we thought we ought to proceed with these amendments by way of legislation, taking the house fully into our confidence. In view of the objections taken last night to this course of procedure I have referred to the Department of Justice the several points raised, particularly by the hon. member for St. Lawrence-St. George (Mr. Cahan). The law officers of the crown advise us that we can proceed with the necessary amendments to the Combines Investigation Act under the War Measures Act. That being so, and having regard to the desire of the government to avoid as far as possible introducing any controversial legislation at this session, we have decided to withdraw this bill and proceed with such amendments of the combines act as may be required as time goes on under the provisions of the War Measures Act.

Mr. SPEAKER: Is it the pleasure of the house that the hon. Minister of Labour shall have leave to withdraw the bill?

Mr. A. A. HEAPS (Winnipeg North): Mr. Speaker, the Minister of Labour (Mr. Rogers) has stated that because of certain representations made last evening he now proposes to withdraw this bill. Some members of the house are not in favour of that course being followed. Personally, I think that when the house is in session all the legislation which the government seeks to put into effect should be brought down and passed upon by the house. In years gone by, objections were raised, particularly by hon. members to my right, to the government proceeding by order in council at a time when the house was in session.

There is strong resentment throughout the country against the increase in prices of everyday commodities of life. It is possible that in this proposed legislation is to be found the means of curbing those who would attempt to profit by the existing war prices. We are given the impression that by withdrawing these amendments to the Combines Investigation Act the government are weakening in their effort or desire to put a stop to war profiteering. If the house were not in session I could well understand the desire of the government or the desire of the opposition to see that action was taken under the War Measures Act, but I contend that the democratic method of procedure is to proceed by way of legislation when the house is in session. There is no excuse for the government's withdrawing legislation of this kind simply because some hon. members happen to be opposed to it. It may be that this legislation can be described as contentious, but if there is to be a real effort on the part of the government to curb profiteering I cannot see why such a measure as this can be called contentious. I doubt if there is a single member in this house who does not desire that profiteering be curbed with the least possible delay.

Mr. SPEAKER: Order. I thought the hon. member intended to make only a few remarks. I had put the motion and I thought it was carried.

Mr. HEAPS: It was not carried. I have every desire to expedite the business of the house, but—

Mr. SPEAKER: The motion is not debatable.

Mr. HEAPS: If the motion is not debatable, then I must bow to your ruling.

Mr. SPEAKER: I allowed the hon. member to speak because I thought he had only a few remarks to make. If he is going on to make a lengthy speech, then I must call him to order.

Mr. HEAPS: I should like to know whether it is debatable or not debatable.

Mr. SPEAKER: It is not debatable.

Mr. HEAPS: If it is not debatable, then I am out of order. I do want to say that I protest against the withdrawal of this bill.

Mr. ROGERS: With the consent of the house, I really believe the point raised by my hon. friend ought to be answered immediately. Let me assure him that the matter at issue is simply one of procedure and not one of intention. We are advised by the law officers of the crown that under the War Measures Act we have the power to proceed with the amendments which are necessary to make the Combines Investigation Act effective in time of war. Let me assure my hon. friend that this is our intention, to make the Combines Investigation Act effective in time of war and to take whatever steps may be necessary to curb profiteering at this time.

Bill withdrawn.

THE BUDGET

FINANCIAL PROPOSALS PRESENTED BY THE ACTING MINISTER OF FINANCE

Right Hon. W. L. MACKENZIE KING (Prime Minister) moved:

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

Hon. J. L. ILSLEY (Acting Minister of Finance): Mr. Speaker, it is a matter of universal regret that since the presentation of the last budget the Hon. Mr. Dunning, the then Minister of Finance, has been obliged to resign by reason of ill health. Sufficient time has not elapsed since the appointment of his successor for his election to a seat in this house, and it is therefore necessary that the financial proposals of the government should be placed before the house by the holder of another portfolio.

The task before us to-day, like many a task in war, is a difficult and disagreeable one. Budgeting at the best of times is not a pleasant business, as it involves essentially the counting of the cost of what we do. In the situation to-day, when we are entering upon a war of whose nature and duration we can guess only a little, it is difficult even to foresee the order of magnitude of the cost we shall eventually have to incur, and to pay. Therefore, our financial plans can only be provisional and we must be prepared to adapt them to changing circumstances. But it is doubly important under these conditions that we act with care, and seek to avoid financial pitfalls as we would the stratagems of the enemy. We shall not make the mistake which was justifiably made when Canada entered the last war, expecting it to be a short and only moderately expensive one. We know that mechanized warfare on the modern scale is tremendously costly and we can be sure that if the war continues the cost will increase probably more than proportionately. Therefore we must make our plans now with the full realization that we may be in for years of strenuous national effort.

