had not been obstructed, if he had been permitted to develop a navy for Canada? In view of the attitude which our hon. friends have taken with regard to these policies, to move a vote of want of confidence in the splendid administration of the Prime Minister and his colleagues at this particular time when the country is struggling as never before, is a sorry spectacle to present to a self-respecting country.

On motion of Mr. Quelch the debate was adjourned.

At eleven o'clock the house adjourned, without question put, pursuant to standing order.

Tuesday, April 29, 1941.

The house met at three o'clock.

LABOUR CONDITIONS

STRIKE IN STEEL INDUSTRY AT HAMILTON

On the orders of the day:

Mr. CLARENCE GILLIS (Cape Breton South): I should like to ask the Minister of Labour a question arising out of a telegram I have received—too late, I regret, to send the minister notification of my question. The telegram is from the executive director of the steel workers' organizing committee in charge of organizational work in and around Hamilton. The telegram informs me that the situation at Hamilton has taken a serious turn in that the tactics employed by the operator, intimidation, agitation and so forth, are apt to lead to serious repercussions in that section. In view of the fact that war materials are the most important thing that Canada has to consider to-day, has the Minister of Labour any statement that he would care to make to the house with reference to the situation at Hamilton?

Hon. N. A. McLARTY (Minister of Labour): Mr. Speaker, I received a similar wire about five minutes ago. The Department of Labour is giving this matter its most careful attention. I think a statement at this time would not be helpful, but I trust that the apprehended difficulties which Mr. Dalrymple contemplates will not arise.

Mr. ANGUS MacINNIS (Vancouver East): I wish to ask the Minister of Labour a further question in regard to this matter. Has he been informed that the stoppage of work in other steel industries in Canada is in contemplation?

Mr. McLARTY: The only mention I have seen of that is in the press of Canada. I can assure the hon. member that the Department of Labour is taking every possible step it can to see that the Hamilton difficulty shall cease immediately.

Mr. M. J. COLDWELL (Rosetown-Biggar): Has the Minister of Labour been in contact with the president of the National Steel Car Corporation, Mr. R. G. Magor? Has he been invited to Ottawa to discuss the situation, and what has been his attitude in regard to this difficulty?

Mr. McLARTY: I think, Mr. Speaker, I would prefer not to answer that question unless the hon. member for Rosetown-Biggar insists, except to this extent, that I was in touch with the president of the company over the telephone for the better part of an hour last evening. The matter is one that is receiving very definite consideration, but I seriously doubt the advantage at this time of making a statement that might prejudice the negotiations which we hope will be successful in ending the strike.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. J. L. ILSLEY (Minister of Finance) moved:

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

He said: Mr. Speaker, this is our third war-time budget. The first was presented in September of 1939, the second in June of 1940.

In these budgets the basic principles of our war-time finance were stated with definiteness and clarity. Such criticism of those principles as there may have been has not been based on their obscurity. We have repeatedly thrown them on the screen in bold outline and appealed to the people of Canada to help us in making them succeed.

To-day's budget will further apply those principles. Those who are looking for interesting departures from them will be disappointed. But there will be no disappointment for those who believe that the financial burden of war should be distributed on a basis of equality of sacrifice, having regard to ability to pay.

Let me first review very briefly some of the economic and financial events and policies of the past fiscal year. This review will, I hope, assist the house to understand the reasons for the measures which I shall propose, and at feast some of the difficulties of formulating practical and equitable ways and means of providing for the unprecedented appropriations which we have asked for.

As explained by my predecessor in the budget speech of June 24, 1940, the budgetary task of these years of war is that of devising financial policies which will assist in attaining the single object of both the government and parliament, the mobilizing of the maximum war strength of this country. In planning these policies, the government set for itself two objectives:

First, to bring the country as rapidly as possible to the full use of its resources and man-power. For this, financial policy could not be the sole nor even the chief instrument, but it was necessary that it should help and not hinder, that it should keep step with the work of industrial and military organization.

The government's second objective was to follow "as far as may be practicable a pay-as-you-go policy". This it derived not from any dogma of financial orthodoxy, whatever that may be, but from the known and proved inequities and the disorganizing and shattering effects of inflationary rises in prices and incomes.

At the time the budget was introduced last June, the country had made substantial progress on the road to full war mobilization. It had become clear, further, that speed during the coming months would be greatly accelerated. In contrast, therefore, with the very moderate tax increases of the special budget of September, 1939, we proposed, and parliament approved, increases in taxation which by any standard in our country's history were very great. These increases in taxation were specifically designed to conserve foreign exchange which had already become one of the scarcest of the sinews of war, and to recapture, for the purpose of meeting war expenditures, more substantial proportions of the rapidly rising incomes of our people. It was not assumed that at that time we had already reached the full use of our resources and manpower; rather, it was assumed that, in view of the expenditures proposed and the plans approved, we would within the fiscal year approach it. Having recommended tax increases then estimated to yield $280,000,000 in the full year and $110,500,000 in the fiscal year 1940-41, the government proposed to borrow the remainder of its requirements then thought to be in the neighbourhood of $550,000,000.

I

FINANCING OPERATION:

During the past fiscal year, the government found it necessary to borrow for the following purposes: first, to finance its deficit which, as I shall intimate later, has turned out to be considerably smaller than was forecast; second, in financing the Canadian dollar deficit of the United Kingdom, to provide for the repatriation from the United Kingdom and the cancellation of dominion and dominion guaranteed securities held there to the par value of $245,700,000; third, in respect of $325,000,000, to enable the Foreign Exchange Control Board to purchase, under the Foreign Exchange Acquisition Order, the gold and foreign exchange of the Bank of Canada and others; and, fourth, to refund other maturing issues amounting to $200,000,000 and held in Canada.

In round figures, the total borrowings of the government during the past fiscal year are classified as follows:

> From the public, $383,000,000 made up of $325,000,000 war loan bonds, $52,000,000 (cash value) of war savings certificates, and $6,000,000 of non-interest-bearing certificates; from the chartered banks, $291,000,000; and from the Bank of Canada, $349,000,000; making a total of $1,023,000,000.

When we take into account that $325,000,000 was borrowed to finance an operation of a very special nature almost entirely within government institutions implementing the Foreign Exchange Acquisition Order, and that the greater part of the refunded issues held in Canada was in the hands of the banks, the amount of bank borrowing has been limited to safe and reasonable proportions. It must be borne in mind that many of the tax increases imposed last June did not begin to yield revenue in the past fiscal year. It should be recalled further that it was the expressed desire and policy of the government to facilitate the rapid expansion of industry and the mobilization of our resources.

It is, however, clear that, having, in this joint struggle for survival, imposed upon ourselves the greater financial tasks of the current fiscal year, we shall have to appeal to the public and the financial institutions, other than the banks, for very much larger amounts than hitherto.

The war loan last September was oversubscribed. It was not oversubscribed in the first few days, and the success of the campaign required persistent work on the part of those promoting it. We must be under no illusions. Amounts such as the government, as the instrument of parliament and of the people, is compelled to ask for are not likely to be oversubscribed on a Monday forenoon, and they will be obtained only if there has been most careful organization, and the most persistent and energetic promotion, and if there is a determined will in the Canadian people to place their savings at the disposal of their government for the prosecution of the war.

The war savings campaign, which was begun at the end of May, 1940, was renewed with increased intensity in February last. In the ten months to the end of March, the War Savings Committee sold certificates and stamps to the cash value approximately of $52,000,000, which was in excess of the first objective set for a full year of operation. In the meantime, however, the objective had been raised in accordance with the increased incomes of our people and the greater needs of the present. Last month applications were at the approximate rate of $2,500,000 par value a week, a rate which will have to be maintained to achieve the new objective of $120,000,000 a year.

I would impress upon the house the great importance of this savings movement. The savings campaign is not limited to the sale of war savings certificates, but will embrace also the sale of bonds as these are offered from time to time to the public. Stamps, certificates and bonds differ only in their convenience and appropriateness to the circumstances of subscribers. What is desired and what is necessary is that people should subscribe to their utmost out of their savings for the purpose of financing the prosecution of the war. Particularly is it essential that those, whose family incomes have increased since the outbreak of war, should contribute to a greater degree than others in the same income groups.

As we approach the point where, within practical limits, and having regard to the seasonal variations inherent in business in this country, we are making full use of our resources, those who place their savings at the disposal of the government are not only making provision for their own future, postponing their expenditures to the time when there will be labour and resources available to provide goods and services for them, but they are in a very direct way promoting the mobilization of resources and man-power for war to the utmost extent of which this country is capable.

ECONOMIC CONDITIONS

It has been customary in the past to review the economic and business changes which have taken place since the last budget, and it is a particularly helpful custom at this time, because the record of the past year throws some light on the progress made in bringing the full resources of this country into use for the furtherance of our war effort and for the maintenance of our people. It is also the background against which we must view the budget proposals.

It should be borne in mind that the financial forces bringing our resources into full use are the war expenditures of our own government, the purchases which the United Kingdom government is making here, and the exports which are sold to other countries. Financial policy has been a condition rather than a cause of the heightened tempo of Canadian business.

Taking the twelve months to the end of March as a basis of comparison, our exports to the United Kingdom increased by 45 per cent in the past year. Our exports to the United States have increased by about 21 per cent. To all countries the increase has been 26 per cent. Exports of gold increased by about 8 per cent, but, unfortunately, our receipts from tourists declined substantially. Our net receipts were increased only because of the travel restrictions imposed on Canadians.

For the first quarter of this calendar year, our rapidly rising war expenditures were five times the figure of the same quarter of last year and at the rate of more than $1,000,000,000 annually.

In comparison with the same period a year ago, the physical volume of business in Canada in January and February was 15 per cent higher while the volume of manufacturing was 11 per cent higher. It is at first a surprise that these increases are considerably smaller than those which took place in the preceding period of twelve months. When we turn, however, to the value of construction contracts, which in the first three months of 1941 stood 100 per cent higher than in the same period last year, we see that what was taking place, and is still taking place, is a great expansion in our capacity to produce, and that from now on a greatly increased output will be flowing from our war plants.

Whereas in March, 1940, the number of persons employed had increased by less than 7 per cent over the previous March, the increase shown in March of this year is approximately 20 per cent. In the early period of the war, increased output was obtained by employing more fully and for more days in the week those people who were already counted as employed. During the past year, it is apparent that increases in production have required the employment of additional workers. Clearly from now on, aside from some increases in efficiency, any enlargement in our scale of production will be dependent upon our ability to add more workers to our working force. It has already been indicated that we shall probably need this year for both the armed forces and industry an additional 300,000 persons. How near we are at present to full employment is a point open to prolonged argument. As long as there is rapid change in industrial needs, there will necessarily be some temporary unemployment. It is significant that the number of employable persons on relief during the past winter has been only a third of the number shown for the previous winter, that the percentage of trade unionists unemployed has been only slightly above the figure for the winter of 1928-29, and that industries necessarily seasonal in the operations are finding it increasingly difficult to maintain their working forces. It is undesirable that we should try to force the expansion of production to the point where our seasonal industries would be stripped of workers and some of our most important exports restricted. As our seasonal requirements and as our war requirements mount between now and next autumn, we shall have to forgo some of the less essential of our civilian requirements in the interests of maximum war production.

