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CANADA

BUDGET SPEECH

DELIVERED BY

HON. CHAS. A. DUNNING

MINISTER OF FINANCE

MEMBER FOR QUEENS, PRINCE EDWARD ISLAND

IN THE

HOUSE OF COMMONS

APRIL 25, 1939



OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939

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Budget Speech

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BUDGET SPEECH

DELIVERED BY

HON. CHAS. A. DUNNING, M.P.

MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS, TUESDAY, APRIL 25, 1939

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. CHARLES A. DUNNING (Minister of Finance) moved:

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

I

REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS

He said: Mr. Speaker, in these years the task of a Minister of Finance in preparing a national budget is not an enviable one. Even if only domestic factors had to be considered, the difficulties would be great enough for a country still in the process of recovering from the effects of prolonged depression. But to-day domestic problems are enormously aggravated by the turmoil and confusion of the outside world, and "the best laid plans" of government and business may be suddenly upset by dramatic events elsewhere or incalculable shifts in world trends. We are an organic part of a troubled and seemingly crazy world, and the impact of that world affects us abnormally by reason of the instantaneous transmission of news and rumours by means of the radio, telegraph and telephone.

EXTERNAL CONDITIONS

Like its predecessor but in even more striking degree, the year which I have now to review has been packed with drama and tension. One international crisis has crowded upon the heels of another. Naked aggression has caused a grim procession of tragedies and repeatedly altered the map of Europe. Brute force has been publicly acclaimed by some statesmen as the only philosophy for the guidance of international relations. The word of great nations has been plighted only to be broken, almost before the ink was dry on the document. Every small nation of Europe has lived in perpetual fear of its own safety. The mills of industry have everywhere been frantically speeded up to grind out the weapons of destruction. Economic autarchy has spread over a larger portion of the earth's surface and trading between nations which should be a cooperative process has tended to degenerate into economic warfare. A tense public has

turned its attention more and more to diplomatic and military affairs and less and less to the normal business of living. Although at times the tension has been relaxed, these interludes have been all too short and the recurring crises do not diminish in severity.

Inevitably this reversion to political and economic barbarism has cast a dark shadow over economic life which has impeded recovery not only in Europe but on this continent as well. Recovery has on several occasions raised its head only to be buried again in a new wave of fear and uncertainty. Confidence and courage are essential for the effective working of any economic system based on individual liberty and private enterprise. These qualities are difficult to develop in the world of to-day but at least in Canada there is more chance for their exercise and development than in most other countries.

Our fiscal year opened last April with a recession in business under way in most of the larger countries. While most severe in the United States it was substantial in Great Britain as well, and only a few areas escaped. The recession, while sharp, was short-lived and by the fall revival was under way in most countries. Canada was one of the first to show a substantial upturn in industry, and our revival has been more natural than that of most other countries. Undoubtedly the levels of production and incomes in Europe are due very largely to the ever quickening pace of rearmament. On this continent spending for defence purposes has played as yet only a minor part in economic life, so that our business and employment are not dependent as yet to any important extent upon this artificial stimulus.

ECONOMIC ACTIVITY IN CANADA

The Canadian economy has shown a remarkable degree of strength and recuperative power in the face of the external pressures to which I have referred. We entered the past fiscal year still burdened with the effects of our disastrous crop failure of 1937 and depressed both by the drastic recession in the United States and the uncertainty following the annexation of Austria. Nevertheless our previous recovery had been a sound one and our industry and trade were not handicapped

by excessive inventory accumulation, by grandiose expansion of productive facilities, or by excessive rises in wages in capital goods or export industries. Nor had our security markets been pushed to inflated levels by an extravagant use of credit. For these and other reasons our domestic situation was basically sound and the recession was checked before it had gone very far.

The course of our economic activity during the year is reflected clearly in our most comprehensive index, that of the physical volume of business, which covers activity in manufacturing, mining, lumbering, construction and trade. From the peak point of 127.9 reached in November, 1937, this index fell to a low point of 106.7 in February, 1938, flattened out at a somewhat higher level during the spring and summer, and then recovered during the early fall to a level of 123.4 in November, 1938. The preliminary index for March, 1939, stands at 113.1 or 4 per cent above the figure for the same month of the previous year. Other indexes of a general nature tell substantially the same story. Preliminary estimates of the national income indicate a probable figure for 1938 of about \$4,460,000,000 or approximately $7\frac{1}{2}$ per cent below the total for 1937.