We enter this war at a time when Canadian business has been reviving from the recession which checked our recovery from the great depression. Without attempting to describe economic conditions in detail, I would draw your attention to the fact that conditions have improved substantially in the four months that have elapsed since the last budget. Our western farmers are harvesting a bountiful wheat crop, apparently much better than was expected a month ago when earlier, more roseate prospects were being threatened by weather conditions. Wheat prices have also risen considerably in expectation of increased war demand. Construction activity, not only residential but industrial and commercial as well, has shown a notable increase due in substantial part to the measures enacted by parliament to stimulate it. Our exports both to the United Kingdom and the United States have increased substantially. In spite of the acute political tension in Europe during the last few months, business sentiment in Canada had improved and there was mounting evidence of a new forward-looking attitude. Given peace, we might legitimately have anticipated a brisk recovery during the balance of the fiscal year. Now that war is upon us, its immediate effects may produce hesitation and quietness for a month or two in view of the shock to business confidence and the necessity of making readjustments to war conditions. This period should not last long, and once it has passed we may, I think, expect a more rapid expansion due to the insatiable demands of war.

It has been a matter of special gratification to note the comparatively moderate effect of the immediate shock of war upon our financial markets. It was only natural that certain reactions should take place in the opening days of a major war but there has been no closing of stock exchanges, no public hysteria, no wholesale liquidation, no strain upon our financial institutions. What a contrast with the cataclysmic events of the first two weeks of August, 1914! What has happened is, of course, a strong tribute to the vastly improved position which we enjoy to-day. True, we start with a much higher public debt, but in most other respects our economy is infinitely stronger. We are no longer dependent on vast imports of foreign capital on which the old pre-war boom was based. During and since the war, Canadian savings have increased enormously and we have built up a vast and efficient mechanism for the mobilization of these savings. The strength of our banking system has always been recognized, but the changes which we have made in monetary and banking legislation during the last few years have greatly improved its efficiency and flexibility and its ability to promote the public welfare in war-time as well as in peace-time. In recent years we have increased enormously the diversification of our industries, and in particular the remarkable expansion of our mining and metal industries will be of unique importance in a modern war. In every way we are far better able to undertake immediately the great economic tasks which war has thrust upon us.

Coming to my immediate task, I will endeavour first to review the outlook for our revenues and expenditures for the present fiscal year in the light of the new developments. You will not, I am sure, expect me to deal with these matters in the detail which is usual in an ordinary budget address, and I know that you will be ready to make allowances for the difficulties which inevitably present themselves to anyone who must attempt the role of forecasting the probable course of events during even the next few months. No one can predict with any measure of confidence precisely what lies ahead of us, and the estimates which I will give you should be regarded merely as rough approximations based on our view of the probable course of events.

You will recall that in April last the then Minister of Finance forecast total revenues of $490,000,000 for the present fiscal year. While during the first five months of the year the receipts from certain taxes, particularly income tax, were possibly lower than he had anticipated, I now expect that our present tax structure, without any revision, will probably produce a higher revenue for the year as a whole than he had estimated, because of the expansion of production and incomes which should result within a relatively short time from our own expenditures on war activity and the probable placing of substantial war orders in this country by one or more allied governments. For our present purposes it is now anticipated that, if there were no changes in our tax structure, our total revenues for the year would be of the order of $495,000,000.

On the side of expenditure it is far more difficult to forecast the final result of the year's operations. In the budget of last April the probable total expenditure for the year was estimated at $550,100,000, exclusive of any further losses in respect of wheat and exclusive of certain defence expenditures which are being capitalized under the special sinking fund plan. For many obvious reasons it is still not feasible or advisable to make any estimate of the probable financial results of the wheat marketing program, although it will be clear to everyone that the substantial change which has taken place in wheat prices will, to say the least, greatly ease the burden that might otherwise have had to be borne by the national treasury. Fortunately, also, the splendid wheat crop which is now being harvested in western Canada should reduce to rather modest proportions any expenditures that might otherwise have had to be made under the Prairie Farm Assistance Act. With the certainty of a good wheat crop and as a result of the gradual improvement in business which has already taken place, the appropriations already made by parliament for deficits of government-owned enterprises will, I believe, prove adequate. This leaves for consideration, in respect of the items budgeted for last session, mainly our ordinary and capital expenditures and special expenditures for unemployment relief and for projects designed primarily to alleviate the problem of unemployment.