The greatly increased volume of business activity during the past year has resulted in very substantial increases in income. It has been estimated that our national income for the calendar year 1940 was $600,000,000 in excess of the figure for 1939. Of that $600,000,000, $348,000,000 was in salaries and wages, the remainder in business, professional, agricultural and investment income.

While we cannot trace all the ramifications of the expenditures of income, we can see easily enough where some substantial portions of the increase in income have gone. Something like $300,000,000 went into increased dominion revenues. Without increased rates some provinces and municipalities have experienced large fortuitous gains in revenue. For the first two months of 1941, retail sales in Canada were about 13 per cent higher than in the same period of the previous year. Purchases of passenger automobiles were slightly below the level of the previous year, which was, however, the highest level on record for January and February. Expenditures on residential construction during the first three months are reported to be 19 per cent higher than in the same period a year ago. The greatest increase in construction, of course, has been in industrial construction where the first quarter's figures are about four times those of last year. Most, but by no means all of this, has been occasioned by the expansion of war industries.

These few figures give some impression of a country which has greatly increased its capacity for war production, and, at the same time, increased its production for civilian use; a country which has drawn nearly all of its working force into active work, and will encounter more and more difficulty in expanding the scale of production still further. They indicate that far from there being any reduction in civilian consumption there has been a very substantial increase as war activity has developed.

We do not know what tremendous events are shaping to emerge in the year ahead of us. We are bound, nevertheless, to take account of the results of the programmes which have already been put into effect in the United Kingdom, the United States and in this country.

That our own plans call for war expenditures of $1,450,000,000, nearly double those of last year, is already known. The government of the United Kingdom has intimated that it expects that purchases for all purposes will be made in Canada to the value of $1,500,000,000. As the rapid acceleration of the United States defence programme proceeds, our exporters to that country will be called upon for larger and larger shipments. Rapidly developing industrial cooperation between ourselves and our neighbours will intensify this demand. These tremendous requirements of goods are additions to our normal requirements for consumption and maintenance of our capital equipment.

Under the stimulus of these purchases, it is expected that our national income will increase greatly. Against an estimated increase of $600,000,000 from the calendar year 1939 to 1940, it has been estimated that the national income in the fiscal year 1941-42 is likely to rise $950,000,000 above the figure for 1940. The achievement of this increase depends, of course, on realizing a great increase in our industrial output. For the attainment of that increase we rely mainly on the expansion of industrial capacity which has taken place in the past year.

Such an increase in our national income, to a level 35 per cent above that of 1939, will make possible a powerful contribution to the success of the struggle in which we are engaged jointly with the other British countries and the United States. It will make it possible without any serious encroachment on the basic standard of living of the people of this country. It will not, however, make it possible for us to expand our consumption still further nor will it be possible for us generally, while we are engaged in this struggle, to enlarge, remodel and reequip our houses, buy larger and faster motor cars and respond to each and every appeal of the alluring advertisement. We can postpone till after the war the purchase of many wholly desirable and convenient products, and thereby give right of way to the equipping and maintaining of the forces that stand between us and Hitler.

FOREIGN EXCHANGE

The house does not need to be told that some of the most difficult and intricate of the financial problems of the country arise from our relations with the United Kingdom and the United States. Since the outbreak of war, Great Britain has suffered in common with us an acute shortage of United States dollars. In addition, Great Britain has been short of Canadian dollars.

Up to March 31, Britain's deficit in her balance of payments with Canada was approximately $795,000,000. Of this amount only 31·4 per cent was met by the transfer of gold to Canada. Canada financed the remainder by the repatriation of Canadian securities held in Britain, and by the accumulation of sterling balances in London. The first of these methods accounted for 42·4 per cent of the total deficit and the second for 26·2 per cent of that deficit. Since early December no gold has been received from the United Kingdom, and Canada is at present making Canadian dollars available to the United Kingdom for the full amount of her deficit with us, which for the first quarter of 1941 amounted to approximately $186,000,000. During the present fiscal year our shipments of munitions of war, raw materials, and agricultural products are expected to increase very rapidly and, as has already been indicated to the house by the Prime Minister, they are estimated to reach approximately $1,500,000,000 for the fiscal year as a whole.

On this basis it was estimated that the deficit in the balance of payments with Canada of Britain, or, more accurately, of the sterling area, would be approximately $1,150,000,000. This would be a colossal sum to think of adding to Canada's direct war expenditures of perhaps $1,450,000,000. The house, however, I am sure will agree that it would be unthinkable that Britain should be unable to purchase vitally needed supplies in Canada because of a lack of Canadian dollars. For that reason it has been necessary for us to assure Britain that Canada would meet such proportion of that total deficit as Britain herself would not be able to meet by the transfer of gold or United States dollars to Canada.

In view of the changed aspect of this problem as a result of events of the last few days, I wish now to turn for a few moments to Canada's own exchange problem *vis-à-vis* the United States. As the house is aware, Canada has normally had a deficit in her balance of payments with the United States, but in the pre-war years that deficit was met by the conversion of our surplus sterling into United States dollars in the free market in New York. Since the outbreak of this war it has not been possible to convert this surplus sterling into dollars, with the result that we have had to face the prospect of a growing shortage of United States dollars coincident with an increasing accumulation of surplus sterling. This deficit in our United States account has been a continuing problem from the outbreak of war. Our nearness to the United States is such and the commercial and industrial relations of the two countries are such that as long as United States industry is working at less than capacity, any shortage of resources, plant, material or labour could be made up by the expenditure of United States dollars. Thus, all other shortages tended to be converted into this shortage of hard currency.

The house is familiar with the series of measures by which the acuteness of this deficiency has been mitigated. The original Foreign Exchange Control Order prohibited the export of capital. Strenuous efforts have been made to extend our exports, our tourist traffic and our gold production. In May last, under the Foreign Exchange Acquisition Order the gold and foreign exchange of the Bank of Canada and private holders were taken over by the board. In June the war exchange tax of 10 per cent was imposed. In July the board was instructed to refuse dollar exchange for purposes of pleasure travel. In December the War Exchange Conservation Act prohibited, in effect, the importation of a large number of products from non-sterling countries, restricted the importation of others, and reduced, or, in most cases, eliminated, the duties on large classes of imports from the United Kingdom. In addition, heavy excise taxes were imposed, largely for exchange reasons, on automobiles and a considerable list of other articles which occasion substantial imports of parts and materials from the United States. These steps were taken in the conviction that it was only common sense that, when we were being forced to dispose of our United States assets to meet a shortage of United States dollars, we should do what we could without handicapping our war effort to reduce our non-essential expenditures in dollar exchange.

However, despite all the measures that were adopted, we experienced a continuing deficit in our dollar transactions with the United States. From September 15, 1939 (the date on which foreign exchange control was established in Canada) until March 31, 1941, Canada's net deficit with the United States on both current and capital account amounted to approximately $477,000,000. (This figure, as well as the others which I shall use, is in terms of Canadian dollars). As I have already explained, we received from the United Kingdom in the early part of the period a substantial amount of gold, which was, of course, used to meet part of our deficit with the United States. It was, however, necessary to cover the balance of approximately $225,000,000 by depleting our holdings of gold and United States dollar balances and by the liquidation of certain of our holdings of other United States assets. The rapid expansion of Canada's own direct war effort and the increase in British purchases in Canada already referred to were bound to bring, unless offset by other factors, a substantial increase in our deficit with the United States. In spite of the measures taken to curtail non-essential imports, we have estimated that our imports from the United States this fiscal year will reach the huge figure of $953,000,000, of which $428,000,000 will represent purchases for war purposes. More than half of this latter total would be accounted for by components and materials required to be purchased in the United States to execute British war orders placed in Canada. Our exports to the United States for the same period are estimated at $475,000,000.

Another important item on the debit side of our account with the United States is the payments we have to make for interest and dividends to United States investors estimated at $238,000,000, which is only offset to the extent of about $28,000,000 by interest and dividend payments coming the other way.

The house is also aware that our net tourist receipts last year proved very disappointing, and, while we hope that United States tourists will come to Canada in increasing numbers and for longer periods this year, it is probably not safe to count on net receipts from this source of more than $130,000,000.

Taking these and other relevant items into consideration, the best estimate we were able to make a few weeks ago indicated a probable deficit in our balance of payments on both capital and current account with the United States for the current fiscal year of approximately $478,000,000. This has recently been reduced by $11,000,000 as a result of a partial renewal of a dominion obligation maturing on May 1st next.

Perhaps I have said enough to indicate to the house something of the magnitude of these complex exchange problems. A dramatic and magnificent contribution to their solution was made by the Hyde Park Declaration which the Prime Minister explained to the house yesterday. In that declaration, the thrice welcome progeny of the "good-neighbour" and "aid-to-Britain" policies, the President of the United States and our own Prime Minister made public an agreement under which the government of the United States will make available to Britain, under the lease-lend act, the United States components of British purchases in this country, and undertakes to purchase from us such war materials and equipment as we may find it possible to produce by an intelligently planned integration of the industrial capacities of this North American arsenal, having regard always to the requirements of Canada and the United Kingdom.

It is difficult to make any precise quantitative estimate of the contribution which the agreement may make to reducing our shortage of United States dollars. In the first place, while elimination of the necessity of our paying United States dollars for the United States components of British war orders in Canada should result in a substantial reduction in the drain on our United States dollars, administrative difficulties may be encountered which will make it difficult to apply the lease-lend procedure immediately to all items in this category, particularly certain raw materials purchased directly by private contractors. In the second place, while the Hyde Park Declaration referred to a total of between $200,000,000 and $300,000,000, the amount of the additional war purchases by the United States in Canada will depend on the practicable limits of production and integration, and it will, of course, take some months for them to reach their expected peak volume. The most reasonable estimates of the magnitude of these two factors still leave a considerable deficit in our balance of payments with the United States, but we hope this may be further lessened by continuing negotiations between the three governments.

However, I must warn the house that the Hyde Park Agreement, most generous and helpful as it was, does not remove all need for the conservation of foreign exchange. It is a magnificent contribution to the success of our common struggle, not to the ease and convenience of the Canadian people. It would be foolish, for instance, to assume that it will mean the restoration to par of the

Canadian dollar in New York, a proposal which has recently been mooted by persons not familiar with the hard facts, or to assume that it will enable us to remove the present restriction upon the use of United States dollars for pleasure travel purposes in the United States.

It was only with the greatest reluctance that the government accepted the necessity of imposing these travel restrictions, and, as the Prime Minister stated upon his return from his recent visit with the President of the United States, this administration would abandon that prohibition immediately if it could be done without injury to Canada's war effort. Such action, however, cannot be taken at the present time, as the plain fact of the matter is that even taking into account the probable benefits of the Hyde Park Agreement, we have not sufficient United States dollars available to permit us to undertake additional commitments. If all restrictions were removed, I am of the opinion that we would have to find some $70,000,000 to $80.000,000 for pleasure travel.

While on this subject I would like to refer to certain misapprehensions which appear to exist in some quarters in regard to the policy which is being followed in permitting visits to the United States. In general, funds will be provided for any trip which is required for business reasons. Further, visits for necessary medical treatment or other types of health purposes are allowed, and, in certain cases, limits are established for educational courses not available in Canada. No funds will be provided for vacation or pleasure trips, but if any Canadian has arranged to visit relatives or friends in the United States who provide the United States dollars for the purpose, no objection will be raised. From time to time we hear criticism that certain people are allowed to visit the United States, and not others. I am advised by the Board that I can assure all concerned that absolutely no discrimination is exercised in considering applications and that exactly the same principle applies to every applicant. If the application falls within a class that is prohibited, it is refused without regard to the personalities concerned, and if it is in a permitted class it is granted on the same basis.

