with tuberculosis. There are several other parks in which we have buffalo, elk, and other animals. For instance, in Riding Mountain park there is probably the largest herd of elk on the North American continent. It was not thought desirable or necessary to turn these animals loose, because they would have had to be transported to some place where they could find a living. At any rate, this action was not taken.

MOUNTED POLICE

REPORTED CLOSING OF OFFICE AT PUGWASH, NOVA SCOTIA

On the orders of the day:

Mr. P. C. BLACK (Cumberland): I should like to ask the Minister of Justice (Mr. Lapointe) if the Royal Canadian Mounted Police office at Pugwash is being closed. If so, is this being done on the instructions or with the permission of the government? The people of this country were reassured recently that this force would be increased, not diminished. It might be noted that Pugwash is a large shipping point.

Right Hon. ERNEST LAPOINTE (Minister of Justice): I have asked for a report about this matter and I shall be pleased to give my hon. friend an answer to-morrow.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

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

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

He said: Mr. Speaker, I rise to my allotted task to-day with a sense of heavy responsibility. This budget is being delivered at the most critical hour in history. The Hun is hammering at the gate. Backed by almost incredible weight of mechanized power, he has operated with cold-blooded ruthlessness. He has violated every principle of the law of nations. He has overrun one after another of the democratic countries of Europe. He has brought our gallant ally France to her knees. At this very moment the enemy of mankind stands with naked sword at the threshold of Britain herself.

For the first time in a thousand years the world has been made to realize that a new "Dark Ages" may not be the figment of a wild imagination. The incredible has indeed happened. Europe, the fine flower of western culture, is threatened with the blight of barbarism. All the things we hold dear—the democratic way of life, the Christian ideal, these age-old tenets of human relationships, fair dealing, justice, and brotherhood are threatened with destruction by those who would shut the gates of mercy on mankind.

We know now only too well that we are paying the price of long years of wishful thinking. There is no doubt that all of us in the democratic countries, governments and peoples alike, have been blinded to the stark potentialities of force and evil. Fortunately, at last, I believe, our eyes are opened and we see clearly. And if we do, it is not too late. For no one and no event can shake my conviction that in the long run truth must triumph over falsehood, good over evil, justice over might.

Obviously, the message which I must bring to-day cannot be a pleasant one. I come to you to collect part of the price to which I have referred. Nor can I be dogmatic or definitive in the proposals I make. We live from day to day—indeed, from hour to hour—and our plans must be subject to change in the light of new circumstances.

In dealing with specific measures, we have had to take into account a multitude of unusual facts and factors. Again, in determining the magnitude of the aggregate burden to be imposed upon the Canadian people, we have had to weigh many conflicting influences and to form a judgment as to how far we could go at the present time without setting up adverse factors which would tend to defeat some of the very objectives we are trying to reach. There will, I am sure, be those who will think that I have not gone far enough and probably those who will contend that I have gone too far. Still others will differ with me on details of specific measures. All that I can say is that I have spared no pains to ascertain the relevant facts, to weigh the merits of various measures and proposals, and to reach conclusions in the light of the supreme emergency which faces us to-day.

I

ECONOMIC AND FINANCIAL REVIEW

Before coming to my budget forecast for the current fiscal year and the tax changes I recommend, you will expect me to review the economic and financial events and policies of the first nine months of war. To make it as concise as possible I shall limit myself to a discussion of factors which give the setting for, and determine the principles underlying, the measures which the government has to propose.

In the first war budget of last September, my colleague, the Minister of National Revenue, who delivered the budget speech, laid down the broad principle of the government's policy of war finance. "We believe it is the part of wisdom," he said, "to follow as far as may be practicable a pay-as-you-go policy." Events which have happened since, and particularly those of the last few weeks, have not detracted from the wisdom of that policy, but rather have reinforced the need for a vigorous effort to apply it in every possible way.

The general policy was elaborated further as consisting of two parts: that appropriate to an initial period of quietness and hesitation, and that suitable for a second period in which rising business activity and expanding income had acquired momentum.

In the initial period of the war in which business was expected to be hesitant, if not actually depressed, the appropriate financial policy was declared to be one which would facilitate the expansion of national income and the drawing into employment of our full man-power. In order to ensure that out of rising incomes increased revenues would begin to flow to the government for the financing of the war, certain excise taxes, chiefly on luxuries, were levied, and moderate increases were imposed in the personal and the corporation income taxes. The increases in income tax were payable only after the close of the fiscal year and therefore would have a relatively slight effect in curtailing purchases by consumers. Furthermore, in order that uncertainty might be removed and that business firms might begin to adjust themselves to the war conditions, the outlines of a new and heavy excess profits tax were announced.

These new or increased taxes were not designed to provide immediately for any large part of our heavily increased expenditures. It was also specifically indicated that our initial borrowing operations to provide part of the funds to cover the inevitable deficit in this early period would probably be of a very short-term character, so as to promote the immediate expansion of productive activity. In harmony with this same point of view, it was emphasized that while the magnitude of the new burdens thrust upon us would make it imperative to do everything possible to conserve our resources and to economize on any expenditures not urgently needed in the national interest, nevertheless it would be "penny wise, pound foolish" to curtail expenditures so suddenly and so drastically as to aggravate seriously the unemployment problem before the stimulating effects of our war expenditures and of foreign purchases in our markets had acquired real momentum.

The initial period of quietness and hesitation, it was felt, would be of relatively short duration and would be followed by the second period during which increasing business activity, expanding production and rising national income had acquired momentum. While perhaps starting slowly, this advance would accelerate under the pressure of war orders from ourselves and our allies until gradually our economy would approach a state of full employment of its labour, capital equipment and material resources. As this second stage developed, certain modifications of financial policy would be called for. Thus it was stated that as business activities increased and idle workers were reemployed, the resulting larger incomes would necessarily become subject to heavier taxation for the purpose of ensuring that the increase in our national income was largely diverted to war needs instead of being disbursed in increased personal consumption and private investment. For the same reason, borrowings from the savings of our citizens and genuine economies in normal governmental services not urgently needed in war time, were indicated as appropriate for this second period.

In accordance with the declared policies, the government made its first financing in the form of a short-term banking operation which was definitely expansionist in character. This was a loan of $200 million arranged with the banks in November, 1939, on the security of two-year notes at a rate of two per cent. It will be recalled that of this amount $92 million was used to repatriate Canadian securities held in London. This gave the United Kingdom a substantial supply of Canadian dollars which was used to purchase Canadian foodstuffs, raw materials and war supplies.

This borrowing from the chartered banks was facilitated by appropriate monetary policy. Between August and November, the Bank of Canada's assets increased by approximately $107 million as a result of the purchase of securities and the increase in the value of its gold and foreign exchange reserves. This provided cash to meet the enlarged public demand for notes in circulation and to increase the cash reserves of the chartered banks by $33 million.

With this increase in cash reserves, the chartered banks were enabled to increase their total Canadian deposits by approximately $306 million. In the same period, they increased their current loans by approximately $147 million, mainly to finance the large wheat crop, and added to their net holdings of securities by $158 million.

Thus, financial and monetary policy accorded with the declared intention to facilitate in the initial period an increase in business activity and an expansion of national income.

By the middle of January it became apparent that business had acquired sufficient momentum to justify going to the public for a loan out of savings. We therefore offered our first war loan in the form of 3½ per cent twelve-year bonds callable by lot during the last five years. Very careful preparation had been made for the campaign and the success of the loan was even greater than we had expected. Of the total subscriptions of $375 million we allotted $200 million to cash subscribers, and $50 million to subscribers who desired to convert their holdings of one of our issues which was to mature on March 1st. It was particularly noteworthy that there were over 178 thousand individual cash subscriptions to this loan and that out of that number more than 121 thousand were for amounts of $500 and less. This result was made possible by the nation-wide cooperation of institutions and individuals and, above all, by the united and enthusiastic support of the Canadian people as a whole.

Even this January borrowing was to a considerable extent expansionist in character in that it converted into government expenditures a considerable amount of idle bank savings. However, the number of small subscriptions and of arrangements made by employees of industrial firms for the purchase of bonds by instalments is convincing evidence that a surprising portion of the subscriptions represented new savings out of increasing incomes.

Passing over one or two financial operations of smaller magnitude for refunding purposes, I come to a further major step in our borrowing operations, namely, the inauguration of our war savings certificates programme on May 27th. These certificates are issued in small denominations for the purpose of facilitating regular savings and contributions to Canada's war effort by persons of moderate and small means. Supplemented as they are by war savings stamps in the denomination of 25 cents they enable all of our people to take some part in Canada's war work while at the same time acquiring the habit of thrift and building up a "nest egg" for the contingencies that may lie ahead. Unlike our periodic war loan campaigns, the sale of these certificates and stamps involves a steady effort which will produce a continual stream of funds, even more important in its influence that the actual amount of money itself. The campaign has involved a vast amount of preparatory and organizing work, and I express now our sincere appreciation of the unstinting help and support being given by patriotic citizens, organizations and business firms throughout the country. You will be interested to know that not a cent of commission is being paid to the postmasters, banks, financial institutions and commercial organizations which are selling these obligations, and the citizens who are organizing and sustaining this project both at headquarters in Ottawa and throughout the dominion are giving their services voluntarily.