In considering these expenditures there is one outstanding point which should be stressed, namely that the magnitude of the new burdens thrust upon us makes it imperative that we should do everything that is practicable to conserve our resources and to economize on any expenditures which are not urgently needed in the national interest. It would, of course, be "penny wise, pound foolish" to curtail expenditures so suddenly and so drastically as to aggravate seriously the unemployment problem before the stimulating effects of war expenditures and foreign purchases in our markets have acquired that momentum which will almost certainly bring our economy ultimately to a position of maximum productivity and full employment. It is therefore necessary to distinguish between a policy that may be appropriate for the next two or three months and what should be done in the later months of this fiscal year or in the later years of war. Parliament can be assured that while our policy will be to conserve our resources to the maximum practicable extent and to secure the maximum possible economies in the appropriations already granted by parliament, that policy will not be carried out in such a way as to aggravate unemployment and retard the prompt expansion of production and national income.

Finally, we must take into account the sum of $100,000,000 which we have asked parliament to appropriate in order to meet the special expenditures necessitated by the existing state of war.

Including this amount, it is now estimated that our total expenditures for the year will aggregate approximately $651,000,000, not including the two items of capitalized defence expenditures and any further losses in the marketing of wheat. If we deduct from this sum the estimate I have given of $495,000,000 for our total revenues for the year, we arrive at an anticipated deficit of $156,000,000, exclusive of the two items just mentioned. In view of the magnitude of that sum and, if the war continues, of the additional sums which we may have to raise in subsequent years as well as the importance of the effects on our economy of the particular policies which may be followed, it is appropriate for me to make some comments on the general problem of war finance before I announce the specific proposals which I have to make.

First of all let me emphasize that however we finance the cost of the war, whether by taxation or by borrowing or by inflation, we cannot escape its real costs. By the real costs I mean the goods and services which have to be sacrificed out of our current production to meet the needs of war. We shall have to devote a vast quantity of materials and the work of many thousands of men to produce the foodstuffs, the equipment and the munitions which are used by those who are drawn out of peace-time occupations to serve the needs of defence. To destroy the menace of Hitlerism, we must be prepared to sacrifice what the use of these materials and the labour of these men would otherwise have provided for us in terms of better and more secure living. If we must devote a great deal of our labour to making guns and military supplies, we shall have to do without whatever would have been produced in their place in peace-time.

We can, however, lighten the burden imposed by this real sacrifice if we expand our total employment and production. To the extent that we can put our unemployed men and equipment to work producing what we need for war, we will have to divert less resources away from normal uses. In many cases we may need to use on war work specialized men and equipment which are already employed, but we can cut down the real costs involved in doing so if we can replace them in their normal work by somewhat less skilled labour or less specialized equipment which may now be unemployed. We can reduce the cost further by developing more skilled labour, by better organization and by more effective utilization of all our resources. Conditions of war will not only demand but probably also make possible the full utilization of our man-power and equipment. The urgent demands of ourselves and our allies for supplies of all kinds and the will of a united people to win the war, even at the cost of some regimentation which might not be acceptable to a democratic people in peace-time, will provide that impetus to expansion of production and capital investment which has been lacking in these recent years of uncertainty and fear.

In this connection we recall how rapidly Canadian business responded to the needs of our own and allied governments during the last war. Industrial capacity was rapidly expanded and at the peak one-third of our manufacturing industry was engaged on war orders for other countries. Similarly agriculture and the mining industry received powerful stimuli from the urgent demands of allied governments for foodstuffs, metals and minerals. Our exports increased enormously —from 432 million dollars in 1914 to 1,540 million dollars in 1918. Exports of shells and explosives alone rose from a few million dollars in the first year of war to 390 million dollars in 1917 and during the war period approximately one billion dollars worth of shells and explosives were shipped overseas. The new wealth of resources and capacities which the necessities of the conflict developed in Canada was an important offset to the enormous cost and wastage of the struggle.

Whatever such offsets may be, it is important to emphasize that, as I have already said, the real costs of war must come out of current production, out of the goods and services produced during the war. It is true that some stocks of military supplies may be on hand at the beginning of a war, but their importance is slight for a war of any duration. Borrowing abroad may enable a belligerent country to supplement its current production with an excess of imports but such borrowing is usually difficult in war time and leaves the country with the need of making real payments abroad after the war is ended. Taking it by and large the fact is that the shells that are fired and the other goods and services that are used up in the course of a war must be produced during the period of the war. This being the case, it follows that, and I repeat it again, in real terms, namely, in terms of the loss to the nation of this production, a war is paid for substantially during its duration. Obviously this simple fact has very important implications for any program of war finance.