II

GOVERNMENT ACCOUNTS, 1940-41

I wish now, Mr. Speaker, to review the government accounts for the fiscal year which closed on March 31st. In accordance with the procedure which has been followed in the last two budgets, I shall merely at this time summarize the results of the year's operations

and at the close of this address I shall table a white paper which will include all the significant details in regard to our revenues and expenditures, our direct and indirect liabilities, our active investments and our financing operations during the past year.

The house will realize that, while we are now past the end of March, our books for the fiscal year 1940-41 will not be closed for some time. For this reason the figures which I shall present to the house represent merely estimates, although I believe they are close estimates, of our revenues and expenditures for the past fiscal year.

In this connection, my first duty is a pleasant one—that is, to report the fact that our revenues during the past year were of unprecedented magnitude. Our present estimate is that they will reach a total of $871,571,000, an increase over the previous year of over $309,000,000 or approximately 55 per cent. For no earlier year in our history have our receipts approached this huge total. Even the somewhat courageous estimates made by my precedessor last June were exceeded by more than $100,000,000. If hon. members contrast the huge total I have given with the dominion's revenues in the corresponding year of the great war, they will, I believe, find reason for confidence, not only in the increased strength of the dominion to bear the greater burdens of to-day, but also in the different methods which are being followed to finance this war. In 1915-16 the aggregate revenues of the dominion amounted to only $172 million, and even in the closing year of the last war they had risen to only $313,000,000.

The very large increase in our revenues as compared with those for 1939-40 is to be explained by several factors. In the first place, we imposed last year a number of new taxes and we increased the rates on several of our existing taxes. In the second place, the substantial increase in business activity, in personal and corporate incomes, and in consumer expenditures, to which I have already referred, have provided a broader base for all or nearly all our taxes. Finally, there was a much less important factor, the prepayment of income taxes not normally payable until April 30.

In these remarks I shall restrict myself to a brief discussion of our tax revenues and shall make no reference to our revenues from non-tax sources, such as post office receipts, return on investments, and various miscellaneous items. Total tax revenues are now estimated at $778,290,000, as compared with $468 million in the preceding fiscal year. The largest contribution to this total was made by our various excise taxes which account for aggregate receipts of $284 million as compared with $166 million for the previous year. Sales tax alone was responsible for total receipts of $180,750,000 and the war exchange tax for $62,000,000.

The income tax was the second most important source of revenue. From the graduated tax on personal incomes, the 18 per cent tax on corporate incomes and the special tax on interest and dividends, we received a total of $220 million, or more than 50 per cent in excess of any previous year in our history. The national defence tax produced a total revenue of $28 million, while under the excess profits tax we collected $24 million. In this connection, however, I wish to emphasize that it will not be until after April 30 this year that we will receive the very large returns which we expect from the excess profits tax, as well as from the increases in personal income taxes which were imposed last June. It is not as yet possible to determine with any precise accuracy the total amount of prepayment of income tax which normally would not have been paid until April 30, 1941, although it is estimated that about 110,000 taxpayers took advantage of the instalment prepayment plan and that prepayments were about $45,000,000.

Despite the important steps we have taken to restrict non-essential imports, our imports have shown a substantial increase and as a result our revenues from customs duties rose from $104 million in 1939-40 to an estimated $131 million in 1940-41. This is larger than in any year since 1931, but still considerably below most of the pre-depression years.

As a result of the tax changes imposed in the two earlier war budgets and of increased consumer incomes, our revenues from excise duties, mainly on liquors and tobacco, increased from $61 million to $89 million.

I turn now to some brief comments on our expenditures for the past fiscal year. We now estimate that our ordinary expenditures will be slightly over $393 million, of which total approximately 70 per cent is accounted for by interest and other charges on the public debt, civil and military pensions, cost of operating the postal service, and subsidies and special grants to provinces. Although it includes over $11 million additional interest and other charges on the public debt, this total is $5 million less than the corresponding figure for the previous year. Capital expenditures decreased to $3,405,000 from slightly over $7 million in 1939-40.

The largest decrease in our expenditures took place in the category of so-called special expenditures, representing chiefly the cost of unemployment relief, payments under the Prairie Farm Assistance Act, and provision for losses in respect of wheat. In connection with the last named item, I have thought it wise to set up a reserve in our books of $10,500,000 which is the deficit shown, not previously provided for, in the operations of the Canadian Wheat Board cálculated as at July 31, 1940. Including this reserve for wheat losses, our total special expenditures for the year are estimated at $42,613,000, which compares with an expenditure of $89,113,000 under the same category in 1939-40.

As the house already knows, there was also a substantial decrease in losses of, and non-active advances to, government-owned enterprises, chiefly the government-owned railway system. During the past year our expenditure on this account was $18,182,000 as compared with $42,079,000 during the preceding year.

I come now to the last important category of dominion expenditures, namely, those on war account. By this time hon. members will, I am sure, realize how difficult it is to make precise estimates of war expenditures in advance, even for short periods. Our latest estimates indicate that our total cash disbursements for this purpose charged to the fiscal year which has just closed will approximate $816,150,000, of which $791,862,000 will represent expenditures charged to consolidated fund and $24,288,000 will represent outgo in respect of items which we treat as active assets in our accounts. For the sake of comparison it may be interesting to note that in the corresponding fiscal year of the last war, namely 1915-16, the war expenditures of the dominion amounted to only slightly over $166 million, and even in 1918-19, the last year of the war, to only $447 million.

If we add the amounts which I have given you for the various categories of expenditure charged to consolidated fund together with certain miscellaneous other charges representing chiefly write-down of assets, we get an aggregate expenditure for the year of $1,266,627,000, which total I need hardly say also represents a new record for the dominion. Deducting total revenues of $871,571,000 we reach an over-all deficit for the year of $395,056,000. This is, of course, a very large deficit, but nevertheless it is substantially smaller than that which was estimated by my predecessor last June. It compares with a deficit of $118,700,000 in 1939-40.

As a result of the over-all deficit of $395 million, the net debt of the dominion rose to approximately $3,666,316,000 as at March 31, 1941. Gross liabilities at that date are estimated at $4,744,057,000. On the other side of the balance sheet, offsetting these liabilities in part, the dominion has active assets, including cash on hand, sinking funds, and active loans and investments amounting to $1,077,741,000.

At the close of the fiscal year there was outstanding unmatured direct funded debt (including treasury bills) amounting to $4,371,891,000, of which $5,233,000 were held in sinking funds against certain issues payable in London. Bonds and debenture stocks bearing the guarantee of the dominion and outstanding in the hands of the public totalled $984,016,379, as at March 31, 1941. These guaranteed securities were decreased by $100,462,853 during the year. There are also outstanding certain other contingent liabilities arising out of guarantees given under relief acts and various other statutes. These are fully set out in the white paper which I shall table at the close of my address.

III

BUDGET FORECAST 1941-42 AND PROPOSALS

Estimate of Expenditures

What I have said relates to the past, and what the house will now be interested in is the estimates of our expenditures for the new fiscal year and the measures and policies we propose for raising the necessary funds to meet these expenditures.

The house has approved estimated expenditures on non-war activities for the fiscal year ending March 31, 1942, amounting to $433,131,639.50. To this should be added supplementary estimates before the house, amounting to $35,000,000, to provide for payments to stimulate reductions in wheat acreage.

The house will recall that the war expenditures for the fiscal year ending March 31, 1942, were tentatively estimated at $1,450,000,000. As was pointed out, however, when the 1941 war appropriation bill was introduced, these estimates are dependent upon a number of factors which cannot be determined in advance and for that reason authority was asked for an appropriation which is approximately $150,000,000 less than the war estimates of the various departments. In asking the house for an appropriation of $1,300,000,000, I said:

"It may be that the total cost of our war effort expenditures during the coming fiscal year will exceed this figure by a considerable amount, and if it does, it will be necessary for me to come back for an additional appropriation at a later date."

[Mr. Ilsley.]

It is not necessary for me to repeat the impossibility of estimating in advance with any degree of accuracy what our war expenditures will be during the new fiscal year. Obviously, this will depend in large measure upon events over which we have no control.

With these reservations, I shall add $1,300,000,000, which I think is an inside figure for war expenditures, to the total expenditures on non-war activities of $468,000,000. These two amounts together come to the tremendous sum of $1,768,000,000 for dominion government expenditures during the fiscal year 1941-42. If war expenditures exceed the present appropriation and reach the original estimate upon which the war program was based, our total expenditures would be $1,918,000,000.

Estimate of Revenues

To meet the expenditures which I have outlined, we estimate that our total revenues for the new fiscal year on the basis of the taxes which are now in force, will amount to approximately $1,150,000,000. These revenues are made up as follows:

Customs	$ 137,000,000
Excise duties	98,000,000
Sales tax	190,000,000
War exchange tax	81,000,000
Other excise taxes	51,000,000
Income taxes—	
Personal	135,000,000
Corporation	165,000,000
5 per cent tax	15,000,000
National defence tax	55,000,000
Excess profits tax	140,000,000
Miscellaneous	2,000,000
Total tax revenue	$1,069,000,000
Non-tax revenue	81,000,000
Total ordinary revenue	$1,150,000,000

This means that if our expenditures do not exceed $1,768,000,000, and if our revenues from present taxes produce $1,150,000,000, we should be faced with an apparent deficit of $618,000,000 to be covered by new taxes or by borrowings. On the higher estimate of war expenditures that deficit would be $768,000,000. If that were all, the problem would be difficult enough, but as everyone knows, the real magnitude of this country's war effort greatly exceeds the cost of our direct military programme, and for this reason the total amount which we must find through new taxes and by borrowing will greatly exceed whatever the government's budgetary deficit itself may amount to.

In an earlier part of this address I dealt with our exchange position with the United Kingdom and with the United States and pointed out the difficulties of estimating the amount of the British deficit with us or the amount of our deficit with the United States for the present year until the measures agreed to at Hyde Park have been worked out. Our immediate interest in these questions is in their effects upon our internal financing problem this year.

In order to appraise the magnitude of this problem we should first add to our own budgetary deficit the amount of Britain's deficit in her balance of payments with us. We should then deduct the amount of our exchange deficit with the United States because to the extent that we meet this by selling gold or foreign exchange or other capital assets it does not represent an immediate burden upon our current production.

On the basis of the information which is presently available to us, we estimate that the difference between Britain's deficit with us and our deficit with the United States will be between $800,000,000 and $900,000,000 in the current year. If this is added to the estimates I have given of our prospective budgetary deficit we arrive at a total of between $1,418,000,000 and $1,668,000,000 which we must raise by additional taxation and borrowing during the present fiscal year. For our present purposes, I think, we will not be far wrong if we assume the figure to be $1,500,000,000. It is unnecessary for me to emphasize the staggering task which this places upon the Canadian people. It can be done without any doubt, but it will not be easy.

I should like to point out to the house, however, the importance of keeping the magnitude of our task well before us when we consider the specific proposals which I now present. It is only by doing so that we can hope to consider the individual measures in their proper perspective.

