

transport commissioners for an inquiry into Bell Telephone Company rates. The government is not required to take any action in order to set an inquiry in motion, and does not propose to do so.

Mr. CHURCH: I should like to hear from the Minister of Labour.

Mr. SPEAKER: Order.

Mr. ROGERS: My answer is the same.

Mr. CHURCH: If the minister will look at the return he will find that as yet no inquiry has been started.

Mr. SPEAKER: Order.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

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

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

He said: Mr. Speaker, in these years the task of a Minister of Finance in preparing a national budget is not an enviable one. Even if only domestic factors had to be considered, the difficulties would be great enough for a country still in the process of recovering from the effects of prolonged depression. But to-day domestic problems are enormously aggravated by the turmoil and confusion of the outside world, and "the best laid plans" of government and business may be suddenly upset by dramatic events elsewhere or incalculable shifts in world trends. We are an organic part of a troubled and seemingly crazy world, and the impact of that world affects us abnormally by reason of the instantaneous transmission of news and rumours by means of the radio, telegraph and telephone.

Like its predecessor but in even more striking degree, the year which I have now to review has been packed with drama and tension. One international crisis has crowded upon the heels of another. Naked aggression has caused a grim procession of tragedies and repeatedly altered the map of Europe. Brute force has been publicly acclaimed by some statesmen as the only philosophy for the guidance of international relations. The word of great nations has been plighted only to be broken, almost before the ink was dry on the document. Every small nation of Europe has lived in perpetual fear of its own safety. The mills of industry have everywhere been frantically speeded up to grind out the weapons of destruction. Economic autarchy has spread over a larger portion of the earth's surface and trading between nations which should be

[Mr. Howe.]

a cooperative process has tended to degenerate into economic warfare. A tense public has turned its attention more and more to diplomatic and military affairs and less and less to the normal business of living. Although at times the tension has been relaxed, these interludes have been all too short and the recurring crises do not diminish in severity.

Inevitably this reversion to political and economic barbarism has cast a dark shadow over economic life which has impeded recovery not only in Europe but on this continent as well. Recovery has on several occasions raised its head only to be buried again in a new wave of fear and uncertainty. Confidence and courage are essential for the effective working of any economic system based on individual liberty and private enterprise. These qualities are difficult to develop in the world of to-day but at least in Canada there is more chance for their exercise and development than in most other countries.

Our fiscal year opened last April with a recession in business under way in most of the larger countries. While most severe in the United States it was substantial in Great Britain as well, and only a few areas escaped. The recession, while sharp, was short-lived and by the fall revival was under way in most countries. Canada was one of the first to show a substantial upturn in industry, and our revival has been more natural than that of most other countries. Undoubtedly the levels of production and incomes in Europe are due very largely to the ever quickening pace of rearmament. On this continent spending for defence purposes has played as yet only a minor part in economic life, so that our business and employment are not dependent as yet to any important extent upon this artificial stimulus.

The Canadian economy has shown a remarkable degree of strength and recuperative power in the face of the external pressures to which I have referred. We entered the past fiscal year still burdened with the effects of our disastrous crop failure of 1937 and depressed both by the drastic recession in the United States and the uncertainty following the annexation of Austria. Nevertheless our previous recovery had been a sound one and our industry and trade were not handicapped by excessive inventory accumulation, by grandiose expansion of productive facilities, or by excessive rises in wages in capital goods or export industries. Nor had our security markets been pushed to inflated levels by an extravagant use of credit. For these and other reasons our domestic situation was basically sound and the recession was checked before it had gone very far.

The course of our economic activity during the year is reflected clearly in our most comprehensive index, that of the physical volume of business, which covers activity in manufacturing, mining, lumbering, construction and trade. From the peak point of 127.9 reached in November, 1937, this index fell to a low point of 106.7 in February, 1938, flattened out at a somewhat higher level during the spring and summer, and then recovered during the early fall to a level of 123.4 in November, 1938. The preliminary index for March, 1939, stands at 113.1 or 4 per cent above the figure for the same month of the previous year. Other indexes of a general nature tell substantially the same story. Preliminary estimates of the national income indicate a probable figure for 1938 of about \$4,460,000,000 or approximately 7½ per cent below the total for 1937.

Not all our major industries were equally affected by the world recession. However, as I am including a more systematic review of recent trends in a supplementary paper, I shall not in this address do more than make reference to certain special features which illustrate some of the points I wish to make.

It is reassuring to note that in spite of the unfavourable weather conditions and the recent extraordinary series of international crises, business activity has maintained part of the gains it made last fall and we enter the spring and summer with certain definite indications of further improvement. Pre-season moisture conditions for the 1939 prairie crops are in general excellent, and the live stock markets have been improving in recent months. During the first quarter of this calendar year, construction contracts awarded were 6 per cent and residential contracts 92 per cent higher than for the same period in 1938, and the immediate outlook is for a further substantial improvement in residential construction. Our most important lumbering area, British Columbia, has benefited from better weather and an improved demand in foreign markets. The log scale for the first three months of 1939 was almost 60 per cent higher than that for the first quarter of 1938. In our central and eastern forest industries conditions have not been so favourable but progress has been made in reducing accumulated stocks. Manufacturing operations will benefit from improving economic conditions elsewhere and from increased defence expenditures, both Canadian and British. Finally the mineral industries seem destined to continue their impressive record of expansion. Exploration and development work has continued, although at a slightly slower pace; operations have been carried on over a more

extensive area than ever before, and the completion of new mills, the reopening of old mines and the discovery of new ore bodies have brought the industry's production facilities to an all-time peak. In addition it is interesting to note the rapid development which is going on in the oil fields of Alberta and the reported discovery of a large commercial deposit of high grade iron ore in northwestern Ontario.

The changing trends in the prosperity of our various industries mainly reflect not internal conditions but lowered demand and falling prices in external markets due to the world recession. This is a price we must inevitably pay for our dependence on world trade, but as I pointed out last year it is a price considerably smaller than that which we would have to pay in terms of a lower standard of living and other costs incident to a policy which would force readjustment of all our industry onto a purely domestic basis. Such a change would be unthinkable for a population of eleven million people living in so large an area endowed with so much of the essential raw materials of the world's industry.

During the calendar year 1938, Canada maintained its position as the world's fourth largest exporting country and displaced Japan as the fifth ranking nation in terms of total external trade. For the fiscal year ended March 31, 1939, our total merchandise exports, excluding gold, aggregated \$841,600,000, down 15.1 per cent from the total for the preceding fiscal year. Net exports of non-monetary gold, however, increased by 13.4 per cent to \$167,500,000. For the same period, total merchandise imports amounted to \$658,200,000, a decrease of 17.6 per cent. This meant an export or so-called "favourable" balance of trade of no less than \$350,900,000 as compared with \$339,800,000 during the preceding year.

