in quantity for use in almost every theatre of war. In 1942 Canada made an outright contribution of munitions and supplies to the value of $1,000,000,000 to the United Kingdom.

During the course of the War a serious exchange problem has developed in the form of a shortage of U.S. dollars resulting from the growing need of obtaining essential materials of war from that country. As indicated later, this has been met very effectively by the policies carried out by the Foreign Exchange Control Board (see below), and by the arrangements made under the Hyde Park Agreement.

A review of the financing of Canada's war effort down to June 1941, is given at pp. xxxiv-xxxvi of the 1941 Year Book. This has also been summarized and brought up to 1942 in the Public Finance chapter at pp. 745-748 of this volume.

The Financing of Canada's War Effort in 1942.—To meet the rapidly expanding expenditures of the Dominion, on behalf of Britain and the other Allies, further steep increases in taxes and a plan of compulsory savings were introduced in the budget brought down on June 23, 1942. Total expenditures for the fiscal year 1942-43 were estimated to exceed $3,570,000,000 and perhaps $3,900,000,000. It was calculated that existing taxes would produce $1,672,000,000; new taxes expected to yield a further $378,000,000 during the fiscal year and refundable taxes designed to provide $95,000,000 during this year were announced. This would leave approximately $1,755,000,000 to be met in other ways—primarily by voluntary loans.

The principal tax increases were in excise duties and taxes (to yield $66,000,000 in a full year); personal income taxes ($115,000,000), which will now absorb the National Defence tax; and the excess profits tax ($58,000,000). The increases in excise duties and taxes were designed to affect only such commodities and services as are more or less luxuries, including spirits, wine, beer, tobacco, soft drinks, candy, telephone and telegraph services, passenger transportation, dance halls, etc. The changes in the personal income tax included an alteration in the system of exemptions, a substantial increase in the rates, and the provision that a portion of the proceeds should be in the form of a minimum savings requirement, refundable after the War. The excess profits tax was increased from 75 p.c. to 100 p.c., with the proviso that 20 p.c. of the excess over the range where the 100 p.c. rate applies will be returnable after the War. The minimum rate of excess profits tax payable remained the same but its application was altered in such a way as to make the heavier rate on excess profits take effect at lower levels. No change was made in the basic rate of the corporate income tax, but it and the excess profits tax were made payable in compulsory instalments so that considerable sums will be received during the fiscal year 1942-43 that would not otherwise be received till later. Provision was made for the collection at the source of a large proportion of the income tax, and those from whom the tax was not collected at the source were required to pay on a quarterly instalment plan. Certain types of contractual savings were deemed acceptable as alternatives to the payment of the refundable portion of the personal income tax.

War-Time Control of Foreign Exchange.—The outbreak of war created new and urgent problems in connection with Canada's financial relations with other countries. Control of foreign exchange and of all financial transactions between residents of Canada and residents of other countries was brought into operation six days after Canada declared war on Germany.