BUDGET PROPOSALS

To provide these funds, I shall lay proposals before the house designed to raise, by new taxes and increased rates of existing taxes, the amount of $300,000,000 in a full fiscal year. Of this amount, roughly $220,000,000 will be derived from direct personal and business taxes, $68,000,000 will be raised by indirect taxes which fall on commodities and services which, however desirable they may be, are not, in general, essential, and $12,000,000 from an indirect tax which will affect the family budgets of all. All of this will not, however, be collected within this fiscal year. In 1941-42, it is expected to obtain $250,000,000.

This leaves an estimated amount of $1,250,000,000 to be financed otherwise. Increases in certain government open and trust accounts such as annuities and superannuation, the unemployment insurance fund, war savings certificates and non-interest-bearing loans may be expected to provide a source of funds amounting to about $200,000,000. For the remainder, we shall have to appeal to the people, the business firms, and institutions of the country.

I need not tell the house that to raise such an amount will require such a great increase in the savings of the Canadian people that the help of every man, woman and child will be required. It will require also the careful limitation of our commercial and industrial investment to such plant and equipment as will aid in carrying on the war and as is necessary to the maintenance of essential services. With this object an order in council, effective from to-day, will shortly be passed making it necessary for any person or firm erecting or extending building structures for industrial and commercial use or installing machinery and equipment, to apply for and obtain a licence. To facilitate administration, small extensions and replacements will be excluded from the coverage of the order, and plant and equipment for primary industries and housing accommodation will be exempt. The order will be administered by the Director General of Priorities under the Department of Munitions and Supply.

This policy of controlling investment will have the important effect of providing a larger market for government bonds, but it will have other important effects as well. It will limit the demand on steel, machine tools and skilled labour; it will prevent some unsound extensions of industry under the stimulus of the War Exchange Conservation Act; and it will provide a backlog of investment and construction requirements for the post-war reequipment and modernization of Canadian industry.

I have already indicated that the new tax proposals involve very important increases in direct taxation. That will surprise no one who is aware of the magnitude of our financial requirements and who is familiar with the financial policy which this government has followed from the beginning of the war. As my colleague said when discussing the increases in personal income taxes which he proposed in the budget of June, 1940, "this is the tax which in principle most nearly approximates ability to pay. We realize that increases in indirect taxes disguise the burdens imposed by the war but they are much more likely to distribute these burdens harshly and unfairly". Our views upon the type of additional taxes which should best be imposed have not changed. We still believe that if there must be increased taxes, then it is better to increase the direct taxes as much as we possibly can. And in this most critical year of our history when the future existence of all the important things that matter to us is at stake, I do not think it unreasonable to ask our people to accept further drastic increases in both personal and corporation income taxes. I think they are prepared to shoulder the increased burdens which we must ask them to bear.

But when we come to the point of increasing personal and corporation income taxes still further, we are confronted by the situation to which reference was made last year in the following terms. I quote from my predecessor's speech:

"The dominion is not the only taxing authority levying steeply graduated rates on large incomes. Every province in Canada, except Nova Scotia and New Brunswick, now levies income taxes and in certain cities taxpayers must pay municipal income taxes as well as provincial income taxes. Ontario, Manitoba, and Prince Edward Island are the only provinces which allow, as a deduction from income, the tax paid to the dominion. All these authorities tax at different rates. This means that unless we are prepared to be entirely arbitrary and unfair and to set up schedules of rates which when added to the rates imposed by other taxing authorities would be nothing short of fantastic, the dominion must, in fixing its schedule of rates, take cognizance of the highest schedule of rates effective in any province. This is but an instance of the chaotic situation in the fiscal systems of Canada to which the Sirois report has drawn attention and which, I regret to say, appears to be getting worse rather than better."

Since these words were spoken the tax structures of some of the provinces have been changed to some extent. It was recently announced that British Columbia intends to repeal its surtaxes on higher incomes. The treasurer of the province of Quebec has intimated that the municipal income tax levied by the city of Montreal will be discontinued. On the other hand, New Brunswick has now entered the corporation income tax field. But in spite of these particular changes, the general problem which was explained to the house last June remains unchanged.

We hoped that some solution of those difficulties would be found at the dominion-provincial conference which was held in January to consider the recommendations contained in the Sirois report, but as everyone knows the conference failed. There is nothing to be gained by reviewing the events which led up to the conference or discussing the causes of its failure. We must accept the differences of opinion expressed at that time without resentment or disappointment and get on with our jobs. And in case there may be any lingering doubts in any one's mind, I should like to state categorically that the question of the Sirois report will not be reopened at the instance of this government until after the war at least. What has proven to be such a contentious domestic issue must not be allowed to weaken our national unity in this critical year.

If I may be permitted to digress for a moment at this point, I should like to assert as strongly and as definitely as I can that while we may have differed in the past and may differ in the future about the best solution for some of our domestic problems there is no disagreement among Canadians upon our main purpose. And that is to put forth the maximum effort of which we are capable in the struggle with the forces of evil and of darkness, in the struggle with the common foe of all decent men. If the house will consider the estimated war expenditure for the fiscal year commencing April 1, 1941, and the amount of our financial assistance to Britain, which I gave the house a few moments ago and will think of what these expenditures mean in terms of hours of labour and of raw materials, I believe all members will agree that the Canadian people must pull together in their common purpose. Such a tremendous effort would not be possible unless we were united in our determination that the enemy and all he stands for shall be overcome.

To return to the problem of the different levels of direct taxation between provinces, it has been suggested that the dominion government should impose whatever taxes it thinks necessary without any regard whatever to the difference in the provincial rates. But the situation to which my predecessor referred last June still exists. In fact, it becomes worse and the differences between the provinces become aggravated as the general scale of taxes increases.

The combined rates of tax on the lower income levels are relatively moderate at present and under these conditions the differences in the taxes paid by residents of different provinces are tolerable. But if the taxes are to be increased as they must be, those differences will become progressively less tolerable. This means that if the dominion government introduces tax rates which together with the existing provincial rates are appropriate to the situation in some provinces the result would be that residents of other provinces where the provincial income taxes are relatively higher, would pay more than the maximum which it is thought people with similar incomes elsewhere can be asked to bear.

A further difficulty arises because of the fact that provincial income taxes in western Canada in combination with dominion rates rise more steeply than they do in the east. As a result, it is particularly difficult to increase the taxes in the higher income brackets. However, if the dominion rates on higher incomes are not increased then the combined taxes on such higher incomes in eastern Canada will be unfairly low as compared with the proposed increased taxes on lower incomes. Since the taxes on lower incomes must be increased substantially in order to produce the revenues required, it is only proper that we should also increase the taxes on the higher incomes if we are to preserve the principle of spreading the burden in proportion to ability to pay. But at this point, the progressive provincial taxes in the western provinces interfere with the course of action which should be taken to produce an equitable result in eastern Canada.

After the most careful study we have come to the conclusion that the dominion in establishing its rates of taxation cannot ignore the differences in the levels of direct provincial taxes to which I have referred. On the other hand, in view of the magnitude of the problem before us we cannot permit those differences in provincial taxes to influence us to the point where we refrain from imposing the maximum rates of dominion taxes which we think the public can fairly be expected to stand. We cannot permit ourselves to forget that we must raise $1,500,000,000 this year by additional taxation or borrowing.

After the most careful consideration of all the questions involved we have reached the conclusion that the rates of personal and corporation incomes taxes should be raised by the dominion to the maximum levels which would be reasonable at this time, if the provinces were not in those fields. Our plans are drawn, therefore, on that basis, and in due course I shall outline proposals to increase the minimum rates of corporation income tax to 40 per cent; to increase the rates of personal income taxes very considerably and to increase the national defence tax.

But these increases if taken together with the existing provincial rates would result in too heavy a burden and it is proposed, therefore, as a temporary expedient for the duration of the war only, to ask the provinces to vacate these two tax fields.

I am writing to the provincial premiers informing them that the dominion will offer to pay each year for the duration of the war, to any province which, together with its municipalities, will temporarily vacate the personal income tax and corporation tax fields either

(a) The revenues which the province and its municipalities actually obtained from these sources during the fiscal year ending nearest to December 31, 1940, or

(b) The cost of the net debt service actually paid by the province during the fiscal year ending nearest to December 31, 1940 (not including contributions to sinking funds), less the revenue obtained from succession duties during that period.

Such payments will be augmented by appropriate fiscal-need subsidies where it can be shown that these are necessary. At the same time, it is proposed to discontinue the present special grants which are voted annually by parliament.

I should like to emphasize that this is not an attempt to get the provinces out of these tax fields permanently. While it is proposed that the dominion should increase the tax on corporation incomes this will be done by raising the minimum rates under the Excess Profits Tax Act which is not and never was intended to be a permanent fixture in our tax structure. Furthermore, it will be noticed that succession duties are specifically excluded from the proposal which is being made to the provinces.

It is not intended that the dominion should interfere in any way with the royalties or special taxes which the provinces now levy upon timber limits, oil wells, mining or other natural resources. It is obvious that in war time as well as peace time the provinces have a special interest in the development of their natural resources and that they must be left in a position to raise the necessary revenues for this purpose.

I should also like to emphasize that no province is being forced to accept this offer and any province which does accept will have the right to withdraw from the plan at the end of any year subject to reasonable notice. Furthermore, the arrangement with the provinces will be discontinued and the dominion will cease making the payments which are contemplated in the proposal and will agree to reduce its taxes in these two fields proportionately, within one complete fiscal year after the termination of the war.

The plan which I have outlined for alleviating the present difficulties is by no means perfect and is not intended to be more than a temporary war-time expedient. However, it has the merits of simplicity. It will permit the dominion government to levy the necessary taxes without injustice to residents of different sections of the country or to different income groups. As far as the provinces are concerned, it will ensure them a fixed revenue for each year during which the war continues, based upon the level of such revenues during the past year. In other words, the dominion guarantees the provinces an annual payment equivalent in all probability to the maximum amount which they have ever received from the two tax fields under discussion. It is true that if incomes continue to rise the provinces might receive even larger revenues from these two sources in the future than they did in the year 1940, but this would depend in part upon the course and nature of the war, in part upon the level and nature of dominion taxation and upon many other questions which cannot be foreseen or assessed at this time.

The alternative offer of the dominion to pay the cost of a province's debt service is intended for those provinces which have not developed to the same extent the personal income tax and corporation tax fields and for those provinces which represent that they must be given some measure of relief pending a final solution of their present difficulties.

I sincerely trust that all provincial governments will consider that these proposals are fair to them and that they will accept them in a spirit of cooperation and with a desire to help us in our considerable task. I sincerely trust that all sections of the community will unite in supporting the plan as a temporary expedient but one that is necessary if we are to apportion the burden of the tremendous effort which this country is making among our citizens in as fair and reasonable a manner as is humanly possible.

There are two other matters which I should refer to in connection with this proposal to the provinces. If the plan is accepted, the provinces will cancel the great variety of flat rate or specific taxes which are now levied on corporations. In general, these will be more than offset by the proposed increase of 10 per cent in the corporation income tax. It is possible, however, that certain classes of companies—such as the banks, railways, insurance companies and possibly one or two other groups—would benefit from the change. To avoid this it is proposed to introduce a limited number of specific taxes on the types of enterprises I have mentioned. These will not be decided upon until after a careful study has been made of the details of the existing provincial taxes which will be discontinued. When they are introduced these specific taxes will be made retroactive so that there will be no interval between the date when the provincial taxes come off and the date when the dominion taxes go on.