There may be some who feel that borrowing at home may enable us to shift part of the burden to the next generation. Ill-considered and excessive domestic borrowing, of course, may add unnecessarily to the burdens of certain members of the present and post-war generations who will find it necessary to pay interest to those of their fellows who may be bondholders. But the war generation does not thereby shift its own real burden on to posterity because borrowing at home does not enable us to borrow from future production the physical goods and services that are used up during a war. Borrowing at home is merely one means of diverting our production into war requirements, a means which is less painful at the time but which ultimately requires a somewhat greater resort to taxation. When we borrow a hundred dollars from one of our citizens and spend it on war supplies, he is thereby prevented from spending that hundred dollars on his own consumption or investing it to enable someone else to spend it on some kind of capital production. In future years we will have to pay him not only the principal but interest as well. Obviously we could accomplish the same diversion by taxing the hundred dollars away from him. Diversion by this method alone, that is to say, by a 100 per cent taxation or pay-as-you-go policy would seem at first sight to represent the ideal policy of war finance; in principle it would appear to be the most logical, the most equitable, the least likely to create disturbances and dislocations. But, in the first place, this takes no account of the desire, indeed the necessity, of individuals making some savings to provide for a rainy day, and an effort to take so much in taxation that individual savings would be practically wiped out, would become so disruptive in character as inevitably to produce disorganization and public discontent. In the second place, realism compels us to admit that a pay-as-you-go policy has to take account of the psychological reactions to taxation. In other words, we must recognize that when diversion by means of taxation rather than borrowing is carried too far the average citizen begins to feel that there is no use in his working for any additional income and therefore he does not put his best effort into his work with the result that efficiency and production fall off. If we cannot maintain our production at maximum efficiency we may lose the war, and at least the real costs of the war will increase. It is by a reasonable balancing of these various considerations that we have to decide how much to tax and how much to borrow.

We can also divert our resources to war purposes by inflation. We can create additional supplies of money and use them to purchase what we need. In this case, just as in the others, what we take for war purposes someone else must do without. Instead of taking money from the individual citizen in the form of taxes or loans, we put our new money into competition with his old money and take the goods and services away from him by forcing prices up against him. Of course this new supply of money will then go into general circulation and will continue to compete with the former supply. Therefore to continue getting the supplies that we need we must necessarily continue issuing more and more money, thus driving prices up farther and farther. If it is replied that we should control prices rigidly, then, assuming that all prices under such conditions could be effectively controlled—a very optimistic assumption—we would have to prevent the public from spending its money by some other means such as a drastic system of rationing all commodities. In that case the citizen would get paid in money which he could not spend freely. In other words, he has in effect been compelled to make a forced loan to the government on which he receives no interest. It must be realized, therefore, that this inflationary method of financing a war is easily the most unfair and inequitable of all the methods of diverting labour and materials to war-time purposes. It represents merely a thinly disguised scheme of taxation of a most unjust type. It throws a grossly unfair proportion of the burden upon the person of small or medium income, the wage earner, the salaried man and those who have savings deposits, insurance policies or securities of any kind whose value is fixed in money. It represents a complete violation of the principle of taxation in accordance with ability to pay. It leaves in its wake a host of troubles such as chronic dislocations between industries, incomes and prices which are most difficult to cure, very serious damage to business and public morale, and high interest rates. If long continued, it can end only in complete collapse. These and other results of drastic inflation can be illustrated from the experience of many countries during the last war.

Canada's record in that war was much better than that of most other countries. But like the other belligerents she met the major portion of the cost of the war out of borrowings and credit expansion. We had no previous experience in financing a major war and in any case the imposition of a weight of taxation sufficient to pay for the whole cost of the war would have been too revolutionary a step to take. Prior to 1914 the dominion government had relied for its revenues almost exclusively on customs duties and a few excise duties. It had no system of general taxation or established machinery for directly taxing the net incomes, profits and wealth of individuals. The sudden introduction of such taxation measures on the scale required would have been too drastic to be either economically or politically practicable. Her own financial program and perhaps more importantly the influence on world prices of the inflationary financing of many other countries resulted in a drastic expansion of bank credit, a rapid rise in prices and a redistribution of the national income. Prices and the cost of living rose more rapidly than wages and interest on old debts. Industrial profits and property incomes increased while the real income of wage-earners and individuals receiving interest payments at fixed rates declined, or rose less rapidly. It was this reduction in the real income of one section of the community and the creation of large surpluses in the hands of other sections willing to lend to the government that in considerable part at least made possible Canada's remarkable record in mobilizing public savings through the various war and victory loan programs. The decline in the relative standard of living suffered by certain groups, the rapid increase in savings and the postponement of needed capital facilities made possible the enormous volume of war loans and represented the sacrifices necessary for the conduct of the war.

No country had the courage to finance the great war solely by resort to taxation and borrowings out of savings. As already indicated, the record of some countries was much better than that of others but all suffered from a world-wide inflationary rise of prices of enormous magnitude. For the last twenty years the world has been paying the price—a colossal one. Indeed it is perhaps not too much to say that some of the roots of the present war are to be found in the world-wide unsound financing of the last war and the great economic dislocations and continuing burdens of which it was in part the cause. It is to be hoped that in the present war the world may be able to avoid a repetition of that experience.

