

such a way as to cause the minimum interference with production in essential industries. The registration will also be used as a source of information on manpower available for other essential work in war-time.

The war economic organization as at June 30 is shown in the chart at p.xxxiii.

**The Financing of Canada's War Effort.**—Since the War of 1914-18 Canada has become much stronger financially and, indeed, has now a well-developed and relatively mature financial system, both public and private. The keystone of this structure was placed in 1935 by the establishment of the Bank of Canada. On entering this War the Dominion had, therefore, sufficient financial machinery to carry out the heavy tasks that war demands. Canadians have learned not only to save but to invest their savings through the strong financial institutions, such as banks, insurance and trust companies, and also directly in bonds and shares. They are more able now than in 1914 to understand readily and to respond to what is required of them financially. Moreover, far more is known about the country's financial capacity, due to the valuable statistics that are collected and published. The statistics show, among other things, that in recent years Canada has been able to export substantial amounts of capital which have been used, in the main, to reduce indebtedness abroad.

The major financial problem of the War is, of course, to obtain the money to pay the cost of equipping and maintaining the Canadian forces. In addition, however, Canada has undertaken to assist the United Kingdom in obtaining the Canadian dollars needed for British purchases in Canada. While the United Kingdom is able to pay for a large part of what she buys in Canada either with the proceeds of her sales to Canada, or with cash, there is a considerable excess to be paid for otherwise. Canadian dollars for the payment of this excess are provided by the repatriation of securities, under arrangements by which Canada buys back or reduces in dollars Canadian securities that have been held in London. Most of this process is carried out directly by the Governments, the Canadian Government raising Canadian dollars and paying them to the British Government in return for the securities that the British Government obtains in the United Kingdom and is able to pay for there in sterling.

At the emergency session of Parliament in September, 1939, an appropriation of \$100,000,000 was passed to cover war expenditures, and with this was lumped the unexpended funds of the Department of National Defence that had been voted at the first 1939 session. The first War Budget, which was brought down on Sept. 12 by the Minister of National Revenue, set forth the general policies of war finance that the Government proposed to follow, and introduced the first war taxes. The general policy outlined was to meet as much of the costs of the war by taxation as was possible without interfering with the volume and efficiency of production, and to meet the balance of the cost by borrowing the savings of the people at interest rates that would not be materially different from those of peace time. It was noted however, that in the early months of the war financial policy must be directed to encouraging a rapid increase of employment and production. In this Budget moderate increases were announced in income taxes and substantial increases were made in taxes upon certain luxuries and semi-luxuries, notably beverages and tobacco. An excess profits tax was enacted to divert to the Treasury a large part of increased profits arising from war-time conditions.

The first borrowing operation during the War was of a short-term character and was facilitated by a small and carefully controlled expansion in bank credit. The borrowing took the form of the sale to the chartered banks of 2-year 2 p.c. notes to the value of \$200,000,000. Of the proceeds of this issue about \$92,000,000