The second matter to which I should refer briefly at this point and which I shall discuss more fully later on, is the proposal to introduce a special excise tax of 3 cents per gallon on gasoline sales. This proposal is necessary both for revenue and for exchange conservation but it may have the effect of cutting into provincial revenues. It is, therefore, proposed in order to assist the provinces which agree to vacate temporarily the personal income tax and corporation tax fields, to guarantee to them an amount equivalent to the revenues which such provinces actually receive from gasoline taxes during the fiscal year ending nearest to December 31, 1940, provided they do not change their present gasoline tax rates. In other words, if their revenues from this source, in any year during which the proposed plan is in force, should fall below the 1940 level, the dominion will make up the difference.

It is difficult to estimate accurately the amount of the annual payments to the provinces which are contemplated in the plan which I have described or the additional revenues which will accrue from the proposed increases in the personal and corporation income taxes. Many questions of detail will have to be worked out with the provinces. However, if these questions of detail are approached on both sides by a determination to reach a fair conclusion they should not prove to be too difficult of solution. With these reservations I may say that we estimate that after making the required payments to the provinces, the net increase in dominion revenues from the changes now proposed in the personal income taxes and corporation taxes will be approximately $90,000,000.

In coming now to state in some detail the tax measures that are being proposed, I shall deal first with the direct taxes levied on individuals, then with those levied on corporations and non-residents, and finally with the indirect or commodity taxes. There are important changes in each of these fields. As I have already indicated, and with the object of keeping our entire tax structure as equitable as possible at a time when rates are being increased very greatly, and even minor inequities become serious, we have decided to place our main reliance for increased revenue on direct taxes levied on the income and property of individuals. These are the fairest taxes, for their amount depends upon the best measures that can be found for ability to pay, and their burden is not shifted on to other shoulders as may be the case with other taxes. Consequently, I have endeavoured to raise the rates of direct taxation to the highest level which I think the Canadian people can be asked to bear in this historic year. No longer do we need delay at all for fear of diminishing purchasing power. We must still have some regard for incentive and efficiency, but I think we can certainly assume that other motives than those of personal gain are dominant in the minds of Canadians to-day, whatever their incomes or positions.

The major source of additional revenue will be a substantial increase in the income tax, both in the graduated rates of tax and in the national defence tax. Dealing first with the national defence tax, the changes are simple but significant. Commencing on the first of July it is proposed that the rates of this tax will be increased from two per cent at present to five per cent, and from three per cent at present to seven per cent. The only other substantial change in this tax will be an increase from $600 to $660 in the minimum annual income below which no single person is liable for this tax.

Nearly all hon. members, and indeed most Canadians, will have expected a substantial increase in the rates of this tax in view of the enormous size of our financial requirements, which have been frankly explained on many occasions in this past six months. In judging the amount of the increase it should be realized that we are not increasing the rate of the general sales tax which is practically the only other alternative source of such a large amount of revenue. I have chosen to recommend a substantial increase in the national defence tax, and the graduated income tax rates rather than the sales tax, because these income taxes are very much fairer in their distribution, as I think every one of us will admit. We do not see the sales tax clearly when we pay it, but an increase in it would affect us just as severely and less equitably than an equivalent increase in the national defence tax.

I am proposing an increase from 600 to 660 dollars in the exemption from this tax because I believe that the heavier rate is a little too heavy right at the bottom in the case of single persons living away from home. The new figure is less than $100 below the regular income tax exemption. The amount to be deducted for children or dependents under the new rates will be at the rate of $20 per annum instead of $8, being equivalent to the 5 per cent rate of tax on $400.

It will be noted that in raising the rates the present 1 per cent margin between the tax on married persons and single persons with incomes over $1,200 has been increased to 2 per cent. This, I am sure, you will consider reasonable because when the general weight of our taxes is being increased so substantially the relative importance of the differing circumstances of individuals having equal incomes becomes increasingly significant.

The general principles of this tax and the methods of its collection are being left as they are at present. The tax will continue to be deducted at the source as far as possible, and the provisions in regard to refunds will be continued. I am glad to acknowledge the cooperation which we have had from businesses and their employees in the efficient collection of this tax. Their continued assistance is essential to its successful functioning. I would also like to pay a tribute to the efficient work of the Income Tax division of the Department of National Revenue whose burdens have been increased enormously by this and other war taxes. One is apt to forget that the tax collector is most decidedly a hard-working and vital unit in a great war industry.

It is estimated that the increase in the rates of this tax would, in a full year, result in an increase of about 80 million dollars in revenue. As they will be in effect for only part of this fiscal year I anticipate an increase of about $55 million in this year's revenue because of these changes in rates.

I am proposing substantial increases in the graduated rates of income tax made up in such a way that in combination with the increase in the national defence tax they will result in a progressively rising rate of increase in relation to the income now left with taxpayers after payment of taxes at existing rates. The new graduated rates will commence at 15 per cent on the first thousand dollars of net taxable income, in place of six or eight per cent at present, and they will be 20 per cent on the next thousand, 25 per cent on the third thousand, and so on upwards until they reach 80 per cent on the block of net taxable income, if any, between $300,000 and $500,000, and, finally, 85 per cent of that over $500,000. Of course these rates do not include the national defence tax rate applying on the same income. If that be included, income over the amount of exemptions will be taxed at rates ranging from 20 per cent at the bottom to 90 or 92 per cent at the top. These rates apply both to earned income and investment income. In addition I am proposing a new surtax of 4 per cent on actual investment income, with a moderate amount exempted. The present so-called investment income surtax, which is almost entirely a simple surtax on all income over $14,000, is to be absorbed into the new graduated rates, which have been increased additionally to take this into account.

Now that the general level of our income tax has reached this height, I believe we should make a more significant distinction between earned income and investment income. The man who must work for a given income, whatever its amount, is in a less favourable position than a man with the same income derived from investments. To take but only one aspect, the man earning his income must set something aside if he wishes to provide for his own old age, or for his family when he can work no longer, while the other has his capital as security for the future. Our present surtax only taxes investment income within the narrow range between $5,000 and $14,000, and at a low rate. The new surtax is to tax all true investment income of more than $1,500, or of more than the sum of one's exemptions and allowances if these are more than $1,500.

No change is being suggested in the basic exemptions for the graduated income tax, $750 for single persons and $1,500 for married, nor in the allowance for children and dependents of $400 each. The exemptions were reduced last year, and those with children will, I believe, experience enough difficulty in adjusting themselves to these new rates without any reduction in the allowance they receive for their children. The persons with incomes immediately below the exemptions for the graduated tax are being adequately and more efficiently reached by the increase in national defence tax.

In accordance with the announcement I made in February, it is proposed to reduce from 50 per cent to 10 per cent of income the maximum amount to be allowed as a deduction for gifts to all charitable or patriotic organizations, with a minor exception for the arrangement already made for the National War Services Fund.

It is proposed to change the date at which the income tax becomes due from April 30 to March 31. At the same time it is proposed to extend the arrangements for payment of the tax by instalments, and to provide that if one-twelfth of the tax, estimated on the base of the previous year's income, is paid in each of the months September to December, and one-eighth of the balance, recalculated after the end of the year, is paid in each of the months January to August, then no interest will be chargeable on the instalments after March 31. I wish to recommend strongly this method of payment by instalments. Now that we have again raised the rates, our Canadian income tax is something which the average family must budget for each month. As many of us have discovered recently, no longer can we hope to find the tax money in a month or two in the spring.

The house will, I know, be interested to see how the new schedules work out in relation to various incomes. Consequently, I would like to place on *Hansard* at this point a table showing the total tax payable at these new rates and at the present rates, including national defence tax at the rates for a full year. The taxes are shown for single persons, married persons without dependents and married persons with two children. Because of the offer which is being made to provinces, I have arranged that this table show simply the dominion tax.

PRESENT AND PROPOSED INCOME TAX INCLUDING NATIONAL DEFENCE TAX
(Dominion Taxes only)

Income	Single Persons		Married Persons		Married Persons 2 Dependents	
	Present Tax	Proposed Tax	Present Tax	Proposed Tax	Present Tax	Proposed Tax
$	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
700	14 00	35 00	....	....	....	....
750	15 00	37 50	....	....	....	....
1,000	35 00	87 50	....	....	....	....
1,250	72 50	162 50	25 00	50 00	9 00	22 50
1,500	100 00	217 50	30 00	75 00	14 00	35 00
2,000	165 00	340 00	75 00	175 00	24 00	60 00
2,500	240 00	475 00	125 00	275 00	46 00	115 00
3,000	325 00	622 50	195 00	400 00	95 00	215 00
4,000	525 00	955 00	355 00	675 00	223 00	450 00
5,000	765 00	1,332 50	555 00	1,000 00	391 00	735 00
7,500	1,515 00	2,400 00	1,215 00	1,965 00	983 00	1,637 00
10,000	2,437 50	3,600 00	2,070 00	3,080 00	1,780 00	2,710 00
15,000	4,552 50	6,277 50	4,110 00	5,625 00	3,782 00	5,209 00
20,000	6,802 50	9,105 00	6,310 00	8,330 00	5,982 00	7,890 00
30,000	11,587 50	15,082 50	10,980 00	14,085 00	10,636 00	13,621 00
50,000	22,242 50	28,392 50	21,390 00	26,965 00	20,998 00	26,437 00
75,000	36,970 00	45,877 50	35,845 00	43,935 00	35,429 00	43,391 00
100,000	52,697 50	64,347 50	51,300 00	61,875 00	50,860 00	61,299 00
150,000	86,175 00	103,317 50	84,255 00	99,815 00	83,791 00	99,207 00
200,000	121,652 50	143,795 00	119,210 00	139,270 00	118,722 00	138,638 00
500,000	362,555 00	411,720 00	357,015 00	401,120 00	356,423 00	400,408 00

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

A few examples will illustrate the scale of the increases. A married man with an income of $2,000 would pay a tax of $75 at present rates, including $40 national defence tax, and and at the new rates he would pay a tax of $175. A single man with the same income, at present rates, is liable for $165, and under the new rates would pay $340. This illustrates most clearly the extent to which we must tax even modest incomes, and will put in perspective the increases at higher levels. A married man with $4,000 a year, under the present rates, pays the dominion $355 a year, of which $80 is national defence tax. Under the new rates his tax will be $675. If he has two children his present tax is $223, and his new tax will be $450. Going further up, at $10,000 a year a married man pays at present rates $2,070, and at the new rates would pay $3,080. If he adds a dollar to his earnings at this level his tax increases by 49 cents. The very rich bachelor with a salary of $30,000 and investment income of $470,000 pays us now $362,555, and under the new rates would pay us $411,720. If a single man with a net taxable income of over $500,000 gets an extra dollar of income from his investments he will pay us 96 cents of it.

These new income taxes are heavy, without question, but they are not beyond our ability to pay. The costs of the war are very great, far greater in fact than the amount we can collect from these taxes. We have undertaken to meet as much as possible of these costs from taxes, and to tax in accordance with ability to pay. Cold logic forces us to admit that income taxes of less than these levels would amount either to shutting our eyes to reality, since we must reduce our civilian consumption by more than this total amount anyway, or else it would amount to an unfair distribution of the burden by imposing less equitable forms of tax to restrict consumption.