Turning now to general business conditions, there is one respect in which the business forecast made by the Minister of National Revenue last September has proved to have been unduly conservative. The fact that the results were better than he forecast was, I really think, due, at least in considerable measure, to the effectiveness of the policies which were promptly adopted. The stagnation in business which he contemplated as probable during the first few months of war was not in fact realized. It is true that for the first few weeks financial and commodity markets were upset by the shock of war and business itself was retarded by uncertainty and the disruption of certain established channels of trade. But the financial policies outlined in the September budget and the institution of foreign exchange control on September 16th restored confidence to financial markets and prevented the dumping of securities and the export of capital which might otherwise have produced serious disorganization. The prompt establishment of other controls through various war agencies, such as the Wartime Prices and Trade Board, the War Supply Board and the Agricultural Supplies Board, also made its contribution to the restoration of confidence and the rapid adjustment of trade and industry to the new war-time conditions.

There were various economic factors which also worked to improve conditions. The large wheat crop of last year, for which the initial price guaranteed by the government was realized by the producers immediately upon delivery, gave a very important stimulus to business generally. Almost equally important was the phenomenal rise during the first four months of war of Canadian exports to the United States. Our neighbour to the south experienced an intense forward-buying boom and in that we shared through greatly increased exports. Initial war orders were important in contributing to the early expansion of the textile, boot and shoe, and iron and steel industries particularly.

At the turn of the year, however, business activity in the United States receded very sharply. Seldom has there been in that country in so short a space of time so sharp a contraction in production. Under ordinary circumstances, Canadian trade and industry would have shown a similar, if less intense, recession. But as a matter of fact, while the rapid increase in Canadian business activity was slowed down somewhat, the cumulative increase in war orders and the recovery in Canadian exports to Britain, which had been abnormally low in October and November, largely offset the influence of the United States recession. Business activity in Canada flattened out in February and March but generally did not recede. In recent weeks the tempo of United States business has increased sharply and there are already indications that Canadian exports to that country are responding to a more active market. The stimulus to our business which has resulted from these exports is supplementing and reinforcing the expansion due to the acceleration of war expenditures here.

The record of the flow of business which I have outlined is clearly visible in the index of the physical volume of business in Canada. That index stood at 125 in August last, had increased to 139 in January, and stood at 137 in March-April. The increase over the same period in industrial production taken by itself was even more pronounced. A definite increase in consumers' incomes was shown in the rise of retail sales which by December had reached the highest figure since 1930, and, if allowance were made for to-day's lower price level as compared with 1930, retail sales last December would probably be found to have been the highest on record.

These retail sales have continued to be considerably higher than last year. Each month since last September, sales of automobiles have been greatly ahead of the corresponding month of the previous year. For the first four months of war, there was a marked hesitation in construction activity but since January construction has increased and through April and May the value of contracts let was 76 per cent above the value for the same two months of 1939.

According to the preliminary estimate of the Dominion Bureau of Statistics, over one hundred thousand idle wage earners had been drawn into employment during the twelve months to April, 1940. The fall in the number of employable persons on urban relief rolls has lagged behind this increase in employment, but since last November the numbers on urban relief rolls have been lower than those for the corresponding months of the previous year and on the whole the reduction has been accelerating. We have no comprehensive statistics which would indicate changes in the amount of the incomes of wage and salary earners. There are however, abundant indications that as a result of elimination of short time, earnings for overtime work, an increase in the number of earners per family and increases in wage rates, total wage and salary earnings are rising rapidly.

These are days when no one can predict what the future will disclose. However, if there is no serious interruption in our export trade, the increasingly great numbers of men and amounts of materials being employed in war production will lead to a substantial increase in our national income, that is to say, the aggregate of the incomes of all the people of this country. The heightened tempo of business in the United States will also make an important contribution to the same end.

On the basis calculated by the royal commission on dominion-provincial relations our national income for the calendar year 1939 was in the vicinity of $3,800 million. Using the same method of computation we consider that our national income for the fiscal year 1940-41 will not likely be less than $4,500 million. We must see to it that by far the greater part of that increase is used for war purposes.

I need hardly say that our war effort is not in any sense to be limited by such financial calculations or by what we can comfortably accomplish. We must make the maximum effort of which this country is capable. Financial provision can be made and will be made for whatever it is physically possible for us to produce or to procure in the way of war services, supplies and materials. The limits of our effort are not fiscal; if there are any such limits they are physical, mental and moral—by that I mean the physical limits of our resources and the mental and moral capacity of Canadians to bear burdens and make sacrifices.

However, in obtaining whatever it is possible for our man-power, equipment and resources to produce or procure, it is certainly wise to adopt the most intelligent means of financing that effort. Plans already laid and approved by this house call for defence expenditures of $700 million. As I shall later explain, such a figure can only be provisional and not in any sense a limit. What concerns us this afternoon is to choose and determine what seem the wisest financial methods of paying for the maximum effort which is physically possible.

If an appropriate financial policy is not followed the ultimate result will inevitably be that the government will be frustrated in its attempt to procure goods for war purposes by the competition of consumers who seek to spend their increased buying power to satisfy civilian wants. In that event, also, the familiar spiral of rising prices, then rising wages and costs, and then prices rising still further would begin to work. Prices would rise more rapidly than wages and salaries, and, by this indirect, hidden and most inequitable process, the civilian population and particularly the wage and salary earners and the receivers of fixed incomes, would be forced to curtail their consumption not only of luxuries but of comforts and necessaries as well. Eventually in such a process our entire economic life would be disorganized; a hectic period characterized by feverish speculation, waste and extravagance would develop; and a collapse of the inflationary structure would be as inevitable as it was at the close of the last war.

The government's financial and economic policies have been so designed as to try to safeguard against that type of situation. They have been evolved with the aim to avoid unjustified price increases or speculative excesses, to keep our economy functioning as effectually as possible and to secure the necessary diversions of man-power, equipment and materials to war purposes in a way which would be the least dangerous to the economy and the most equitable as between different individuals and groups.

We recognize clearly that we still have unemployed man-power and resources, that mobilizing them into productive work will expand the national income, and that by expansion of the national income we can add enormously to the magnitude of our war effort. Consequently our policies have been and are being directed to the end of producing soundly the maximum possible increase in our national income in the shortest possible time.

I have already told you of the part played by our financial policy thus far. My colleague, the Minister of Munitions and Supply (Mr. Howe), has already given you some indication of the steps which he has taken to organize the industrial resources of this country, to meet the expanding war demands of ourselves and our allies. In this connection the measures which he is taking are expanding daily.

In the relief estimates which have been tabled there is provision for the rehabilitation of unemployed workers and the technical training of young men and women.

There is every likelihood in my opinion that the expenditure of $700 million, and more, for war purposes plus the very large amounts which the United Kingdom is spending in this country will bring us before very long to the point when everyone able and willing to work and not needed for military service will find an opportunity for productive employment.

Already we can see evidence that shortages have appeared in certain types of skilled labour. To overcome this obstacle we must have the cooperation of Canadian employers in providing the necessary apprenticeship and other training, and of our labour organizations in facilitating the necessary entrance of young men into their trades. We must not allow bottlenecks to develop and retard our armament programme in this supreme emergency. Plans are under way to meet such possible dangers, and the government is confident that it can count upon the hearty cooperation of both employers and employees in thus promoting the maximum efficiency of our war effort. Maximum efficiency, maximum production, maximum speed, must be the supreme objective of all of us to-day.

I have only touched upon some of the measures that have been taken to increase the national income. To the extent that we can increase the national income, we can increase our war power without crippling sacrifice in our standard of living. Some reduction in personal consumption there must necessarily be, and it can easily be made by those of us who are above the minimum standard of living.

To sum up: In the measures which I shall propose we are endeavouring to ensure that at least a very large proportion of the increase in national income shall be diverted to war purposes while, at the same time, leaving sufficient stimulus to bring the country as rapidly as possible to the maximum use of its labour, its plant and its resources. In this connection it will be seen that many of our tax proposals will not require immediate payment and that much of the planned-for increase in revenue will not be called for during the present fiscal year.

One feature of our economic activity since the outbreak of war, which is of special concern and deserves special mention here, is the great increase in our imports. Most of these increased imports have had to come from countries outside the British empire, mainly because Britain herself, pressed by her own needs, has been unable to supply them.

In normal times we are able to use any excess receipts from our trade with one country to meet any deficits in our trade with another. At this time, however, when Britain has such vital need of gold and United States dollars to purchase planes and other war equipment, we cannot expect her to settle all her trade balance with us in gold or foreign exchange. Consequently, while there has been, since the war began, a substantial increase in our favourable balance of trade with the United Kingdom, a very large proportion of the surplus sterling exchange which we obtain and which formerly we were able to convert into United States dollars in order to meet any adverse balance of payments with that country can no longer be so converted.

Since the United Kingdom could not supply us with goods to pay for all her purchases here, and since, as I have just explained, the sterling with which she was able to pay for these purchases could not be converted into dollars in the normal way, other measures were necessary. The Canadian government undertook to buy and use this sterling in buying Canadian securities from Britain and thus to provide our exporters with Canadian dollars in payment of their exports. While such purchases of Canadian securities held in London will strengthen our long-run financial position on international account, nevertheless two immediate problems face us. In the first place, our domestic market must absorb new securities to a corresponding amount. In the second place, the fact that the surplus sterling arising from our trade with Britain cannot be converted into United States dollars and must be used up by repatriation of securities means that our increased sales to Britain do not help us, as they would in normal times, to pay for the heavy imports of which I have spoken from non-empire countries. The result is that we must find from some other source the United States dollars needed to pay for the greater part of our imports from that country.