Not all our major industries were equally affected by the world recession. However, as I am including a more systematic review of recent trends in a supplementary paper, I shall not in this address do more than make reference to certain special features which illustrate some of the points I wish to make.

It is reassuring to note that in spite of the unfavourable weather conditions and the recent extraordinary series of international crises, business activity has maintained part of the gains it made last fall and we enter the spring and summer with certain definite indications of further improvement. Pre-season moisture conditions for the 1939 prairie crops are in general excellent, and the live stock markets have been improving in recent months. During the first quarter of this calendar year, construction contracts awarded were 6 per cent and residential contracts 92 per cent higher than for the same period in 1938, and the immediate outlook is for a further substantial improvement in residential construction. Our most important lumbering area, British Columbia, has benefited from better weather and an improved demand in foreign markets. The log scale for the first three months of 1939 was almost 60 per cent higher than that for the first quarter of 1938. In our central and eastern forest industries conditions have not been so favourable but progress has been made in reducing accumulated stocks. Manufacturing operations will benefit from improving economic conditions elsewhere and from increased defence expendi-

tures, both Canadian and British. Finally the mineral industries seem destined to continue their impressive record of expansion. Exploration and development work has continued, although at a slightly slower pace; operations have been carried on over a more extensive area than ever before, and the completion of new mills, the reopening of old mines and the discovery of new ore bodies have brought the industry's production facilities to an all-time peak. In addition it is interesting to note the rapid development which is going on in the oil fields of Alberta and the reported discovery of a large commercial deposit of high grade iron ore in northwestern Ontario.

FOREIGN TRADE

The changing trends in the prosperity of our various industries mainly reflect not internal conditions but lowered demand and falling prices in external markets due to the world recession. This is a price we must inevitably pay for our dependence on world trade, but as I pointed out last year it is a price considerably smaller than that which we would have to pay in terms of a lower standard of living and other costs incident to a policy which would force readjustment of all our industry onto a purely domestic basis. Such a change would be unthinkable for a population of eleven million people living in so large an area endowed with so much of the essential raw materials of the world's industry.

During the calendar year 1938, Canada maintained its position as the world's fourth largest exporting country and displaced Japan as the fifth ranking nation in terms of total external trade. For the fiscal year ended March 31, 1939, our total merchandise exports, excluding gold, aggregated \$841,600,000, down 15.1 per cent from the total for the preceding fiscal year. Net exports of non-monetary gold, however, increased by 13.4 per cent to \$167,500,000. For the same period, total merchandise imports amounted to \$658,200,000, a decrease of 17.6 per cent. This meant an export or so-called "favourable" balance of trade of no less than \$350,900,000 as compared with \$339,800,000 during the preceding year.

Practically all our decrease in exports of merchandise, excluding gold, was accounted for by lower sales to our two largest markets, the United States and the United Kingdom, which countries suffered most from the prevailing recession. Exports to other countries of the British commonwealth were down by only \$5,200,000, and exports to all other countries decreased by less than 6 per cent. The beneficial effects of our comprehensive trade agreement with the United States are already beginning to make themselves felt, and for the first quarter of 1939, our exports of mer-

chandise, exclusive of gold, to that country registered a gain of nearly 16 per cent over the total for the same period in 1938. It is a significant tribute to the importance of our treaty that the dollar amount of this increase in United States imports from Canada was greater than the total increase in their imports from all countries. Fortunately, also, business prospects for both the United States and the United Kingdom for the current fiscal year are such as to justify high hopes for a substantial expansion in the sale of our export commodities to these two great markets. Business in Great Britain has been improving in recent months and under the revitalized rearmament program it should continue to improve because that country still has unemployed resources available for expansion. In the United States, the revival of last fall has been checked by prevailing uncertainty during the last few months, but not even the war clouds in Europe will suffice in my opinion to withstand the upward pressure of the powerful economic forces making for recovery on this continent. If only the fear of war could be removed, there would be released long-pent-up economic and social forces which would, I believe, soon transform again the economic organization of the world into a vibrant, dynamic machine bringing new prosperity and happiness to all countries.