Perhaps I should point out that these rates of tax, particularly on what may loosely be termed the middle class, are still substantially less than the rates that have just been introduced by the British government. However, our maximum rates come very close to theirs and in making any comparison, one must, of course, remember that corporation income in this country is subject first to a corporation income tax and then to personal income taxes in addition when it is paid out as dividends. In Britain there is no corporation income tax, nor any minimum flat rate of excess profits tax.

The increase in revenues to be expected as a result of the increase in the rates of the graduated income tax and the surtax on investment income should be about 75 million dollars for a full year. This estimate cannot be a precise one because the numbers of new taxpayers brought in by the reduction in the exemptions last year are not yet known, and we can only guess as yet at the effects of the war upon the distribution of incomes. Normally we should expect none of the revenue from income tax on 1941 incomes to be received in this fiscal year, but with the new plan of instalment payments, under which payments commence in September, and with the moving of the date on which the tax is due from April 30 to March 31, there will be a very substantial amount of revenue collected during this fiscal year from the tax on 1941 incomes. If the rates had been left at their present level we should have expected a net increase of $45 millions in our revenue this fiscal year due simply to these new arrangements as to payments. Under these new conditions it is also expected that $45 millions of the revenue resulting from the increase in rates will be received in this fiscal year.

I indicated some months ago that in our search for new and yet equitable sources of revenue the dominion would probably need to enter the field of inheritance taxes. We propose now to do this and one of the resolutions I am going to move will provide for the introduction of a bill establishing a new dominion succession duty. This field of taxation has previously been used by the provinces and not by the dominion, though neither has any exclusive legal rights in it. Some of the provincial legislatures have exploited this field to a greater degree than others, but on the whole I believe they have not fully occupied it and that there is room for an additional and independent dominion tax at moderate rates, made up in the light of the existing provincial rates. The compelling need for revenue which induces us to enter this new field arises from the war, but I would not suggest that this new dominion tax is a temporary war-time tax only. It would be manifestly unfair to pick out for special heavy taxation that minority of the population whose parents or husbands happened to die during the war rather than after it. Consequently, one should regard this measure as something of more permanence than, say, our proposed increases in income taxes or indirect taxes. The rates of tax proposed must also be judged in this light.

Death duties, in general, are a very good type of tax, second only to income tax in their essential fairness and the possibilities of adjusting them progressively to ability to pay. They are even better than income tax in so far as they do not have as much tendency to reduce an individual's incentive to hard work and initiative. It is reasonable and just that one should be able to provide something for his wife and children, and others, after his death. It is also reasonable and just, however, that the state should share in what one leaves, at a rate dependent upon the amount of wealth being transferred. Indeed, I find this view so generally held in this country that it is not necessary to do more than call it to mind.

There are quite a number of possible forms of death duties which can be used, and which are used by other countries, and their states. They differ, for example, in regard to whether the tax is levied upon the estate itself, or upon the property received by each heir. They differ widely in the way in which the rate of tax is determined. In many cases it depends simply upon the size of the estate; in other cases upon the size of the amount received and, frequently, as well, upon the relationship of the deceased to those receiving the property. After considerable study I have decided to propose a composite type of tax similar to that used by most of the provinces in this country. The tax will apply to the amount passing to each sharing in the estate. The rate of tax will be determined mainly by the size of the amount which the individual receives, but also by the size of the estate itself, and the relationship of the beneficiary to the deceased. The table of rates given in the resolution gives effect to these factors. In determining the rate, we are laying more emphasis upon the size of the amount received than do the provinces, and I think this is fair since it is much the best method of judging ability to pay. On the other hand, we are proposing a smaller difference between the rates of tax applicable to children of the deceased and to collateral relatives and to friends than many of the provinces have. This is done because our rates will be in addition to theirs and I believe the combination will produce a reasonable total variation. Again, the provinces have, not unnaturally, tended to approach closer to a reasonable total rate on the large estates than on the small and, consequently, they have left relatively more room for us in the lower and middle ranges than at the top. Consequently, our tax cannot be quite as progressive on the very large estates as I would otherwise suggest. I should add that the differences in the rates in various provinces do prevent us from going as far in this field as we might in some parts of Canada because of the results we should produce in other parts.

The general level of the rates I am proposing is roughly comparable with the level of the provincial taxes, but probably somewhat lighter on the average than the rates in most provinces. The combination of these new dominion rates and the provincial rates, should result in a total tax of about the same general magnitude as the British death duties, but with considerable differences in detail due to the different and complex natures of the taxes. The total Canadian rates would be somewhat higher than the British rates on others than close relatives, while they will tend to be lower where an estate is divided among a number of members of the deceased's own family.

We are proposing a fairly generous exemption of $20,000 for property passing to the widow of the deceased, so that if she receives less than that she will pay no tax, and if she receives more than that she pays only on the excess over that amount. A similar exemption of $5,000 is provided for young children, or children dependent on the deceased by reason of physical or mental incapacity. These children and the widow are also subject to a lower rate of tax than other children or grandchildren. In other cases, anyone will be subject to tax on the whole amount received if it is over $1,000. Estates of less than $5,000, and amounts received from them, will not be subject to tax, in order to cut down somewhat the need for investigating and assessing small estates on which, in most cases, the tax would be very small anyway.

I might give a few examples to the house of the way in which the tax would be calculated, and the amount it would reach. For example, suppose a man left $50,000, one-half to his widow, one-quarter to a young daughter, and one-quarter to a grown-up son. The widow receives $25,000 and is taxed at a rate of 1·5 per cent, based on an estate of $50,000, plus 2·5 per cent based on the amount received, or 4 per cent in all. This applies, however, only to the $5,000 which she receives in excess of the $20,000 exemption, so she would pay $200 tax. Similarly, the young daughter would pay a rate of 1½ per cent plus 2¼ per cent or 3¾ per cent on the $12,500 which she receives, less $5,000 exemption, or approximately $281 in all. The grown-up son would pay a rate of 1½ per cent plus 2·5 per cent, or 4 per cent in all on the total amount he receives, that is, $12,500, that is a tax of about $500. To take a simpler example, if an estate of $100,000 were all left to a grown-up son, he would pay on it a rate of 2½ per cent because of the size of the estate, plus 6 per cent because he receives $100,000, or 8½ per cent in all, $8,500. If it were divided among four such sons, however, they would each pay a rate of 2½ per cent plus only 3 per cent, or 5½ per cent in all. On the other hand, if they were four brothers of the deceased the rate would be ½ per cent higher, if four friends, another one-half per cent higher. The provincial taxes on the brothers or friends would, however, be much higher than on the sons.

This new tax will apply to all the property of those domiciled in Canada at the time of their death, with the exception of real estate in other countries. It is a usual international practice, I understand, to exempt foreign real estate in this way, and permit it to be taxed solely in the country where it is situated. Our tax will also apply to property in Canada, real and personal, of persons dying domiciled in other countries. As you will note in section 2 of the resolution, the tax will apply not only to property owned by the deceased at the time of his death, but also to certain other properties passing at the time of death, or transferred by the deceased in contemplation of death, or given within three years of his death, and various other specified transfers. There are, of course, a number of rather intricate legal questions involved in this type of taxation into which some members of the house may later wish to go, but I shall not attempt to discuss them at this time.

We are providing special increased exemptions for the family of any member of our armed forces who dies or is killed in such circumstances as would enable his widow or dependent children to receive a pension under the Pension Act, and in addition the amount of tax payable on property passing on his death to widows and lineal heirs will be reduced by taking only the present value, at 3 per cent, of the amount of the tax, assuming it to be deferred for the normal expectation of life for a person of that age. This means, in effect, that the tax is reduced in accordance with the extent to which the length of the man's life has been cut short.

This new tax will come into force on the date on which it receives assent. It will be administered by the Income Tax division of the Department of National Revenue. In speaking of administration I might say that we quite realize that there are bound to be difficulties involved in the evaluation of properties and interests in estates, and in liquidating estates for the payment of taxes. We have endeavoured to be fair in drafting the law in this regard and I think I may assure any who may be concerned over these points that every effort will be made to value properties fairly and to allow for the difficulties of liquidation.

It will be noted that we include in the property passing and taxable under this proposed measure any gifts made by the deceased above a reasonable minimum within three years of his death, though any gift tax paid to the treasury on such gifts will be credited toward the amount of the succession duty payable thereon. In order to cover gifts made more than three years before death we propose to increase the rates of gift tax in accordance with the new schedule set forth in the resolution relating to income tax. These higher rates will also be more in accord with the higher rates of income tax that will be payable. In speaking of gifts, I might point out that no gifts made prior to the date of this budget will be subject to this succession duty, though gifts made from now onwards may be subject if made within three years of death, or made in contemplation of death.

It is extremely difficult to estimate with any accuracy at all the probable yield of these new succession duties, because there is such a scarcity of statistics on the number and value of estates passing in Canada each year. Basing my opinion upon a comparison with provincial rates and a study of the relative frequency of estates of different sizes in other countries, I would guess that in a full year we might expect to get about $20,000,000 out of this tax, but we may get substantially more than this. However, because of the lag that naturally occurs in the assessing and collection of this tax, we cannot expect much revenue from it this fiscal year—perhaps ten million dollars.

Taking together the substantial increases in the graduated income tax, and in the national defence tax, the more effective surtax on investment income, the greatly increased gift tax and, finally, the new succession duties, I have presented a far-reaching programme of direct, personal taxation. It is intended to create an efficient and equitable system of raising enormous amounts of money by really progressive taxation. It is most certainly not a system under which great fortunes are going to be accumulated, particularly when we remember as well the taxes on corporations.

This concludes the outline of the changes in direct taxes affecting individuals in Canada. However, in view of the very drastic increases in taxes upon Canadian residents since the outbreak of the war we think it reasonable to increase the tax on non-residents under the Income War Tax Act from 5 per cent to

15 per cent. This rate, it will be noticed, is still lower than the effective rate of 16½ per cent payable under the United States laws on income going abroad to foreign countries in general, and very much lower than the corresponding rate applied by the United Kingdom. The raising of this rate will mean that the United States will be released from the requirements of the reciprocal tax convention of December, 1936. In addition to the change in rate it is also proposed to eliminate the restriction which limits the tax in the case of interest to payments made solely in Canadian funds. In future the tax will be payable on all interest other than interest on bonds of or guaranteed by the Dominion of Canada irrespective of the currency of payment.

It is estimated that the increase in the rate of this tax, together with the removal of the restriction referred to, will result in a net increase in revenue of $28,000,000 per annum.

Before the house rose for the Easter recess I read a statement respecting a number of amendments which it is proposed to make to the Excess Profits Tax Act. In doing so, I emphasized that the changes are in the nature of improvements in the structure of the legislation for the purpose of removing inequities and anomalies and to simplify and expedite administration. The changes proposed are not intended and will not result in any general relief from the weight of the excess profits tax. In fact, as I have already intimated, it is proposed to increase the minimum rate of tax under this act from 12 per cent to 22 per cent. This, taken with the 18 per cent levied under the Income War Tax Act will mean a tax of at least 40 per cent upon the incomes of all corporations.