All this is not to say that a small and carefully regulated amount of credit expansion may not be desirable in the early stages of the war in order to assist the increase of production and employment. It must be small and carefully controlled because its effects which may not appear immediately are cumulative and otherwise might get out of hand. If at the beginning of the war there are unemployed resources, some credit expansion may give an impetus to their prompt utilization. If it is carefully controlled, the expansion of production may prevent any abnormal rise in prices, confidence may be maintained and the initial impetus may be carried on and accelerated by the insistent demand that exists for supplies. However, as soon as the expansion of employment and production gets well under way and certainly before it approaches its limits, further expansion of the supply of money and credit must be stopped if the danger of progressive inflation is to be avoided. With an economy at full production and employment, the only result of expanding money and credit is to raise prices without increasing production. At such a point commences the cumulative spiral of inflation with all its deadly consequences to the economy.

It is with these fundamental considerations in mind that we have decided upon our policy of war finance. Because we believe it is the part of wisdom, we shall follow as far as may be practicable a pay-as-you-go policy. In imposing the new tax burdens which this policy will require we shall be guided by the belief that all our citizens will be ready to bear some share of the cost of the war, but we shall insist on the principle of equality of sacrifice on the basis of ability to pay. We shall not of course be able to meet all war costs by taxation, because, as already indicated, there is a limit to the taxes that can be imposed without producing inefficiency, a lack of enterprise, and serious discontent. As the first necessity is to win the war as quickly as possible and without undue cost, we cannot carry taxes beyond the point where they seriously interfere with production. But we are not prepared to be timid or lighthearted in judging where this point lies, if need arises. What we cannot meet by taxation we shall finance by means of borrowing from the Canadian public at rates as low as possible. There may be some who expect or fear that interest rates will rise substantially, perhaps a few who are thinking in terms of conditions during the last war. Such a view completely overlooks the vast changes that have taken place. We do not expect that any material change in interest rates from peace-time levels will be necessary to attract a sufficient portion of the large increase in savings which should be produced by the expanding production and incomes under war-time conditions. And we refuse to believe that those of our people who will benefit from the new conditions would seek to take advantage of war necessities to demand any undue increase in the interest rates which we have paid in peace-time.

I have already indicated the basis for distinguishing two major periods in our program—the initial period of expansion and preparation and the main period of full war effort. We commence the initial period immediately, and the paramount need is to get things moving as rapidly as possible in the proper direction. Our own expenditure on defence and preparation will furnish an important stimulus to the expansion of economic activity. There will be two additional sources of stimulus, first, the orders which we expect some of our allies to place in Canada for essential foodstuffs, raw materials and munitions; and secondly, the private capital expenditures which will probably be necessary in order to place our industry on an adequate footing to meet war requirements. These expenditures will probably soon be large enough to bring a rapid expansion of employment and incomes. Out of these enlarged incomes the public will be able to contribute more tax revenues and more savings. During the next few months, while we are starting the process of getting all our available resources into useful employment, the expansion in tax revenues from either existing or new sources may not provide for any very important part of our increased expenditures. We shall have to do some borrowing but the initial operation will probably be of a very short-term character and be designed to promote the immediate expansion of productive activity. It would be unwise and probably impracticable to attempt at an early stage any large borrowing operation designed to draw heavily upon public savings. Only after the initial period of expansion is well under way should we find it necessary to offer a loan for general public subscription in order that savings may be put directly to use.

By the time we have achieved the second stage of full war effort our national income will have increased so substantially that our existing taxes will yield a much higher revenue than during the last year or two. Not only will there be a greater volume and value of sales but the rise in individual earnings will bring more incomes into the higher taxation brackets and there will be additional business profits subject to tax. Consequently, the increase in dominion revenues should be larger, proportionately, than the increase in the national income. Nevertheless, our special expenditures caused by war conditions will be substantially increased, and while certain expenditures that have caused heavy drains upon the treasury in recent years, such as those for unemployment relief and wheat marketing, may be largely or wholly eliminated, it can never be forgotten that we start the war with a dominion budget heavily unbalanced under peace-time conditions. It is obvious, therefore, that additional taxes should be imposed immediately. I am confident that the Canadian public as a whole will expect this parliament to have sufficient courage to impose upon them such new or additional levies as will demonstrate an immediate and resolute effort to pay our way.

In this spirit we have prepared the program of tax increases which I am now about to recommend to the house. They may be regarded in some quarters as drastic, but I am sure that the Canadian public will accept them as an inevitable incident of the vital struggle in which we are engaged and as essential to avoid greater evils and burdens at a later date. They are comprehensive in their incidence because we believe that no person will desire to escape some additional taxation. They have been carefully studied to make sure that they will be in conformity with our fundamental aim of providing for equality of sacrifice on the basis of ability to pay.