Practically all our decrease in exports of merchandise, excluding gold, was accounted for by lower sales to our two largest markets, the United States and the United Kingdom, which countries suffered most from the prevailing recession. Exports to other countries of the British commonwealth were down by only \$5,200,000, and exports to all other countries decreased by less than 6 per cent. The beneficial effects of our comprehensive trade agreement with the United States are already beginning to make themselves felt, and for the first quarter of 1939, our exports of merchandise, exclusive of gold, to that country registered a gain of nearly 16 per cent over the total for the same period in 1938. It is a significant tribute to the importance of our treaty that the dollar amount of this increase in United States imports from Canada was

greater than the total increase in their imports from all countries. Fortunately, also, business prospects for both the United States and the United Kingdom for the current fiscal year are such as to justify high hopes for a substantial expansion in the sale of our export commodities to these two great markets. Business in Great Britain has been improving in recent months and under the revitalized rearmament program it should continue to improve because that country still has unemployed resources available for expansion. In the United States, the revival of last fall has been checked by prevailing uncertainty during the last few months, but not even the war clouds in Europe will suffice in my opinion to withstand the upward pressure of the powerful economic forces making for recovery on this continent. If only the fear of war could be removed, there would be released long-pent-up economic and social forces which would, I believe, soon transform again the economic organization of the world into a vibrant, dynamic machine bringing new prosperity and happiness to all countries.

Our huge export balance is an evidence of the strong position which Canada enjoys in her international balance of payments. On merchandise account alone, this balance during the calendar year 1938 was \$171,200,000, to which should be added another \$160,500,000 representing net exports of gold. Our tourist trade suffered somewhat from reduced incomes on the part of our potential visitors, but, nevertheless, net tourist expenditures in Canada reached the imposing total of \$149,000,000. Our credit balances on merchandise, gold and tourist account enabled us to offset our debit balances in respect of interest and dividends, freight charges and various miscellaneous services, and left us with the substantial surplus on current account of \$185,000,000. As in previous years, this current surplus was used to repatriate Canadian securities and retire other Canadian indebtedness payable abroad. It is not generally recognized, I think, that as a result of such transactions Canada has been a net exporter of capital to the extent of over \$900,000,000 during the last five years. This is a tribute to our inherent financial strength and an evidence of increased ability to withstand financial storms in the future. During the last few months there has been an inflow of capital in considerable volume from the continent of Europe, and this inflow is apparently continuing, reflecting the faith of European investors in the safety and profitableness of investment in this country. To the extent that this capital represents "flight money" ready to take flight again at a moment's notice, it may

create new problems, but to the extent that it consists of funds which seek, or will in practice find, permanent investment in Canada, it is to be welcomed. Fortunately, in considerable part at least, it seems to be accompanied by that much-needed spirit of enterprise which will foster the establishment of new industries and the expansion of old.

Interest rates have continued low. Our high-grade bond market has followed the rising trend in New York rather than the declining trend in London. The yield on long-term dominion bonds has recently been lower than at any time in our history, except for a short period in 1936, and also lower than the yield on similar obligations of most other countries except those of a few of the great creditor nations with which it compares very favourably indeed. Many municipal credits have shown a substantial and very welcome improvement during the year. Bank reserves, deposits, loans and investments have continued to increase, and Canadian bank deposits at the end of March aggregated \$2,485,000,000, 22.2 per cent above the level of March, 1935, just after the establishment of the Bank of Canada, and 8.8 per cent above the figure for March of the boom year, 1929.

Recession in the United States, Great Britain and elsewhere had its usual effect in depressing the level and disturbing the relations of commodity prices. Our index of wholesale prices stood at 73.2 in March last as compared with an average of 78.6 for 1938. As in the previous depressions of 1921 and 1930, the fall in prices has been particularly severe in the case of foodstuffs and raw material. Metal prices have risen again since their drop last spring, but prices of farm products remain seriously depressed in world markets. This special weakness of farm prices is due to a variety of causes, chief among which are the contraction of import demand on the part of countries striving for increased self-sufficiency and the too rigid nature of farm production in the great exporting countries. The agricultural crisis remains with us still and shows up whenever world demand for farm products falters.

I need hardly point out to you, Mr. Speaker, that these general conditions affecting agriculture throughout the world apply with particular emphasis to wheat, so long the backbone of international trade. Because of this and because Canada must export not only wheat but meat and live stock, dairy products and fruit, the impact of any world recession falls with special severity upon the farmers of Canada.

Agriculture can do little to protect itself against these international storms. Other

producers can contract their output, can frequently lay off their workers to live at public cost upon the relief rolls, while their contraction in output prevents a disastrous decline in price and the disappearance of profits. Farmers cannot readily do these things. In particular our western wheat growers, who have suffered from crop failure for a long series of years, cannot be expected to face unassisted this international problem. In time agriculture may, and should be expected to, adjust itself to the new problems created by international developments, but such adjustment involves a long and slow process. In the meantime, agriculture, if allowed to remain depressed, would have serious adverse effects upon the rest of our economy. It is therefore, only self-interest for all of us to see that everything that can possibly be done is done to improve the economic standing of agriculture. Only thus can all industries and all sections of Canada achieve the maximum of prosperity. Only thus can we preserve and strengthen national unity.

This was the reason for the guarantee of a basic minimum price of 80 cents for the western wheat crop of last year. That guarantee may cost the dominion treasury a substantial sum of money, but at the time it was given there were few, even amongst the industrial and financial leaders of eastern Canada, who did not believe it justified in view of the drastic decline in the world price of wheat and the general economic interest of the country as a whole. Experience has shown that there may have been defects in the method by which the assistance was given, but it was, of course, the only form of assistance possible under the legislation which was upon our statute books when the crisis arose.

I have for many years expressed the personal view that the best form which assistance to agriculture can take is that of helping the farmers to help themselves. This the government is attempting to do by its prairie farm rehabilitation program, its various measures to assist cooperative marketing, and its intensified efforts to improve the quality of agricultural products destined for foreign markets. In the contemplated legislation to provide for the setting up of a central mortgage bank we are striving to do two things, also primarily in the interest of agriculture but for the benefit of the urban home-owner as well. First, we are attempting to deal with the immediate problem of excessive and harassing indebtedness by providing for an adjustment of existing mortgages on an equitable basis which will inspire new hope in the debtor. Secondly, we are trying to find a solution for a longer run problem by

encouraging the revamping of the whole financial structure which has been built up to provide long term mortgage credit. In this way we hope to put mortgage lending on a new basis, which will be not only stronger but also more flexible, more economical and more equitable. Finally, but not least important, we have done and are continuing to do our utmost to secure for our farm products entry on more favourable terms into the great export markets of the world.

In providing aid to agriculture at this time, we wish it to be assistance that will promote a more efficient, more prosperous and more vigorous industry. We wish it to accelerate, not to impede, the development and expansion of our Canadian economy as a whole. It is essential that our economy develop and expand. We have seen during the last eighteen months that Canada has a strong economic system able to withstand shocks from nature and from the world outside our borders. We have demonstrated our strength and stability. But we must not let stability become stagnation. If we can no longer count on great possibilities of expansion extensively by pushing back farther the borders of settlement or by means of a rapid growth in population, then we must expand intensively by improving our capital equipment, by making ours a better rather than a bigger country. On the frontiers of science, invention and technology, the possibilities of expansion are greater than they ever were on the geographical frontier.

Both the necessity for expansion and the means to make it possible are found in the volume of unemployment that remains with us still. Without taking time to analyse the figures of unemployment, I wish to express my own conviction that the number of unemployed in Canada who are willing and able to work, with or without retraining, is not now so great that it should be beyond the capacity of an expanding Canadian economy to absorb.

However, in order to expand production, employment and incomes, we must have substantially more capital creation, a more rapid rate of private investment. Someone must convert a larger proportion of the savings of the people into capital expenditures or else our national income will decline again. Look back on the history of this or other countries in their modern phase and you will find prosperity only with expansion, only when the people were busy creating new capital works. In our prosperous first decade of this century we were busy extending our capital equipment, building cities, railways, harbours, elevators and factories. In our post-war period of prosperity from 1925 to

1930, we were busy building houses, factories, power plants, roads and automobiles. Since that time, investment in durable goods has languished. It revived somewhat in 1936 and 1937, particularly in the mining industry, and persisted well into 1938, with some recession thereafter. But it is still very far below the levels needed to utilize fully our increased labour and other resources. Its full recovery is our greatest need to-day.

This government has striven with all its efforts to restore private capital creation. This was the main purpose of our easy money policy. That policy has been successful in effecting a substantial reduction in interest rates, both short and long term. The reduction in long term interest rates made possible many projects otherwise unprofitable, made many improvements in fixed plant and equipment worth while, and by permitting savings through refunding it has strengthened the finances of many industries thus putting them in a position to carry out desirable expansion. It has materially reduced the interest burden on governments and is bringing about a gradual lowering of the rate of interest on mortgage funds which is one of the factors responsible for the recent recovery in residential construction.

Some critics have claimed that this easy money policy has not been carried far enough, and, indeed, in this house a few days ago, the astounding assertion was made that our monetary policy had been deflationary or at least had had deflationary effects. How absurd that assertion was is apparent from even the most superficial examination of the facts. The volume of bank deposits is probably the best single indicator of the effects of monetary policy, and certainly the United States, Australia, the United Kingdom and Sweden are countries which are usually quoted to us as having made effective use of monetary policy as an instrument of economic recovery. Well, what are the facts? Comparing 1938 with the depression year 1932, the average volume of bank deposits in Sweden had increased by 15 per cent, in Australia by 16 per cent, in the United States by 22 per cent and in the United Kingdom by 23 per cent, whereas in Canada the increase was slightly over 25 per cent.

I sincerely believe that Canada's monetary policy in the last few years has been wisely conceived and carried out with great skill by our financial officers. I am convinced furthermore that a policy of more rapid expansion would have been either futile or positively dangerous. The policy which has been followed has been one designed to expand money and credit as rapidly as the needs of the public

[Mr. Dunning.]

require but not so rapidly as to create an unhealthy, speculative expansion which would be bound to end in a serious depression. As I have frequently stated, its objective has been and is to promote the minimum possible level of unemployment by stimulating the maximum possible level of productivity that could be sustained over a period of time. I repeat that in order to achieve this objective, monetary policy has been used and is constantly being used as far as it can wisely be carried.

While we have been endeavouring to use monetary policy to the fullest possible extent as an instrument of economic recovery, we have always realized that monetary policy alone was not sufficient to solve our problems under present world conditions—that it is a tonic but not a cure-all. If other factors are favourable, a good monetary policy may stimulate recovery, may assist greatly in securing the desired ends, just as a bad monetary policy is certain to impede progress. For this reason we have adopted many other measures in the non-monetary field, some of which I have already mentioned. At the moment, however, I am specially referring to our efforts to stimulate private capital creation. Perhaps the most important of these is the series of measures adopted to restore more normal activity in the construction industry which suffered more from the pernicious anaemia of depression than any other industry in Canada. Hon. members are familiar with this comprehensive program, and I wish to refer only briefly to the results thus far accomplished.

Under the home improvement plan, which provides a simple and inexpensive method for making repairs, additions and improvements to existing homes, we had by March 31 this year given a limited government guarantee to 65,690 loans for a total volume of \$26,228,621. This, of course, does not by any means represent the total volume of modernization work stimulated by the government program. As an illustration of the fundamental soundness of a lending program adapted to the needs and income conditions of the small borrower, it will be interesting to hon. members to know that as of the same date, March 31, the losses which we have had to pay in respect of these loans amounted to only \$19,037, or less than 1/13th of one per cent of the amount of loans made. The significance of this very small amount of loss is greatly enhanced when it is realized that over 50 per cent of the total of loans made have already been paid off, as of the date I mentioned, March 31.

Under Part I of the National Housing Act a plan has been provided whereby a Canadian family can finance the construction of a new

home on a long term 80 per cent or 90 per cent mortgage bearing 5 per cent interest and by making monthly instalments for interest, principal and taxes comparable with and usually less than ordinary rentals, it can own that home free and clear of all encumbrances at the end of twenty years. As of March 31, 8,014 family housing units had been financed under this plan by loans aggregating \$30,628,894. During the eight months in which the amended legislation has been fully operative, the total value of loans approved has increased by 83 per cent over the volume of such loans made in the corresponding period of the previous year. I am confident from the indications already received that operations under this act during 1939 will result in a volume of loans several times as large as last year.

However, it seems to me that much more can and should be done. The abnormally low volume of building during the last few years has built up a very large deferred demand for new homes, particularly for persons of small or medium incomes, and it is in this field of residential construction, in my opinion, that is to be found the greatest single opportunity for new capital creation. It seems to me, however, Mr. Speaker, that we need a new motive power to take full advantage of the opportunity provided by this legislation. In the past the speculative builder has been the driving force behind most new house building. This type of operator has frequently been criticized because in many cases the quality and the cost of his product left much to be desired, but he did perform a real service in a country whose people for the most part have not yet been educated to the point where they are willing to buy a new house on the basis of plans and specifications. This speculative building industry was very hard hit during the depression, and to-day there are relatively few builders with sufficient resources to provide the service required. We will not get active building until this type of business enterprise is revived or replaced by a new type. Personally I think we stand much in need of a group of building or development corporations along the lines of the estates corporations which have put much of the drive behind the British building boom.

On a recent occasion I referred to the generous facilities now provided under part II of the National Housing Act for the construction of low-rental housing accommodation to be leased to families of low income at less than ordinary economic rentals. As yet no loans have been made under this part, but in several cities plans have been worked out which I hope will come to fruition in the

next few months. The national employment commission believed that this low-rental housing field offered one of the greatest opportunities for government assistance which would give a direct and decisive stimulus to the construction industry. Our legislation embodies their recommendations in substance, but in order to realize its immediate possibilities and ultimate social advantage we need the cooperation not only of municipal and provincial authorities but also of public-spirited private citizens who will give their time, business ability and some capital to the organization and management of limited-dividend housing corporations.

In addition, to make all these plans more effective, we took the drastic step last year of removing completely the 8 per cent sales tax on the major materials entering into house construction. I know that this step has been one of the factors responsible for the speeding up of residential construction during the last few months, but I doubt whether the various branches of the construction industry have as yet taken full advantage of the sales appeal which exists in the reduction of building costs made possible by this important enactment.

To complete the record I may refer to another measure adopted to stimulate the construction industry, and to help unemployment, namely, the Municipal Improvements Assistance Act. During the eight months in which this act has been in operation, 46 loans have been approved for a total amount of \$3,582,667. Five applications are pending for a total amount of \$442,731. I have reason to know that apart from the contribution made by these loans to the relief of unemployment they have been a veritable godsend to many municipalities which have only in this way been enabled to finance much-needed improvements to productive undertakings without adding new burdens to the shoulders of the general taxpayer.

I think hon. members will agree that this series of measures, responsible already for over 65 million dollars of new work, represents a comprehensive and powerful program to stimulate capital creation through the construction industry. In a similar way we have tried to encourage new capital creation in other industries. The aggressive steps which have been taken to open up and broaden export markets for Canadian products have been directed to putting our essential industries on a profitable basis which would justify expansion and new investment. We have also encouraged investment in new mines by exempting them from corporate income tax for the first three years of operation, by money spent on geological surveys, and by assistance in

constructing roads into new mining areas. Up to February 18, 1939, seventy-five new mines that are eligible or likely to be eligible for tax exemption have come into production, and the prior costs necessary to bring these mines to the producing stage are estimated at \$44,000,000, of which over \$14,000,000 was for direct wages. The metal output of these mines to March 31 last is estimated at over \$54,000,000, with a probable expenditure of nearly \$13,000,000, of which over \$14,000,000 was for wages and salaries. I would not, of course, contend that tax exemption is wholly responsible for all these mines coming into operation, but the magnitude of the figures given for prior production costs, new wealth creation and wages and employment indicates at least the possibilities of this type of program.

We are, of course, well aware of the arguments for pump priming in times of depression, and we have had to increase government expenditures substantially as a partial offset to the gap in private investment. But we have never believed that public spending could be a substitute for private enterprise. We have realized that public spending could only be a relief and not a cure, unless one is prepared to take the whole of business into government hands. There are few Canadians, I believe, who are as yet willing to give up their society based on individual freedom and enterprise for a system of state regimentation. Under our present system government expenditures are likely to leave the situation no better, and perhaps worse, when they are withdrawn. If they are carried too far they are likely to undermine confidence in the country's financial position and thereby to retard employment in private industry to an extent much greater than the new employment which they create. Nevertheless, a government cannot stand idly by and allow the ravages of depression to take their toll because of the too slow revival of private investment. In these days, if the people as a whole, and business in particular, will not spend, government must. It is not a matter of choice but of sheer social necessity. The alternative is a greater burden of relief and greater dangers from deflationary forces. This is the reasoning, Mr. Speaker, behind the increase in our special expenditures already proposed to you in supplementary estimates now before the house. These estimates are based as far as possible on projects of a productive and self-liquidating nature, projects which are intended to conserve or develop our resources. While it is hoped they will increase national income and expand national wealth over a period of time; nevertheless

they involve expenditures to-day. We dare not, we cannot, contract our expenditures until our industries and our people generally are spending more freely. When private investment expands, not only will we find our need for government expenditure less, but also our revenue receipts will be so much increased that debts can be reduced and taxes lowered.

We hear a great deal to-day about the need of leadership and public men have been subjected to much criticism on that score. I would be the last to deny our own limitations and the mistakes which have been made in the past by governments just as by other people, and no one would welcome more than myself the development of an informed and vigilant citizenship that would constantly study public problems and keep public men advised and alert. But I speak with all candour and with no attempt whatever at defensive criticism when I say that it is in the field of private investment that leadership and courage are most needed in Canada to-day. There are many business and financial men who have been using every resource to improve processes, expand plant and employment, or set up new industries. Their efforts, heart-breaking at times, have my sincere admiration. But they are far too few in number. In general, I confess to a disappointment with the lack of imaginative business leadership in recent years, certainly as compared with that shown by the generation which built our railways, opened up the west and transformed this country in a short span of years into one of the great industrial nations of the world.

It may be urged that these are troublous times when one must think twice before putting his capital and effort into a new venture. Business men have become more conscious of the trade cycle and the dangers rather than the virtues of competition. Sometimes I think they pay too much attention to the risks which face business in other countries but which have less significance in Canada. In any case, risks have always existed, and business has overcome them. We shall get nowhere if our investing public spends its main efforts not in looking for new opportunities but in trying to forecast the short term movements of the stock and bond markets. No important social purpose is served by that type of gambling.

Repeated assertions are made that the burden of debt and taxation in this country is the main factor holding back business. I do not believe this to be the case. Certainly it need not be unless irresponsible but doubtless well-intentioned statements by people

who should know better convince business that it should be depressed by the fear of debt and taxes.

It seems ironical to put me in the position of appearing to argue for high debt and high taxes, because a major interest of my public life has been to keep the burden of debt and taxes on the people down to the lowest practicable level. But I am forced to speak out when I hear persons who have the same purpose as I have making ill-considered statements which are bound to have the effect of slowing up private business and thereby driving governments to perform tasks which will inevitably call for higher taxes and higher debts. Those who make such statements fail to realize that the old days of complete *laissez-faire*, of devil-take-the-hindmost, have gone forever. In the world of to-day, governments must act to relieve distress and prevent cumulative deflation, and, speaking generally, the magnitude of governmental expenditures in democratic countries is likely to be a rough measure of the failure of private enterprise to do its full duty.

Public debt per capita in this country is not as high as in England, Australia or New Zealand; on the contrary theirs is roughly fifteen to twenty-five per cent higher than ours. Although our dominion funded debt has increased substantially since 1930, the annual interest burden of that debt, allowing for elimination of tax-free securities, is lower than in any year since the war. So the increase in dominion debt has not required any increase in taxes to carry it. Economic conditions have made the increased debt well-nigh inevitable, but a careful regard for our credit and the improvement of our financial machinery have enabled us to meet this economic necessity without increasing the burden of our debt. Our borrowing has not impeded private investment by forcing up rates of interest against other borrowers. Our taxes are high but we do not bury the money we take in in taxes, as one might gather from what some speakers say. We spend it quickly, far too quickly, in my opinion, and for the most part pass it on to those who will spend it quickly again. Much of it, moreover, goes to improve the country's economic equipment, to promote the more rapid creation of new wealth. I do not of course claim that any government is perfect, nor that government spending has always been wise. We make mistakes as other people do. But we are subject to and responsible to social forces to which a private business can be relatively indifferent.

Nor need investment in Canada be paralyzed by the fear of war in Europe. The dangers

of war cannot be avoided by hiding. War might upset our commerce for a time, but the world will still need to eat and will still demand, perhaps in larger amounts, our paper, our metals, and our other products. War would mean higher taxes, higher prices, but none of these dangers will be avoided by hoarding rather than investing capital. I cannot believe that people in this country are trying to keep their capital liquid in order to take it away in case of war. Such plans would be not only foolish but cowardly.

Investment in this country has been profitable, Mr. Speaker. Examination of the public statements of 334 corporations indicates that their profits in 1938 were only 10 per cent below the 1937 level, and still 7 or 8 per cent above those of the recovery year 1936. Foreign investors have been convincingly demonstrating their faith in this country's future. Why should not our own investors show the same faith? The possibilities of profitable new investment have by no means been exhausted. I have already pointed out the great opportunities which exist in the field of housing. Can we not in other fields, manufacturing, merchandising, transport and the service industries, apply new methods and modernize equipment in order to reduce costs, lower prices and thereby expand our markets both at home and abroad? Cannot we adopt new ideas developed during recent years in other countries without waiting for branch plants or refugees with capital to bring them to us? Have our other industries explored at all fully the possibilities of research which has proved such a profitable investment in the nickel and the chemical industries? Have we fully explored the possibilities of processing our raw materials before exporting them? Have we sought out all the opportunities for the profitable investment of capital in new industries, particularly small industries?

These are vital questions, Mr. Speaker, for Canada's future. I confess that I do not know all the answers but I am satisfied that the low level of new investment in Canadian industry is a challenge to our financial, industrial and scientific leaders to an even greater degree than it is to parliament.

II.

GOVERNMENT ACCOUNTS, 1938-39

I turn now, Mr. Speaker, to the government accounts for the fiscal year which has just closed. Fortunately, the procedure which we are now instituting will make it unnecessary for me to weary you with a long and dreary recital of statistical facts relating to every category of our revenues, our expendi-

tures, our direct and indirect liabilities, our active investments, and our financing operations during the past year. It is, of course, necessary that the house should have a comprehensive record of all our financial transactions but, borrowing from the practice of the United Kingdom and of Australia, I have incorporated the details in a separate white paper which, with the permission of the house, I shall place on *Hansard* at the conclusion of my address. This white paper will be published as an appendix to the budget speech and therefore will be readily available to all. The new procedure will enable me to confine my remarks at this stage to results rather than detail in the record of the past year.

My forecast of a year ago indicated an aggregate revenue for the fiscal year 1938-39 of \$501,700,000. I now estimate that, when the books for the year are finally closed, they will show a total revenue of \$501,677,000, or \$23,000 less than the estimate I gave the house a year ago. This total represents a decrease of \$15,016,000 or 2.9 per cent from the preceding year but is higher than that for any other year in our history.

Income tax receipts at \$142,025,000 set a new all-time record—18.0 per cent above the collections of 1937-38. All other types of taxation recorded decreases, particularly the sales tax, which reflected the decline in general business activity, and also, of course, the exemption granted to the major building materials. Customs duties on a lowered volume of imports also failed to come up to expectations. Non-tax revenues, however, reached the new record level of \$61,818,000.

Unfortunately, I was not so lucky in my budget estimate of aggregate expenditures for the past year. That estimate of \$524,800,000 has been exceeded because of the disappointingly poor earnings of the government-owned railway system and the prospective losses in wheat marketing resulting from the low level of world wheat prices.

Breaking our total expenditures down into the usual main categories, we find that ordinary expenditures for the fiscal year 1938-39 are now estimated at approximately \$416,372,000, an increase of only \$1,480,000 over the previous year.

Capital expenditures, chiefly for dredging operations on the St. Lawrence ship channel and construction of airways and airports, showed little change at \$4,687,000 as compared with the preceding fiscal year.

Special expenditures for the relief of unemployment and agricultural distress were less by about \$20,000,000. The total for this category was \$48,583,000 and the main items

were \$17,025,000 for grants-in-aid to the provinces, \$5,790,000 for our share of joint dominion-provincial projects, \$16,492,000 for the cost of solely dominion projects, and \$9,276,000 for the cost of direct relief, food-stuffs and feed and fodder distributed in the drought areas of western Canada.

Government-owned enterprises accounted for aggregate expenditures of \$58,967,000 as compared with \$44,833,000 in the preceding year. Most of this total is represented by the net income deficit of the Canadian National Railways for the calendar year 1938. As hon. members are fully aware from the annual report of the railway already tabled in the house, this deficit amounted to \$54,314,000. The increase of \$11,968,000 over 1937 was due to a substantial decrease—over \$16,000,000—in gross operating revenues, which was particularly severe on the United States lines of the railway and which in general reflected the prevailing business recession, as well as to an increase in railway wage rates which partially offset the economies it was possible to effect in other operating expenses of the system.

Operations of the Trans-Canada Air Lines during 1938 resulted in a deficit of \$818,000 after interest on capital and after depreciation. Canadian National (West Indies) Steamships Limited achieved an operating surplus (after payment of interest on bonds held by the public but before depreciation and interest on government advances) of \$276,000 during 1938. This surplus was turned over to the government in partial payment of interest.

The operations of the harbours and facilities under the administration of the National Harbours Board recorded a substantial improvement during 1938. Operating income, after payment of interest to the public but before depreciation and interest payable to the government, totalled \$3,640,000, an increase of 33 per cent over the corresponding figure for 1937. Financial assistance provided by the government for operating deficits, debt retirement and capital expenditures amounted to \$3,441,000.

Finally, other charges, consisting mainly of write-down of miscellaneous assets, amounted to \$3,734,000 during 1938-39.

Hon. members who have been keeping their pencils sharpened may already have calculated that the figures I have given for the five main categories of expenditures add up to the grand total of \$532,343,000. This is \$2,065,000 lower than the corresponding total for 1937-38, and with total revenues estimated at \$501,677,000 it would appear to indicate an over-

all deficit for the year just closed of \$30,666,000 as compared with my budget estimate of approximately \$23,000,000.

In view of the world trade recession, such a result for the past year would, I think, have been encouraging. It has seemed necessary to me, however, to go farther and to add to that deficit some reasonable provision for possible losses arising from the dominion's guarantee of a basic price of 80 cents for the western wheat crop of 1938. No one can tell at this time what the ultimate loss will be. Our experience in 1935 and 1936 shows how quickly an apparent loss of very large proportions can be wiped out by rapid changes in the level of wheat prices resulting from actual or anticipated changes in the world supply and demand situation. Nevertheless, it seems to be only sound common sense to take account of present facts and the immediate outlook. Unfortunately, I cannot without the possibility of serious adverse consequences do anything which would tend to disclose to speculators in the world's wheat markets what the exact position of the Canadian Wheat Board is in regard to sales and holdings of wheat. I have therefore decided to pick an arbitrary figure of \$25,000,000 and to set this up in our books as a reserve against possible wheat marketing losses.

This will bring my estimate of our over-all deficit for the fiscal year 1938-39 up to \$55,666,000.

In addition to the expenditures already outlined, the dominion has made disbursements during the past year for the acquisition of investments which are treated as active assets in the public accounts. The net increase in these active loans and investments amounted to \$23,524,000.

As at March 31, 1939, the net debt of the dominion is estimated at \$3,157,334,000. Gross liabilities are estimated at \$3,642,049,000 and our active assets at \$484,715,000. Bonds and debenture stocks bearing the guarantee of the dominion and outstanding in the hands of the public at the close of the fiscal year amounted to \$1,085,466,000. These guaranteed securities outstanding increased during the year by \$34,859,000. There are also outstanding other contingent liabilities arising out of guarantees given under relief acts and various other Acts. These are fully set out in the white paper which is being placed on *Hansard*.

III

BUDGET FORECAST, 1939-40

I turn now from the role of historian to the task of the prophet. Under present world con-

ditions, this task is not an easy one. The economic pattern of 1939-40 is not as yet clearly discernible and a major turn in world events may be near at hand which may make conditions either very much better or very different from what one can foresee to-day.

However, a Minister of Finance must take a realistic view based on the trends at work when his forecast is made. Taking such a view, I now estimate that, allowing for the tax changes I am about to announce, our aggregate revenue for the fiscal year 1939-40 will amount to \$490,000,000, made up as follows:

Tax Revenue—	
Customs duties	\$ 78,000,000
Excise duties	52,500,000
Income tax	140,000,000
Sales tax	126,000,000
Manufacturers', stamp, importation, and other special excise taxes	27,000,000
Bank circulation and insurance company taxes	1,800,000
Total tax revenue	<u>\$425,300,000</u>
Non-Tax Revenue—	
Post Office receipts	\$ 35,600,000
Interest on investments	13,600,000
Other	13,500,000
Total non-tax revenue	<u>\$ 62,700,000</u>
Total ordinary revenue	\$488,000,000
Special receipts and credits	2,000,000
Grand total revenue	<u>\$490,000,000</u>

I am fully conscious that this estimate may prove to be unduly pessimistic.

On the expenditure side, the main estimates provide for a total expenditure of \$457,200,000 of which \$29,400,000 represents defence expenditures which are being capitalized under the special sinking fund plan. To the remaining \$427,800,000 must be added \$122,300,000 asked for in the special supplementary estimates which have already been tabled, making a total of \$550,100,000. If any further supplementary estimates need to be provided during the year, I believe we may assume on the basis of past experience that they will be offset by savings made by the departments in the appropriations based on the main and special supplementary estimates. The estimated total expenditure of \$550,100,000 includes the railway deficit but does not take into account any additional loss which may possibly occur in marketing the 1938 wheat crop, over and above the \$25,000,000 for which provision has already been made, nor does it take into account possible losses with respect to the 1939 crop. No man could possibly estimate what these items may amount to or make even a reasonable guess.

Leaving aside therefore any expenditure in regard to wheat, there will be a probable gap between our revenues and expenditures during the new fiscal year of about \$60,000,000.

Needless to say, I am disappointed to have to contemplate another deficit of this size. I had fervently hoped that this year I would be able to offer to the house a balanced budget and as a result be in a position to begin the process of reducing debt and taxes. I have already outlined the reasons why this "consummation devoutly to be wished" must be deferred and I have discussed at some length the forces which must be set to work to make it possible.

Let no one think that I have changed my mind in regard to the necessity of a balanced budget. Doubtless I will remain the target equally of two extreme schools of thought; on the one hand, those who believe that budget balancing is an outworn fetish, that a nation can continue to do what would soon bring an individual to disaster, and on the other hand, those who believe that governmental expenditures should be ruthlessly slashed regardless of the social distress and the cumulative deflation which would thereby be caused. I trust that Canadians of goodwill, regardless of party, will see that such criticism is merely the penalty which must be paid by public men who go neither to one extreme nor to the other but try to take the common sense middle course.

In times of depression, as I have already shown, increased expenditures on the part of governments are a sheer social necessity. Nevertheless, no nation can go on indefinitely with a budget heavily unbalanced without sooner or later providing a real, not an imagined, basis for fear as to the soundness of the country's financial position. If that fear should take root, nothing which a government could do short of taking over gradually the whole field of private enterprise, could offset the slowing up of private enterprise and the reduction in employment and incomes to which fear and uncertainty would give rise. Canada has had ten years of unbalanced budgets. There is as yet no reason whatsoever for any fear as to our national solvency. But this process cannot go on forever. Governments must be eternally vigilant that they do not simply take the path of least resistance which is that of easy spending. The private citizen must be awake to see that governments resist that temptation. And I may add, the private citizen should endeavour not to put that temptation in the way of governments. Business and financial leaders must make every effort to expand production, employment and incomes in order to avoid

the necessity of governments embarking upon work-creating programs.

I for one am convinced that, given peace in the world, if we all put our shoulders to the wheel, we can soon so galvanize our economy that national income will be raised to a point where unbalanced budgets will be a nightmare of the past for the nation as well as for the individual citizen.

On the basis of the analysis which I have given, and particularly in view of the forecast which I have made in respect of the overall deficit for the new fiscal year, hon. members will, I think, agree that any major reductions in taxation, beyond the proposals with respect to the special excise tax, are clearly impossible. Under current conditions of business recession and the continued threat of international lawlessness, we must courageously face the demands made upon us for unemployment and agricultural distress and for the vital requirements of national defence. Much as I regret it, I am forced to ask our taxpayers to continue for the time being to bear approximately their present burdens, because I am convinced that for us to give up tax revenues at this time would only cause greater burdens and probably other serious difficulties at a later date. The size of our expected deficit might, indeed, suggest under more normal conditions an increase in tax rates but I prefer to make the present rates yield more revenue by doing everything possible to promote an increase in the national income.

For this reason I am recommending a three-year extension of the income tax exemption granted to new metalliferous mines coming into production. As a result of this provision, exploration and development work will be encouraged to go forward on the understanding that any new mine coming into production prior to January 1, 1943, will be exempt from corporate income tax for its first three years of operation, in the same manner as has been the case during the last three years, and in connection with which I gave detailed information earlier in this address.

With a similar purpose in mind, I am recommending to the house another measure which involves the application to all productive industry of the principle which has been applied with such beneficial results to the mining industry. I need not here repeat the argument which I have already used as to the necessity of increased creation of capital works if we are going to solve the problem of unemployment and restore normal business activity. To my mind that argument is unanswerable.

The government proposes, therefore, to offer what I believe will be a powerful incentive to all industries to go forward immediately with any justified expansion of plant and with such modernization of machinery and equipment as the progress of recent years has made essential. Any firm, therefore, which begins after May 1 next the construction, installation, betterment, replacement or extension of plant, machinery or fixed equipment will be allowed a credit against income tax equal to 10 per cent of the costs incurred for such capital projects prior to April 30, 1940—one year. This tax credit is to be spread equally over the next three years in which the firm has a taxable income. It will apply to any firm in any industry whether organized as an individual firm, partnership or corporation, except, of course, a new metalliferous mine which already has the benefit of the three-year exemption from corporate income tax.

I am convinced, sir, that this measure will have highly desirable results both immediately and permanently. During the present year it should serve to counteract the several factors which have been holding back investment in new capital enterprise in so many cases and should thereby promote a substantial expansion of employment both in heavy construction and in the machinery and equipment industries. But it should do more than this. It should help to place our industries on the most modern and up-to-date basis, enabling them to cut costs, to compete more effectively in both the domestic and the world markets, and thereby to be in a position to maintain prosperous employment for the longer run future.

Other minor changes in the Income Tax Act will be made for the purpose of clarifying the intent of existing provisions, removing anomalies and closing certain loopholes.

Under the Excise Act it is proposed to increase the rate of duty on spirits used in making vinegar from 27 cents per gallon to 60 cents per gallon. The purpose of this proposal is to stimulate the use of apple cider in making vinegar, and thus to widen the market for low grade apples.

In the sphere of trade negotiations, Canada's outstanding accomplishment of the year now closing was of a dual nature: cooperation with the United Kingdom in the successful negotiations between that country and the United States and the simultaneous revision and enlargement of our existing agreement with the latter country. The three-way negotiations necessitated were lengthy and difficult; and that the two agreements resulting therefrom have so generally commended themselves to the citizens of the countries

concerned is in itself a tribute to the spirit of give-and-take in which these three democracies entered jointly upon an admittedly difficult task.

In view of the time devoted earlier in this session to consideration of the new agreement with the United States, I do not propose to refer to it at any length. That it will prove to be as beneficial to both countries as was the one which it has superseded, I have not the slightest doubt. Of the enduring success of the United Kingdom-United States agreement I am equally confident.

I am not suggesting for a moment, sir, that our tasks in this direction are concluded; that the latest agreements, merely because they are the most important and most comprehensive, are necessarily the crown of the arch. On the contrary, they seem to me rather to emphasize the work which remains to be done. And that leads me to remind the house that notice of termination has recently been given of the agreement existing between this country and the British West Indies—not because Canada does not want an agreement, but because the one which has stood for twelve years is sorely in need of revision. And I may assure this house that when the time comes to sit around a table with their representatives, we shall do so in that spirit of friendliness and goodwill which long has marked the relations of this country with the islands of the West Indies.

As might be expected in the light of earlier legislation, tariff changes to be announced to-day are neither numerous nor of striking importance. Many of them arise out of the provisions of the new agreement with the United States and have already been approved by the House.

Reports from the Tariff Board I have laid on the table to-day, respecting furniture, cigars, cocoa matting, starches and dextrines, worsted weaving yarns, coke, radios and tubes, and automobiles. The report on the radio industry, apart from recommending free entry of certain parts, refers to the bearing of the Patent Act upon the investigation. In this connection the board states that "radio tube manufacturers in Canada have taken full advantage of the protection afforded to them by the terms of the Patent Act". The board expresses the opinion that selling prices of radio tubes in Canada to all classes of purchasers should not be in excess of the recognized list prices in the United States, plus all charges on importation. To that end the board suggests that the proposed reduced duties on parts, unless "immediately reflected" in the published selling prices of Canadian radio tubes, be rescinded. In giving fuller study

to other phases of this report than those relating strictly to tariff rates, the government will have to consider the relation thereto of the provisions of the Patent Act respecting the abuse of exclusive rights under patents.

There is, Mr. Speaker, one further Tariff Board report tabled to-day to which I wish to refer. That is the report arising out of the inquiry respecting vegetable oils. As the house well knows from frequent discussions during the last three sessions, this investigation by the board arose out of an application by the National Dairy Council of Canada for the imposition of specific duties upon importations of vegetable oils. The matter being intensely involved and technical, I thought the application a highly proper one for a board inquiry. This inquiry, begun in the fall of 1936, is now completed and the result is the voluminous report I have placed on the table. Very briefly may I outline the nature of the board's recommendations: first, a rearrangement and reclassification of the tariff items relating to animal fats, oils and greases, as well as of those relating to vegetable oils, with certain proposed changes in the rates of duty; second, the imposition of an excise tax of three cents per pound upon the vegetable oil content of vegetable shortenings and lard compounds, and of two cents per pound on the vegetable oil content of soaps of all kinds, such excise taxes in all instances to apply to both the domestic and the imported product.

This report was received only in time to be tabled with the budget speech. A week ago, however, I was advised by the board as to the nature of its recommendations and these were at once given serious consideration by the government. Since the recommendations, both as regards certain tariff changes and the excise taxes, are such as to require consultation with the United Kingdom government—because of commitments under trade agreements that have applied to these commodities since the Ottawa conference of 1932—the Canadian government decided to refer the matter at once to the government of the United Kingdom. This was done last week, as speedily as the essential abstracts of the report could be coded and transmitted, and we have intimated to the British government that a reply at the earliest possible moment would be greatly appreciated. May I add, Mr. Speaker, that should such reply release Canada from any obligations that may rest upon her at present by reason of these empire agreements, and should the reply be received before the committee stage is over, it will be possible to introduce the necessary resolutions.

[Mr. Dunning.]

Reference to the reports of the Tariff Board laid before parliament to-day provides a fitting opportunity, Mr. Speaker, to pay tribute to one who had, perhaps, most to do with their making but who is not in the place where he was usually to be seen on budget day. I refer to the late Honourable George H. Sedgewick, whose sudden passing was a shock to every member of this house. Highly intelligent, industrious, fair-minded, the soul of integrity, Mr. Sedgewick was admirably fitted for his high position, and I share the general view that his death is a great loss to the public service of this country.

