ing at heart the welfare of his fellow human beings and actuated by patriotic feelings can thus countenance the destruction of a whole race by ruining the health of its young girls. The factory girl of to-day is the mother of to-morrow and if she has to overwork herself, the very vitality of the race is threatened thereby. No doubt this will please Mr. Carson and his fellow-members of the Grand Lodge of Orange who view with alarm the "miracle of the cradles" in French Canada. But no one who is the least bit scrupulous will accept the responsibility for such a crime by either encouraging or tolerating night labour for young girls. I take the liberty of drawing the attention of the government to this matter.

Mr. Speaker, if, in spite of everything, we continue to long for the fullest cooperation, particularly with a view to national unity, knowing the price we have paid so far for that unity, it is for the sake of our native land and because we are of good heart. Because of this price we paid for national unity, I cannot allow it to be sabotaged and threatened with destruction through the enactment of conscription for overseas service.

If the question of the plebiscite had been squarely put to the Canadian people—"For or against conscription for overseas service"—one may well wonder if the result would have been the same. At a time when the enemy is sinking our ships in the St. Lawrence, attacking our Pacific coastline and landing troops on the North American continent, I wonder if there are still many Canadians who favour sending our best men overseas and running the risk of being unable to cope with the enemy's attack.

The French Canadian does not shirk from doing his share in our war effort and, despite the shameful innuendoes of a handful of Toronto imperialists, the province of Quebec is as anxious to win this war as any other province.

We can rightfully be proud of our war effort, and we shall further it with pride and patriotism, but let us be granted at least the right to safeguard a principle based primarily on the country's best interests and our home defence needs.

My own constituency set an example which might well have been followed in others reporting a majority of affirmative votes. Every appeal on behalf of war loans has met with the most gratifying response. Most of our quotas were oversubscribed to the extent of 140, 150 and 160 per cent, even though my own county of Drummond-Arthabaska is peopled entirely by farmers and labourers. It is no centre of great wealth and national revenue authorities would vainly seek there

an opportunity of lining their coffers out of large income taxes. In the last Red Cross campaign, our objective was reached almost a whole week before the closing date.

In terms of military service, our cooperation has been no less full and unstinting. Our young men have readily responded to compulsory training and many of our volunteers are now fighting on all theatres of war. Some fifteen Drummondville youths were among the heroes of Hong Kong and, only recently, the county of Arthabaska lost three of its bravest young men, one of whom died on duty with the Canadian navy while the second, Sergeant-pilot Tourville, gloriously laid down his life in Libya, and the third, Pilot Dionne, lost his life in a flying accident. May I be allowed a word of tribute to the memory of those heroes and of gratitude and sympathy for their families.

All of which, Mr. Speaker, but serves to emphasize the fact that, in opposing conscription for overseas service, we have no wish to impede the country's war effort. On the contrary, we believe that, because it provides better soldiers, the voluntary system is likely to give better results.

Once again, I regret this lack of frankness toward my fellow citizens and deplore the breach of trust in the pledged word. To sum up briefly, I may say that I shall oppose Bill No. 80 and in so doing remain true to my word, comply with the views of my electors and serve my country by working for the preservation of national unity and better understanding between the two main ethnical groups in Canada.

On motion of Mr. Mulock the debate was adjourned.

At six o'clock the house took recess.

After Recess

The house resumed at eight o'clock.

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, as we approach the end of a third year of war, we find ourselves in the midst of undertakings vaster than we ever hoped to assume for the defence of the world's freedom. We are surrounded by united nations more numerous and powerful than we ever dared to expect to be allied with us. Our war programme is great and growing in size and effectiveness. More and more of our national strength is being absorbed into it. The programmes of the united nations are daily becoming more closely knit in mutual aid. Yet to-day it is bitterly plain that we have far to go before victory is in sight.

The financial task of facilitating and safeguarding these developments has also grown in size and difficulty, but in the record and plans disclosed in this fourth war-time budget speech, it has become simple and direct in principle, though increasingly difficult of execution.

I

ECONOMIC AND FINANCIAL REVIEW

The budget proposals which I shall present to the house necessarily grow out of the experience of the past and are shaped by what we know of the work ahead.

Let me first recall some of the economic and financial events and policies of the past fiscal year. It was marked by great shifts and increases in production, employment, income, and private spending. The prime movers in our war economy are, obviously, our sales of goods abroad and our own government expenditures.

Taking the twelve months to the end of March as a basis of comparison, our exports to the United Kingdom increased by 36 per cent, our exports to the United States by 41 per cent, our total exports by almost 50 per cent. In the face of restrictions abroad on non-essential buying and the use of transport facilities, these increases, much greater in amount than in any preceding year may be taken as evidence of our greatly enlarged contribution of war supplies and essential goods to allied and friendly countries.

For our own war programme, in the first quarter of this calendar year, our war direct expenditures were $500 million as compared with $275 million in the same months of last year, that is, more than 80 per cent higher.

General employment at the end of the fiscal year was up 22 per cent over the level of preceding March and employment in manufacturing was up 30 per cent. From the beginning of the war, employment in manufacturing has expanded by more than 80 per cent. Average weekly earnings of employees rose throughout the year. Retail sales at the close of the fiscal year were running about 20 per cent above the previous year's level, more than 50 per cent above the pre-war level, and showed few signs of slackening. Making allowance for the differences in prices, the quantity of goods being sold (aside from automobiles) appeared to be from 20 to 25 per cent above pre-war volume.

CONTROL OF PRICES, INCOMES AND SUPPLIES

As the year passed, numerous and marked shortages became apparent. The mounting war output of the united nations, greatly accelerated by the entry of the United States into the war, created scarcities of one strategic material after another. The widening of the area of conflict, the submarine menace on our coasts, and the loss of sources of supply in the far east shut off or reduced many imports on which we were accustomed to depend. The widening scope, the increasing speed of our own war programme, both in the armed services and in production, made heavy demands on our man-power until no one any longer denies the scarcity of labour. To these have been added shortage of power, congested transportation facilities, and widely ramifying limitations of productive capacity. It has been clear these many months that our economy is in the zone of full employment, a condition in which it is still possible to expand our programmes for production and the armed services but only if we are prepared to make careful and wise choices as to what is urgent, what is more urgent, and what we can do without.

This is not an unexpected nor wholly unwelcome situation. It was clearly forecast in the budget speech, which I delivered in September, 1939. For the most part, it is reassuring evidence that we, as well as other nations associated with us, have so set the scale of our war programme that it will engage our full strength and more than we knew we had.

A clear sign of developing scarcities was provided in the rapid rise in prices in the summer of 1941. By October, 1941, the index of wholesale prices had risen by approximately 22 points since the beginning of the war. Of that, 10 points of rise occurred in the four months of 1939 when our exchange rate changed and shipping rates increased. Of the remaining 12 points of rise, 8 occurred between March and October of 1941. In living costs, half the full rise of the war period occurred between March and October of 1941.

These accelerating changes in production, employment, supplies and prices produced by October of last year a situation which was substantially different in degree from that which could be discerned on April 29, 1941, when the budget of that year was presented to the house. It was clear to the government that new fiscal measures, which could be adopted when parliament met, would be too late in effect and not sufficiently specific in application to meet the situation. It was, therefore, decided that direct controls should be established promptly over prices, wages and salaries, and that controls over production and supplies should be extended and made more rigorous.

The government's policy of over-all control on prices, wages, and salaries has already been discussed at length in the house. I would point out here four things: (1) the policy has in fact worked and has won support at home and admiration and emulation abroad; (2) though increases in some wage rates have been severely restricted, the earnings of labour have not been "frozen". On the contrary, depressed wage rates have been, and are being, adjusted by the war labour boards, while the Dominion Bureau of Statistics reports that for its sample of over a million and a half employees, weekly earnings per employee which reflect more continuous employment and overtime, increased nearly 8 per cent since October last. This increase in the average took place, despite the introduction of many women and other inexperienced production workers into industry; (3) the government by guaranteed prices, minimum prices, and export prices, which could not have been so high except for the terms of the War Appropriation (United Kingdom Financing) Act, and the intervention of the government, has contributed to a desired improvement in farm income while endeavouring to direct farm efforts to the most needed products. In the calendar year 1941, with relatively poor crops in many localities cash income from the sale of farm products was only 17 per cent below the income of 1928, the year of the biggest crops in our history. Good crops in 1942-43, with assured prices, will bring cash farm income close to the best records of Canadian agriculture. Excluding wheat, which has been in surplus supply since the beginning of the war and has required special measures, the prices of farm products on the average are now about 2 per cent above the level of 1926 and prices of animal products on the average are relatively still higher. Farmers are assured of these prices on a wide range of this season's crops, and will receive, by government action, higher prices than those on last year's crops for wheat, flax, soy beans, sugar beets and apples; (4) price and income control are essential weapons in combating inflation. They must be used, however, in close coordination with direct control of supplies and productive equipment, with direction and management of man-power, with consumer rationing, where necessary, and with fiscal policy. No one of these instruments is itself powerful and pervasive enough to do the whole job of directing our resources to the end desired.

Measures for the direct control of supplies multiplied during the year. The Minister of Munitions and Supply and the Wartime Prices and Trade Board have ordered the discontinuance or curtailment of manufacture of a large and growing number of non-essential products using metals and other scarce materials. Building construction and the installation of equipment, other than for war production, were more severely curtailed. The Wartime Prices and Trade Board is rapidly extending its orders on simplified practice to effect reductions in costs and provide the most ample supplies of essential products that the fundamental limitations will permit. Though dealers' stocks are large, it simply will not be possible during the present fiscal year for consumers to obtain the quantities of goods which they have been purchasing during the past year. Restrictions on civilian industry to save materials and man-power will unavoidably multiply. We need not anticipate severe hardship; the government will do all it can to ensure equitable distribution of essentials. There must be, however, rigorous economy in consumption if the necessary materials, productive capacity, and labour are to be available for the winning of the war.

PROVINCIAL TAX AGREEMENTS

Since the Dominion-Provincial Taxation Agreement Act has been debated and passed by parliament and the agreements tabled, I need do no more than remind the house of the tax agreements with the provinces. In my budget speech of April 29, 1941, the provincial governments were offered compensation in respect of personal and corporation income taxes and the guarantee of gasoline tax revenues, if they would vacate the personal and corporation income tax fields for the duration of the war. This offer was accepted by the provinces, and I should like to pay tribute to the patriotic and constructive spirit in which the provincial governments cooperated in bringing the long and involved negotiations to a successful conclusion. The effect is that I am now free to recommend such tax changes as appear to the government necessary and equitable, and parliament is free to enact such changes, knowing that persons and corporations affected will be paying the same tax on similar incomes in no matter what province they are located. These are war-time agreements, and their duration is limited, but they make a great contribution to the possibility of an effective and equitable tax policy during the war.