The main feature of this tax program is an excess profits tax of general application. If we are not to impair the incentive to maximum efficiency or retard the prompt utilization of our entire resources and the achievement of full productivity and employment we must be able to hold out to business men the opportunity of making a reasonable profit and also the chance of securing some compensation for exceptional efficiency and willingness to take the risks inherent in industrial enterprise in war-time. But under war-time conditions when important sacrifices are being asked from the humblest citizen and when human lives are at stake, no government can justify the making of profits that are excessive or unreasonable.

It is an extremely difficult matter to devise an excess profits tax which will be fair to all kinds of businesses. No one who has not attempted to draft such a measure can appreciate the range of thorny problems involved. In the first place the normal rate of profits is not the same for all industries. Risks are far greater in some businesses than in others and, accordingly, the rate of return must be higher if such risky industries are to obtain the capital they need and to survive. They would be severely discriminated against under a general measure which taxed all profit above a common level on the assumption that the annual rate of return should everywhere be the same. Furthermore, not all businesses require the same proportion of capital in relation to value of output. Thus under normal conditions with no excess profits being made, the ratio of profits to capital of a company in a business using relatively a small amount of capital will appear abnormally high even though there be no profiteering. Thus, while an excess profits tax based on rate of return on capital may be entirely fair and reasonable over a wide range of industry, there are instances where it would operate with undue hardship. This should be recognized at the outset and provided for.

The United Kingdom in its recently imposed tax on armaments profits adopted the method of imposing the tax on the increase in the amount of a firm's profits as compared with the average profit made by the firm in recent years. This method assumes that profits in the selected base years might fairly be regarded as normal, and therefore that any increase over this normal rate is the measure of excess profits due to war conditions. The United Kingdom taxes such abnormal profits at the rate of 60 per cent. The method may work with reasonable fairness in the United Kingdom for the limited number of companies to which it applies but in Canada it would not be satisfactory for a measure of general application because a number of our industries have not been making normal profits in recent years, and indeed in some cases have not been making any profits at all.

It is obvious, therefore, that each of the two general methods of taxing excess profits, which I have discussed, would operate unfairly in certain cases. After much study and careful consideration with a view to being fair to all types of business, it was decided to combine the two methods as alternatives in the measure which we are recommending to the house. Accordingly a business concern may elect to be taxed on either one of the two bases, that is to say, either on the basis of a graduated scale of rates of profit on capital employed, or on the increase in profits over the average of the past four years. Where one basis might give rise to injustice or hardship, the business concern may elect to be taxed under the alternative basis. It is believed that this arrangement will have the effect of reducing to a minimum any injustices or undue hardships which might be inherent in either of the two methods used alone.

With regard to rates of taxation, the following schedule will apply where the taxpayer elects to be taxed on the basis of percentage return on capital employed:—

On that portion of profits in excess of 5 per cent and not in excess of 10 per cent, a rate of 10 per cent.

On that portion of profits in excess of 10 per cent and not in excess of 15 per cent, a rate of 20 per cent.

On that portion of profits in excess of 15 per cent and not in excess of 20 per cent, a rate of 30 per cent.

On that portion of profits in excess of 20 per cent and not in excess of 25 per cent, a rate of 40 per cent.

On that portion of profits in excess of 25 per cent, a rate of 60 per cent.

Where the taxpayer elects to be taxed on the alternative basis, he will be required to pay to the treasury 50 per cent of any profits in excess of his average annual profits in his previous four fiscal periods. In view of the increase in the tax on corporate profits, to which I shall later refer, this will mean a tax of approximately the same severity as that applied to armament profits in the United Kingdom.

It should be pointed out at once that this tax on excess profits is to be levied on all businesses whether incorporated or not and whether increased profits are the result of war contracts or not. The reason for its application to all business firms is, of course, that under war-time conditions it is impossible to distinguish between the firm which is making larger profits directly because of armament orders and other firms whose profits are expanding as a result merely of a higher volume of business or possibly a higher price level due to war-time conditions. Furthermore, the excess profits tax will be in addition to all other taxes currently in force. In this respect the present measure differs from the Business Profits War Tax which was levied during the last war. At that time business corporations paid either the corporate income tax or the business profits war tax, whichever was the higher. Under the new measure which we are recommending, the corporate income tax will be regarded as an expense

in calculating the amount of excess profits for tax purposes. That is to say, it is the amount of profits left in the hands of a business concern after paying income tax which will be subject to the excess profits tax. This new tax will be applicable to profits earned in the year 1940 and in the fiscal periods ending therein after March 31, 1940.

