoid extreme rates of duty, and we propose, regarding these products, to maintain in general the existing rates of duty.
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> It has been decided, however, to embody within the wording of a limited number of items of this class provision for a "countervailing duty" whereby Canada, while not generally raising its schedule rates, imposes upon such products from another country rates equivalent to those imposed by that country upon the identical Canadian product, where these are higher than the rates enumerated in the Canadian tariff schedule. This means that other countries who both buy from and sell to us these commodities, have it in their own power, by reciprocal action on their part, to enable us to reduce duties to the level of the rates stated in our tariff.

I have quoted my remarks of that date for the reason that they still serve perfectly to express my opinions regarding countervailing provisions which to-day's resolutions apply to three natural products: cut flowers, potatoes and eggs.

Mr. ROWE (Dufferin): What about cast iron pipe?

Mr. DUNNING: These three commodities were included in the list of May 1, 1930, and that they are again singled out for such treatment is due to the fact that the late administration in wiping out in September, 1930, the countervailing provisions of the May budget, did not provide, under the intermediate tariff, a duty more in line with the general tariff on eggs and, what is more important, failed to provide any duty whatsoever on potatoes or cut flowers. The weakness of Canada's bargaining position in respect of these commodities became speedily apparent in the Washington negotiations, so much so that this government declined to bind these items at the existing intermediate rate, thus giving clear indication that it might, at the first opportunity, see fit to recommend to parliament a revision of these ratings. In so recommending to-day, may I make clear that our attitude continues to be that of 1930; we do not desire or intend to raise tariffs; we do by the countervailing duties invite other countries to bring their tariffs down to the level of ours.

In 1935 there was inserted in the tariff item relating to steel plate a proviso to the effect that, regardless of any other law to the contrary, the anti-dumping provisions should not apply to plate more than 66 inches in width. Thus to select a solitary commodity for such treatment was, to say the least, to make an invidious distinction and it is proposed to allow the anti-dumping provision to apply to all products to which the law says it should, under given conditions, apply. In the interests of justice and equity, therefore, and without any regard whatsoever to the effect upon the quantum of tariff protection afforded, it is proposed to delete from this item the proviso in question.

There will be tabled to-day, in addition to those to which I have made specific reference, reports by the tariff board resulting from inquiries regarding the following commodities: Thrown yarns of artificial silk, buttons and button moulds, forged steel rolls, rice for processing, rhinestones and metal beads, containers of paperboard or fibreboard and photographic apparatus. Not all of these suggest or recommend tariff changes but, in accordance with the provisions of the Tariff Board Act, they will be made available to this house.

Regarding to-day's tariff proposals, may I say that these are formulated on the principle that the most enduring kind of progress is orderly progress—and that applies equally whether one's intended direction in the imposition of taxes be downward or upward. Extremes defeat their own purpose; violent fluctuations one way or the other are mere leaps in the dark. Intelligent and unprejudiced appraisal of to-day's tariff situation in Canada will reveal sound reasons, apart altogether from the general principles I have just enunciated, why the best results are to be secured by deliberate, considered and related stages. There is, for example, our position with respect to British countries, to which I have referred. And, in the purely domestic sphere, there is the fact so readily overlooked: that this government, in extending to the United States the benefits of the intermediate tariff, effected at one stroke the most thorough-going downward revision of the customs tariff of Canada since the inception of that tariff—as a consequence of which act, together with the changes now proposed, commodities imported from the United States under at least 200 of the most important items in the tariff will pay lower rates of duty than they would have paid had they been so imported after the adoption of the May 1st budget of 1930.

In concluding this address, it is natural that my thoughts should go back to the last occasion on which I had the honour of presenting the budget six years ago to-day. The great change both in world conditions and conditions in Canada during that interval constitutes a challenge without precedent to the ability, the judgment and the broad patriotism of those charged with public responsibilities.

The government of Canada is making earnest and sustained efforts to meet this challenge and to grapple with the manifold problems of the country. I would ask the house and the country to accept the proposals I have made to-day as part of a conscientious effort to promote the best interests of the people of Canada.

Resolutions

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

INCOME WAR TAX ACT

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

1. That the corporation rate of tax shall be increased from thirteen and one-half per centum to fifteen per centum;
2. That where a consolidation is permitted the corporation rate of tax shall be increased from fifteen per centum to seventeen per centum;
3. That payment of the gift tax be made annually;
4. That gifts to any one person which in the aggregate do not exceed one thousand dollars in the calendar year be exempt from the provisions of the gift tax;
5. That the rate of interest on unpaid instalments of tax be reduced from six per centum to five per centum;
6. That the penalty rate of interest in addition to the interest provided for in the foregoing resolution in respect of unpaid overdue tax be reduced from four per centum to three per centum;
7. That a tax of five per centum be imposed at the source on payments by Canadian debtors to non-residents in respect of films whether copyrighted or not;
8. That any metalliferous mine that comes into production after the first day of May nineteen hundred and thirty-six and prior to the first day of January nineteen hundred and forty shall be exempt from income tax for the first three fiscal periods following the commencement of production;

The minister, under appropriate regulations, shall determine the date of commencement of production and the properties, new or old, that shall be determined as having come into production, having regard to the production of ore in reasonable commercial quantities, and shall issue a certificate accordingly.

9. That (a) an Investment Holding Company all of whose shares (qualifying shares excepted) are held by non-resident persons shall not be afforded the exemption provided by paragraph (k) of section four of the act, but shall be subject to a tax equal to one-half of the prevailing corporate rate of tax imposed upon Canadian companies;

(b) the five per cent tax on dividends paid to such non-resident shareholders by such Investment Holding Company shall not apply, except as hereinafter provided;

(c) in determining the taxable income of such Investment Holding Company a deduction shall not be allowed in respect of any interest payments or of taxes paid abroad;

(d) any five per cent tax paid by such companies in nineteen hundred and thirty-five shall be allowed as a deduction from the tax otherwise payable in respect of the said year;

(e) to the extent that five per cent tax has not been incurred in respect of the earnings of nineteen hundred and thirty-three, nineteen hundred and thirty-four and nineteen hundred and thirty-five, the five per cent tax shall continue to be imposed until the undistributed accumulated earnings of the said years have been made subject to the said tax;

(f) paragraph (k) of section four of the act shall be amended to apply to industrial and commercial operating companies only;

10. That any enactment founded on the provisions of these resolutions shall be deemed to have come into force at the commencement of the calendar year nineteen hundred and thirty-five and to be applicable thereto and to fiscal periods ending therein and to all subsequent periods, except as otherwise provided.

SPECIAL WAR REVENUE ACT

Resolved, That it is expedient to introduce a measure to amend the Special War Revenue Act, chapter one hundred and seventy-nine of the Revised Statutes of Canada, 1927, and amendments thereto and to provide:

1. That part VII of the said act be amended to provide for the taxation of every change