STERLING AND DOLLAR EXCHANGE PROBLEMS

Concerning our exchange problems as they affect the finances of the past fiscal year, I need speak only briefly. In the last three budget speeches, they were dealt with at length because they then were to a degree separate problems requiring measures peculiar to them. They have now, by reason of events and measures taken, become merged with the general budget problem.

In introducing the resolutions on the War Appropriation (United Kingdom Financing) Act, on March 18 last, I explained fully the ways in which the government financed the United Kingdom's deficiency in Canadian dollars since the beginning of the war. During the fiscal year, 1941-42, the entire deficiency amounted to approximately $1,100 million and was financed by Canada. Of this total, slightly less than $48 million was financed by private repatriation of securities, gifts and other private transactions. Of the remaining $1,050 million, which required government financing, $365 million was financed by repatriation of government and government guaranteed dollar securities (including $223 million of the repatriation of $295 million provided for under the Act). The remaining sum, $685 million, represents sterling accumulated to our credit during the year. Such part of this as is not required for working balances, together with accumulations of $215 million prior to March 31, 1941, is being taken care of by the remainder of the $295 million repatriation, by the $700 million loan and to the extent of $76 million by a charge to the $1,000 million gift provided in the War Appropriation (United Kingdom Financing) Act.

This act, in addition to the real advantages and essential rightness of its principles which were recognized by the house, has the minor advantage of removing from our financial picture an element in our national finances, which was very confusing to the layman. For the fiscal year, 1942-43, the financing of the United Kingdom's deficiency in Canadian dollars will appear as an integral part of Canadian war expenditures.

I turn now to the problem of United States exchange which has occupied a good deal of attention since the beginning of the war and has required special legislation and administrative action from time to time. Our imports of war materials from the United States have increased from month to month; recorded imports from the United States for both war and non-war purposes during the past fiscal year amounted to over $1,100 million, the highest figure for any twelve-month period on record. Faced as we were with this growing need for United States dollars, our resources would not have been sufficient to meet the calls on them, had it not been for the Hyde park agreement, especially the sales of munitions of war to the government of the United States under it, and for the legislative and administrative steps taken to conserve United States exchange to which I have referred.

As I informed the house in introducing the United Kingdom War Appropriation Bill on March 18 this year, liquid reserves of gold and United States dollars held by the Foreign Exchange Control Board and the dominion government declined by $142 million during 1941. In the first quarter of 1942, there was a marked, though in part a temporary, improvement. As a result, the decline in our liquid reserves for the fiscal year 1941-42 was only about $50 million. This welcome change was due to two factors: purchases of Canadian securities by investors in the United States, a method of obtaining exchange which cannot be depended on for really substantial amounts in view of the limited supply of securities available in Canada payable in United States dollars; and payments for sales of munitions under the Hyde Park agreement including some substantial advance payments. While we have reason to believe that these sales will increase, as new contracts are arranged and as larger deliveries are made under existing contracts, the advance payments are, of course non-recurring.

The outlook for the fiscal year, 1942-43, is distinctly more cheerful than the results of the calendar year 1941. We cannot expect, however, the full improvement which took place from January to March to continue. Other unfavourable factors have entered the picture, particularly the adverse effect on the tourist trade of the necessary restrictions on the use of gasoline and rubber and the recent decline in newsprint exports. Nevertheless, I look forward with reasonable assurance to transactions under the Hyde Park agreement being sufficient to safeguard our exchange position during the present fiscal year. The various measures which we have taken since June, 1940, have been sufficient to restrict what I may call our "civilian imports" from non-sterling countries to limits well within our ability to pay. The uncontrollable item is imports for war purposes which for the calendar year 1942 it is estimated will total approximately $500 million, of which about

45 per cent is to supply the United Kingdom and other Empire countries and 55 per cent for our own needs. It is our estimate that were it not for the Hyde Park transactions almost the whole of this amount would be a net drain on our resources in United States dollars, or would be as long as we had any such resources left.

As matters stand, we are hopeful that the Hyde Park agreement will ensure our ability to purchase essential materials and war supplies in the United States to the full extent that that country is able to supply them. In effect, the agreement may be thought of as eliminating the dollar sign in our war-time transactions with the United States by providing a convenient technique for an exchange of raw materials and other components of war goods for the finished war supplies we are equipped to produce. By the collaboration of our good neighbour and ally, we hope to be able to meet our exchange requirements, which arise out of our need for war materials, in the way most effective for a nation at war, namely, by the provision of munitions of war for whichever of the united nations and whichever of the world's battle fronts require them most urgently.

This is a most desirable situation, but let it not be misunderstood. We are able to do this only as long as we continue to exercise care and prudence in our non-war transactions. The restrictions on pleasure travel have now been in force for nearly two years and it can be stated with assurance that these restrictions have saved us well over 100 million United States dollars since they were imposed. The amounts saved by the War Exchange Conservation Act are also very substantial. During the past fiscal year, it is likely that the savings under both these heads have amounted to in the neighbourhood of $130 million, about equally divided between the two items. In the light of these figures, it is fully apparent that these measures have played an essential part in the past and that we are not at present in a position to relax them.

GOVERNMENT ACCOUNTS AND FINANCING 1941-42

Against this background, I wish now, Mr. Speaker, to review the government accounts for the past fiscal year and report on the financing which has been carried out. Following the useful custom which has now been established, I shall only summarize the estimates of our revenues and expenditures, and, before I resume my seat, I shall table a White Paper which will include full information concerning these estimates. The house will recall that, though these estimates are close approximations to the final figures, the Public Accounts will not be available until towards the end of this calendar year.

REVENUES

Revenues are again very greatly increased, Our present estimate is that they will total $1,481 million, an increase over the previous year of $609 million, or approximately 70 per cent. This is some $34 million higher than I forecast in presenting the budget last year, and is nearly three times the Dominion's prewar revenue.

Total tax revenues are now estimated at $1,360,915,000 as compared with $778 million in the preceding fiscal year. In contrast with previous years, direct taxes on incomes and profits made the largest contribution to this total. The graduated tax on personal incomes, the 18 per cent corporation tax and the special tax on dividends and interest produced $404 million, more than 80 per cent in excess of last year's yield. The national defence tax produced $107 million and the excess profits tax, for what was really its first full year of operation, as it is collected on the profits of the previous year, yielded $135 million.

Succession duties, first introduced in last year's budget, produced $7 million, a figure which gives little indication of the future revenue to be derived from this source.

Excise taxes, though no longer the largest source of revenue showed a greater increase than that for the preceding year, rising from $284 million to $453 million. The largest item in this group, the sales tax, at $236 million was $56 million or 31 per cent higher than the previous year. The other excise taxes including the new taxes imposed last year fully reached or exceeded the estimates of the last budget.

Excise duties yielded $110 million as compared with $89 million in the preceding year. Customs duties, as was expected, showed the smallest increase recorded during the year, from $131 million to $142 million.

Non-tax revenue, to which the largest contributor is the Post Office, is estimated to be $103 million. Special receipts and credits will be approximately $18 million.

EXPENDITURES

Turning to our expenditures, we now estimate that ordinary expenditures for 1941-42 were slightly under $444 million, about $53 million more than last year. Of this increase, $15 million is attributable to increased interest on the public debt, $10 million to increased cost of loan flotations and bond amortization, $21 million to compensation to the provinces under the tax agreements and $10 million to the Unemployment Insurance Act. Other items of ordinary expenditure are slightly reduced. Capital expenditures at $3,357,000 were about the same as the previous year. The category of so-called special expenditures, which includes the costs of unemployment and agricultural relief, Prairie Farm Assistance Act, wheat acreage reduction payments, and prairie farm income payments will, it is estimated, show expenditures of $62,879,000. Expenditures for relief and works projects have fallen to small figures, but payments under the Prairie Farm Assistance Act, the wheat acreage reduction and the prairie farm income payments have offset this decrease and occasioned an increase of $20 million in the total. To meet deficits resulting from the operations of the Canadian Wheat Board, which had not been previously provided for, $12,571,000 has been placed in reserve.

In 1940-41, government-owned enterprises required $18 million. In 1941-42, because of the immense increase in railway earnings, this was reduced to $1,215,000, only the Prince Edward Island car ferry and terminals and the National Harbours Board requiring such expenditures.

In the last budget, I estimated that war expenditures for 1941-42 would be between $1,300,000,000 and $1,450,000,000. It is now estimated that they will be $1,351,553,000, excluding outlays of $42,480,000 charged to active assets. This compares with $752 million spent in the preceding year.

OVER-ALL DEFICIT

Adding to the amounts, which I have given, miscellaneous other charges representing chiefly write-down of assets, we get an aggregate expenditure for the year 1941-42 of $1,894,966,-000, an amount more than 50 per cent higher than the expenditures of 1940-41, viz., $1,250 million. Deduction of total revenues of $1,481,285,000 gives $413,681,000 as the over-all deficit or increase in the direct net debt, which on March 31, 1942, was approximately $4,062,372,000. I estimated last year that we would pay between 73 and 79 per cent of our direct expenditures out of revenue. It now appears that we will have paid 78 per cent.

On March 31, 1942, the outstanding unmatured funded debt (including treasury bills) was $5,866,071,000 on which the average rate of interest was 2·90 per cent as compared with 3·06 per cent a year previously. In addition, there were outstanding bonds and debentures bearing the guarantee of the Dominion to the amount of $818,842,000, a decrease of $165 million during the fiscal year.

BORROWINGS

Total borrowings during the year, excluding debentures of over $33 million reissued to the western provinces in continuation of the school lands settlement, amounted to approximately $2,424 million. Of this total, $1,834 million was borrowed from the public in the two victory loans; $85,294,000 represents the sale of war savings certificates and stamps; $4,553,000 non-interest bearing certificates; $10,000,000 was borrowed in New York for refunding; $450 million was borrowed from the Bank of Canada and the chartered banks, replacing issues of identical amounts held by them and which matured during the year; the remainder, $40,000,000, is the increase in treasury bills outstanding during the year. Thus, aside from the increase in treasury bills, there was no new direct borrowing from the Bank of Canada or the chartered banks during the year.

DEBT

Dominion of Canada direct obligations in the amount of $931,042,000 (excluding school lands debentures) were redeemed during 1941-42, leaving net borrowings for the year of $1,493,000,000. This sum was used to meet the over-all deficit of $413,681,000, to advance $400 million to the Foreign Exchange Control Board, for use in financing the sterling area's Canadian-dollar deficit, to advance $252 million to the Canadian National Railways (nearly all of which was used to effect a redemption of railway securities), and the remainder ($427 million) to make various other advances and raise the working balances of the government.

To obtain from the people of this country loans to the amount of $1,673 million (allowing for the redemption of securities in New York and London), to obtain from the people and corporations of this country such an amount after they had contributed nearly $1,500 million in revenue is a great financial achievement. It reflects the willingness of Canadians to do what is necessary in finance as in other fields to resolve this conflict in complete victory. It is an achievement which reflects the greatest credit on the National War Finance Committee and on the campaigns which it has so successfully carried out for the sale of war savings certificates and stamps and victory bonds. To them, to the press, radio, and other agencies, which have made special contributions to this success, and to the thousands of workers who cooperated in the campaigns, the government and the people of this country are grateful.

Our whole financial record for 1941-42 is an achievement but I wish to add a word of warning. When we say that 78 per cent of our expenditures was paid out of revenues we are perfectly correct by the principles of bookkeeping, but the figure is open to misconstruction. In addition to our expenditures, we must take account of the financing of the United Kingdom. It was necessary during the year for the government to find approximately $1,050 million for this purpose. In exchange for the Canadian dollars transferred to the United Kingdom, we acquired assets, certain Canadian government obligations held in London and sterling balances which have now been converted into the $700,000,000 loan. Since we acquired assets, the accountants are quite correct in classifying these outlays as investments. But just as an individual faces the same immediate financial problem in finding $100 whether it is to be used to pay for the winter's coal, buy a government bond or make a gift to his son, so the immediate financial and economic problem of our financing of United Kingdom purchases has been the same as that of our own war expenditures. We must realize that though it is correct to say that in 1941-42 we paid 78 per cent of our expenditures out of revenue, the significant thing to say is that we paid just over 50 per cent of our expenditures and war advances out of revenue.

Further, we must not be misled by our achievements in borrowing from the public and the corporations. The conditions, under which a government may most easily borrow from its people and have its loans always oversubscribed, are the conditions in which there is a considerable inflation of incomes and of bank balances. The government is committed to a policy of "pay as you go as far as it may be practicable"; it has set its face against distributing the cost of war through the medium of inflation. We must bear in mind that if it is easy for some of the people of this country to lend, easy for the government to borrow, there is a presumption, unless most of the opportunities for expenditure have been blocked, that we are falling short of our declared policy. I shall have occasion to say something further on this subject a little later.

II

BUDGET FORECAST 1942-43 AND PROPOSALS

So much for the past. I have given a brief, and, I hope, lucid account of the financial policies of the past year and the results of the budget of 1941-42. I realize, however, that the house has a greater interest in the estimates of our expenditures for the new fiscal year and in the measures and policies we propose to meet these expenditures.

ESTIMATE OF EXPENDITURES

For the fiscal ending March 31, 1943, the house has before it estimates of non-war expenditure amounting to $455 million. To this will have to be added supplementary and possibly further supplementary estimates, including about $20 million to provide for payments under the Wheat Acreage Reduction Act, and perhaps amounting altogether to, say, $30 million.

The Dominion-Provincial Taxation Agreement Act provides for payments to the provinces of $84,428,000. This does not include any payments which it may be necessary to make as a result of the guarantee of provincial gasoline tax revenue. However, any amount which will fall due on this guarantee in the present fiscal year is likely to be small.

It will be recalled that the War Appropriation Act makes provision for war expenditures of $2,000 million. In the early years of the war actual expenditures were likely to fall short of estimates. At this stage, they are more likely to reach or exceed the estimates and I may have to ask the house for an additional appropriation at a later date. Indeed, as I pointed out to the house in March, though the total appropriation requested was $2,000 million, the individual items in the estimates, submitted by the departments at that time, totalled $2,200 million.

The War Appropriation (United Kingdom Financing) Act provides for expenditures of $1,000 million to furnish food, raw materials, and munitions of war to the United Kingdom. Of this amount, the sum of $76 million was used to purchase sterling accumulated during the month of March and this sum logically, and as intended, should have been charged to expenditures for the year 1941-42. It was, however, impossible to determine the amount and effect the necessary accounting entries before April 30, the last date on which charges could be taken into the accounts for the last fiscal year. While the gift to the United Kingdom is limited to $1,000 million, it already appears likely that ways and means will have to be found to finance further shipments before March 31, 1943.

Adding these estimates together, we arrive at a total of $3,570 million. In view of the considerations I have mentioned, the figure is likely to be exceeded. I feel, therefore, that it would not be safe nor fair to the house and the people of Canada to make financial plans for less than expenditures of $3,900 million.

ESTIMATE OF REVENUE

To meet these requirements, it is estimated that with present taxes and tax rates, our total ordinary revenues for the fiscal year 1942-43 will be approximately $1,672 million. The following statement shows how the estimate is made up and, for comparative purposes, the estimated yields for 1941-42:

	1942-43 (millions)	1941-42 (millions)
Customs duties	$ 135	$ 142
Excise duties	123	110
Sales tax	218	236
War exchange tax	95	101
Other excise taxes	85	116
Income taxes—		
Personal	240	190
Corporate	200	186
Interest and dividends	28	28
National defence tax	150	107
Excess profits tax	275	135
Succession duties	15	7
Miscellaneous	3	3
	$1,567	$1,361
Non-tax revenue	105	103
Total ordinary revenue	$1,672	$1,463

It will be noted that we anticipate substantial increases in revenues from national defence tax and personal income tax and a very large increase in the yield of the excess profits tax. These will result from increases in incomes and the application of the rates of the 1941 budget to incomes for a full year. We also look for a sizable increase from excise duties. We anticipate that the yields of the sales tax, the war exchange tax, and other commodity taxes will decline by about $55 million since a large number of goods subject to tax will not be available in the quantities purchased last year and inventories being used up will have already been taxed. Obviously, the amount of such decreases is very hard to estimate with accuracy. The figures which I have given are the most careful guesses which we have been able to achieve.

THE FINANCIAL TASK

Expenditures of $3,900 million and revenues of $1,672 million will leave an apparent deficit of $2,228 million to be covered by new taxes and borrowing. On the basis of these estimates, we should be paying less than 43 per cent of our expenditures out of revenue. To make a comparison with last year, we can exclude the United Kingdom financing and reach a deficit of $1,228 million as compared with $414 million as estimated for the past fiscal year.

Last year, I referred to the financial requirements of 1941-42, which were difficult to define clearly, as "staggering." Confronted now with much larger requirements, set out as the simplest of sums in arithmetic, I must perforce drop all adjectives and try to state, as clearly as one who isn't a prophet may state, what they mean in terms of the future.

During the last fiscal year, we appeared to achieve the impossible. Rough estimates indicate that we increased the dollar value of our national output of goods and services by nearly 25 per cent, (bringing the increase during the war to about 80 per cent), but we increased our expenditures on war (including expenditures for United Kingdom purchases) by a greater absolute amount. One might have expected that this would necessitate reduced expenditures for private consumption. On the contrary, estimates indicate that expenditures for private consumption were substantially increased. Our own observation confirms this.

The explanation of this seeming paradox is twofold. On the side of goods and services, some of the goods, which were purchased last year, did not come out of our own current output. Apparently, we reduced our inventories somewhat during the fiscal year, and ended the year with lower stocks on hand than we had at the beginning, having used more than we produced in the interval. We did not maintain our capital equipment by expending on repairs and replacements the full depreciation charged as an expense. Shortage of materials, in many cases, made such maintenance impossible. We did not pay for all our imports from the United States out of current production. Decline in our reserves of United States funds and imports of capital provided in the neighbourhood of $200 million of imports paid for out of capital not out of income.

On the side of money, not all the funds which the government acquired by taxation and borrowing came out of income, even out of gross income. A substantial amount, in fact, came in this the first year in which really big bond-selling campaigns were carried on, from idle bank balances or directly or indirectly from private bank loans. We obtained from an increase in our treasury bill issues $40 million.

As I read the experience of the past fiscal year, we were not able to draw enough goods from sources other than our current output to match the idle balances and bank credit which were drawn into the treasury and paid out again in incomes. Of the $1,673 million which we borrowed from the people of this country, by no means all could have come out of current saving. This, and similar situations in countries with which we trade, together with the insatiable demands of war for goods and services, occasioned the rapid rise of prices last summer, and, but for the prompt action of the government in imposing drastic restrictions on prices and incomes, would have led to a further and disastrous inflation.

In the present year, we must and can again increase our total output but by no such amount as was added to it last year. Shortages of materials are daily growing more stringent. Scarcities of power, transport facilities and labour have placed narrow limits on the production of almost everything. The need for war production, and it is only too apparent how urgent that need is this year, will absorb all our capacity to expand output and more.

Looking at the problem from the side of goods and services, we shall not be able to obtain substantial imports from the United States without paying for them out of current output, for we expect to meet, or nearly meet, our exchange problem by deliveries of goods under the Hyde Park agreement. We can probably again draw on inventories of civilian goods but by how much I do not know, for information as to inventories is very deficient. Deferred maintenance and replacement must again contribute a substantial sum. Making allowances for these sources outside of current output, the conclusion is inescapable that industry will not be able to supply goods for civilian consumption and private investment on the scale of last year.

Looking at money income, the conclusion is the same. Increased government expenditures of the amounts which I have given will, with present rates of taxation, leave in the hands of persons and corporations spendable income far in excess of what can be matched at current prices by goods and services. In our borrowing, it would be dangerous folly to depend on the investment of idle balances. Even if we needed to borrow from the public no more than we borrowed last year, there must be a very substantial increase in current saving.

It is a most difficult task to deal with sums of the magnitude involved here. It is an even more difficult and sobering experience to reach decisions affecting such large fractions of the incomes of our people. I have given the most careful and earnest consideration to the problem confronting us, and have inevitably come to the clear decision that my proposals in this budget must include measures to increase our revenues within the fiscal year substantially, at least to the point where our dependence on borrowing will be more nearly within the limits of our current saving; they must provide for increased saving, both corporate and personal; they must include also measures to ensure that the task of contributing to the required increase in current saving is more widely and equitably distributed.

These fiscal measures are necessary if we are to follow honestly our declared policy to pay as we go in so far as it is practicable. They are necessary if our war debt is not to create post-war difficulties. It is not the size of the debt that is a matter of chief concern for after all it is an obligation of the people of Canada through their government to the people of Canada. Rather, we are concerned about the distribution of it. It is a matter of the first importance that those who have the right to receive payments on government obligations shall be those who will use the repayments to provide needed improvements in their standard of living, maintain themselves against insecurity, and contribute to the improvement of our productive equipment.

These fiscal measures are necessary also to success in our four-front battle against inflation. The price ceiling, control and rationing of supplies, the direction of man-power, and fiscal policy are complementary, not alternative measures. The offensive must be maintained on all four fronts. No one front can be held unless the others are held. The price ceiling, a sound policy which is being administered with great courage and imagination, cannot itself defeat inflation. If I may venture another military metaphor, it can prevent the enemy from winning by infiltration.

PERSONAL INCOME TAXES

From what has been said it is evident that fiscal necessity forces us to look again to the income tax on individuals, or some similar device, for a large amount of additional funds. In devising measures to meet this need I have had to keep in mind three other important considerations—the need for equity, for incentive, and for savings.

As regards equity, I am sure we all agree that the income tax on individuals is the fairest method of taxation. By and large, a person's income is the best single measure of his taxable capacity, particularly when we take into account the number of persons dependent on him. It is by no means a perfect measure, however, and as we increase the rates to higher levels we must attempt to take into account other factors affecting ability to pay. Therefore I have several suggestions to put forward in a few minutes, intended to take into account additional special circumstances affecting ability to pay.

The problem in regard to incentive is less easy to assess but more fundamental and therefore more difficult to overcome. A progressive income tax must of necessity take more out of an additional dollar of earnings than it does out of the average dollar of earnings. Consequently it must bear heavily on additional income earned through extra effort or efficiency. There is a danger that high progressive rates of income tax may interfere with the incentive for harder and better work for efficient production. We can and must rely upon other than economic motives to a large extent these days. Nevertheless we cannot afford to dispense entirely with the incentive of improved earnings as a stimulus in the continual week-in, week-out production work of the nation at a time when production is of vital importance. I have endeavoured therefore, to frame these income tax measures so as to preserve as much as possible of the earnings incentive for the great majority of the working population.

The third consideration is the need to ensure that the increase in taxes is reflected in a decrease in expenditures and not in reduced saving. There would be little net gain if the putting into effect of higher income tax rates resulted in a corresponding decline in saving. It is vitally necessary that, while tax revenues increase, the flow of savings into the treasury shall also increase greatly.

Equity, incentive, and the encouragement of saving—these are the considerations which I have kept in mind, but fiscal necessity and the rude facts of war press us hard.

In order to obtain the increased yield from income tax which is required, I am proposing that we combine the present national defence tax and the graduated income tax into a single assessment to be collected as far as possible by deduction at the source, or, where that is impracticable, by a compulsory instalment plan. This total assessment will consist in part of a flat rate tax on the total income like the present national defence tax. and in part of a steeply graduated tax at substantially higher rates than the present. It will be assessed in respect of incomes of the calendar year 1942, but will be collected and payable over the twelve months from September 1 of this year to August 31 of next year. Returns are to be filed, as at present, on or before March 31. National defence tax already deducted from 1942 incomes will be credited toward the total payable under the new tax; this will afford considerable alleviation of the immediate burden for those in the lower brackets.

As at present, single persons with incomes of less than $660 per year and married persons with less than $1,200 a year will be exempt from tax, and the tax will not reduce incomes below these starting points. The flat rate tax corresponding to the present national defence tax, will be at the rate of 7 per cent for married persons, and at the same rate for single persons with incomes not exceeding $1,800; it will be 8 per cent on single persons with incomes exceeding $1,800 but not exceeding $3,000, and 9 per cent on single persons with incomes exceeding $3,000. The allowance of $20 for a child under the national defence tax has been increased to $28 for this flat rate tax—that is, in direct proportion to the increase in the rate. It will be noted that the differentiation between the single and married in the rate of tax comes more gradually and at a higher income than in the present national defence tax; the effect of this on the relative tax payable will be more than counterbalanced in the brackets between $1,200 per year and $3,000 by the changes in the graduated tax and by other means to be noted in a moment.

The changes in the graduated tax are more complicated. In place of the present exemptions of $750 for single persons, $1,500 for married persons and $400 for each child, we are shifting over to a single basic exemption of $660—which is also the present starting point for national defence tax—and a flat allowance off the tax for married persons and for children. Married persons will deduct $150 from the graduated tax, and the allowance for children (or other dependents) will be $80 each. These figures were reached by taking the present exemptions of $750 for a wife and $400 for a child and evaluating them in terms of a tax saving at the rate of 20 per cent, which is not the lowest rate of the present graduated tax, but the rate in the second thousand of taxable income. In effect, therefore, we are "freezing" the value of these present exemptions at about the amount they have been worth to a taxpayer having an income of around $2,500 or $3,000. This, I believe to be a better way of increasing the tax on persons with families than reducing the current exemptions, particularly under present circumstances when other changes are being made which will have the effect of widening the difference between the levies on the single, the married, and those with children.

The proposed rates of the graduated tax are set forth in detail in the resolution. They are substantially higher than the present rates. The first thousand dollars of net taxable income (i.e., after the exemptions are deducted) is now taxed at the rate of 15 per cent. Under the new schedule the first $500 is to be subject to a rate of 30 per cent, the next $500 to 33 per cent, and the following $1,000 to a rate of 37 per cent—compared with the 20 per cent rate on the second thousand in the present schedule. I shall give a number of examples in a moment to illustrate the effects of these increases.

These new rates, together with the changes in exemptions and allowances, will increase very substantially the amounts to be obtained from taxpayers, although they will not impose taxes on any who would not be liable for taxes under present rates and exemptions. For example, these new rates would require from a married man without children and having an income of $3,000 a year a total of $884, in place of the amount of $400 under the present law. While the total yield these rates will produce is still something short of the amounts we should like to obtain and therefore they cannot be considered more than enough from the point of view of our war requirements, they place such a severe burden upon many taxpayers that I believe we must now be prepared to make certain new types of adjustments in order to meet the considerations which I mentioned a few moments ago—considerations of equity, incentive and savings.

One type of special provision which I am suggesting, although not the most important, is to permit an exemption from taxable income in respect of unusually large medical or hospital expenses which a taxpayer has had to meet during the year out of the income on which he is being taxed. This will take the form of permitting as a deduction from income, for the purpose of calculating tax, amounts spent by the taxpayer during the tax year on medical, dental, hospital and nursing services to the extent that these exceed 5 per cent of the taxpayer's income. A limit is to be set on the amounts that may be claimed in this way, of $400 for one taxpayer, plus $200 for his wife and $100 for each child, up to a maximum of $1,000. I should point out that while a family of five, for example, is more likely to have a large excess of these expenses in any year than a single person, it is not likely to have five times the amount for it is not to be expected that all five will be subject to serious illness or accident in the same year. I may say by way of explanation of the 5 per cent that studies of family expenditure indicate that the average expenditure on medical services, et cetera, are in the neighbourhood of 4 or 5 per cent of income, and we desire only to provide exemption for those who have more than average expenditures of this kind. Those claiming this exemption will be required to submit evidence that these payments have, in fact, been made in respect of services received by the taxpayer or his dependents within a specified period.

REFUNDABLE TAX

The second and most important type of alleviation I wish to recommend in order to render equitable the increased rates which I have outlined involves a substantial innovation in our tax machinery. I am proposing to make a portion of the increased tax refundable within a specified period after the war, with accrued interest at 2 per cent. This portion of the assessment on his income will therefore constitute a form of savings for the taxpayer, rather than simply a tax. This saving will be a part of the taxpayer's wartime earnings, kept for him until after the war, when it can be spent to better advantage. By means of this principle we are able to meet our immediate fiscal needs to a substantial degree without endangering the incentive afforded by the possibility of higher earnings for more and better work. In the case of those with incomes in the lowest brackets subject to tax, the refundable portion will be greater than the increase in the total taken, so that the net tax on these lower paid groups will be somewhat lighter than at present, although they will be required to provide a fair share of the increased total assessment.

This refundable portion of the tax we may term a "minimum savings requirement". It will ensure that the taxpayer not only pays his taxes but saves a certain minimum amount, dependent on his income, his tax, and his family responsibilities. In general, it will be collected in the same way and at the same time as the income tax. Allowance is to be made, however, in this refundable portion of the tax for certain types of savings already being made by the taxpayer under contract, which the taxpayer cannot cease making without substantial loss or danger. Payments made by the taxpayer within the tax years as net premiums on life insurance contracts in force to-day, or as principal payments on a mortgage on one residence, or as payments into a pension fund, retirement fund or superannuation fund, will be accepted as an alternative to the liability to turn over funds directly to the treasury as part of the minimum savings requirement. These alternative types of savings cannot readily be drawn upon during the war, and of course to the extent they are drawn upon in any year, they cannot be included. The use of funds for these purposes by the taxpayer does not compete with war requirements for goods or services, nor add to the problems of price control and rationing, as does the use of funds for expenditure. By permitting these savings under existing contracts to be counted a part of the minimum savings requirements, we are able to ensure that everyone saves the minimum amount without creating hardship for those who have contracted to save substantial amounts by means of life insurance, mortgage payments or pension funds.

Let me emphasize clearly that this minimum of savings to be required of all does not release any of us from the obligation to save as much as is humanly possible in addition to this, and to invest it in war savings certificates or victory loans. We are not substituting compulsory for voluntary savings. On the contrary, we must secure a very large increase in voluntary savings from individuals this year, in addition to the minimum savings now to be required by law. The figures I shall give in a few minutes of the amount we shall have to borrow in addition to the revenue to be obtained from existing and increased taxes will make it quite evident that savings must greatly increase.

There is no doubt that Canadians as a whole have the financial means to make such savings. Under the pressure of vast war expenditures their aggregate income is reaching levels which would have seemed impossible a few years ago or even in the palmy days of 1929. Under the measures being proposed we are going as far as we feel we can to ensure a reasonable minimum degree of equity in respect of war saving. But the great majority of Canadians can save more than this basic minimum, and some can save very much more. I have in mind, for instance, family groups whose total income has increased very substantially because of the war. Under a fiscal system which is based on the individual rather than the family as a unit, the full mobilization of possible savings by such groups can only take place on the voluntary principle.

It is therefore clear that the National War Finance Committee, which directs our savings campaigns, has an even bigger and more difficult job to do than it has had in the past. The magnitude and the character of its task is such that the committee does not believe it can succeed unless it becomes to an even greater extent than it is now a people's organization. Success will depend upon the extent to which it can draw upon every group in the community for men and women who will help in planning its activities as well as in carrying them out, and organization is now proceeding with this end in view.

The taxes and minimum savings required from persons with various incomes are illustrated in a table which I would like to place on *Hansard* at this point, with the consent of the house.

The table gives the figures for single persons, married persons without children and married persons with two children, for selected incomes from the exemption limits up to high figures. The amount of tax payable at current rates, including national defence tax, is shown for the purpose of comparison:

TABLE ILLUSTRATING EFFECT OF PROPOSED INCOME TAX RATES WITH REFUNDABLE FEATURE

(Amounts shown in even dollars for purposes of illustration)

Annual Income	Tax at Present Rates	Proposed Increase in Tax Alone	Tax at Proposed New Rates	Refundable Portion, or Minimum Savings Requirement	Total, i.e., New Tax plus Refundable Portion or Minimum Savings Requirement
Single Persons, Without Dependents					
700	35	−15	20	20	40
850	57	1	58	58	116
1,000	87	5	92	80	172
1,250	162	5	167	100	267
1,500	217	30	247	120	367
1,750	273	58	331	140	471
2,000	340	101	441	160	601
2,500	475	151	626	200	826
3,000	622	202	824	240	1,064
4,000	955	319	1,274	320	1,594
5,000	1,332	396	1,728	400	2,128
7,500	2,400	570	2,970	600	3,570
10,000	3,600	712	4,312	800	5,112
20,000	9,105	1,924	11,029	800	11,829
30,000	15,082	3,314	18,396	800	19,196
50,000	28,392	6,511	34,903	800	35,703
100,000	64,347	15,990	80,337	800	81,137
500,000	411,720	60,584	472,304	800	473,104
Married Persons, Without Children					
1,250	50	−25	25	25	50
1,300	65	−15	50	50	100
1,500	75	34	109	108	217
1,750	125	36	161	160	321
2,000	175	56	231	200	431
2,250	225	91	316	225	541
2,500	275	126	401	250	651
3,000	400	184	584	300	884
,000	675	289	964	400	1,364
5,000	1,000	378	1,378	500	1,878
7,500	1,965	555	2,520	750	3,270
10,000	3,080	682	3,762	1,000	4,762
20,000	8,330	1,949	10,279	1,000	11,279
30,000	14,085	3,361	17,446	1,000	18,446
50,000	26,965	6,588	33,553	1,000	34,553
100,000	61,875	16,112	77,987	1,000	78,987
500,000	401,120	60,834	461,954	1,000	462,954

[Mr. Ilsley.]

TABLE ILLUSTRATING EFFECT OF PROPOSED INCOME TAX RATES WITH REFUNDABLE FEATURE—*Concluded*

(Amounts shown in even dollars for purposes of illustration)

Annual Income	Tax at Present Rates	Proposed Increase in Tax Alone	Tax at Proposed New Rates	Refundable Portion, or Minimum Savings Requirement	Total, i.e., New Tax plus Refundable Portion or Minimum Savings Requirement
MARRIED PERSONS, WITH 2 CHILDREN					
1,250	22	−6	16	16	32
1,300	25	−7	18	17	35
1,400	30	−9	21	21	42
1,500	35	−10	25	24	49
1,750	48	5	53	52	105
2,000	60	47	107	108	215
2,250	73	90	163	162	325
2,500	115	102	217	218	435
3,000	215	119	334	334	668
4,000	450	218	668	480	1,148
5,000	735	327	1,062	600	1,662
7,500	1,637	517	2,154	900	3,054
10,000	2,710	636	3,346	1,200	4,546
20,000	7,890	1,973	9,863	1,200	11,063
30,000	13,621	3,409	17,030	1,200	18,230
50,000	26,437	6,700	33,137	1,200	34,337
100,000	61,299	16,272	77,571	1,200	78,771
500,000	400,408	61,130	461,538	1,200	462,738

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.

Let me give a few examples from the table. A married man without children and with an income of $2,000 a year is liable under the present law for a tax of $175. Under the rates proposed he would be liable for a total amount of $431, of which $231 would be tax and $200 would be his minimum savings requirement to be refunded after the war, with interest. A single man with the same income would be paying $340 under the present rates, and would pay a total of $601 under the new rates, of which $160 would be refundable and $441 would be tax. A single man with an income of $1,000 is at present rates subject to a tax of $87.50, and at the new rates would be subject to a tax of $92—only a slight increase—and as well to a minimum savings requirement of $80. Going up to the middle income brackets, a married man without children, earning $4,000 a year, who is subject to a tax of $675 at present rates, would under the new rates be liable for a tax of $964, and, in addition, for a minimum savings requirement of $400. If he had two dependent children, the tax liability would be only $668, compared with $450 at present, and the refundable portion of the total assessment would be $480, making a total of $1,148. A married man with two children and an income of $1,500 is at present liable for a national defence tax of $35. Under the new plan his tax liability would be reduced to $24.50, and he would have a minium savings requirement of an equal amount. I should point out that in many of these cases at least a portion of the minimum savings requirement will undoubtedly be met by the contractual savings already being made by the taxpayer in the form of life insurance premiums or pension fund deductions from wages or salaries.

It will be noted that on the amount of any income in excess of $100,000, the rate of graduated tax is 85 per cent to which, of course, must be added the flat rate tax of 7 per cent for married persons and 9 per cent for single persons. In addition to this we must add the 4 per cent surtax on investment income, since any income in excess of $100,000 is almost certain to be investment income in this country.

Therefore we have an effective top rate of tax of 96 per cent for married persons and 98 per cent for single persons. This leaves what for such persons will amount to only a token residual of 2 per cent or 4 per cent. The effect of these rates will be that while a married person with a $100,000 income, of which $30,000 is earned income, will be left with about $21,000, another having a total income of $500,000 will be left with about $37,000.

I have considered the suggestion that a maximum level should be set for net income after tax—that we should place a "roof," so to speak, on what a person may be allowed to retain, whatever his actual income may be. In the United States, where there is an awkward problem arising from the existence of large incomes from tax-exempt securities, there may be some special need for legislation of this character. In this country, however, there would be no substantial amount of revenue to be gained from imposing a 100 per cent top rate rather than the 98 per cent rate I am proposing. There may be some political allurement in the principle of establishing by legislation an absolute limit on personal incomes, instead of adhering to the principles of progressive taxation even though at very high rates. I can only say that there have been too many difficult and far-reaching decisions to be made in framing this budget for me to give any consideration to its political adornment.

I would estimate the yield of the present income tax, including national defence tax, for a full year at the present rates on the current level of incomes, at about $410 million. The increase in rates, and changes in exemptions, which are proposed would, I believe, yield an additional $115 million in a full year in the form of tax revenue proper. It would also impose a minimum savings requirement of about $250 million in addition, but we must expect a very substantial portion of this to be met by the alternative contractual forms of saving, leaving possibly $125 million as the yield of refundable taxes. I am not including this refundable tax with the estimates of revenue, however, as it is properly regarded as borrowing rather than revenue.

COLLECTION AT SOURCE

I mentioned that it was proposed to collect as much as possible of the new tax at the source or by a compulsory instalment plan. The instalment plans that have been in effect on a voluntary basis for the last two years have been welcomed by many, but they have been used by only a minority of taxpayers. With the higher rates now being put into effect, including the refundable portion of the tax, it is obvious that the income tax is something for which almost everyone subject to it must budget the year round. From the national point of view, it is necessary that these higher rates should be reflected in reduced spending power as soon as reasonably possible, and regularly thereafter rather than in fits and starts. Consequently it is proposed to commence in September of this year to deduct at the source as much as is practicable of the new income tax rates, including the refundable portion. It will not be administratively possible to deduct 100 per cent of the tax liability as is the case with the national defence tax in some cases, but we shall aim at something like 85 per cent or 90 per cent, leaving only a moderate remainder to be paid when the return is filed. During the first four months the deductions will not be on the full scale that will be in effect from January 1943 to August of that year, but will be at an intermediate level between that and the present national defence tax level, in order to give taxpayers an opportunity to adjust themselves to the change. As I have noted, the national defence tax deducted during the first 8 months of 1942 will be credited against the tax payable on 1942 incomes, and this will be reflected in the scale of the deductions, particularly in the first four months.

The actual details of the deduction plans remain to be worked out and are not provided for in the resolution that I am moving. In general, it is expected that employers will be asked to deduct specified amounts from employees of a specified family status within a specified earnings range. Thus, for example, it may be that for married employees without children earning between, say $33 and $36 per week, the employer will be asked to deduct, say, $5.50 a week to be forwarded to the income tax office and to be credited to the employee's tax liability and minimum savings requirements. Tables will have to be prepared showing the amounts to be deducted for various wage and salary ranges for single and married persons and so forth. It is believed that though the amounts to be deducted by employers will be much greater, the work of calculating and recording will not be greatly increased. Deductions will be based upon the income of the pay period against which they are made. It will be necessary for each taxpayer to meet any excess of his tax and savings liability over the amounts actually deducted during the twelve months of deductions or to claim a refund in case of over-deductions.

It will obviously not be possible to deduct the major part of the tax at the source on all forms of income. It is therefore proposed that those persons having incomes in such forms as are not subject to deduction at the source shall be required to pay their taxes and their minimum savings requirements on a compulsory instalment plan extending over the same period as the deductions from other incomes. For this purpose it will be necessary to provide for only four instalments rather than twelve in order to reduce the administrative work involved in such frequent payments.

The collection of most of the income tax at the source, beginning in September, and the compulsory use of the instalment plan of payment for those types of income where the tax is not deducted at the source, would have the effect of increasing the amount of income tax to be received in the current fiscal year, but this effect is offset by the fact that the national defence tax deducted during the first eight months of 1942 will apply toward the payment of the new total tax, and part of the revenue from these national defence tax deductions has already been taken into last year's accounts. As a consequence of the several factors affecting the time of payment, as well as the changes in rates and exemptions, it is estimated that we shall receive from income tax on individuals, including deductions for national defence tax, a total of $435 million in this fiscal year, which amounts to an increase of $45 million over the figure I gave a few minutes ago for the potential yield this year of income tax and national defence tax under the existing law. These figures do not include the portion of the tax which will be refundable; we might expect $140 million of refundable tax or minimum savings requirement during the fiscal year, but a large portion of this—we may say $70 million—is likely to be accounted for in the alternative forms of contractual saving.

There are some minor changes proposed in the personal income tax which I will mention only briefly. I am proposing that the age up to which children may normally be claimed as dependents should be reduced from the twenty-first birthday to the eighteenth birthday except in cases where the child is attending school or college. Under present circumstances all able-bodied persons of eighteen years of age or over should, I believe, be engaged in some useful work or service unless they are completing their education, and consequently children of this age should no longer be presumed to be dependent on their parents. Those dependent by reason of physical or mental infirmity will, of course, continue to be regarded as dependent for the purpose of income tax, irrespective of age.

For those at the other end of their working lives I am proposing some alleviation by providing that anyone over the age of 65 years shall not be liable for the minimum savings requirement, if their incomes do not exceed $3,000 per year. Old persons with small incomes cannot reasonably be forced to save a substantial amount for a future which they may not live to enjoy. I would hope, however, that a large proportion of those entitled to this exemption will choose not to avail themselves of it, or to save even more in other forms, so that they may share with their younger compatriots the burdens of these historic years.

WAR SERVICE PENSIONS

In addition to the changes in the rate structure and the other proposals which I have just mentioned there are several other items which are of general interest. I am pleased to announce that I am going to recommend to the house an exemption from all taxes under the Income War Tax Act in respect of war service pensions, regardless of whether they arise out of the past war or the present one. I feel sure that this will meet with a hearty response not only in the house but in the country as a whole.

OTHER INCOME TAX CHANGES

Legislation will be introduced to prevent tax avoidance in certain directions. For example, it is proposed that income received from oil or gas wells organized on the so-called royalty basis shall be deemed to be income received by the person or persons actually operating the oil or gas wells on behalf of the royalty holders and taxed at that point. Also, when property is sold on an instalment basis the capital payments shall be deemed to include interest at a reasonable rate in cases where there is no interest provided for or where the interest provided for is unduly low.

Our tax on non-residents which now applies to interest, dividends, rents, royalties and certain other income will be extended to cover salaries and annuities. This will bring our tax on non-residents more nearly into line with those imposed by other governments on our citizens. At the same time I propose to remove the present limitation on the personal exemption applying to non-residents who but for this limitation would pay tax under our law on the same basis as residents. This provision, which will be on a reciprocal basis, will be of particular interest to persons who commute across our international border. Several other minor changes in the law will be introduced which I need not mention here but which will appear in the resolutions. Rates of tax in the gift tax schedule will be increased 3 per cent.

This concludes the section on proposals relating to personal income taxes. I wish to turn now to some proposals concerning the excess profits tax.

EXCESS PROFITS TAX

The excess profits tax as it was drafted in the budget of June, 1940, and revised in many details in last year's budget, has been appropriate to the period of expansion during the early years of the war. During this time it has produced substantial revenues for the treasury in a reasonably equitable manner. It has imposed a heavy tax on increases in profits. It has served to keep the over-all increase in profits of all corporations within moderate limits, so that the total of all profits has increased by only a small percentage from year to year despite the very much larger increases in the total of business carried on. At the same time it has permitted rapidly expanding businesses to retain a fraction of their increased profits in order to meet their requirements for additional working capital during this expansion period.

The time has now come when we can and should make the excess profits tax more severe The rate of expansion in business will now be much less than it has been heretofore. In the case of many civilian businesses the volume of their production or turn-over is likely to decline rather than expand. Even in the field of war production we are getting close to the levels of full capacity. Consequently, businesses in general no longer need to retain substantial amounts of their current profits for reinvestment in working capital and can afford to pay a large proportion to the treasury. Secondly, the machinery required to administer the excess profits tax has now been built up and is operating efficiently. We are, therefore, able to undertake changes in the tax which could not be readily undertaken when we did not have the administrative machinery to carry them out effectively. Finally, in the past year we have adopted a much more rigorous general economic policy, involving control over many forms of incomes as well as over production and distribution. This more rigorous economic policy makes appropriate the more rigorous excess profits tax.

I have given a good deal of consideration to various alternative means of increasing the excess profits tax. I believe that the increase should affect the tax on excess profits rather than on profits that have not increased substantially over pre-war levels. Already the tax on profits that have not increased is heavy when we bear in mind that those profits when distributed as dividends are subject to all the personal income taxes in addition to the corporation taxes. This involves, in effect, a discrimination against income earned in the form of corporate profits as distinct from other types of income, such as interest. Some discrimination may be justified, but I believe we have already gone far enough in that direction. Consequently, I propose to increase the rate of tax on excess profits but not the flat rate of tax which applies to profits generally.

In proposing this increase I think it important that we should not remove entirely the continuing, day to day, incentive for economy and efficiency in production. If that incentive were entirely removed by making the tax such that it would take the whole of any increase in profits, leaving no benefit to the producer, then we would be exposing ourselves to the danger of slackness and carelessness in regard to costs and efficiency. I am not suggesting that Canadian producers, or distributors for that matter, or those engaged in any other type of business would in any way sabotage our national effort at this time, but simply that the complete removal of the standard, by which business men are accustomed to determine whether expenditures are justifiable or not, might make them forget the minor economies and opportunities for increased efficiency which do not appear significant in themselves in relation to the national effort but which in the aggregate have very great importance. We cannot afford now to waste labour, materials or time. We need to preserve efficiency by every reasonable means at our disposal. Secondly, I believe that in making any change we should not deprive businesses of all chance to build up reserves for the post-war period. Some reserves will be needed if business is to press ahead actively after the war with the conversion of its operations from war purposes to peace purposes, to modernize its plant and thereby place itself in the best position to provide employment in the post-war period. Thirdly, we must beware of making too severe an instrument of taxation that can never be perfectly fair and equitable, however much we endeavour to provide for various types of cases and situations. If we had a tax that was extremely severe in its treatment of so-called excess profits, yet something short of perfect in determining standard profits, we should be continually tempted to make special allowances of one kind or another to temper its severity in hard cases in an endeavour to be equitable and these would be apt to add up in total to a tax that was far less severe than was intended.

On the other hand our need for funds at the present time is very pressing, as I have already emphasized in connection with the personal income taxes. We must obtain every dollar that we can. Moreover, it is desirable at the present time not to permit those who have substantially increased profits to disperse them in higher current dividends since this would be directly contrary to the government's policy of stabilizing incomes. Any increase in profits would better be reserved to enable the business to play an active part in post-war reconstruction.

Balancing these various considerations I have decided to propose that the rate of tax on excess profits be raised from 75 per cent to 100 per cent, and, at the same time, that provision be made for refunding after the war 20 per cent of the excess profits taken, over the range where this 100 per cent rate is effective.

I am also proposing another more complicated change which is less spectacular but serves to increase the effective rate of tax very substantially on businesses whose profits have increased significantly over pre-war levels. Let me remind the house that under the present act a corporate taxpayer pays an 18 per cent corporation income tax on all of its profits and then under the Excess Profits Tax Act pays either (a) 75 per cent of the excess profits over standard profits after deducting the corporation income tax paid on this excess or (b) 22 per cent of its total profits, whichever is the greater. I am now proposing that under the Excess Profits Tax Act a company shall pay a flat rate of 12 per cent on its total profits in addition to the 18 per cent corporation income tax, and then shall pay as well either 10 per cent of its total profits or 100 per cent of its excess profits after deduction of the corporation income tax and the 12 per cent rate thereon, whichever is the greater. In effect, therefore, I am taking the 22 per cent in the present act and splitting it into 12 per cent to apply to total profits in any event, and 10 per cent to apply as an alternative where that is greater than the amount produced by the rate on excess profits. The effect of this change, which may appear inconsequential at first sight, is to increase substantially the tax liability of all those whose profits have increased by more than one-sixth of their standard profits.

The amount to be refunded to those corporations which are subject to the 100 per cent rate on excess profits will be 20 per cent of the amount of profits in excess of the amount at which the 100 per cent tax on the excess after the deduction of corporation income tax and the 12 per cent flat rate equals the 10 per cent tax on the total profit. This rather complicated provision results in the 20 per cent refund applying only where the 100 per cent rate effectively applies on any additional profits. The amount to be refunded will not bear interest but will be returned unconditionally to the taxpayer after the war, provided only that his tax liabilities have been paid.

The result of these changes in the rate structure of the excess profits tax will be that no corporation will be permitted to retain more than 70 per cent of its pre-war standard profits, though it will be given the opportunity to earn a post-war credit through economies and efficiencies and increased production that enable it to earn higher profits before tax. This limitation on the amount of profits which may be retained may eventually require some corporations whose profits or dividends have increased substantially in recent years to reduce their current rates of dividends. If certain reductions of dividends should be required by the measure I am proposing I do not believe it will be too much of a burden to place on these corporations or their shareholders at this critical time. The amount of tax which will be refunded will not be lost to the corporation but will enable it to safeguard its post-war position and to make itself ready to take part in the important work of reconstruction.

Because these changes impose a 100 per cent rate on many corporations and because in many cases available earnings have already been disposed of, I have decided that it would be impossible to make it retroactive. Consequently, these new rates of excess profits tax will apply as from the 1st of July onwards. In order to ensure that the taxes payable under this act and by corporations under the Income War Tax Act are remitted at as early a date as possible to the treasury it is proposed to require monthly instalment payments on account of the tax liability, including the refundable portion. The payments made before the end of the fiscal period of the business will have to be based upon anticipated earnings or earnings in the preceding period. The result of this change in timing will mean a very substantial increase in the amount of revenues to be obtained from the excess profits tax during the current fiscal year.

Certain other amendments to the Excess Profits Tax Act will be brought in. For example, the tax exemption designed to encourage mineral production which previously was obtained in the Income War Tax Act will be transferred to the Excess Profits Tax Act. The house may recall that the present exemption expires December 31, 1942. It is proposed that a generally similar exemption shall be granted under the Excess Profits Tax Act where the tax relief is greater rather than under the Income War Tax Act. The new exemption will apply to producers of base metals and strategic minerals. This exemption may be regarded as complementary to the measure of assistance being granted under the Income War Tax Act which encourages the search for these minerals.

In the interests of achieving greater equity in our taxes on business enterprises which now of necessity are at such very high levels, I propose to allow in future a one-year carry-forward of losses. This will apply in the case of corporations to both income and excess profits tax and in the case of sole proprietorships and partnerships to excess profits tax.

The law at present gives complete exemption to small businesses with profits of $5,000 or less. Under a proposed amendment this exemption will be withdrawn in respect of the new 12 per cent flat rate which applies generally to total profits of corporations. Other changes of a technical nature which I need not explain here will be found in the resolutions.

I have already given an estimate of $275 million as the yield in this fiscal year of the excess profits tax if there were to be no changes made in it. This revenue would be largely derived from the tax on profits earned in 1941. The introduction of the compulsory instalment plan for the payment of this tax will increase substantially the revenue to be expected from it during this fiscal year from taxes on income earned during 1942. Excluding the effects of the changes in rates, this increase would be about $145 million. The changes in the rates of the excess profits tax which I am proposing would, it is estimated, yield an increase in revenue of about $58 million on the basis of a full year's application with profits at their current levels. Because of the instalment plan, we shall get some of this increase during the current fiscal year, and allowing for the fact that the changes go into effect from July 1, it is estimated that the amount will be about $20 million. In addition to these amounts of actual revenue, the amount we shall receive in the form of refundable tax under the excess profits tax is estimated at about $60 million on the basis of a full year's application with profits at current levels, of which we may anticipate receipts of about $25 million during the current fiscal year.

The application of the instalment plan to the corporation income tax will bring about an increase in revenues from that tax during the present fiscal year, even though the rates are not changed at all. It is estimated this will amount to $105 million.

In the Succession Duty Act there will be few significant changes. The rate structure will not be altered. As a matter of general interest, however, I may call attention to the new form of exemption which will allow charitable gifts up to one-half the estate to pass entirely tax free where previously the duty was one-half the ordinary rate. It is also proposed to offer exemption on a reciprocal basis to representatives of foreign governments. Certain other minor changes will be made with a view to clarifying the law and assisting in its administration.

INDIRECT TAXES

I come now to indirect taxes. I would remind the house that, in the three previous war budgets, we have made a highly selective approach to indirect taxes. We have attempted to collect revenues on specific expenditures rather than on all expenditures. Remembering that we already had an 8 per cent sales tax at the outbreak of war, we have avoided, since the first war budget, except in last year's increase in the sugar tax, indirect taxes which would raise the cost of the necessaries of life. The imposition of the price ceiling has added conclusively to the weight of argument against general rather than selective increases in consumption taxes. I propose to follow again, therefore, a selective approach and recommend substantial increases in taxes which fall on luxury expenditures. It is hoped that these taxes will discourage such expenditure. To the extent that they do, current savings will be increased. To the extent that such expenditures persist, the treasury will benefit from the revenue.

The excise duties on alcoholic beverages have already been increased substantially since the outbreak of war, but the record of sales leads me to conclude that further large increases can again be made. I shall recommend that the excise duty on spirits, which was increased from $4 to $7 a gallon in September, 1939, be raised to $9 and that on Canadian brandy from $6 to $7. The pre-war excise duty on malt was 6 cents a pound and was increased to 10 cents in September, 1939, and to 12 cents in April, 1941. My recommendation is that it be now increased to 16 cents a pound and that corresponding increases be imposed on malt syrup and on beer imported as such. It is proposed that the excise tax on wines be raised from 40 to 50 cents and on sparkling wines from $2 to $2.50 per gallon. It is anticipated that these changes will result in an increase of revenue of $11,650,000 in this fiscal year and $15,600,000 in a full year.

It is recognized that the provinces, as well as the dominion, derive revenue from the taxation or sale of alcoholic beverages. They have also the responsibility for regulation of the sale. If the tax increase here proposed should seem likely to affect their revenues they have it in their own power to raise their prices or taxes. The purpose of these increases is to provide additional revenue for the dominion at the expense of the consumer, not to make inroads on provincial revenues.

Sales of cigarettes, now taxed at $6 per thousand, have increased very rapidly despite war-time increases in excise duties of 50 per cent. It is proposed, therefore, to amend the Special War Revenue Act to provide for an additional excise tax of one cent for each five cigarettes or fraction thereof contained in any package. Relative to cigarettes, smoking tobacco has been less highly taxed. While not seeking to equalize the rates, I propose an additional tax of one cent per ounce on manufactured tobacco. It will be recommended further that the rate on raw leaf tobacco be raised from 10 to 20 cents a pound. It will be recommended also that the tax on cigars be increased by 25 per cent, the tax on cigarette papers be increased from 5 cents to 6 cents per 100 and that on cigarette tubes be raised from 10 cents to 12 cents per hundred. It is estimated that these increases on tobacco, in its various forms and uses, will produce additional revenue of $17,205,000 in the fiscal year and $22,950,000 in the full year.

I shall recommend that a number of excise taxes be increased and that some new taxes be imposed. The increases proposed are briefly as follows: On soft drinks, of which the supply is at present inadequate to meet the demand, a specific tax of 1 cent a bottle in addition to the present 25 per cent tax; on carbonic acid gas, a corresponding increase from 25 cents to 50 cents a pound; on playing cards, an increase from 15 cents to 20 cents a pack; on passenger transportation, a rise from 10 per cent to 15 per cent with the exemption limit raised from 50 to 75 cents; on berths, from 10 per cent to 15 per cent with a minimum tax of 35 cents, and on parlour-car seats, from 10 cents to 15 cents; on long distance telephone calls an advance from 10 per cent to 15 per cent with a corresponding adjustment of the rates on pay-station calls, the maximum tax being limited to 75 cents; and on telegrams, cables and radiograms an increase from 5 cents to 7 cents per message. On furs, which are at present subject to sales tax at 12 per cent, it is proposed to advance the rate to 25 per cent and change the form of tax from a sales tax to an excise tax.

I shall propose new excise taxes to be levied, at the manufacturer's level, on candy and chewing gum at a rate of 30 per cent and photographic films and plates, except for industrial and professional use, at the rate now imposed on cameras, 25 per cent. I shall further recommend a new tax of 25 cents per month on telephone extensions in private households. The treasury will be glad to have the revenue but, if anyone chooses to discontinue their use of such extensions, the telephone companies will be glad to have the instruments.

It was my opinion, at the time of the last budget, that expenditures in dance halls and cabarets were a proper occasion for taxation, but I was unable at that time to find a suitable formula. I shall recommend that a tax of 20 per cent be collected on all expenditures in dance halls, night clubs, cabarets and other such establishments which combine any two of the following features: provision for dancing by the patrons, the sale of alcoholic beverages, the offering of musical or other entertainment by paid performers. This tax is to be payable by excise stamps affixed to the bill or account which must be rendered by the proprietor to the patron. It is proposed that this tax take effect on July 1 next.

I shall recommend also that excise taxes be levied on the retail purchases of certain luxury articles. The tax of 25 per cent of the retail price is to be accounted for by the affixing of excise stamps to the bill, cash slip or the article itself. The articles, on the retail price of which it is recommended that this tax be applied, are (1) articles of personal luggage, brief cases, jewel cases, purses, handbags, sports bags, etc., with an exemption of articles selling for $1 or less; (2) diamonds, jewellery and imitation jewellery and all goldsmiths' and silversmiths' products, articles of ivory, jet, amber, mother-of-pearl, etc., with exemption of articles selling for 50 cents or less; (3) articles of cut glass or crystal, articles selling for 50 cents or less being exempt; (4) articles of china, porcelain, stoneware, etc., except such articles for use in the preparation or serving of food or drink, the 50 cent exemption also applying to this category; (5) clocks and watches; (6) ash trays, tobacco pipes, cigar and cigarette holders, and cigarette rolling devices and other smokers' accessories; (7) fountain pens, propelling pencils, desk sets and desk accessories. In respect of the last three groups of articles the tax will not apply to articles selling for $1 or less.

I am sure that the house will agree that these excise taxes will fall on articles which it is not essential to purchase in war time and that they will fall almost wholly on persons who make unnecessary expenditures, and thus give evidence that they are in a position to contribute to the revenues of the country. I expect that the increases in excise taxes will produce additional revenue in the fiscal year of $20,995,000 and $28,025,000 in the full year.

In the case of taxes on commodities and services which are levied on the retail price and paid by the consumer or patron when his bill is paid, the tax will be stated separately from the price and will be deemed not to be part of the price for the purposes of the maximum prices regulations. Of the commodities on which new or increased taxes are assessed on the manufacturers' price it may be noted that furs are exempt from the maximum prices regulations, as are also sales of alcoholic beverages by provincial liquor boards. The other commodities affected are subject to the maximum prices regulations, viz., alcoholic beverages sold otherwise, cigarettes and tobacco, cigarette papers and tubes, candy and chewing gum, photographic films and plates, soft drinks and playing cards. On cigarettes and tobacco, the new taxes are separately stated and will be so indicated by stamps on the packages. The tax will not be considered part of the price for purposes of the maximum prices regulations. In respect of the other commodities, the wartime prices and trade board will permit such adjustments as are necessary and equitable.

Expenditures on one commodity and one service affected by tax increases, cigarettes and passenger transportation, are included in the Dominion Bureau of Statistics cost of living index. That index has since the institution of price and income control acquired an importance which it did not previously have. It is calculated by precisely the same methods that have been used since its inception. No considerations of policy or expediency can be permitted to affect it. However, these tax increases will be separately stated and clearly identifiable as taxes on the consumer. I propose that in the case of cigarettes which, desirable as they may be in other circumstances, are clearly not necessaries of life for the population as a whole, the new tax shall not be deemed part of the price for the calculation of the cost of living index.

In announcing the offer to provincial governments regarding tax agreements last year, I stated that if certain taxes were given up by the provinces it was possible that the dominion, in order to prevent certain classes of companies from benefiting by the change, might impose special taxes in these directions. On reviewing the situation, it has been decided to levy a tax of 2 per cent on premiums paid on life, fire and casualty insurance, in addition to the taxes we at present impose which are confined to fire and casualty insurance. In the case of other classes of companies it was found that the increase in dominion taxes on profits more than offset the special taxes which they had been paying to the provinces and accordingly no special taxes by the dominion are necessary. Since the taxes collected in this fiscal year will cover both 1941 and 1942 the revenue in the fiscal year should be $13 million or double the annual yield.

The changes proposed in the customs tariff provide for a number of tariff reductions and amend the wording of several items to facilitate administration. The resolutions about to be tabled affect twenty-five items and also provide for increased additional duties on imports of alcoholic beverages. The changes being made in these additional duties equalize the increases being made on the same commodities under the Excise Act. The existing excise duty on beer is being removed from the schedule to the Excise Act and replaced by a gallonage tax in the customs tariff.

New duty free items are being provided to cover machinery and apparatus for operating oil sands by mining operations and for extracting oil from the sands so mined, fuel injection pumps and nozzles for diesel and semi-diesel engines, magnesium scrap and crude cotton seed oil for canning fish.

Additions to existing items provide for reduced rates on semi-finished piston castings of any material, parts of saggers, glass tubing for use in the manufacture of vials and ampoules, especially designed pins for marking systems, unbraided wick for the manufacture of wax candles or tapers, belting, non-elastic woven fabrics for the manufacture of abdominal supporters and spinal braces, mouthpieces and wood bowls for the manufacture of tobacco pipes.

The wording is being amended to facilitate the administration of the items covering parts for use in the manufacture of motor trucks, motor buses, motor truck bodies, motor bus bodies, prepared or preserved vegetables, blended orange and grapefruit juice, silicate of soda and resin or rosin.

This completes the tax changes which I am recommending and I shall put on *Hansard* two tables, one showing the estimated increases in revenue which are expected in the remainder of this fiscal year and in a full year from the new and increased taxes, and the other showing the full revenue estimates for the present fiscal year after giving effect to all the changes and tax rates and time of payment:

Yields from Proposed Changes in Taxation

		Full year	Balance of current fiscal year 1942-43
Increased yields from changes in existing taxes—			
Personal Income Tax		$115,000,000	$ 45,000,000*
Corporate Income Tax		....	105,000,000*
Excess Profits Tax		58,000,000	165,000,000*
Insurance Premiums		6,500,000	13,000,000†
Excise Duties—			
Spirits (potable)		6,000,000	4,500,000
Malt		9,000,000	6,700,000
Malt Syrup and Beer		200,000	150,000
Tobacco (raw leaf)		350,000	260,000
		$ 15,550,000	$ 11,610,000
Excise Taxes—			
Wines		$ 400,000	$ 300,000
Cigarettes		17,600,000	13,200,000
Tobacco (manufactured)		4,000,000	3,000,000
Cigars		100,000	75,000
Cigarette Papers and Tubes		900,000	670,000
Soft Drinks		5,000,000	3,750,000
Carbonic Acid Gas		300,000	225,000
Playing Cards		100,000	75,000
Passenger Transportation		3,000,000	2,250,000
Berths and Parlor Car Seats		500,000	375,000
Long Distance Telephone Calls		900,000	670,000
Telegrams and Cables		250,000	190,000
Furs		750,000	560,000
		$ 33,800,000	$ 25,340,000
Yields from New Excise Taxes—			
Candy and Chewing Gum		$ 7,000,000	$ 5,250,000
Films and Photographic Supplies		350,000	260,000
Telephone Extensions		125,000	90,000
Cabarets, Dance Halls, etc		2,000,000	1,500,000
Stamp Tax on—			
Luggage	$1,500,000		
Jewellery, Clocks, Watches	5,000,000		
Cut Glass and China	750,000		
Ash Trays, Pipes, Fountain Pens, Pencils, etc.	500,000		
		7,750,000	5,800,000
		$ 17,225,000	$ 12,900,000
Total		$246,075,000	$377,850,000

* These estimates for the balance of the current fiscal year include substantial effects of proposed changes in the time and method of payment.

† Two years revenue will be collected in the balance of the current fiscal year, the proposed rate increases being retroactive to January 1, 1941.

Forecast of Total Ordinary Revenue for Fiscal Year 1942-43

	Revenue from existing taxes	Increase in revenue resulting from budget proposals	Total ordinary revenue
Customs duties	$ 135,000,000	....	$ 135,000,000
Excise duties	123,000,000	$ 11,610,000	134,610,000
Sales tax	218,000,000	....	218,000,000
War exchange tax	95,000,000	....	95,000,000
Other excise taxes	85,000,000	38,240,000	123,240,000
Income taxes—			
Personal	240,000,000	45,000,000	435,000,000
National defence tax	150,000,000		
Corporation	200,000,000	105,000,000	305,000,000
Interest and dividends	28,000,000	....	28,000,000
Excess profits tax	275,000,000	165,000,000	440,000,000
Succession duties	15,000,000	....	15,000,000
Miscellaneous taxes	2,600,000	13,000,000	15,600,000
Total tax revenue	$ 1,566,600,000	$ 377,850,000	$ 1,944,450,000
Non-tax revenue	105,000,000	....	105,000,000
Total ordinary revenue	$ 1,671,600,000	$ 377,850,000	$ 2,049,450,000

CONCLUSION

If our estimates of the yields of new and increased taxes during the balance of the current fiscal year are reasonably correct, the dominion's total revenues for 1942-43 should be approximately $2,050 million. With expenditures of $3,900 million, this leaves a budgetary deficit of $1,850 million which will have to be covered by borrowing. On these estimates, we shall have paid somewhat more than 52 per cent of our expenditures out of revenue.

The enactment of the budget proposals will provide for the collection in 1942-43 of additional sums to be refunded after the war and which it is estimated will amount to $95 million.

This will leave for other methods of financing $1,755 million. I shall put a brief tabular statement on *Hansard* to summarize these calculations in convenient form:

Fiscal Year 1942-43

Estimated total expenditure	$3,900,000,000
Estimated ordinary revenue	2,050,000,000
Budgetary deficit	1,850,000,000
Estimated refundable taxes	95,000,000
Amount to be met by decline in cash and by borrowing	1,755,000,000

After making full allowance for some reduction in our cash balances which were unusually large at the beginning of this year, for moneys available for investment from the Unemployment Insurance Fund and other special government accounts and for subscriptions from insurance and trust companies and other corporate investors, it is apparent that the balance which should be provided by individual purchases of war savings certificates and bonds is very large, perhaps as much as two-thirds of the total.

[Mr. Ilsley.]

No great fraction of this can be provided by individuals with incomes of more than $3,000 or $4,000. Individually they must do their share but the total of their subscriptions will be limited by the smallness of their numbers. It must be provided by people of lower incomes especially those in families whose incomes have increased during the war.

Now, the house will understand what I meant when I said that I was not proposing to substitute compulsory savings for voluntary savings. The refundable tax and other provisions which I am recommending are merely to equalize the base from which voluntary savings start. Subscriptions to victory loans and war savings certificates indicate that the current savings of individuals for the purchase of government securities are certainly not in excess of $12 million a week and may be somewhat lower. Over and above the higher taxes, over and above the minimum savings requirement, these current savings must not only be increased; they must be increased greatly if we are to finance this war the sane and the equitable way, if those of us who are not in armed forces are to demonstrate that, as a democracy, we are capable of meeting the stern tests of war as we expect those who dare physical destruction to meet far sterner tests.

Will this mean a reduction in our standard of living? Certainly. The war will not be won by disputing as to whether labour or agriculture or employer or employee should get a larger share of a swollen national income. It will be won, not alone by the valour of fighting forces and the skill of generals but by the willingness of the people at home to make necessary sacrifices—willingness to make those sacrifices first and not after all other groups have made them.

I am asking that there should be by every individual the most rigorous economy. Every dollar we spend means that someone is working for us. Let us not spend it if that someone might instead be working for victory. I am not asking that anyone's standard of living should be reduced below the level of personal efficiency and decency. I am asking that it should be no higher than that level. Let us compete with our neighbours, in saving, not spending; in making shift with what clothing and house furnishings we have, not in buying more; in hard work and plain and thrifty living.

All this has an immediate and necessary purpose. All the equipment, materials and labour that we can possibly spare must be used in this bitter conflict for victory. It has a further purpose which gives hope for the future. The savings that we make now will be available after the war. We can then replenish our wardrobes and build our houses and take more leisure, knowing that not only will we be increasing the comfort and vitality of our families but providing work and pay for thousands of people who will come out of the armed services and war industries and earn their livelihoods once more in civilian industry. By all means let us have a new world after the war. It will not come from speeches and laws. We must work and save for it and for victory now.

The National War Finance Committee is engaged in the development of an organization in each province which will undertake a continuous campaign for the regular sale of bonds, war savings cerificates and stamps to the public throughout the entire year, supplemented from time to time, by special campaigns. I bespeak for them every dollar of savings that can be made and the active help of everyone in their campaign.

I should like to say a word to the business men who operate large and small businesses throughout this country. A big part of the earnings of business must during the war flow into the treasury. That is not because it is government policy to penalize business enterprise but because so large a part of all our incomes and all our work must go to winning this war. I realize fully that where most of the profits are absorbed by taxes it is difficult to be as vigilant in watching costs as when $1 of expense saved is $1 added to profits and the mark of a well-run business. Nevertheless it is imperative that business men should be vigilant also in the national interest. Let no one have it on his conscience that he took man-power for unnecessary work, that he permitted cost increases which could have been avoided. For business too there is a longer view. Industry is going through a tremendous conversion to war production. When victory is achieved, it will have another great job of conversion to do. It must be prepared to serve again the civilian population, perhaps with many new and different products. It is the business interest and the nation's interest that men of business come to that task with costs that have been kept rigorously under control and with funds available for reequipping and restocking their plants and shops. The refundable portion of the excess profits tax will be available for that adjustment but it will be of less than its full value if business ends the war with highly inflated costs.

This, Mr. Speaker, concludes my presentation of the budget. The proposed tax increases are substantial and severe. They are imposed on the assumption that Canadians appreciate the critical gravity of recent events and the necessity of making a supreme effort in the present year. A few weeks ago, the atmosphere was surcharged with optimism which in many of its manifestations was almost lighthearted. The war would be over by January; the tide had turned; Germany was facing internal collapse; Japan had overextended herself; Italy was a joke; and so forth. More and more Canadians were putting forward demands for their own material betterments, and increasing numbers were transferring their interest from war to post-war problems.

The events of the last few days must surely have had a sobering effect. This is no time for airy overconfidence. Events in China, events in the Ukraine, events in the Crimea, events in Libya—do not these convince us that the war may not be won this year, may not be won for many years? It was not recklessly that Germany and Japan brought the United States into the war, as they did. What foolish statements we have made! Not long ago, how often was it said that Hitler was a madman, irrationally running headlong to destruction, that Japan was committing hara-kiri! Alas, there seems to have been nothing irrational—certainly nothing intentionally suicidal about the plans of our enemies. These aggressor nations prodded the United States into the war because they were convinced that they could, nevertheless, win—win in 1942. Do Canadians realize how critical the situation is at this moment in Russia, in China, and in the middle east, and how critical it may be elsewhere before long? I believe that now they do and that their individual desires for gain, and ease, and advantage are submerged in the nation's will to win. In this belief, I present this budget to the house and to the Canadian people.

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 amend the Income War Tax Act and to provide:

1. That the rates of tax applicable to persons other than corporations and joint stock companies shall be increased to the rates set forth in the following schedule:

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

I. Normal tax—

(1) In the case of

(a) a married person,

(b) a widow or widower with a son or daughter under eighteen years of age and wholly dependent upon such taxpayer for support, or a son or daughter eighteen years of age or over and dependent on account of mental or physical infirmity, or a son or daughter under twenty-one years of age who is dependent upon such parent for support on proof that such child is a student at secondary school, university, or other educational institution;

(c) an individual, other than a married person, who maintains a self-contained domestic establishment and who actually supports therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption;

(d) a minister or clergyman, other than a married person, in charge of a diocese, parish or congregation, whose duties require him to maintain at his own and sole expense, a self-contained domestic establishment and who employs therein on full time a housekeeper or servant;

Provided, in the case of (a), the spouse, and in case of (b), the said dependent, is resident in Canada or in any other part of the territory of the British Commonwealth of Nations, or in a country contiguous to Canada, or is a national or citizen of a country allied with Canada in the present war and is prevented from entry into Canada due to the exigencies of the war, or is legally debarred from entry into Canada:

Seven per centum of the income, if the income exceeds $1,200 per year;

And in the case of

(e) a husband and wife having each a separate income,

Seven per centum of the income of each, if the income of each exceeds $660 per year;

And in the case of

(f) a single person, or

(g) a married person whose spouse is not resident in Canada or in any other part of the territory of the British Commonwealth of Nations, or in a country contiguous to Canada or in a country allied with Canada in the present war, or whose spouse is not legally debarred from entry into Canada,

Seven per centum of the income, if the income exceeds $660 but does not exceed $1,800 per year;

Eight per centum of the income, if the income exceeds $1,800 but does not exceed $3,000 per year; and

Nine per centum of the income, if the income exceeds $3,000 per year.

And in the case of

(h) Estates having income taxable as provided by subsections 2 and 4 of section 11 of this act;

Nine per centum of the income.

(2) From the Normal Tax there shall be allowed a deduction of $28 for the year 1942 and for each year thereafter for each of the following persons who is resident in Canada or in any other part of the territory of the British Commonwealth of Nations or in a country contiguous to Canada or in a country allied with Canada in the present war or who is legally debarred from entry into Canada, and wholly dependent upon the taxpayer for support, namely

(i) a child, grandchild, brother or sister of the taxpayer under eighteen years of age, or if eighteen years of age or over, is wholly dependent on account of mental or physical infirmity, or under twenty-one years of age on proof that such child is a student at a secondary school, university or other educational institution;

(ii) a parent or grandparent of a taxpayer, wholly dependent on account of mental or physical infirmity;

(iii) a child under eighteen years of age maintained by the taxpayer in Canada under a cooperative scheme sponsored by the governments of the United Kingdom and of Canada or any of the provinces of Canada, for children brought from the United Kingdom under a government plan, or under twenty-one years of age, and likewise maintained, upon proof that such child is a student at a secondary school, university or other educational institution;

except one such dependent provided for in (b) and (c) of subparagraph (1) hereof;

(3) If the tax exigible under the Normal Tax should cause the income of a single person or a husband or a wife to be reduced below the amount of $660 or in the case of those persons referred to in (a), (b), (c) and (d) of subparagraph (1) hereof, below $1,200, then to the extent that it would so reduce the income of the taxpayer, such tax shall not be payable.