I should add that problems arising out of certain special circumstances will be provided for in the bill. We must also contemplate that if Canadian industry is to be able to meet the urgent demand for war supplies that will arise, it will probably be necessary to provide for the construction of new plant or important extensions to existing plant and equipment. Particularly if business men expect the war to be of short duration they will not be willing to assume the risks of making the new investment required with an excess profits tax as drastic as that which we are proposing, unless they can see an opportunity of being able to amortize their costs over a reasonable period. Special provision, therefore, will have to be made for this problem.

The corporation income tax rate is also to be raised from 15 per cent to 18 per cent, and in the case of consolidated returns, from 17 per cent to 20 per cent. Thus, regardless of whether a corporation makes sufficient profits to bring it under the excess profits tax, it will in future be required to pay an additional 3 per cent on its net income.

All individuals subject to income tax will be required in future to pay a war surtax equal to 20 per cent of their ordinary income tax. That is to say, after calculating income tax under the present schedule of rates, an additional 20 per cent of the tax bill will be payable as a war surtax. This increase will be payable next year in respect of incomes earned in the year 1939 and fiscal periods ending therein.

As is usual in war-time budgets, we are also recommending certain increased levies on articles that are commonly regarded as being in the category of luxuries. Excise duties on spirits have traditionally played an important part in our revenue system and have been lowered in the last few years. We are now recommending that the present rates of $4 and $5 per gallon respectively on domestic and imported liquors should be increased to $7 and $8 per gallon respectively, the rates which were in force prior to the reductions in 1935. In the case of Canadian brandy, the existing $3 rate will be moved up to $6 with an equal increase on the duty on imported brandy. Beer will bear an additional levy by means of an increase in the rate of tax on malt from 6 cents to 10 cents per pound. On beer brewed from substances other than malt the existing rate of 22 cents per gallon will be increased to 30 cents. The rate on malt syrup is also to be increased from 10 cents to 15 cents per pound. Appropriate changes will also be made in the rates applying to imports of the foregoing. Wines which now bear the rate of 7½ cents per gallon will in future pay 15 cents, and in the case of champagne and sparkling wines the existing 75 cents per gallon will be raised to $1.50 with equivalent increases on the imported product. Cigarettes will in future bear a tax of $5 per thousand, an increase of $1 per thousand over the present rates, and the tax on manufactured tobacco will be increased from 20 cents to 25 cents per pound.

As we are not recommending any lowering of the existing level of personal exemptions under the tax on individual incomes, it is considered that all our citizens may properly be asked to make some contribution to the treasury for the prosecution of the war, through their purchases of tea and coffee. Both are wholly imported commodities, and an increase in customs duties would therefore be wholly for revenue purposes. Accordingly, we are recommending that in the case of coffee, of which the greater part of our imports now comes in free, an increase of 10 cents per pound shall be imposed under all tariffs. With regard to tea, the greater part of our present imports now pays 4 cents per pound. It is proposed to add to existing rates 5 cents per pound in respect of tea invoiced at less than 35 cents per pound, 7½ cents in respect of tea invoiced at 35 cents per pound or more but at less than 45 cents per pound, and 10 cents per pound in respect of tea invoiced at 45 cents per pound or more.

In view of the increased levies on alcoholic beverages and on tea and coffee, it seems proper that some additional taxes should be imposed in respect of soft drinks. It is proposed, therefore, to place a tax of 2 cents per pound on carbonic acid gas and similar preparations used in the manufacture of non-alcoholic beverages. There will be no increase in the sales tax but the base of this tax will be broadened by removing from the schedule of exemptions electricity and gas used for domestic purposes, salted or smoked meats, and canned fish.

All changes under the Excise Act, the Special War Revenue Act, and the Customs Tariff are to be effective as of this date, except in the case of the increases in excise and customs duties on spirits including brandy which are to be effective as of September 3, 1939. I may say that that was the date of the declaration of war by Great Britain.

From these special war levies it is estimated that we shall derive approximately $21,000,000 during the remainder of the present fiscal year. In this connection it must be remembered that the revenues due to the increases in the individual and corporate income taxes and the levy of an excess profits tax will not be coming into the treasury until our next fiscal year. In any case it is impossible to predict what the yield of the excess profits tax will be in its first year of operation, and I shall not even hazard a conjecture. However, excluding this new impost, it is estimated that on the basis of a full year's operations but without assuming any increase in production and incomes as compared with, say, 1938 or 1939, the other new changes being made in our tax structure should produce a revenue of approximately $62,000,000. I have already indicated our view that after a short period of hesitation and quietness it is very likely that business will improve and that under the impact of war demand productive activity and, consequently, individual and business incomes, will rise substantially. If such a forecast should prove to be correct it is clear that the new taxes and the tax increases now being imposed will at a somewhat later stage produce a substantially higher return than the estimate which I have just given of their yield in a year like 1938 or 1939. Not only that, but if and when our economy begins to expand to the stage of full production and employment, the yield from our existing tax structure will rise more than proportionately.

If there are any hon. members whose first impression was that our tax proposals were drastic, the estimate I have given of the moderate increase in revenue which will accrue to the treasury this year to meet the expenditures provided for in the war appropriation bill should serve to correct that impression. On the other hand, the estimate for a full year's operation of the new taxes and the considerations which I have mentioned in regard to the effect of expanding production and incomes on our new tax system as a whole should make it clear that we are endeavouring to avoid oft-repeated mistakes in war finance and striving to carry the pay-as-you-go policy as far as is practicable. The government believes that it has made sound and courageous decisions. It believes that the house will approve these decisions. It is confident that all sections of the public will bear the sacrifices asked of them in the knowledge that they are necessary to the successful outcome of the struggle to which we are committed.

We are engaged in a grim and serious business. Modern war is a conflict in which whole nations are pitted against one another. The issue may be decided not by the relative strength of armed forces but by the magnitude and efficient use of economic power and by the test of human nerves, the strength of the will of peoples to bear burdens and stand strains. No one can doubt the courage and the moral strength of the Canadian people. But this courage and strength must be shown at home as well as on the field of battle. Our war effort on the economic side must extend throughout the country from the city factory to the farthest frontier farm and mine. Our people will, we are confident, bear their burdens with fortitude, and pursue their respective tasks with a determination to let nothing interfere with maximum efficiency. In carrying the financial burden, every one of our people can and will contribute to the victory of the freedom and the justice for which we fight.

RESOLUTIONS

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

THE CUSTOMS TARIFF

Resolved, that it is expedient to introduce a measure to amend Schedule A to the Customs Tariff and amendments thereto, and to provide:

1. That there shall be levied, collected and paid on the following goods, whether dutiable or not dutiable, when imported from any country, the additional rates of duties of Customs hereinafter specified:

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

(b) Ale, beer, porter and stout—9 cents per gallon.

(c) Wines of all kinds, except sparkling wines, containing not more than forty per cent of proof spirit—7½ cents per gallon.

(d) Champagne and all other sparkling wines —75 cents per gallon.

(e) Manufactured tobacco of all descriptions except cigars, cigarettes and snuff—5 cents per pound.

(f) Cigarettes weighing not more than three pounds per thousand—$1 per thousand.

(g) Tea, when the value for duty thereof under the provisions of the Customs Act:

(i) is less than 35 cents per pound—5 cents per pound.

(ii) is 35 cents or more but less than 45 cents per pound—7½ cents per pound.

(iii) is 45 cents or more per pound—10 cents per pound.

(h) All goods specified in Customs Tariff item 25a—10 cents per pound.

(i) All goods specified in Customs Tariff Item 26 except coffee, roasted or ground—10 cents per pound.

(j) Coffee, green, and coffee, roasted or ground—10 cents per pound.

2. (1) That any enactment founded upon the foregoing resolution relating to item (a) shall be deemed to have come into force on the third day of September, one thousand nine hundred and thirty-nine, and to have applied to all goods imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

(2) That any enactment founded upon the foregoing resolution relating to items (b), (c), (d), (e), (f), (g), (h), (i) and (j) shall be deemed to have come into force on the twelfth day of September, one thousand nine hundred and thirty-nine, and to have applied to all goods imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

EXCISE ACT

Resolved, that it is expedient to introduce a measure to amend the schedule to the Excise Act, 1934, as enacted by chapter thirty-seven of the statutes of 1936 and to provide:—

1. That the duty of excise on spirits distilled in Canada be increased from $4 to $7 per proof gallon.

2. That the duty of excise on Canadian brandy be increased from $3 to $6 per proof gallon.

3. That the duty of excise upon all beer or malt liquor brewed in whole or in part from any substance other than malt be increased from twenty-two cents to thirty cents per gallon.

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

5. That the duty of excise on malt syrup suitable for the brewing of beer manufactured or produced in Canada be increased from ten cents to fifteen cents per pound and malt syrup imported into Canada and entered for consumption be increased from sixteen cents to twenty-one cents per pound.

6. That the duty of excise on tobacco of all descriptions manufactured in Canada, except cigarettes, be increased from twenty cents to twenty-five cents per pound actual weight.

7. That the duty of excise on cigarettes manufactured in Canada, weighing not more than three pounds per thousand, be increased from $4 per thousand to $5 per thousand.

8. (1) That any enactment founded on resolutions 1 and 2 hereof shall be deemed to have come into force on the third day of September, one thousand nine hundred and thirty-nine.

(2) That any enactment founded on resolutions 3, 4, 5, 6 and 7 hereof shall be deemed to have come into force on the twelfth day of September one thousand nine hundred and thirty-nine.

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 subsection 1 of Section 83 of the said Act be struck out and replaced by the following: