

The following paragraphs outline briefly the financial steps that have been taken, the governmental organizations created, and their principal activities.

The Financing of Canada's War Effort.*—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 was brought down on Sept. 12 by the Minister of National Revenue. This Budget included moderate increases in income taxes and substantial increases in taxes on 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.

When Parliament assembled in May, 1940, a War Appropriation of \$700,000,000 was passed to meet the costs in 1940-41 of the greatly extended war effort. Estimates submitted to Parliament for other expenditures amounted to \$448,000,000, showing a substantial reduction from the corresponding figure of \$525,000,000 in the previous year. The second War Budget, brought down on June 24, provided for substantial increases in taxes to meet a portion of these additional costs of war. The graduated rates of the personal income tax were raised very substantially and exemption limits were reduced. A National Defence Tax was introduced applying broadly to all persons receiving incomes of more than \$600 per annum. So far as possible, this tax is deducted at the source. The Excess Profits Tax was revised and made much more severe. In order to conserve exchange, a War Exchange Tax of 10 p.c. was imposed on all imports except those from the Empire. The excise tax on automobiles was made much more severe and steeply graduated in the upper brackets. The Minister of Finance estimated that these, and the other less important changes, would produce an increase of \$280,000,000 in tax revenue in a full year.

War expenditures were relatively low during the first eight or nine months of the War, when war activities were in the organization phase. They rose rapidly thereafter and by the end of the first year of war were running at a rate of more than \$700,000,000 per year. They continued to increase until during the first six months of 1941 they amounted to \$484,000,000—a rate of \$968,000,000 per year. For the fiscal year ended Mar. 31, 1941, total war expenditures amounted to approximately \$782,000,000, of which \$26,000,000 represented outgo for items treated as active assets in the Dominion accounts.

Financial assistance was provided to Great Britain on a rapidly rising scale as the War progressed. The British Government required Canadian dollars to meet the costs of essential supplies produced in Canada. Some of these were obtained in the normal way from British exports to Canada, and Canadian tariffs on British goods were drastically reduced (in the War Exchange Conservation Acts) to make this easier. However, from Sept. 15, 1939 to Mar. 31, Britain's deficit in her balance of payments with Canada amounted to about \$795,000,000. Prior to 1941 Britain was able to send some gold to Canada for Canadian dollars; this gold was transferred to the United States in part settlement of Canada's deficit of payments with that country. The large balance of Canadian dollars that the United Kingdom needed was supplied by the Canadian Government or its agencies by two methods: about \$337,000,000, up to Mar. 31, 1941, was transferred to the United Kingdom in

* For more detailed information, and interpretations of these financial matters, refer to the three War Budget speeches of Sept. 12, 1939 (Hansard p. 135), June 24, 1940 (Hansard p. 1,011) and Apr. 29, 1941 (Hansard p. 2,541), and to speeches or statements made by the Minister of Finance in the House of Commons on May 21, 1940 (Hansard p. 83), July 30, 1940 (Hansard p. 2,125), Nov. 21, 1940 (Hansard p. 311), Dec. 2, 1940 (Hansard p. 605), Feb. 18, 1941 (Hansard p. 897), and Mar. 20, 1941 (p. 1,867). Reference might also be made to the speech of the Prime Minister in the House of Commons on Mar. 25, 1941 (Hansard p. 2,016), and in general to the debates on the three budgets mentioned above.