I will not burden the house by repeating the detailed changes which are proposed and which I announced before Easter, but there are several additional points to be mentioned. The first of these relates to the lumber industry. Since the war the lumber industry has been requested to increase production both to meet the additional domestic and overseas demand, and also in order that our exports to the United States may be increased with a resulting increase in our receipts of foreign exchange. The industry is complying with the government's request to increase production. In doing so valuable timber limits are being depleted at a faster rate than would normally occur. These limits cannot be replaced at anything like their original cost and this is the cause of serious concern to the operators. Because of the expansion of their operations above pre-war levels, their profits have increased and they are subject to tax at the rate of 75 per cent, plus the taxes levied by the provinces. The margin of profit remaining is very small in relation to the value of the limits which are being exhausted at a rapid rate and which cannot be replaced except at much higher cost. We are satisfied that the lumber industry is entitled to some relief for these reasons, but it has been difficult to decide how this should be provided. After the most careful study, we have come to the conclusion that the best way of dealing with the problem, and the most logical, is to permit an additional allowance for depletion on that portion of their production which is in excess of the level prevailing during the standard period. The allowances will be determined by the Minister of National Revenue in accordance with the principle which I have just enunciated.

An amendment will be introduced to exempt from excess profits tax companies whose sole purpose is that of holding investments in securities. It is difficult to defend a high additional tax in this case where a group of persons hold their investments in collective form rather than separately, which they might well do, and avoid the tax. To eliminate this admittedly harsh treatment it was decided to follow the practice of the United States and exclude investment trusts from the tax entirely.

In two cases the amendments to be introduced will differ slightly from those indicated before Easter. The amendment relating to the selection of three years out of four as a standard period if the profits of the fourth are less than half the average of the other three will be reworded to provide that this rule shall apply after adjusting profits for capital additions or withdrawals.

Another change relates to inventory reserves and provides that the taxpayer must add any unutilized portion of such reserve existing at the beginning of the second year following the year of termination of the act to the profits of the last year of the application of the act to the taxpayer.

I turn now to indirect taxes. The emphasis in the measures proposed has been on direct taxation, and despite the ease with which many indirect taxes are collected they are not to be increased without careful discrimination. It has already been announced that the tax on sugar is to be increased from 1 cent to 2 cents per pound. This is a tax which is highly productive. To a considerable degree, it is paid by purchasers of candy, confectionery, and soft drinks, but it also affects the family living expenses of everyone. It is the only tax of that character which I have to propose.

An increase in the sales tax has, I think, been fairly generally expected. At least, there are evidences of a good deal of buying in anticipation of such an increase. This tax, while comparatively easy of administration and collection and extremely productive, has marked defects as a fiscal instrument. After extended consideration, we decided on balance against any increase. In coming to this decision, we were not forgetful of the problems of agriculture, which would have been intensified had the sales tax been raised.

The other indirect taxes proposed are taxes on expenditures but on expenditures which are, to a considerable degree, overt evidence of the existence of surplus income. At other times, taxes on expenditures are undesirable deterrents to the expansion of employment. In the circumstances of to-day, this defect becomes a virtue. We need revenue. We need to hold down the consumption of non-essential goods and services.

I have already intimated that it is proposed to impose a dominion tax of 3 cents a gallon on gasoline. Imports of crude oil make a heavy drain on our supplies of foreign exchange. The consumption of gasoline has been increasing rapidly. Its purchase is a channel into which increased personal expenditures are flowing. The imposition of a much higher tax than 3 cents coupled with a system of refunds to tourists, farmers, fishermen and others was considered. It has been decided, however, to recommend a smaller tax and make no provision for refunds. In support of this decision, I would remind the house of three considerations. Provincial gasoline taxes are closely linked to highway expenditures and rebates are properly given for gasoline used elsewhere than on the highways. The new dominion tax does not provide for highway maintenance. The United States treasury is proposing a federal tax of 2½ cents a gallon on gasoline. Since our good neighbours measure gasoline as we measure wine, this is equivalent to our proposed new tax of 3 cents. Finally, the tax is a small one and does not justify assuming the administrative burden and incurring the risks of abuse inseparable from a system of refunds. There will be two criticisms of the new tax: that it encroaches on a tax source traditionally belonging to the provinces, and that it will endanger the tourist trade. In respect of the provinces, it has been clear for a long time that the dominion could not ignore the growing demands for foreign exchange which the expanding consumption of gasoline entails; we are undertaking to protect the provincial gasoline revenues at last year's highly satisfactory level. In respect of the tourist trade, the new tax is no higher than the proposed rate of the United States federal tax. The amount is an insignificant addition to the expenses of any tourist. It will not be a deterrent to visitors from the United States if those Canadians, who may reasonably dislike this tax because it affects their pleasure or business, will refrain from the unfair and, I may add, unpatriotic use of the tourist argument against it. It is expected that the tax will yield $25,000,000 in the full year and $23,000,000 in the current fiscal year.

Related to the gasoline tax is an increased rate on automobiles. The Motor Vehicles Controller has imposed on Canadian producers a limited production quota for passenger cars from April 1 last. Imports of complete automobiles are on a 20 per cent quota. Under these circumstances, since cars available for sale are to be limited, it is proposed to increase the basic excise rate on passenger automobiles from 20 per cent to 25 per cent. The higher rates on values in excess of $900, already 40 and 80 per cent, are not to be changed. There is at present an excise tax on motor buses of 5 per cent and a maximum limit of $250 on the tax. At this time when we are having to grant permits for the importation of a great many buses, it is considered that, though it is not recommended that the rate be changed, the limit on the tax should be removed. The anticipated revenue from these changes is $3,000,000 in a full year and $2,700,000 in the current fiscal year.

I shall recommend also an excise tax of 10 per cent on railway, steamship, motor bus, and airplane fares. Travel between points for which the single fare is less than 50 cents will be exempt. Otherwise all fares collected in Canada will be subject to tax except that fares on passenger vessels will be taxable only between Canadian ports. I notice that the United States treasury is also recommending a tax on travel and we need anticipate no effect on our tourist trade. This tax is likely to produce about $6,500,000 in the full year and about $6,000,000 in 1941-42.

Very large expenditures are made each year by the Canadian people on moving picture entertainment. I note that the Dominion Bureau of Statistics reports paid admissions of over $34,000,000 in 1939. Currently, they are very much higher and the increase extends to every part of the country. It is proposed to impose an excise tax on the receipts of motion picture houses of 20 per cent. I expect to derive at least $8,000,000 from this tax in the full year and about $7,300,000 in the present fiscal year. There are many other amusements on which expenditures might legitimately be taxed but unfortunately the problems of administering a comprehensive amusement tax are very great. I shall recommend, however, a 5 per cent tax on the amounts wagered at horse-racing meets and anticipate that it will produce $1,000,000 in revenue, virtually all of which will be collected in this fiscal year.

The excise taxes on alcoholic drinks were raised substantially in September, 1939. Increases in these taxes may have serious effects on provincial revenues and render the problems of controlling illicit manufacture and sale extremely difficult. Viewing sales from the standpoint of revenue and relying upon the provinces to apply such regulations to the trade as are proper, I note that sales of spirits have not increased during the past year, the sales of wine have remained fairly stable despite the gradual disappearance of stocks of European wines, and beer sales have increased sharply. I, therefore, propose that the tax on malt be increased by 20 per cent from 10 cents a pound to 12 cents and that related taxes on beer and malt syrups be increased correspondingly. In respect of wines, the proposal is that the tax be increased from 15 to 40 cents per gallon and that on sparkling wines from $1.50 to $2.00. These increases should produce, in the full year, $3,500,000 on beer and $1,000,000 on wine or about $3,200,000 and $900,000 respectively in the current fiscal year.

Turning to another type of beverage, it is recommended that the excise tax on carbonic acid gas, the essential component of what are popularly known as "soft drinks," be increased. It has required some experience to learn the proportion which the present tax of 5 cents a pound bears to the sale price of the product. It is now proposed to increase the tax drastically, raising it from 5 cents to 25 cents a pound. At this rate, the tax will still not exceed the proposed United States tax of one cent a bottle and should produce an additional $2,000,000 of revenue, of which probably $1,900,000 will be collected in this fiscal year.

In addition to the above, there are a number of other proposals. The excise tax on playing cards is to be raised from 10 to 15 cents a pack. That on cosmetics and toilet preparations it is proposed to increase from 10 per cent to 25 per cent. It is recommended that the tax on long-distance telephone messages be increased from 6 to 10 per cent. To offset the match tax there is at present a tax of 20 per cent on lighters or 10 per cent if the lighter is a part of some other article. Since the excise tax on a wide range of mechanical, metal products for household and personal use is 25 per cent, it is proposed

[Mr. Ilsley.]

to apply the same rate to lighters whether combined with other articles or not. For the purpose of protecting the revenue, it is recommended that the excise on cigarette tubes be raised from 5 to 10 cents a hundred. It appears that the tube in contrast to the paper gives rise to some illicit commercial manufacture. It is estimated that these changes will produce in the full year $3,310,000, of which $3,105,000 will be collected in 1941-42.

There is one more change in the indirect taxes. Having refrained during nearly two years of war from suggesting any discouragement to building, it has now been decided to recommend the removal of building materials from the list of exemptions under the sales tax. In the meantime, the provision for home improvement loans has been exhausted, the application of the National Housing Act has been narrowed, and the Wartime Housing Corporation has been set up to provide for the more urgent housing needs. At a time when we have many extraordinary needs for building construction, it is desirable to reserve, where possible, building operations for the post-war period. The withdrawals of this exemption, which I consider to be temporary, should provide $15,000,000 in revenue, of which perhaps $13,500,000 will be collected in this fiscal year.

I have already mentioned the increase in the tax on sugar from 1 cent to 2 cents a pound. A corresponding increase from ½ cent to 1 cent is recommended for glucose and grape sugar retroactive to the date when the sugar administrator increased the price of cane sugar. It is also recommended that the new rate of 2 cents a pound apply to corn syrup in tins of 10 pounds or less. To some slight degree, molasses is competitive with corn syrup, but in view of the extensive use of molasses in live stock feeds the tax is not extended to molasses.

These indirect taxes are not such as I should be comfortable in recommending in normal times but when the need for revenue is great and when the need for concentrating our energies on the successful prosecution of the war is so vitally necessary, we must have recourse to taxes which if not good taxes are better than others which we have rejected. Each of us will be affected by one or more of these taxes, but no one need pay all of them. If people choose to avoid some of these taxes by saving rather than spending, I shall be satisfied.

There are some changes to be recommended in the War Exchange Conservation Act which I shall enumerate. It is proposed to add black tea to part I of schedule I under which the house will recall, permits are refused. Adequate supplies of black tea can be obtained for sterling payment. Two other items, games and puzzles, and woven fabrics of cut pile are added to clear up anomalies. A more important change is recommended in the addition of vegetable oils to part II of schedule I. It is the intention to issue permits for the importation of vegetable oils, endeavouring to obtain as much as possible of them for sterling or Canadian dollars. The Department of National Revenue will be assisted in administering permits by the oils administrator under the Wartime Prices and Trade Board.

No goods are removed from the prohibited classification by the resolutions about to be tabled, although for technical reasons four items are being struck out of both part I of schedule I and out of the Customs Tariff.