To illustrate this exchange problem, let me give in a little more detail the trend of our war-time import and export trade. Comparing the eight months of war ending April, 1940 with the corresponding eight months ending April 1939, Canadian imports from non-Empire countries increased by $171 million, while our exports for the same period to non-Empire countries increased by only $86 million. In other words, an adverse merchandise balance of only $18 million in the 1938-39 period had increased to an adverse balance of $102 million in the 1939-40 period. These figures cover only merchandise trade. There are, of course, other important items which increase our net credits in our accounts with non-empire countries, namely, the export of gold, the expenditures of tourists in Canada, and the curtailment, due to the prompt establishment and efficient operation of the Foreign Exchange Control Board, of the export of capital from Canada. There has also been a small but encouraging inflow of capital from the United States. Nevertheless, it is obvious from an examination of these trade figures that rising business activity and expanding consumer expenditures in conjunction with failure of empire sources of supply have led to a very great increase in our adverse balance with non-empire countries.

More recently, and despite the utmost care in selecting as far as possible Canadian sources of supply, the government's war orders have contributed directly and indirectly to this increase in imports from hard currency countries. It is apparent that already there has developed, between consumers and private business on the one hand, and the government and firms supplying government orders on the other, an active competition for foreign exchange with which to purchase imports. The problem of policy thus posed is not one of maintaining an exchange rate. The powers of the Foreign Exchange Control Board are quite adequate to do that. The problem is to ensure that, in handling the supply of foreign exchange which may be, from time to time, available, war requirements shall take priority over other requirements, and that to some degree also the requirements of industries which are exporting goods and therefore assisting us to acquire foreign exchange, shall take priority over the requirements of domestic trade. I have dealt with this aspect of our exchange position at some length because it furnishes the background for some of the proposals which we intend to make.

But before I leave this subject of foreign exchange I should say just a word regarding our system of foreign exchange control. Within a week of our declaration of war, the Foreign Exchange Control Board was established and given the necessary powers subject to the direction of the Minister of Finance, to regulate all foreign exchange transactions between residents of Canada and the outside world. Detailed plans for the establishment and operation of such a board has been prepared in advance, in case it should be needed, and, once the need was apparent, the Board swung into effective action very quickly. The Board immediately took over as its initial resources the exchange fund which was created under the Exchange Fund Act of 1935. Subsequently on April 30th an order was made requiring all Canadian residents to sell their holdings of foreign exchange to the Foreign Exchange Control Board before the first of June. Those who in complying with the order could demonstrate a need for foreign balances in order to carry on their normal business transactions, such as commercial and insurance companies doing business abroad, have been permitted by the board to retain such amounts as are considered necessary for this purpose. The private holdings of foreign exchange so transferred to the board were of course purchased at the official rates in Canadian dollars. At the same time as these private balances were purchased, the government, by appropriate orders and transactions arranged to have the holdings of the board further increased by the transfer to the board by the Bank of Canada of the bank's gold reserves, also its reserves of foreign exchange over and above its short-term requirements and necessary working balances. The reason for all these transactions was the advisability of having all our liquid foreign resources centralized with, and managed by, the agency at present charged with the management of our foreign exchange transactions. Without going into details I can say that the main policy which has been followed by the board has been to restrict movements of capital out of Canada to the minimum while at the same time interfering as little as possible with import and export trade, the tourist trade, the payment of interest and dividends and the flow of normal, current business transactions. In carrying out its work, the board has received general and wholehearted cooperation from the people and business organizations of this country and, I may add, from the business organizations of the United States.

II

GOVERNMENT ACCOUNTS, 1939-40

I turn now, Mr. Speaker, to the government accounts for the fiscal year which closed on March 31. Following the procedure which was initiated last year by my predecessor, Mr. Dunning, I do not propose to weary the house with any extensive recital of the details of our revenues and expenditures, our direct and indirect liabilities, our active investments and our financing operations during the past year. All of these details I shall, when I conclude, table in the form of a white paper, in order that the house and the country may have a comprehensive record of our financial transactions during the year. As was the case last year, the white paper will be published as an appendix to the budget speech and therefore will be readily accessible. This procedure enables me to confine my remarks to summarized results rather than to burdensome details.

At the time of the September, 1939, budget, it was estimated that the total revenues for the fiscal year 1939-40 would be $516 million, including $21 million to be derived from new and increased taxes. Because business expanded more rapidly than was anticipated, the yield of both our old and new taxes has exceeded our expectations. It is now estimated that when our books for the year are closed, our total revenue will amount to $562 million. (This includes, it is true, a bookkeeping item of $20 million of credits to non-active accounts for which offsetting or contra items appear on the expenditure side of the statement.) The figure which I have given for total revenues represents an increase of nearly $47 million over the previous all-time record revenue which was received during the fiscal year 1937-38.

Dealing particularly with revenue from taxes, let me say that of the September, 1939, tax increases, only the luxury taxes were effective in the past fiscal year. Actual collections under the increased rates of the personal and corporation income taxes would not be made until the present fiscal year. The same is true of the excess profits tax. Nevertheless, tax revenues for the fiscal year 1939-40 are estimated to have been $468 million as compared with $436 million in the previous fiscal year. This increase in tax revenue, to which practically all taxes, except the income tax, contributed, was the result of increasing business activity and, in some cases, of increases in rates. Receipts from the income tax reflected the rates and the incomes of the calendar year 1938, and not the results of the accelerated business in 1939 which will be realized in the income taxes to be paid in the present fiscal year. Tax revenue from the first of September, 1939, to March 31, 1940, was $51 million in excess of the amount collected in the same period in 1938-39. This is a striking confirmation of the fact that the period which was expected to be commercially quiet and hesitant at the start at least, turned out in fact to be one of extremely active business and consumer buying.

Turning now to expenditures: In the September 1939 budget, total expenditures for the year would, it was estimated, aggregate approximately $651 million, not including the two items of capitalized defence expenditures and further losses in the marketing of wheat. Our total expenditures for last year are now estimated at $681 million. This includes all our defence expenditures and in addition a further $27 million incurred in wheat marketing. Once the war had begun, it seemed that conservative accounting could no longer justify the capitalization of defence expenditures as provided for in last year's estimates, and all such items have been charged to war expenditures. Furthermore, while at the close of the fiscal year there still remained unsold a small amount of wheat of the 1938 crop, it was clear that the losses of the Canadian Wheat Board in respect of the marketing of that crop would amount to at least $52 million. Therefore, an advance of this amount was made to the board and this enabled the board to pay off guaranteed bank advances to that amount in respect of 1938 wheat. As provision had already been made in the accounts of the year 1938-39 for setting up a reserve of $25 million in respect of possible losses in marketing this wheat, the difference between this sum and the advance of $52 million made to the Board, namely, $27 million, has as already indicated been included in the 1939-40 expenditures. When we add to our estimated expenditure of $651 million these two items of $27 million of capitalized defence expenditures and $27 million more for wheat losses, you will note that if we had spent what we estimated the total expenditure would have been $705 million. It will be seen, therefore, that since our actual aggregate expenditures were only $681 million we have done considerably better than was expected last September.

The figure of $681 million which I have given as representing our aggregate expenditures for the year may be broken down by main categories of expenditure as follows (using round numbers):

Ordinary expenditures............	$398,000,000
Capital expenditures..............	7,000,000
Losses on and non-active advances to government-owned enterprises.	42,000,000
War expenditures...............	118,000,000
Other special expenditures including unemployment relief and wheat losses..................	89,000,000
Other charges..................	26,000,000

In the above item of "other special expenditures", the amount for unemployment relief, relief works and western drought area relief totalled $62 million as compared with $47 million during the preceding year. This includes a net expenditure of $7·5 million under the Prairie Farm Assistance Act.

Under "government-owned enterprises", the main item of expenditure was the net income deficit of the Canadian National Railway, which amounted to slightly over $40 million as compared with $54 million for the preceding year. This substantial decrease is a reflection of improved business conditions and heavier traffic movement, particularly during the latter part of the year. A fact to be noted with considerable satisfaction is that while operating revenues increased by 11·8 per cent, the heavier traffic was carried with an increase in operating expenses of only 3·8 per cent.

The net result of the year's receipts and outgoings is that, because our revenues were about $46 million greater and our expenditures about $24 million smaller than were anticipated, our over-all deficit for the year will be about $70 million less than was expected. However, the actual deficit will still approximate $118 million, as compared with $51 million in 1938-39.

As a result of the over-all deficit of $118 million, the net debt of the dominion rose to approximately $3,270,980,000 as at March 31, 1940. Gross liabilities at that date are estimated at $4,028,573,000. On the other side of the balance sheet, offsetting these liabilities in part, the dominion had active assets, including cash on hand, sinking funds, and active loans and investments, amounting to $757,593,000.

At the close of the fiscal year there was outstanding unmatured direct funded debt (including treasury bills) amounting to $3,695,685,000, of which $67,196,000 were held in sinking funds against certain issues payable in London. Bonds and debenture stocks bearing the guarantee of the dominion and outstanding in the hands of the public aggregated $1,084,479,000 as at March 31, 1940. These guaranteed securities were decreased by $987,000 during the year. There are also outstanding certain other contingent liabilities arising out of guarantees given under relief acts and various other statutes. These are fully set out in the white paper which is being placed on *Hansard*.