The resolutions to be moved to-day include one which provides for the removal of the special excise tax of three per cent from all imports into Canada under any tariff more favourable than the general tariff. The direct obligation under the Canada-United States agreement was, as members will recall, to remove the tax from the goods covered by the items in schedule I to the agreement. Any further removal of this tax is not a matter for negotiation with another country but is entirely a matter of domestic policy for Canada. The decision taken in connection with the items in the agreement was made, therefore, in a full recognition of the larger issues involved, and I am sure that the action I am proposing to-day, which will involve an estimated reduction in taxation of about \$14,000,000, will commend itself to all interests in this country, whether manufacturers, importers or consumers. In this connection, I should mention also the fact that, having in mind that practically all the crude rubber and the primary forms of tin imported into Canada are of empire origin and come now for the most part through empire channels and Canadian ports, the government have decided to impose a duty of 5 per cent ad valorem on such goods when imported under the intermediate or general tariffs.

In conclusion, I wish to say, Mr. Speaker, that repeatedly during the past year I have been impressed with the extent to which foreign visitors look on Canada as a specially favoured land. In their view we are blessed in our geographical situation, in our powerful and friendly neighbours, in our political, economic and social institutions, in the sanity and enterprise of our people, and in our rich and varied resources available for productive investment. Many of them indeed have been shocked at the evidence of constant bickering and destructive criticism which they find here, at the tendency of some of our people to overlook the advantages which we possess over

most other countries and to belittle our own achievements and the future that should be in store for this country.

I ask you, Mr. Speaker, is it not time for us Canadians "to see ourselves as others see us," to adopt a constructive rather than a negative attitude, and to concentrate with courage and vigour on a united effort to solve our own problems and continue the work of building a greater and better country? If only we can develop more of a national *esprit de corps*, if only we can recreate that spirit of cooperation, mutual helpfulness and constructive enterprise possessed by those who founded this nation at confederation, we need have no fear of the future. I for one have never lost faith that Canadians will successfully meet that challenge.

RESOLUTIONS

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

INCOME WAR TAX ACT

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

1. That a taxpayer (other than a company deriving income from a metalliferous mine to which section 89 of the act applies) shall be entitled to deduct from the tax that would otherwise be payable under the act amounts not exceeding in the aggregate ten per cent of capital costs actually incurred and paid in the period beginning May 1, 1939 and ending April 30, 1940 in respect of the construction, installation, betterment, replacement or extension of plant, machinery or fixed equipment during the same period, by deducting, in each of the first three fiscal years of the taxpayer after April 30, 1940 in which the taxpayer has taxable income, an amount not exceeding one-third of the aggregate amount of the deductions authorized.

2. That any metalliferous mine that comes into production after the 31st day of December, 1939, and prior to the 1st day of January, 1943, shall be exempt from income tax for the first three fiscal periods following the commencement of production.

3. That dividends paid by a metalliferous mine to a Canadian company during the period that such metalliferous mine is exempt from taxation under section eighty-nine of the act shall be exempt in the hands of such Canadian company.

4. That the tax imposed at the source on payments by Canadian debtors to non-residents in respect of films, whether copyrighted or not, be increased to 5 per centum on the total amount of such payments.

5. That salaries, bonuses, directors' fees, or other like remunerations, paid by Canadian companies to a non-resident, in excess of \$14,000, shall not be allowed as an expense of such Canadian company.

6. That general overhead expenses of companies shall be rateably apportioned between the taxable and the non-taxable income of such companies.

7. That where any estate or trust is taxable under the act it shall not receive a personal exemption of one thousand dollars.

8. The dividends paid by a personal corporation out of capital gains after all of the income of such corporation has been taxed against and received by its shareholders shall be exempt from taxation.

9. That the resolutions numbered 3, 5, 6, 7 and 8 shall be applicable to the incomes of 1938 and fiscal periods ending therein. Resolution numbered 4 shall be applicable on April twenty-sixth, one thousand nine hundred and thirty-nine. Resolutions numbered 1 and 2 shall come into force as indicated therein.

SPECIAL WAR REVENUE ACT

Resolved, That it is expedient to introduce a measure to amend The Special War Revenue Act, and amendments thereto and to provide:

1. That section 88 of the said act be struck out and the following substituted therefor:

"88. (1) In addition to any duty or tax that may be payable under this part, or any other statute, there shall be imposed, levied and collected a special excise tax of three per cent on the duty paid value of all goods imported into Canada subject to entry under the general tariff payable by the importer or transferee who takes the goods out of bond for consumption at the time when the goods are imported or taken out of warehouse for consumption: Provided that when raw furs imported into Canada are exported therefrom, a drawback of the tax paid may be granted under regulations to be made by the minister.

(2) The tax imposed by this section shall not apply to:

(a) The articles enumerated in schedule V to this act.

(b) Goods, the duty paid value of which does not exceed twenty-five dollars, when imported by mail or express, or by the owner thereof when entering Canada unless more than one entry of such goods be made by one importer during one day from one country, in which case the tax shall be applicable."

2. That any enactment founded on this resolution shall be deemed to have come into force on the twenty-sixth day of April one thousand nine hundred and thirty-nine, and to have applied to all goods imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for which no entry for consumption was made before that date.

EXCISE ACT

Resolved, That it is expedient to introduce a measure to amend The Excise Act, 1934, and amendments thereto and to provide:

1. That the schedule to the said act which sets out the excise duties to be imposed, levied and collected on spirits distilled in Canada be amended by striking out subsection (c) of section 1 of the said schedule and substituting therefor the following:

"(c) On every gallon of the strength of proof used in any bonded manufactory in the production of vinegar, sixty cents, and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon;"

2. That any enactment founded on this resolution shall be deemed to have come into force on the twenty-sixth day of April one thousand nine hundred and thirty-nine.

THE CUSTOMS TARIFF

1. Resolved, that schedule A to the Customs Tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended by chapter seventeen of the acts of 1928, chapter thirty-nine of the acts of 1929, chapter thirteen of the acts of 1930 (first session), chapter three of the acts of 1930 (second session), chapter thirty of the acts of 1931, chapter forty-one of the acts of 1932, chapters six and thirty-seven of the acts of 1932-33, chapters thirty-two and forty-nine of the acts of 1934, chapter twenty-eight of the acts of 1935, chapter thirty-one of

the acts of 1936, and chapter twenty-six of the acts of 1937, be further amended by striking thereout tariff items 39, 39a, 39c, 39d, 53, 54, 54a, 55, 63a, 77a, 87(n), 98, 98a, 117, 170, 171a, 172, 172a, 173, 174, 175, 176, 177, 178b, 183, 184, 203, 208g, 208h, 210b, 220(a) and (b), 241, 241a, 255, 265b, 289, 326f, 343, 346a, 386 (c), 390c, 409e (ii), 417, 422a, 427b, 427e, 427h, 435, 438e(3), 445d, 446g, 448, 454, 462b, 466, 476(i) and (ii), 537c, 549e, 569e, 571a, 587b, 597a, 616, 618c, 652, 657b, 663c, 664b, 682a, 696, 804, 810, 814, 816, 818, 825, and orders in council P.C. 1414 and P.C. 2736, the several enumerations of goods respectively and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said schedule A: