

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. Further details are given at pp. 744-745 of the 1941 Year Book.

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 \$778,000,000, 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, 1941, 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 exchange for Canadian securities formerly owned there; the remainder was simply transferred to the United Kingdom in exchange for sterling balances accumulated to Canada's credit in London.

In the third War Budget (Apr. 29, 1941) it was necessary to make provision for war expenditures in the fiscal year 1941-42. Taxes were again increased very substantially, particularly personal and corporate income taxes and the National Defence Tax and a new tax in the form of a Dominion succession duty was introduced. (See p. 747.)

It has been necessary for the Dominion to borrow large sums in order to meet that part of its own war expenditures which cannot be met even by heavy taxation, and also to provide funds to Great Britain. There have been five distinct borrowing operations in addition to the continuing and important War Savings Campaign and the receipts of non-interest-bearing loans from public-spirited citizens. In October, 1939, a short-term loan of \$200,000,000 was obtained from the banking system, to facilitate the rapid economic expansion that was necessary in the early months of the War. In January, 1940, the First War Loan was issued to the public, to obtain \$200,000,000 in cash, as well as in conversion for a maturing issue. It was very rapidly over-subscribed. In September, 1940, the second War Loan was