Very substantial changes are recommended in respect of schedule II of the act, the schedule extending war-time treatment to imports from the United Kingdom. Though a large number of items are affected, I can explain briefly what is recommended. For the cotton and artificial silk items, now free under the act, no change is recommended. Certain items, on which the United Kingdom has asked for concessions, viz., cellophane, bathroom fixtures and earthenware, glass manufactures n.o.p., nickel-plated ware, and needles are to be made free, it is recommended under schedule II. It is further recommended that the British preferential rates be subject to a discount of 25 per cent in the case of woollen and worsted yarns, warps, fabrics, and clothing, and boots and shoes, that duties on fabrics and articles of linen, jute, hemp, and mixed fibres, oilcloth and linoleum, carpets, rugs, and carpeting, and all items (not already free) in groups I, V, VI, VII, VIII, IX and XI of the Customs Tariff (with the exception already mentioned of boots and shoes) be made subject to a discount of 50 per cent. No modification of the rates on liquors, sugar, tobacco, and silks is suggested. The result will be that, aside from the revenue items just mentioned, all imports from the United Kingdom will be free or subject to British preferential duties reduced by 50 or 25 per cent. The discounts proposed are to be in lieu of and not additional to the 10 per cent reduction now applicable for direct shipment. In the case of woollens the 25 per cent reduction will apply to the British preferential ad valorem and specific rates of duty but the operation of the limitation of the duty of 50 cents per pound as a maximum will remain unaffected.

These sweeping reductions are made to facilitate movement of goods from the United Kingdom. It is not expected that imports from the United Kingdom will increase significantly. The difficulties of shipping are well known. Labour in the United êingdom is being withdrawn even from export trades to war industries and in many cases materials are lacking. We are suggesting sweeping reductions for the express purpose of facilitating the importation of whatever goods under changing circumstances the United Kingdom wishes to export to us. It may be that she will find it desirable to curtail her exports to us. In such case, we shall do without them. We desire to leave the greatest possible scope for selling to us whatever goods she wishes to sell.

The changes proposed in the Customs Tariff are of a minor character. The resolutions about to be tabled affect twenty-two items but a very small volume of trade. Seven new items will effect a reduction in the British preferential and intermediate tariffs on film wrapping paper, inedible gelatine, kyanite, strings for musical instruments, nickel rods for spark plug electrodes, oven thermostats and automatic oven lighters for gas stoves, and wire drawing dies in the rough.

Seven additions to existing items provide for reduced rates on carbon bisulphide mixtures for fumigating grain, machines and complete parts thereof for making boxes for fruits and vegetables, machinery and apparatus, of a class or kind not made in Canada, for maintenance and testing purposes in connection with gas and oil wells, infant identification beads, juvenile construction sets of rubber, cashew nut shell oil and spoon blanks.

For three items, covering essential oils, cut pile fabrics, and collodion, new wording is suggested to simplify administration.

For two items, covering ovens for commercial bakeries and veneer-making machinery, amendments are proposed to include in the items "complete parts".

In respect of two items relating to crayons, changes are proposed to carry out the intention of the United States trade agreement concerning the rate on chalk crayons.

Finally, in respect of tire fabric of rayon, the continuance of a special but higher rate is recommended.

Summarizing the revenue results of this lengthy recital of new and increased taxes, we expect to derive from them during a full year approximately $300,000,000 of additional revenue after making allowance for payments to the provinces under the agreement which I have proposed. During the balance of the current fiscal year we hope to collect nearly $250,000,000. The estimated yields of the various tax changes are recapitulated in a table which, with the consent of the house, I shall now place on *Hansard:*

—	Full Year	Balance of Current Fiscal Year 1941-42
	$	$
Yields from Increases in Existing Taxes—		
Graduated personal income tax	75,000,000	45,000,000
Excess profits tax (increase in minimum rate)	80,000,000	40,000,000
	155,000,000	85,000,000
Less payments to provinces after deducting yield from taxes to be imposed on banks, etc., and net reduction in subsidies	65,000,000	48,000,000
Net increase	90,000,000	37,000,000
National defence tax	80,000,000	55,000,000
Interest and dividends payable abroad	30,000,000	27,500,000
Automobiles and buses	3,000,000	2,700,000
Beer, malt and wine	4,500,000	4,100,000
Carbonic acid gas	2,000,000	1,900,000
Cosmetics and toilet preparations	2,000,000	1,900,000
Withdrawal of sales tax exemption on building materials	15,000,000	13,500,000
Sugar, glucose and corn syrup	12,000,000	12,000,000
Other excise taxes	1,310,000	1,205,000
Increase in collections of personal income taxes resulting from change in date when payment becomes due and from change in instalment payment procedure	....	45,000,000
Yields from New Taxes—		
Succession duties	20,000,000	10,000,000
Gasoline	25,000,000	23,000,000
Passenger transportation	6,500,000	6,000,000
Motion picture entertainment	8,000,000	7,300,000
Race tracks	1,000,000	1,000,000
	300,310,000	249,105,000

In appraising the extent to which we are applying a pay-as-you-go policy, it is appropriate to consider total governmental revenues in relation to total governmental expenditures. While the assistance which we must give to enable Great Britain to meet the deficit in her balance of payments with Canada must be financed, it is not in quite the same category as actual governmental expenditures. This is particularly true of that portion which is used to repatriate securities. If our estimates of the yields of the new and increased taxes during the balance of the current fiscal year are reasonably accurate, the dominion's total revenues during 1941-42 should be approximately $1,400,000,000. This will leave a budgetary deficit of $365,000,000 or $515,000,000 according as the lower or higher of the estimates of war expenditure is realized. Under the lower estimate we shall have paid 79 per cent of our war and non-war budgetary expenditures out of revenue, and under the higher we shall have paid 73 per cent. On this basis I think it will be agreed that the dominion is attempting to carry the pay-as-you-go policy as far as is reasonably practicable.

The financial policy set forth in this budget is not framed lightly nor are the financial tasks still to be performed belittled. I offer this budget to the house as the sober and necessary counterpart of our decision to stand side by side with our sister nations and allies and with the welcome and powerful aid of the United States to uphold the cause on which we believe the future of civilized, humane, and Christian living to depend.

We do not face physical destruction nor live under the terror that flies by night. How small are the changes that have come over our day-to-day life. Some of us are being forced to live more simply, to plan our expenditures more carefully, and to see where we can economize for the time being on the maintenance of our homes and the physical equipment of living. Some of us have larger incomes after taxes than before and are being asked to postpone the spending of those increases until, after the war is over, we can obtain what we desire without interfering with the war effort and give employment which will be needed then as it is not now.

The business community is experiencing great activity and, after taxes, in most cases reduced profits. Management is having to shift operations to produce new products and to avoid the use of materials that are hard to obtain. Labour has encountered longer hours and has, in many cases, changed occupations or moved to new areas. The finding of jobs has become an easier matter.

The financial task of the Canadian people in this fiscal year is, by any precedent, colossal, but it is, in no sense, impracticable. It will require strict economy, but not deprivation. It will require hard work and the foregoing of profits which pass through our treasuries into that of the nation, but it will not endanger the soundness of our business structure nor the value of our resources. It will require intense and patient effort for the duration of the war but it will result in a secure future. As the Canadian people believe that they are engaged in a war to defend the highest qualities of our common life from destruction, we can accomplish this financial task, not with ease, but without catastrophe and with triumph too.

Mr. CHURCH: There is not much sunshine in that. It means the doom of all private enterprise.

RESOLUTIONS

Mr. Speaker, I desire 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 introduce a measure to amend the Income War Tax Act and to provide:—

1. That the rates of tax applicable to persons other than corporations shall be increased to the rates of tax set forth in the following schedules:—

A. Rates of tax applicable to persons other than corporations and joint stock companies:

On the first $1,000 of net income or any portion thereof in excess of exemptions, 15 per centum, or

$150 upon net income of $1,000 and 20 per centum upon the amount by which the income exceeds $1,000 and does not exceed $2,000, or

$350 upon net income of $2,000, and 25 per centum upon the amount by which the income exceeds $2,000 and does not exceed $3,000, or

$600 upon net income of $3,000, and 30 per centum upon the amount by which the income exceeds $3,000 and does not exceed $4,000, or

$900 upon net income of $4,000, and 33 per centum upon the amount by which the income exceeds $4,000 and does not exceed $5,000, or

$1,230 upon net income of $5,000, and 36 per centum upon the amount by which the income exceeds $5,000 and does not exceed $6,000, or

$1,590 upon net income of $6,000, and 38 per centum upon the amount by which the income exceeds $6,000 and does not exceed $7,000, or

$1,970 upon net income of $7,000, and 40 per centum upon the amount by which the income exceeds $7,000 and does not exceed $8,000, or

$2,370 upon net income of $8,000 and 42 per centum upon the amount by which the income exceeds $8,000 and does not exceed $9,000, or

$2,790 upon net income of $9,000, and 44 per centum upon the amount by which the income exceeds $9.000 and does not exceed $10,000, or

$3,230 upon net income of $10,000, and 47 per centum upon the amount by which the income exceeds $10,000 and does not exceed $15,000, or

$5,580 upon net income of $15,000, and 50 per centum upon the amount by which the income exceeds $15,000 and does not exceed $20,000, or

$8,080 upon net income of $20,000 and 53 per centum upon the amount by which the income exceeds $20,000 and does not exceed $30,000, or

$13,380 upon net income of $30,000, and 55 per centum upon the amount by which the income exceeds $30,000 and does not exceed $40,000, or

$18,880 upon net income of $40,000 and 57 per centum upon the amount by which the income exceeds $40,000 and does not exceed $50,000, or

$24,580 upon net income of $50,000 and 59 per centum upon the amount by which the income exceeds $50,000 and does not exceed $75,000, or

$39,330 upon net income of $75,000, and 63 per centum upon the amount by which the income exceeds $75,000 and does not exceed $100,000, or

$55,080 upon net income of $100,000, and 67 per centum upon the amount by which the income exceeds $100,000 and does not exceed $150,000, or

$88,580 upon net income of $150,000, and 70 per centum upon the amount by which the income exceeds $150,000 and does not exceed $200,000, or

$123,580 upon net income of $200,000, and 75 per centum upon the amount by which the income exceeds $200,000 and does not exceed $300,000, or

$198,580 upon net income of $300,000, and 80 per centum upon the amount by which the income exceeds $300,000 and does not exceed $500,000, or

$358,580 upon net income of $500,000, and 85 per centum upon the amount by which the income exceeds $500,000.

2. That paragraph AA of the first schedule to the act be repealed and in lieu thereof there be imposed a tax of 4 per centum on the investment income defined to include dividends, interest, rents, royalties and other like income and not to include salary, wages, fees or other like income from any office or employment of profit or income derived from the carrying on of a trade, vocation or calling.

3. That the schedule of taxes payable under section 88 of the act on gifts made after April 29, 1941, be repealed and in lieu thereof there be substituted the following schedule:

On gifts up to and including $5,000—7 per cent.

On gifts exceeding—

$5,000 but not exceeding $10,000—8 per cent.
$10,000 but not exceeding $20,000—9 per cent.
$20,000 but not exceeding $30,000—10 per cent.
$30,000 but not exceeding $40,000—11 per cent.
$40,000 but not exceeding $50,000—12 per cent.
$50,000 but not exceeding $75,000—13 per cent.
$75,000 but not exceeding $100,000—14 per cent.
$100,000 but not exceeding $150,000—15 per cent.
$150,000 but not exceeding $200,000—16 per cent.