It will also be of interest to hon. members to know that as at March 31st last the average rate of interest on the dominion direct funded debt (including treasury bills) was 3·40 per cent as compared with 3·52 per cent on March 31, 1939 and 5·02 per cent on March 31, 1930.

III

BUDGET FORECAST, 1940-41

I now come, Mr. Speaker, to what is by far the most difficult part of my task. It is quite possible with reasonable assurance to analyse recent economic trends, to describe our fiscal policies and outline our financial operations for a year which has passed. But it is an entirely different matter, particularly under present circumstances, to forecast the future and to evolve and propose the measures which may be best calculated to meet conditions probably more unforeseeable than those of any period in our history. That, however, is a responsibility which one in my position must take and my task only differs in degree from that of my predecessors.

On the expenditure side, the estimates already tabled provide for a total expenditure on non-war activities of government of $448 million. As you know, these estimates represent a combination of the ordinary main estimates, the supplementary estimates and the special supplementary estimates which have been presented to the house in recent years. My hope is that it will not be necessary to ask parliament for any supplementary estimates for peace-time services of government, unless this parliament approves new undertakings not contemplated when our estimates were prepared.

Just here may I divert for a moment or two to mention the matter of economies in governmental peace-time expenditures. These are important because they release funds for war purposes.

If you will compare the figure I have given with the corresponding total of the estimated expenditures for the preceding fiscal year, you will find a reduction of over $77 million. That very large reduction reflects not only improvement in the operations of the national railways and in the relief situation but it is also the result of a good deal of painstaking examination and re-examination in all government departments in order to obtain the maximum economies in our departmental activities as well as to reduce or eliminate services which however justifiable in peacetime ought not to be regarded as absolutely vital in war-time. Our war effort has unquestioned priority; and the tremendous financial burden it will involve and the drain it will cause on the man-power, equipment and resources of the country make it vitally imperative that all governmental authorities—not only dominion, but—if I may go beyond federal bounds—provincial and municipal as well, should appraise with a sense of national responsibility the justification for the dollars proposed to be spent on normal activities. Every such dollar must, directly or indirectly, come out of the pockets of the people. And it ought almost to go without saying that to provide the enormous sums which must be spent by the dominion this year for defence, the ordinary expenditures of governments—all governments—in Canada must be decreased if they are not to restrict the amount that can be devoted to the driving task of defeating nazism. In the federal field, I have had the effective cooperation of my colleagues and their departmental officers in achieving the economies I have reported. The premiers or provincial treasurers of several of the provinces have discussed this problem with me and I have also had the opportunity of conferring with a number at least of the mayors of our cities and towns on the same subject. The attitude of them all was so instantly and definitely cooperative as to convince me that all that is necessary is that the position be understood to make certain that the response by all governmental authorities will be just as unhesitating and just as reassuring.

The chief difficulty which all governments face in reducing ordinary expenditures is the fact that usually so small a proportion of these expenditures is controllable and there is the further fact that significant reductions in these controllable expenditures involve throwing out of work large numbers of employees, many of them of long service and some without superannuation privileges of any kind. To give an example, the expenditures under our main estimates last year amounted roughly to $400 million. Of this amount $260 million represented what were regarded as absolutely uncontrollable expenditures; and by that I mean war pensions, old age pensions, subsidies to provinces, interest on funded debt, et cetera. This left only $140 million out of which savings might be made and of this amount $80 million was for salaries and wages. So that, apart from discharging government employees, there was only the sum of $60 million covered by those main estimates which might be subjected to reductions.

Fortunately, the development of the war programme has made, and will increasingly make possible the absorption of such persons in war activities. For some time we have had an inter-departmental committee at work to examine into and provide for the transfer of such personnel. As the house knows, there have been eliminated during the present year all ordinary public works of a capital character; but the opportunities for employment resulting from the war programme will make possible, and the demands of the war programme will, I believe, make it necessary that labour and resources should be released from the construction of these public works, most of which have in recent years been provided for primarily to alleviate unemployment.

With that interjection on economies I return to my forecast.

To our estimated expenditure for normal purposes of $448 million must be added whatever will have to be spent during the year for war purposes. Parliament has already approved a war appropriation amounting to the sum of $700 million, more than four times what was spent in the corresponding fiscal year of the last war.

Combining these two figures gives us a total of $1,148 million. But even this huge sum may not, and almost certainly will not, represent the total of our expenditures for the current fiscal year. Events are moving with lightning speed. Plans are having to be reshaped and extended almost daily, and no man can foretell what we will be called upon to provide in the next nine months. As you know, since the War Appropriation Act was passed with its grant of $700 million for war purposes, we have made heavy additional commitments and these are constantly having to be added to. There will be some offsetting factors to these new obligations. There were some commitments in our earlier estimates which may not be required due to possible alterations in military formations which depend on the nature of the duties for which they may be needed. There will be certain modifications because in some cases the estimates were based on a rate of replacements assumed to be required by active warfare in France. There will be other items which will be superseded by the emergent measures of the last few weeks.

There are many factors which make even approximate calculation very difficult, but to give the house the roughest sort of idea, I would think that we are already committed for probably another $150 to $200 million for the fiscal year, and that such reductions as may take place in our original estimates due to changes in plans will probably be more than offset by further undertakings.

Turning now to make a forecast of our revenue, our estimate is that, assuming a continuance of present trends and no serious interruption of our export trade, our total revenues for the present fiscal year on the basis of our existing tax structure will amount to approximately $650 million. This estimate is made up as follows:

Tax revenue		
Customs duties	$132,000,000	
Excise duties	83,000,000	
Sales tax	170,000,000	
Other excise taxes	30,000,000	
Income taxes	166,000,000	
Excess profits tax (to be superseded)	nil	
Bank note circulation and insurance companies taxes	2,000,000	
Total tax revenue		$583,000,000
Non-tax revenue		
Post office receipts	$ 37,500,000	
Interest on investments	13,500,000	
Miscellaneous	16,000,000	
Total non-tax revenue		$ 67,000,000
Total ordinary revenue		$650,000,000

Our ordinary expenditures and the amount already authorized by parliament for war purposes total, as I have said, $1,148 million. We are faced, therefore, with a probable deficit, on the basis of our present tax structure, of at least $498 million plus an indeterminate amount which may easily bring that deficit up to $700 million. Consequently, it is necessary to answer boldly and realistically two questions:

First, what part of this probable deficit is to be met by taxation, and what part by borrowing?

The same question can be put in different terms. How can we take out of the rising national money income of this country funds for the purposes of war as rapidly as, but not more rapidly than, resources, equipment and labour can be diverted for those purposes? Or, at what rate should this diversion of funds be accomplished so that the output of our industry and of our man-power shall be expanded to the limit?

The second question which has to be answered is: How can the budgetary policy of the government help to conserve foreign exchange?

Neither the house nor the people of this country will expect financial miracles. They have a right, however, to expect that the financial measures recommended shall be appropriate to the critical situation in which the country finds itself and shall ensure a mobilization on the economic front which will achieve the very maximum effort of which this country is capable.

To answer the second question first:

I now outline the fiscal measures for promoting the conservation of foreign exchange. There will be two measures submitted with that definite purpose in view.

First, it is proposed that a war exchange tax of 10 per cent shall be imposed on the value for duty purposes of all imports, free and dutiable, from non-empire countries. The tax will be subject to drawback for export as in the case of customs duties.

The government is aware that there may possibly arise the odd case of real hardship where materials or parts used by Canadian producers will be subject to this tax while the finished products, entering tax free under the British preferential tariff, will actually compete with the Canadian-made finished product to such an extent that the 10 per cent exchange tax may make it impracticable commercially for the manufacturer of the finished product to continue production. Such cases if they are established can be dealt with under existing machinery relating to the remission of taxes. They will, it is safe to predict, be very few because the apparent trade advantage given to imports from Great Britain by this tax is small in comparison with the handicaps which the higher costs of war-time production in Britain and of ocean transportation will impose on such imports.

Though the purpose of this tax is primarily to conserve exchange, it is estimated that it will be productive of considerable revenue. The estimate is that in the first full year of operation it will yield $65 million, of which $50 million will be collected in the present fiscal year.

As this is intended as an exchange tax and not a protective duty, power will be taken to prevent unjustified increases in prices as a result of this tax. The policing of price increases will be under the war-time prices and trade board and any attempt to take advantage of the tax to increase prices other than to the extent justified by an increase, resulting from the tax, in the cost of raw materials or parts entering into the product, can be dealt with by appropriate measures applicable to the industry or the individual as the case may be. It would merely add to the post-war problems of adjustment if industry made plans for permanent production in Canada on the assumption that this special exchange tax would be permanent.

The other exchange measure relates to automobiles, both imported and domestic. It is proposed that, in place of the present small excise tax on automobiles of 5 per cent on the value in excess of $650, there be substituted a heavier tax on new passenger automobiles, steeply graded so as to be, it is expected, virtually prohibitive of the purchase of higher priced cars. It is this class of automobile which accounts for the major part of our imports of finished cars, and in so far as they are produced in Canada, they require the importation of parts and materials in higher proportion than the lower priced cars. This tax will effectively help to prevent the drain on our foreign exchange which these imports cause. The proposed rates of excise tax to be imposed on the manufacturers' price of Canadian-made automobiles and on the duty-paid price of imported automobiles are as follows:

On the value up to $700	10 per cent
On the excess over $700 and up to $900	20 per cent
On the excess over $900 and up to $1,200	40 per cent
On the excess over $1,200	80 per cent

This tax, which is on sales by manufacturers and importers, will extend to cover also sales by dealers of new and unused cars now in dealers' hands.

It can hardly be argued that there is any undue sacrifice imposed on the Canadian citizen in asking him to postpone the purchase of higher priced cars for the duration of the war.

But the tax is not limited to higher priced cars; it falls, in a decreasing scale, on lower priced cars most of which are made in Canada but have a certain percentage of imported content. Productive capacity in Canada, and I believe also in the United States, will be more and more taken up with work on war equipment. Our production of automobiles will necessarily therefore be restricted if war work is to have priority. While not at the moment cutting off all production of passenger cars, this tax will, it is believed, restrain the demand and tend to keep it in balance with lowered production without causing the increase in price which might result from curtailed productive capacity and unrestrained demand. It is expected that any surplus of labour either in manufacturing establishments or in garages occasioned by this tax will be absorbed by war needs for the production and servicing of mechanical transport and other equipment.

Here again, then, the primary purposes of the tax are to save exchange and to release productive capacity for war purposes without dislocation of industry. Revenue is only incidental and will be comparatively small. It is anticipated that in the first full year of taxation it will yield $3,500,000 in revenue, of which $1,500,000 will be collected in the present fiscal year.

In addition to these two substantive measures of a fiscal character for conserving exchange the government through the policies of the Department of Munitions and Supply and through the operation of administrators appointed under the Wartime Prices and Trade Board, is also endeavouring to save foreign exchange in its own operations, and it may, from time to time, in respect of certain classes of civilian imports, take other measures of a non-fiscal character for the purpose of meeting this vital need as circumstances seem to require.

I should add here that there is one important way in which our supplies of foreign exchange may be increased. Canada is fortunate in the strength and extent of her gold mining industry which in the last eight years has shown such a rapid expansion. Further expansion of output is the most immediate and important means at hand for directly augmenting our supplies of foreign exchange, and I think I can appeal with confidence to those engaged in producing gold to put forward every effort to increase their production as rapidly as possible.

In this connection I am glad to acknowledge assurances already from a number of important companies that it will be their policy to step up production as far and as fast as conditions permit. I realize that the rate of increase which is practicable will vary with the differing conditions at different mines, but I feel sure that the directors of each enterprise in the industry will review their situation and adjust their production policy in the light of the present need.

Even larger than our gold as a source of foreign exchange is the tourist industry that Canada has built up over many years. This year, the government provided for an increased appropriation to promote the expansion of this activity, but its effects may be at least partly offset by misinformation and misunderstandings regarding recent regulations and by unfounded rumours that have been circulated. Nearly every Canadian can help to increase our receipts of foreign exchange by stamping out these mischievous rumours and by encouraging our friends in the United States to visit us in Canada. This country is ready and anxious "to be a good host to a good neighbour".

We all should take particular pleasure in seeing that friendly visitors to this country are treated with the courtesy and cordial interest due to good and sympathetic neighbours, and that they are made to feel that we appreciate their coming. At no time have our friends from south of the border been more welcome, and we shall do everything we can to see that their coming to us and their stay with us is made as convenient and comfortable and enjoyable as it possibly can be. We want them to go back with the happiest recollections of their neighbourly visit to Canada.

The result of the two fiscal measures which I have outlined, namely, the war exchange tax and the automobile tax, will not be to reduce our total imports of merchandise from non-empire countries, of which the chief is, of course, the United States. As a matter of fact, these imports will, due to our war requirements, be greater than ever, but the important result of these measures will be that out of the total supply of foreign exchange which we can obtain by the export of our products, by the export of gold, by the sale of our tourist services, the maximum possible amount shall be made available for those purchases abroad of industrial materials, machinery and instruments of war which the imperious needs of war dictate.

As I have explained, these proposals for conserving exchange are dictated by the conditions of the present emergency. Needless to say, we regret that the exigencies of war make any such restrictive action necessary, and our fervent hope and firm resolve are that at the earliest possible moment we may be able to return to the long-run policy of this government, which is that of the progressive lowering of trade barriers and the encouragement of trade not only with the United States but with all peaceful nations. The government remains in fullest accord with the trade agreements programme in which Canada has cooperated with the United States, Great Britain and other countries, and has no intention or desire to alter by these emergency measures the permanent channels of trade.

The war exchange tax is peculiarly an emergency measure. It is of the type provided for by the war clause of the Canada-United States Trade Agreement, and action is taken under that clause. The operation of this proposed measure will, accordingly, end with the war.

I now come to the measures designed primarily for revenue. The first one is a new Excess Profits Tax Act. At the brief session of last September, parliament enacted a statute of this type. Under that legislation, a business to which the tax applied had the option to be taxed on either of two bases. Under option A, the tax was graduated according to the rate of return on capital. Under option B, the tax was fifty per cent of the excess of profits in the taxable year over those of a four-year pre-war base period. The tax was payable only in respect of profits of the year 1940 and fiscal years ending after March 31, 1940. Up to the present, no taxes have been collected under this act because the tax is not payable until four months after the end of a firm's fiscal year.

As I have already stated, this act was quickly drafted and placed on the statute book last fall in order to indicate one of the forms of war taxation which the government was adopting. In the brief time available it was impossible to give this form of taxation, new to Canada, the intensive and detailed study required to envisage its application under the varying conditions existing here. On further examination one main feature which appeared to be undesirable was the right of the taxpayer to choose between the two options. In the light of actual conditions it was found that many established firms would pay little or no tax, while others which had not been in business prior to the war, or had been operating in a depressed industry, or were undergoing rapid expansion, would be subject to what appeared to be unwarranted discrimination. There were many other situations both of substance and administration which required review. And so since the passing of the act in September the measure has been thoroughly overhauled and, as I intimated publicly over four months ago, very extensive amendments will be proposed and we have decided to recast the whole act. The new measure will be much more drastic but at the same time its application as between various industries and firms will be far more equitable.

I shall not attempt to summarize all the changes to be effected by the bill which will be submitted, but I should outline some of the main features of our proposals:

(1) Option A will be dropped altogether and we will instead rely wholly on the general principle of the British act which was also the principle followed in option B of the old act. On this basis we will increase the tax from 50 per cent to 75 per cent on the excess of profits in any taxable year over those earned in the base or standard period.

(2) In order to ensure that no profitable business will escape taxation, it is proposed that in no case of an incorporated company shall the excess profits tax, when combined with the corporate income tax, be less than 30 per cent of the company's total profits, whether or not such profits exceed pre-war profits. It will be remembered that the corporation income tax is 18 per cent.

The same result is achieved in the case of unincorporated businesses by provision that the excess profits tax shall never be less than 12 per cent of the total profits, whether or not such profits exceed pre-war profits.

(3) There will be a number of provisions for adjusting the base or standard profits in the case of newly established businesses, businesses whose capital employed or whose scale of operations has been or is rapidly expanding, and businesses operating in depressed industries whose base years show losses or abnormally small profits.

(4) In order that firms may not receive discriminatory treatment because their fiscal years happen to end on different dates it will be recommended that the tax in respect of all businesses shall apply to profits earned on and after the same date, namely, January 1, 1940, regardless of the expiry date of their fiscal year.

(5) The tax will not apply to businesses whose profits are not in excess of $5,000, and allowance will be made for drawings in lieu of salaries not in excess of $5,000 by sole proprietors or partners.

(6) To assist in carrying out these provisions fairly and realistically, the appointment of a board of referees will be proposed.

(7) In connection with the gold mining and the oil producing industries a different basis of adjusting base or standard profits appears necessary to deal with new and expanding companies. In the present emergency, as I stressed a little earlier, it is considered desirable to encourage the development of these natural resources, particularly because of their effect in directly increasing our supplies of hard currency exchange or in decreasing our requirements therefor.

These industries also require the risking, and very often the losing, of large amounts of capital in exploratory and development work before production commences. The results obtained from these expenditures are inherently erratic, depending on the possibility of a "lucky strike." If a "strike" is eventually made, increases in the scale of production or recovery are not closely related to increases in the amount of capital employed.

Consequently, for the purpose of adjusting standard profits in the case of expanding operations, the basis used will be not capital employed but number of units of output. In the case of a new development, standard profits will be calculated by taking into account the number of units of output in the taxable year and the average price of the product during the base period.

All companies in the gold mining or oil producing industries (except companies exempted temporarily from corporate income tax under section 89 of the Income War Tax Act) will, however, as in the case of all other companies, pay in excess profits tax and corporate income tax combined a minimum of 30 per cent of the total profits, whether or not such profits exceed pre-war profits.

You can readily appreciate how difficult it is to forecast the yield of a tax such as this, but our rough estimate is that in a full year's operation the excess profits tax will yield about $100 million, of which approximately $25 million will be collected during the current fiscal year.

The next revenue measures proposed apply to individuals. They are:

First, sharp increases in the personal income tax by a revision upwards of rates throughout the whole range of taxable incomes and a lowering of exemptions;

Second, an over-riding flat rate tax, collectable at the source in most cases, in respect of all taxable incomes and including lower incomes than those covered by the income tax itself.

I will deal first with our proposals relating to personal income tax. This is the tax which in principle most nearly approximates ability to pay. We realize that increases in indirect taxes disguise the burdens imposed by the war but they are much more likely to distribute these burdens harshly and unfairly. While increases in such taxes may eventually be necessary, we are striving in this budget to deal with the situation (except in the case of particular commodities or where exchange considerations make special measures necessary) by a direct call on our citizens graded according to their means and responsibilities. We believe that a straightforward assessment of the contribution to the common cause will be loyally accepted and paid as a small price for the preservation of our liberties. Following out that principle, the government has, therefore, decided to submit not an increase in the sales tax but heavy increases in the direct tax on individual incomes.

In establishing the new rates, we have been limited by two insistent considerations. It would be popular, if it were practicable and possible, to pay the stupendous costs of war by imposing taxes only on those earning higher incomes. The stubborn fact is there is not enough income in the so-called higher brackets to produce more than a small fraction of the necessary revenue.

On the basis of 1938-39 figures, the latest which are available, the total of all incomes above $50,000 was only $35 million, and, under present rates, the tax on these would amount to $20·5 million leaving only $14·5 million available for provincial and municipal taxes and any further taxation by the dominion—to say nothing of living expenses and personal obligations. Similarly, in the group from $25,000 to $50,000, the aggregate income was only $32 million, of which taxes at the present rates would take about $10·8 million, leaving only $21·2 million. Finally, it has to be noted that the total assessed income of all persons liable to income tax in the year 1938-39 was only $730 million, and if we took from all these people the whole of their incomes in excess of $2,000 a year we should obtain only $114.5 million more than we would get on these incomes at existing tax rates. When we compare these disappointing amounts of aggregate income available in these various income brackets, however drastically we might tax it, with the $700 millions and upwards of war expenditure, to say nothing of the further expenditures of $448 million on ordinary account, it is clear that we cannot go far to meet the costs of the war simply by taxing large incomes, or even those of moderate size.

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

There will, however, be no class in the community which will not recognize the necessity of bearing some part of the war burden. In the past our exempton limits have been considerate, to say the least. No income tax whatever has been paid by the single person receiving less than $1,000 per year or by the married person receiving less than $2,000 per year. In addition, the married person got a further exemption of $400 for each child. Our rates of tax in the low and middle income groups have been low, very low indeed as compared with the rates on comparable incomes in the United Kingdom. While the increases in rates I have to propose will be substantial when expressed as a percentage of the comparatively low taxes formerly paid, the increase in the dollar amount per individual is not unduly large and will, I am confident, not be regarded as an undue burden when contributed to meet the situation which faces us all.

It is proposed that exemptions under the graduated Income Tax—that is, our present personal income tax act—which, as I have said, are at present $1,000 for single persons and $2,000 for married persons, be reduced to $750 and $1,500 respectively. The exemption for each dependent child is left, as at present, at $400. Under the proposed rates, the taxpayer, on the first $250 in excess of the exemption, will pay 6 per cent instead of the present initial rate of 3 per cent. On the next $750 of income the proposed rate is 8 per cent, and on the next $1,000 in excess of exemptions 12 per cent, and so on upwards. In the past dependence on indirect taxation has left incomes which were just above the exemption limits taxable at very low rates, and, hence, the increases are necessarily proportionately greater on the groups receiving incomes between the exemption limit and, say, $10,000, than on those receiving higher incomes Nevertheless, the rates on high incomes already steeply graduated, have also been increased as much as we consider they can practicably be increased, having regard to the taxes levied on these same incomes by certain provinces and municipalities.

I may add that we have at the same time simplified the structure of income tax rates by doing away with the old 5 per cent surtax and the 20 per cent war surtax imposed last fall and substituting therefor a schedule of higher rates throughout the whole range of incomes.

I come now to the second revenue measure applicable to individuals—and I think I should deal with this measure and then give the house illustrations of how the two measures combined work out in connection with individual incomes:

To supplement the graduated income tax we propose a national defence tax at a flat rate applicable to all incomes above $600 for single persons and above $1,200 for married persons. The rate of tax for married persons will be 2 per cent if the income exceeds $1,200, and for single persons the rate will be 3 per cent if the income exceeds $1,200 and 2 per cent if the income exceeds $600 and is not more than $1,200. But there is a proviso that in no case will the income of the taxpayer be reduced below $600 or $1,200 as the case may be. For dependent children, a deduction from tax equal to the rate of 2 per cent on the usual $400 exemption for each dependent child is to be allowed. Thus, a married person with an income of $1,400 and three dependent children would be liable to a tax of $28 (2 per cent of $1,400) minus $24 in tax credits for children, leaving $4 as the tax payable.

As far as it is administratively practicable this tax will be collected at the source. Thus employers will deduct the tax from the employee's earnings when the pay is at the rate of $600 per year in the case of unmarried employees and $1,200 per year in the case of married employees, and companies will deduct the tax from dividends and interest on registered corporate bonds. In cases where the full amount payable has not been deducted and in all other cases where the annual income amounts to or exceeds the minimum amounts of $600 or $1,200, as the case may be, the taxpayer is required to make a return as in the case of the graduated income tax.

It is recognized that there will be a good deal of additional work for employers and their staffs in making deductions and returns, and provision will be made toward reimbursing employers for expenses so incurred. Employers, however, can by their cooperation and interest help greatly in working out the methods to be adopted and in making the system operate efficiently and fairly and with a minimum of inconvenience both to their employees and to themselves. I feel sure that under the circumstances we can count upon the full cooperation of employers in this additional task which they are called on to perform in the national interest at this time.

It might be useful if I now gave a few examples showing how the new income tax rates taken along with the national defence tax which I have briefly described will affect certain classes of taxpayers. Let us take the case of the single person, with no dependents, earning $800 a year. Under our existing income tax law he would not pay any income tax since he is at present exempt up to $1,000. Under the legislation just proposed, however, the $800 single man will be required to pay the national defence tax of 2 per cent of his total earnings which is $16, and under the income tax he would pay 6 per cent on the amount of his income in excess of $750, which is the new exemption figure for income tax purposes. This income tax would thus amount to $3 (6 per cent of $50). Consequently, his total tax per year would be $19 where previously he paid no tax.

A single man with no dependents earning $1,500 would pay $100 under the new proposals where he now pays only $18.

A married man with no dependents earning $2,000 is at present just on the exemption line, and pays no tax. Under the new set-up his tax bill will be $75.

Perhaps some hon. members would be interested in knowing how the new measures will affect the position of a married man with an income of $4,000 a year. Under our existing tax he pays $84; under the new measures he will pay $355. If he has two children he will pay $223 under these new taxes compared to $45.60 under the present tax. A single man with the same income now pays $144, and under the new measures he will pay $525.

To illustrate the effect of the changes in the case of higher incomes, a married man, with no dependents, having an income of $20,000, pays $3,112 under the present tax, and will pay $6,530 under the new taxes. With an income of $200,000 he pays the dominion $103,698 under the present rates, and under the new taxes he will pay $119,430 or 59·7 per cent of his income. Adding provincial and in certain cases municipal income taxes as well, we find that the latter married man with no dependents, if he lives in Ontario, will pay $129,679 or 64·8 per cent of his total income; if he lives in Montreal, he will pay $149,516 or 74·8 per cent of his total income; and if he lives in British Columbia, he will pay $170,425 or 85·2 per cent of his total income.

Let me give a few additional illustrations to show the relative burden of our new rates as compared with the British income tax rates. Take a married man with no dependents living in Ontario. If he receives an income of $1,000, he will pay no tax in Canada—that is, he is under the exemption limits provided for by the national defence tax ($1,200 for married men) and by the regular income tax ($1,500 for married men)—while his British cousin in like circumstances would pay $14.31. If his income is $1,500, he will pay 33 per cent of the amount he would pay in Britain; if it is $4,000, he will pay 46 per cent of the British tax; if it is $10,000 he will pay 71 per cent of the British tax; if it is $200,000 he will pay 86 per cent of the British tax; and finally, if he should have an income of $500,000, he will pay 94 per cent of what he would have to pay in Britain. If he happened to live in certain other provinces, his total tax would be a considerably higher percentage of the comparable British tax and in the higher brackets of income would in some cases exceed the United Kingdom tax. Thus, a married man with no dependents and an income of $50,000, living in Quebec, would pay 107 per cent of the British tax, and if he were living in British Columbia he would pay 114 per cent of the British tax. If his income were $200,000 he would pay 99 per cent of the British tax if he lived in Quebec, and 113 per cent of such tax if he lived in British Columbia.

It is anticipated that the increases in the income tax will contribute $58 million of new revenue in a full year of operation, but none of this will be available in the current fiscal year. It is estimated that the national defence tax will provide $35 million additional revenue in a full year but only $20 million in the current fiscal year. To make it quite clear let me emphasize that this national defence tax is the only direct tax imposed by the dominion on unmarried persons with incomes from $600 up to $750 per year and on married persons with incomes from $1,200 up to $1,500 per year. On incomes of $750 and up in the case of single persons and of $1,500 and up in the case of married persons, both the income tax and the national defence tax apply.

For the convenience of hon. members, I shall now table a statement showing for a number of different incomes the amount of tax payable to the dominion under the existing income tax, the amount payable under the new income tax rates and the national defence tax combined, the total amount payable to the dominion combined with the amount payable in each of the several provinces where income taxes are imposed, and the percentage of the British tax which a man living in Ontario would pay in dominion and provincial taxes combined:

INCOME TAX COMPARISONS

(Married Persons with No Dependents)

Income	Present Dom. Tax	New Dom. Tax with Nat. Def. Tax	New Dominion Tax Plus National Defence Tax Plus Income Tax Payable in							United Kingdom Tax (£1=$4.45)	New Dom. Tax with Nat. Def. Tax and Ont. Tax as % of U.K. Tax
			B.C.	Alta.	Sask.	Manitoba	Ontario	Prov. Que. and Montreal	P.E.I.		
	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	%
$ 1,500	....	30 00	35 00	30 00	30 00	45 00	30 00	30 00	32 50	141 00	21·3
2,000	....	75 00	85 00	85 00	86 50	103 90	75 00	83 75	85 73	328 50	22·8
3,000	36 00	195 00	225 00	230 00	236 50	251 70	207 97	228 75	227 30	703 50	29·5
4,000	84 00	355 00	415 00	425 00	427 00	440 55	384 50	437 50	416 87	1,078 50	35·7
5,000	144 00	555 00	655 00	670 00	667 50	678 34	603 62	714 25	653 83	1,453 50	41·5
10,000	781 20	2,170 00	2,675 00	2,660 00	2,658 25	2,532 60	2,336 35	2,859 50	2,475 10	3,550 07	65·8
15,000	1,789 20	4,330 00	5,590 00	5,445 00	5,450 88	4,996 60	4,643 35	5,740 50	4,816 00	5,993 83	77·5
20,000	3,112 20	6,530 00	8,895 00	8,555 00	8,546 00	7,582 70	7,030 90	8,675 50	7,413 40	8,715 07	80·7
30,000	6,514 20	11,200 00	15,375 00	15,900 00	15,443 05	13,230 40	12,175 00	14,910 00	12,652 00	14,796 31	82·3
50,000	14,351 40	21,610 00	30,605 00	32,310 00	30,937 15	25,980 09	23,721 80	28,823 50	24,424 00	26,943 19	88·0
75,000	25,880 40	36,065 00	52,060 00	54,265 00	52,928 53	43,298 12	39,561 55	48,162 75	39,983 50	46,216 94	85·6
100,000	39,299 40	51,520 00	74,515 00	77,220 00	77,232 40	61,586 54	56,382 20	68,424 00	56,443 00	66,547 56	84·7
150,000	70,043 40	84,475 00	121,470 00	125,175 00	129,597 18	100,168 37	92,044 00	107,770 00	91,202 50	108,265 69	85·0
200,000	103,698 00	119,430 00	170,425 00	175,130 00	183,977 18	140,711 25	129,679 75	149,516 00	127,762 00	150,765 69	86·0
500,000	334,656 00	357,235 00	492,230 00	502,935 00	538,332 18	407,257 58	381,103 30	433,682 00	372,386 50	405,765 69	93·9

It is on the foregoing taxes that we depend for the bulk of the necessary increase in revenue, but there are a number of other changes, some of which will contribute substantial sums to the treasury and some of which are proposed largely as readjustments of unsatisfactory situations.

Smokers' supplies are again made the subject of tax increases. It is proposed that the excise tax on matches shall be increased from three-quarters of a cent to one cent per hundred. It is further proposed that the excise tax on cigarettes weighing less than two and a half pounds per thousand shall be raised to $6 from the present rate of $5. The rate on manufactured tobacco is to be increased from 25 cents to 35 cents per pound. To prevent a substantial decline in the revenue from cigarettes and cut tobacco because of these high rates, it has been necessary to impose a tax of 10 cents a pound on the sale of raw leaf tobacco and to increase the tax on cigarette papers and tubes from 2 cents to 5 cents per hundred. The tax on raw leaf tobacco will only apply on sales to consumers. The grower may sell to the merchant or dealer or manufacturer without tax. The rates under the Special War Revenue Act on cigars will also be increased. It is estimated that in a full year these new or increased rates will yield $15,540,000 of new revenue, of which $11,680,000 will fall in during the present fiscal year.

It is proposed that the present excise tax on automobile tires and tubes shall be increased from 2 cents and 3 cents per pound respectively to 5 cents and it is anticipated that from this change $1,100,000 in revenue will be derived in a full year and $825,000 in the current year.

It is proposed that a new excise tax of 10 per cent will be imposed on radios, radio tubes, cameras and phonographs. While this is in the class of sumptuary taxes there is the further consideration that the resources used in the production of most of these products are of a type suitable for producing war supplies and it is expected that such manufacturing capacity as may be affected by any lessening or lack of increase in demand due to this tax will prove useful in war work. It is estimated that the approximate yield of this tax will be $1,500,000 in the full year and $1,100,000 in the current fiscal year.

There are proposed also a number of readjustments in taxes. Since the sales tax on dressed and dyed furs is imposed at the initial point of processing and not on the finished fur garment, it is proposed that the rate be 12 per cent rather than 8 per cent as at present in order more nearly to equalize this tax with the 8 per cent sales tax which is imposed on finished cloth garments. The present exemptions under the sales tax for home canners and for farmer florists are to be restricted to fixed quotas so as to facilitate administration in confining the benefit of the exemptions to bona fide farmers. The tax on carbonic acid gas which last September was proposed to secure revenue from the soft drink trade is to be increased from 2 cents to 5 cents per pound. These revisions, it is estimated, will yield $550,000 in the full year, and $415,000 in the current fiscal year.

In addition to the major features of the budget programme which I have outlined, there will also be found in the resolutions a number of proposed amendments to our taxing statutes which either involve tax changes of a minor nature or are designed to remove anomalies and facilitate administration. For instance, in the income tax resolutions there will be a provision for clarifying and extending the definition of income to cover payments made to life annuitants under purchased annuity contracts, and the exemption now accorded to dominion government and like annuities up to $1,200 per year will be removed in respect of all new contracts. Also in order to prevent evasion of either the income tax or the excess profits tax it is proposed to give power to the treasury board to rule in any specific case that a transaction or reorganization has been of a specious character designed to avoid or minimize taxes and that therefore the taxpayer should be assessed without regard thereto.

With regard to the customs tariff: five reports from the tariff board will to-day be laid on the table. The reports on cyanides and firebrick and the two on aircraft arise out of the reference made to the tariff board on December 5, 1938. This reference instructed the board to revise the whole of the drawback schedule. The items now being reported upon relate to industries connected with our war effort. The report on the radio industry reiterates most of the recommendations made in the earlier report on this subject presented to parliament during the first session of 1939 and provides for the widening of the scope of the existing tariff items covering parts and materials of radio receiving sets and radio tubes.

The tariff changes to be announced to-day, implement the recommendations of the tariff board as shown in the reports now tabled and apart from these affect only five commodities. One of the amendments proposed provides for duty-free entry of sodium nitrates, regardless of the purpose for which imported. This material is now being used in connection with the production of alloys for steel but the existing duty-free provision did not cover this use. Material for use in the manufacture of nicotine sprays will henceforth be admitted duty free. Forgings for the manufacture of scissors and shears will be admitted at the special rates now applicable to blanks for knives, forks and spoons. The proposed amendment of the item covering dressed lumber permanently removes an anomaly temporarily taken care of by an item due to expire on July 1, 1940. The only other tariff change provided for continues the reduced rates of duty that have applied for several years to imports of rayon fabric now being used in the manufacture of certain rubber tires.

The measure enacted during the special session last September, providing for additional duties of customs, is being amended. The additional duty on manufactured tobacco of all descriptions, except cigars, cigarettes and snuff, is increased from 5 cents per pound to 15 cents per pound, and the additional duty on cigarettes is increased from $1 to $2 per thousand. These increases are necessary to correspond with the additional excise duties which I have announced as applicable to domestic tobacco items.

In the case of tea, while no change is being made in the actual rates of additional duties imposed last September, the value brackets are being lowered to bring a greater quantity of the imports of tea within the scope of the tax of 7½ cents per pound. Previously the lowest rate of tax, 5 cents per pound, was allowed where the value was less than 35 cents per pound. Under the proposed change only tea valued at less than 22½ cents per pound will be entitled to the low 5 cents per pound rate. The two remaining value brackets are also reduced accordingly.

I may summarize the results of the new and increased taxes which we are recommending by stating that we expect them to produce an increase in revenue of approximately $280 million for a full year. Of this total it is expected that about $110 million will be paid into the treasury during the balance of the current fiscal year. The house will realize how difficult it is under present conditions to predict with any degree of precision the yield of some of these new taxes. But I give below the results of such estimates as we have been able to make:

	Full year	Balance of current fiscal year
Excess profits tax	$100,000,000	$ 25,000,000
Graduated personal income tax	58,000,000	nil
National defence tax	35,000,000	20,000,000
War exchange tax	65,000,000	50,000,000
Automobile excise tax	3,500,000	1,500,000
Taxes on tobacco and smokers' supplies	15,500,000	11,700,000
Taxes on radios, radio tubes, cameras and phonographs	1,500,000	1,100,000
Taxes on tires and tubes	1,100,000	800,000
Other excise taxes	500,000	400,000
	$280,100,000	$110,500,000

Earlier this afternoon I estimated $650 million as the probable revenue for the present year without increases in taxes. Adding the $110 million which we expect to receive as a result of these new taxes, we get a total estimated revenue of $760 million. This may be increased somewhat as a result of prepayment of taxes because a number of individuals and corporations have already reported that they intend to make instalment payments in advance on account of their taxes which will not be due until next April. We can therefore take the figure of $760 million as a conservative estimate of our aggregate revenues.

Taking our expenditures at $1,148 million, our over-all deficit for the year would amount to $388 million, but that assumes that our war expenditures will not exceed the $700 million war appropriation already voted by parliament. There are still the further war commitments already made which I have roughly estimated at another $150 million to $200 million, and these will not be all. This means that in spite of the very heavy increase in taxes which I have proposed, it is not safe to count on an over-all deficit less than from $550 million to $600 million. This will be a staggering deficit, larger indeed than our total governmental expenditures during the depression years.

Whatever the total deficit may be, it will have to be met by borrowing except to the extent of cash on hand. We shall also have to raise funds to continue the repatriation programme which I have already described if we assume that the amount on this account will be of the order of $200 million, we may conclude that our total cash requirements for the year will be roughly of the order of $750 million to $800 million. However, we began the year with cash in hand of approximately $187 million and as a result of the sale of war savings certificates and stamps we expect to raise during the balance of the year approximately $50 million. This would leave approximately $550 million to $600 million to be raised by the issue of new long-term loans. These are impressive sums but I know that they are not beyond the capacity of our markets to absorb under the conditions of expanding business and rising national income which I believe we have every reason to expect. I repeat, the limits of our war programme are not fiscal, but physical, mental and moral.

In the foregoing calculations I have, you will note, included in revenue only the yield of the new and increased taxes which we expect to be actually paid into the treasury before March 31st, namely, $110 million. But all our tax proposals relate to incomes, profits or transactions that will be earned or made during the current fiscal year. Not for the purpose of government accounting but in order to learn the answer to the question which I posed earlier this afternoon as to the relative reliance we intend to place on taxation and borrowing, it would be appropriate to take into account the total yield of our new or increased taxes, whether or not the proceeds will be actually received before the end of the fiscal year. On this basis we would add to the $650 million estimated as the probable total revenue from our existing tax structure during the year, the whole $280 million which is the expected yield of the new or increased taxes which I have proposed, making a total of $930 million instead of $760 million. This would mean that if our total war expenditures should amount to $900 million, the programme which we are proposing is designed to secure for such war expenditures from tax revenues the sum of $482 million (that is, the difference between the figure of $930 million I have just given and $448 million of anticipated government expenditures on non-war activities). As compared with this $482 million, there would be left a gap of $418 million to be financed by borrowing or by cash already in hand. I think the house will agree that a very serious effort is being made to carry the pay-as-you-go policy as far as is practicable. Of course, this comparison of the relative amounts to be provided by taxation and by borrowing will be less favourable if our war expenditures exceed $900 million.

It is natural, Mr. Speaker, that comparisons should be made between the new tax rates and rates previously levied, and such comparisons will reveal great increases, particularly in income taxes, corporation and personal. But there are some other considerations which should be remembered. In the first place, we have not, in the lower and middle brackets at least, come near to the levels of income tax imposed in the United Kingdom. In the second place, there is every likelihood that during the present fiscal year our national income may be expected to show a very substantial increase. The government will be pouring into the income stream many hundreds of millions of dollars, while much of the taxes payable under the measures we propose will not be withdrawn from incomes until late this year, or in some cases until next year. Thirdly, with rising incomes, taxes even of this degree of severity can be borne without deprivation, and their imposition at this time will avoid the necessity of still heavier increases in taxation in the days after the war when incomes may be falling.

Fourthly, to those who may have any fear of the effects of these taxes on business in this country, I say that businessmen and individuals alike must strain every nerve to meet the needs of this hour. The taxes herein imposed on business are heavy taxes, but for the most part they fall on profits, and the more we can find practical means of paying as we go, the more we will improve the long-run outlook for business as well as individual prosperity in this country.

The proposals, Mr. Speaker, which I have outlined are an attempt to help to meet the crisis in terms of taxation. They bear upon all classes in the community. If the taxation provisions are the most drastic which have ever been imposed upon this country, they are certainly no more drastic than the present hour and the present need demand. The future may well demand still more.

I ask those who think that they are too drastic to bring both their common sense and their idealism to the rescue of their opinions. Common sense will ask them what will become of their property or incomes if Germany and Italy should conquer the British empire. Idealism will teach them that money and material things are as nothing compared with the freedom and the dignity which it alone can bring as a benediction to the life of man.

At this time everything which we treasure and the survival of the things of the spirit and mind and soul which are the most precious of all, will depend upon the willingness and the capacity of men of our blood and kith and kin to endure and to die.

We who remember our fathers and know our sons have no cowardly doubts or weak misgivings.

I will not dishonour the word sacrifice by applying it to anything except the gift of life itself. But, knowing the Canadian people, I am confident that they will shrink from no contribution to insure to the soldiers and sailors and airmen of Britain and Canada all the machines and equipment which can be produced or procured.

The overwhelming majority of men and women of the sturdy races which make up Canadian citizenship are at their best in days of trial.

A farmer offers me the total proceeds of his four-hundred acre wheat crop, and all the increases of his live stock for Canada's war chest.

The wife of a small wage earner begs me to place a heavy income tax on her own small income.

A small industrial firm agrees to give all its profits for the duration of the war.

A veteran of 1914, with a disability pension of $47 a month as the sole income of a family of five, sends me all he has to give, a collection of old coins, and the caretaker of one of our militia armouries sends me $20 each month.

With such examples to challenge and inspire us, I cannot believe that any man in Canada will complain about his burden, or by greed, panic or selfish fear, betray his Canadian citizenship in the hour of Canada's need.

Britain is giving her blood, her treasure, her all. We proudly share her courage, her sacrifice and her unshakeable resolution. Britain will not fall. Freedom will not perish, and Canada will fail neither the commonwealth nor the cause.

RESOLUTIONS

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

INCOME WAR TAX ACT

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

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

A.—Rates of Tax Applicable to Persons other than Corporations and Joint Stock Companies

On the first $250 of net income or any portion thereof in excess of exemptions 6 per centum or

$15 upon net income of $250; and 8 per cent upon the amount by which the income exceeds $250 and does not exceed $1,000 or

$75 upon net income of $1,000; and 12 per centum upon the amount by which the income exceeds $1,000 and does not exceed $2,000 or

$195 upon net income of $2,000; and 16 per centum upon the amount by which the income exceeds $2,000 and does not exceed $3,000 or

$355 upon net income of $3,000; and 20 per centum upon the amount by which the income exceeds $3,000 and does not exceed $4,000 or

$555 upon net income of $4,000; and 24 per centum upon the amount by which the income exceeds $4,000 and does not exceed $5,000 or

$795 upon net income of $5,000; and 27 per centum upon the amount by which the income exceeds $5,000 and does not exceed $6,000 or

$1,065 upon net income of $6,000; and 30 per centum upon the amount by which the income exceeds $6,000 and does not exceed $7,000 or

$1,365 upon net income of $7,000; and 33 per centum upon the amount by which the income exceeds $7,000 and does not exceed $8,000 or

$1,695 upon net income of $8,000; and 35 per centum upon the amount by which the income exceeds $8,000 and does not exceed $9,000 or

$2,045 upon net income of $9,000; and 37 per centum upon the amount by which the income exceeds $9,000 and does not exceed $10,000 or

$2,415 upon net income of $10,000; and 39 per centum upon the amount by which the income exceeds $10,000 and does not exceed $20,000 or

$6,315 upon net income of $20,000; and 41 per centum upon the amount by which the income exceeds $20,000 and does not exceed $30,000 or

$10,415 upon net income of $30,000; and 44 per centum upon the amount by which the income exceeds $30,000 and does not exceed $40,000 or

$14,815 upon net income of $40,000; and 47 per centum upon the amount by which the income exceeds $40,000 and does not exceed $50,000 or

$19,515 upon net income of $50,000; and 50 per centum upon the amount by which the income exceeds $50,000 and does not exceed $75,000 or

$32,015 upon net income of $75,000; and 53 per centum upon the amount by which the income exceeds $75,000 and does not exceed $100,000 or

$45,265 upon net income of $100,000; and 56 per centum upon the amount by which the income exceeds $100,000 and does not exceed $150,000 or

$73,265 upon net income of $150,000; and 59 per centum upon the amount by which the income exceeds $150,000 and does not exceed $200,000 or

$102,765 upon net income of $200,000; and 63 per centum upon the amount by which the income exceeds $200,000 and does not exceed $300,000 or

$165,765 upon net income of $300,000; and 67 per centum upon the amount by which the income exceeds $300,000 and does not exceed $400,000 or

$232,765 upon net income of $400,000; and 72 per centum upon the amount by which the income exceeds $400,000 and does not exceed $500,000 or

$304,765 upon net income of $500,000; and 78 per centum upon the amount by which the income exceeds $500,000.

2. That the additional rate of tax applicable to all persons other than corporations and joint stock companies in receipt of income in excess of $5,000 in the amount of five per centum, be repealed.

3. That the war surtax of twenty per centum as enacted by sections two, three and four of chapter 6 of the 1939 statutes (second session), be repealed.

4. That the statutory exemption of a married person and other persons with dependent relatives as set forth in paragraph (c) of subsection 1 of section five of the act be reduced from $2,000 to $1,500.

5. That the statutory exemptions of all other persons except corporations, be reduced from $1,000 to $750.