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS

Our huge export balance is an evidence of the strong position which Canada enjoys in her international balance of payments. On merchandise account alone, this balance during the calendar year 1938 was \$171,200,000, to which should be added another \$160,500,000 representing net exports of gold. Our tourist trade suffered somewhat from reduced incomes on the part of our potential visitors, but, nevertheless, net tourist expenditures in Canada reached the imposing total of \$149,000,000. Our credit balances on merchandise, gold and tourist account enabled us to offset our debit balances in respect of interest and dividends, freight charges and various miscellaneous services, and left us with the substantial surplus on current account of \$185,000,000. As in previous years, this current surplus was used to repatriate Canadian securities and retire other Canadian indebtedness payable abroad. It is not generally recognized, I think, that as a result of such transactions Canada has been a net exporter of capital to the extent of over \$900,000,000 during the last five years. This is a tribute to our inherent financial strength and an evidence of increased ability to withstand financial storms in the future. During the last few months there has been an inflow of capital in considerable volume from the continent of Europe, and this inflow is apparently continuing, reflecting

the faith of European investors in the safety and profitableness of investment in this country. To the extent that this capital represents "flight money" ready to take flight again at a moment's notice, it may create new problems, but to the extent that it consists of funds, which seek, or will in practice find, permanent investment in Canada, it is to be welcomed. Fortunately, in considerable part at least, it seems to be accompanied by that much-needed spirit of enterprise which will foster the establishment of new industries and the expansion of old.

INTEREST RATES

Interest rates have continued low. Our high-grade bond market has followed the rising trend in New York rather than the declining trend in London. The yield on long-term dominion bonds has recently been lower than at any time in our history, except for a short period in 1936, and also lower than the yield on similar obligations of most other countries except those of a few of the great creditor nations with which it compares very favourably indeed. Many municipal credits have shown a substantial and very welcome improvement during the year. Bank reserves, deposits, loans and investments have continued to increase, and Canadian bank deposits at the end of March aggregated \$2,485,000,000, 22.2 per cent above the level of March, 1935, just after the establishment of the Bank of Canada, and 8.8 per cent above the figure for March of the boom year, 1929.

PRICES

Recession in the United States, Great Britain and elsewhere had its usual effect in depressing the level and disturbing the relations of commodity prices. Our index of wholesale prices stood at 73.2 in March last as compared with an average of 78.6 for 1938. As in the previous depressions of 1921 and 1930, the fall in prices has been particularly severe in the case of foodstuffs and raw material. Metal prices have risen again since their drop last spring, but prices of farm products remain seriously depressed in world markets. This special weakness of farm prices is due to a variety of causes, chief among which are the contraction of import demand on the part of countries striving for increased self-sufficiency and the too rigid nature of farm production in the great exporting countries. The agricultural crisis remains with us still and shows up whenever world demand for farm products falters.

AGRICULTURE

I need hardly point out to you, Mr. Speaker, that these general conditions affecting agriculture throughout the world apply with particular emphasis to wheat, so long the backbone of international trade. Because

of this and because Canada must export not only wheat but meat and live stock, dairy products and fruit, the impact of any world recession falls with special severity upon the farmers of Canada.

Agriculture can do little to protect itself against these international storms. Other producers can contract their output, can frequently lay off their workers to live at public cost upon the relief rolls, while their contraction in output prevents a disastrous decline in price and the disappearance of profits. Farmers cannot readily do these things. In particular our western wheat growers, who have suffered from crop failure for a long series of years, cannot be expected to face unassisted this international problem. In time agriculture may, and should be expected to, adjust itself to the new problems created by international developments, but such adjustment involves a long and slow process. In the meantime, agriculture, if allowed to remain depressed, would have serious adverse effects upon the rest of our economy. It is therefore, only self-interest for all of us to see that everything that can possibly be done is done to improve the economic standing of agriculture. Only thus can all industries and all sections of Canada achieve the maximum of prosperity. Only thus can we preserve and strengthen national unity.

This was the reason for the guarantee of a basic minimum price of 80 cents for the western wheat crop of last year. That guarantee may cost the dominion treasury a substantial sum of money, but at the time it was given there were few, even amongst the industrial and financial leaders of eastern Canada, who did not believe it justified in view of the drastic decline in the world price of wheat and the general economic interest of the country as a whole. Experience has shown that there may have been defects in the method by which the assistance was given, but it was, of course, the only form of assistance possible under the legislation which was upon our statute books when the crisis arose.

I have for many years expressed the personal view that the best form which assistance to agriculture can take is that of helping the farmers to help themselves. This the government is attempting to do by its prairie farm rehabilitation program, its various measures to assist cooperative marketing, and its intensified efforts to improve the quality of agricultural products destined for foreign markets. In the contemplated legislation to provide for the setting up of a central mortgage bank we are striving to do two things, also primarily in the interest of agriculture but for the benefit of the urban home-owner as well. First, we are attempting to deal with the immediate problem of excessive and harassing indebtedness by providing for an ad-

justment of existing mortgages on an equitable basis which will inspire new hope in the debtor. Secondly, we are trying to find a solution for a longer run problem by encouraging the revamping of the whole financial structure which has been built up to provide long term mortgage credit. In this way we hope to put mortgage lending on a new basis, which will be not only stronger but also more flexible, more economical and more equitable. Finally, but not least important, we have done and are continuing to do our utmost to secure for our farm products entry on more favourable terms into the great export markets of the world.

NECESSITY FOR CAPITAL EXPANSION

In providing aid to agriculture at this time, we wish it to be assistance that will promote a more efficient, more prosperous and more vigorous industry. We wish it to accelerate, not to impede, the development and expansion of our Canadian economy as a whole. It is essential that our economy develop and expand. We have seen during the last eighteen months that Canada has a strong economic system able to withstand shocks from nature and from the world outside our borders. We have demonstrated our strength and stability. But we must not let stability become stagnation. If we can no longer count on great possibilities of expansion extensively by pushing back farther the borders of settlement or by means of a rapid growth in population, then we must expand intensively by improving our capital equipment, by making ours a better rather than a bigger country. On the frontiers of science, invention and technology, the possibilities of expansion are greater than they ever were on the geographical frontier.

Both the necessity for expansion and the means to make it possible are found in the volume of unemployment that remains with us still. Without taking time to analyse the figures of unemployment, I wish to express my own conviction that the number of unemployed in Canada who are willing and able to work, with or without retraining, is not now so great that it should be beyond the capacity of an expanding Canadian economy to absorb.

However, in order to expand production, employment and incomes, we must have substantially more capital creation, a more rapid rate of private investment. Someone must convert a larger proportion of the savings of the people into capital expenditures or else our national income will decline again. Look back on the history of this or other countries in their modern phase and you will find prosperity only with expansion, only when the people were busy creating new capital works. In our prosperous first decade of this century we were busy extending our

capital equipment, building cities, railways, harbours, elevators and factories. In our post-war period of prosperity from 1925 to 1930, we were busy building houses, factories, power plants, roads and automobiles. Since that time, investment in durable goods has languished. It revived somewhat in 1936 and 1937, particularly in the mining industry, and persisted well into 1938, with some recession thereafter. But it is still very far below the levels needed to utilize fully our increased labour and other resources. Its full recovery is our greatest need to-day.

MONETARY POLICY

This government has striven with all its efforts to restore private capital creation. This was the main purpose of our easy money policy. That policy has been successful in effecting a substantial reduction in interest rates, both short and long term. The reduction in long term interest rates made possible many projects otherwise unprofitable, made many improvements in fixed plant and equipment worth while, and by permitting savings through refunding it has strengthened the finances of many industries thus putting them in a position to carry out desirable expansion. It has materially reduced the interest burden on governments and is bringing about a gradual lowering of the rate of interest on mortgage funds which is one of the factors responsible for the recent recovery in residential construction.

Some critics have claimed that this easy money policy has not been carried far enough, and, indeed, in this house a few days ago, the astounding assertion was made that our monetary policy had been deflationary or at least had had deflationary effects. How absurd that assertion was is apparent from even the most superficial examination of the facts. The volume of bank deposits is probably the best single indicator of the effects of monetary policy, and certainly the United States, Australia, the United Kingdom and Sweden are countries which are usually quoted to us as having made effective use of monetary policy as an instrument of economic recovery. Well, what are the facts? Comparing 1938 with the depression year 1932, the average volume of bank deposits in Sweden had increased by 15 per cent, in Australia by 16 per cent, in the United States by 22 per cent and in the United Kingdom by 23 per cent, whereas in Canada the increase was slightly over 25 per cent.

I sincerely believe that Canada's monetary policy in the last few years has been wisely conceived and carried out with great skill by our financial officers. I am convinced furthermore that a policy of more rapid expansion would have been either futile or positively

dangerous. The policy which has been followed has been one designed to expand money and credit as rapidly as the needs of the public require but not so rapidly as to create an unhealthy, speculative expansion which would be bound to end in a serious depression. As I have frequently stated, its objective has been and is to promote the minimum possible level of unemployment by stimulating the maximum possible level of productivity that could be sustained over a period of time. I repeat that in order to achieve this objective, monetary policy has been used and is constantly being used as far as it can wisely be carried.

While we have been endeavouring to use monetary policy to the fullest possible extent as an instrument of economic recovery, we have always realized that monetary policy alone was not sufficient to solve our problems under present world conditions—that it is a tonic but not a cure-all. If other factors are favourable, a good monetary policy may stimulate recovery, may assist greatly in securing the desired ends, just as a bad monetary policy is certain to impede progress. For this reason we have adopted many other measures in the non-monetary field, some of which I have already mentioned. At the moment, however, I am specially referring to our efforts to stimulate private capital creation. Perhaps the most important of these is the series of measures adopted to restore more normal activity in the construction industry which suffered more from the pernicious anaemia of depression than any other industry in Canada. Hon. members are familiar with this comprehensive program, and I wish to refer only briefly to the results thus far accomplished.

THE HOUSING PROGRAM

Under the home improvement plan, which provides a simple and inexpensive method for making repairs, additions and improvements to existing homes, we had by March 31 this year given a limited government guarantee to 65,690 loans for a total volume of \$26,228,621. This, of course, does not by any means represent the total volume of modernization work stimulated by the government program. As an illustration of the fundamental soundness of a lending program adapted to the needs and income conditions of the small borrower, it will be interesting to hon. members to know that as of the same date, March 31, the losses which we have had to pay in respect of these loans amounted to only \$19,037, or less than 1/13th of one per cent of the amount of loans made. The significance of this very small amount of loss is greatly enhanced when it is realized that over 50 per cent of the total of loans made have already been paid off, as of the date I mentioned, March 31.

Under Part I of the National Housing Act a plan has been provided whereby a Canadian family can finance the construction of a new home on a long term 80 per cent or 90 per cent mortgage bearing 5 per cent interest and by making monthly instalments for interest, principal and taxes comparable with and usually less than ordinary rentals, it can own that home free and clear of all encumbrances at the end of twenty years. As of March 31, 8,014 family housing units had been financed under this plan by loans aggregating \$30,628,894. During the eight months in which the amended legislation has been fully operative, the total value of loans approved has increased by 83 per cent over the volume of such loans made in the corresponding period of the previous year. I am confident from the indications already received that operations under this act during 1939 will result in a volume of loans several times as large as last year.

However, it seems to me that much more can and should be done. The abnormally low volume of building during the last few years has built up a very large deferred demand for new homes, particularly for persons of small or medium incomes, and it is in this field of residential construction, in my opinion, that is to be found the greatest single opportunity for new capital creation. It seems to me, however, Mr. Speaker, that we need a new motive power to take full advantage of the opportunity provided by this legislation. In the past the speculative builder has been the driving force behind most new house building. This type of operator has frequently been criticized because in many cases the quality and the cost of his product left much to be desired, but he did perform a real service in a country whose people for the most part have not yet been educated to the point where they are willing to buy a new house on the basis of plans and specifications. This speculative building industry was very hard hit during the depression, and to-day there are relatively few builders with sufficient resources to provide the service required. We will not get active building until this type of business enterprise is revived or replaced by a new type. Personally I think we stand much in need of a group of building or development corporations along the lines of the estates corporations which have put much of the drive behind the British building boom.

On a recent occasion I referred to the generous facilities now provided under part II of the National Housing Act for the construction of low-rental housing accommodation to be leased to families of low income at less than ordinary economic rentals. As yet no loans have been made under this part, but in several cities plans have been worked out which I hope will come to fruition in the

next few months. The national employment commission believed that this low-rental housing field offered one of the greatest opportunities for government assistance which would give a direct and decisive stimulus to the construction industry. Our legislation embodies their recommendations in substance, but in order to realize its immediate possibilities and ultimate social advantage we need the cooperation not only of municipal and provincial authorities but also of public-spirited private citizens who will give their time, business ability and some capital to the organization and management of limited-dividend housing corporations.

In addition, to make all these plans more effective, we took the drastic step last year of removing completely the 8 per cent sales tax on the major materials entering into house construction. I know that this step has been one of the factors responsible for the speeding up of residential construction during the last few months, but I doubt whether the various branches of the construction industry have as yet taken full advantage of the sales appeal which exists in the reduction of building costs made possible by this important enactment.

MUNICIPAL IMPROVEMENTS ASSISTANCE ACT

To complete the record I may refer to another measure adopted to stimulate the construction industry, and to help unemployment, namely, the Municipal Improvements Assistance Act. During the eight months in which this act has been in operation, 46 loans have been approved for a total amount of \$3,582,667. Five applications are pending for a total amount of \$442,731. I have reason to know that apart from the contribution made by these loans to the relief of unemployment they have been a veritable godsend to many municipalities which have only in this way been enabled to finance much-needed improvements to productive undertakings without adding new burdens to the shoulders of the general taxpayer.

ENCOURAGEMENT OF MINING DEVELOPMENT

I think hon. members will agree that this series of measures, responsible already for over 65 million dollars of new work, represents a comprehensive and powerful program to stimulate capital creation through the construction industry. In a similar way we have tried to encourage new capital creation in other industries. The aggressive steps which have been taken to open up and broaden export markets for Canadian products have been directed to putting our essential industries on a profitable basis which would justify expansion and new investment. We have also encouraged investment in new mines by exempt-

ing them from corporate income tax for the first three years of operation, by money spent on geological surveys, and by assistance in constructing roads into new mining areas. Up to February 18, 1939, seventy-five new mines that are eligible or likely to be eligible for tax exemption have come into production, and the prior costs necessary to bring these mines to the producing stage are estimated at \$44,000,000, of which over \$14,000,000 was for direct wages. The metal output of these mines to March 31 last is estimated at over \$54,000,000, with a probable expenditure of nearly \$13,000,000,000, of which over \$14,000,000 was for wages and salaries. I would not, of course, contend that tax exemption is wholly responsible for all these mines coming into operation, but the magnitude of the figures given for prior production costs, new wealth creation and wages and employment indicates at least the possibilities of this type of program.

FISCAL POLICY

We are, of course, well aware of the arguments for pump priming in times of depression, and we have had to increase government expenditures substantially as a partial offset to the gap in private investment. But we have never believed that public spending could be a substitute for private enterprise. We have realized that public spending could only be a relief and not a cure, unless one is prepared to take the whole of business into government hands. There are few Canadians, I believe, who are as yet willing to give up their society based on individual freedom and enterprise for a system of state regimentation. Under our present system government expenditures are likely to leave the situation no better, and perhaps worse, when they are withdrawn. If they are carried too far they are likely to undermine confidence in the country's financial position and thereby to retard employment in private industry to an extent much greater than the new employment which they create. Nevertheless, a government cannot stand idly by and allow the ravages of depression to take their toll because of the too slow revival of private investment. In these days, if the people as a whole, and business in particular, will not spend, government must. It is not a matter of choice but of sheer social necessity. The alternative is a greater burden of relief and greater dangers from deflationary forces. This is the reasoning, Mr. Speaker, behind the increase in our special expenditures already proposed to you in supplementary estimates now before the house. These estimates are based as far as possible on projects of a productive and self-liquidating nature, projects which are intended to conserve or develop our resources. While it is hoped they will

increase national income and expand national wealth over a period of time, nevertheless they involve expenditures to-day. We dare not, we cannot, contract our expenditures until our industries and our people generally are spending more freely. When private investment expands, not only will we find our need for government expenditure less, but also our revenue receipts will be so much increased that debts can be reduced and taxes lowered.

LEADERSHIP AND NEW ENTERPRISE

We hear a great deal to-day about the need of leadership and public men have been subjected to much criticism on that score. I would be the last to deny our own limitations and the mistakes which have been made in the past by governments just as by other people, and no one would welcome more than myself the development of an informed and vigilant citizenship that would constantly study public problems and keep public men advised and alert. But I speak with all candour and with no attempt whatever at defensive criticism when I say that it is in the field of private investment that leadership and courage are most needed in Canada to-day. There are many business and financial men who have been using every resource to improve processes, expand plant and employment, or set up new industries. Their efforts, heart-breaking at times, have my sincere admiration. But they are far too few in number. In general, I confess to a disappointment with the lack of imaginative business leadership in recent years, certainly as compared with that shown by the generation which built our railways, opened up the west and transformed this country in a short span of years into one of the great industrial nations of the world.

It may be urged that these are troublous times when one must think twice before putting his capital and effort into a new venture. Business men have become more conscious of the trade cycle and the dangers, rather than the virtues of competition. Sometimes I think they pay too much attention to the risks which face business in other countries but which have less significance in Canada. In any case, risks have always existed, and business has overcome them. We shall get nowhere if our investing public spends its main efforts not in looking for new opportunities but in trying to forecast the short term movements of the stock and bond markets. No important social purpose is served by that type of gambling.

Repeated assertions are made that the burden of debt and taxation in this country is the main factor holding back business. I do not believe this to be the case. Certainly it need not be unless irresponsible but doubtless well-intentioned statements by people

who should know better convince business that it should be depressed by the fear of debt and taxes.

It seems ironical to put me in the position of appearing to argue for high debt and high taxes, because a major interest of my public life has been to keep the burden of debt and taxes on the people down to the lowest practicable level. But I am forced to speak out when I hear persons who have the same purpose as I have making ill-considered statements which are bound to have the effect of slowing up private business and thereby driving governments to perform tasks which will inevitably call for higher taxes and higher debts. Those who make such statements fail to realize that the old days of complete *laissez-faire*, of devil-take-the-hindmost, have gone forever. In the world of to-day, governments must act to relieve distress and prevent cumulative deflation, and, speaking generally, the magnitude of governmental expenditures in democratic countries is likely to be a rough measure of the failure of private enterprise to do its full duty.

Public debt per capita in this country is not as high as in England, Australia or New Zealand; on the contrary theirs is roughly fifteen to twenty-five per cent higher than ours. Although our dominion funded debt has increased substantially since 1930, the annual interest burden of that debt, allowing for elimination of tax-free securities, is lower than in any year since the war. So the increase in dominion debt has not required any increase in taxes to carry it. Economic conditions have made the increased debt well-nigh inevitable, but a careful regard for our credit and the improvement of our financial machinery have enabled us to meet this economic necessity without increasing the burden of our debt. Our borrowing has not impeded private investment by forcing up rates of interest against other borrowers. Our taxes are high but we do not bury the money we take in taxes, as one might gather from what some speakers say. We spend it quickly, far too quickly, in my opinion, and for the most part pass it on to those who will spend it quickly again. Much of it, moreover, goes to improve the country's economic equipment, to promote the more rapid creation of new wealth. I do not of course claim that any government is perfect, nor that government spending has always been wise. We make mistakes as other people do. But we are subject to and responsible to social forces to which a private business can be relatively indifferent.

Nor need investment in Canada be paralyzed by the fear of war in Europe. The dangers of war cannot be avoided by hiding. War might upset our commerce for a time, but the world will still need to eat and will still demand,

perhaps in larger amounts, our paper, our metals, and our other products. War would mean higher taxes, higher prices, but none of these dangers will be avoided by hoarding rather than investing capital. I cannot believe that people in this country are trying to keep their capital liquid in order to take it away in case of war. Such plans would be not only foolish but cowardly.

Investment in this country has been profitable, Mr. Speaker. Examination of the public statements of 334 corporations indicates that their profits in 1938 were only 10 per cent below the 1937 level, and still 7 or 8 per cent above those of the recovery year 1936. Foreign investors have been convincingly demonstrating their faith in this country's future. Why should not our own investors show the same faith? The possibilities of profitable new investment have by no means been exhausted. I have already pointed out the great opportunities which exist in the field of housing. Can we not in other fields, manufacturing, merchandising, transport and the service industries, apply new methods and modernize equipment in order to reduce costs, lower prices and thereby expand our markets both at home and abroad? Cannot we adopt new ideas developed during recent years in other countries without waiting for branch plants or refugees with capital to bring them to us? Have our other industries explored at all fully the possibilities of research which has proved such a profitable investment in the nickel and the chemical industries? Have we fully explored the possibilities of processing our raw materials before exporting them? Have we sought out all the opportunities for the profitable investment of capital in new industries, particularly small industries?

These are vital questions, Mr. Speaker, for Canada's future. I confess that I do not know all the answers but I am satisfied that the low level of new investment in Canadian industry is a challenge to our financial, industrial and scientific leaders to an even greater degree than it is to parliament.

II.

GOVERNMENT ACCOUNTS, 1938-39

I turn now, Mr. Speaker, to the government accounts for the fiscal year which has just closed. Fortunately, the procedure which we are now instituting will make it unnecessary for me to weary you with a long and dreary recital of statistical facts relating to every category of our revenues, our expenditures, our direct and indirect liabilities, our active investments, and our financing operations during the past year. It is, of course, necessary that the house should have a comprehensive record of all our financial transactions but, borrowing from the practice of the

United Kingdom and of Australia, I have incorporated the details in a separate white paper which, with the permission of the house, I shall place on *Hansard* at the conclusion of my address. This white paper will be published as an appendix to the budget speech and therefore will be readily available to all. The new procedure will enable me to confine my remarks at this stage to results rather than detail in the record of the past year.

REVENUES

My forecast of a year ago indicated an aggregate revenue for the fiscal year 1938-39 of \$501,700,000. I now estimate that, when the books for the year are finally closed, they will show a total revenue of \$501,677,000, or \$23,000 less than the estimate I gave the house a year ago. This total represents a decrease of \$15,016,000 or 2·9 per cent from the preceding year but is higher than that for any other year in our history.

Income tax receipts at \$142,025,000 set a new all-time record—18·0 per cent above the collections of 1937-38. All other types of taxation recorded decreases, particularly the sales tax, which reflected the decline in general business activity, and also, of course, the exemption granted to the major building materials. Customs duties on a lowered volume of imports also failed to come up to expectations. Non-tax revenues, however, reached the new record level of \$61,818,000.

Unfortunately, I was not so lucky in my budget estimate of aggregate expenditures for the past year. That estimate of \$524,600,000 has been exceeded because of the disappointingly poor earnings of the government-owned railway system and the prospective losses in wheat marketing resulting from the low level of world wheat prices.

EXPENDITURES

Breaking our total expenditures down into the usual main categories, we find that ordinary expenditures for the fiscal year 1938-39 are now estimated at approximately \$416,372,000, an increase of only \$1,480,000 over the previous year.

Capital expenditures, chiefly for dredging operations on the St. Lawrence ship channel and construction of airways and airports, showed little change at \$4,687,000 as compared with the preceding fiscal year.

Special expenditures for the relief of unemployment and agricultural distress were less by about \$20,000,000. The total for this category was \$48,583,000 and the main items were \$17,025,000 for grants-in-aid to the provinces, \$5,790,000 for our share of joint dominion-provincial projects, \$16,492,000 for the cost of solely dominion projects, and \$9,276,000 for the cost of direct relief, food-stuffs and feed and fodder distributed in the drought areas of western Canada.

Government-owned enterprises accounted for aggregate expenditures of \$58,967,000 as compared with \$44,833,000 in the preceding year. Most of this total is represented by the net income deficit of the Canadian National Railways for the calendar year 1938. As hon. members are fully aware from the annual report of the railway already tabled in the house, this deficit amounted to \$54,314,000. The increase of \$11,968,000 over 1937 was due to a substantial decrease—over \$16,000,000—in gross operating revenues, which was particularly severe on the United States lines of the railway and which in general reflected the prevailing business recession, as well as to an increase in railway wage rates which partially offset the economies it was possible to effect in other operating expenses of the system.

Operations of the Trans-Canada Air Lines during 1938 resulted in a deficit of \$818,000 after interest on capital and depreciation. Canadian National (West Indies) Steamships Limited achieved an operating surplus (after payment of interest on bonds held by the public but before depreciation and interest on government advances) of \$276,000 during 1938. This surplus was turned over to the government in partial payment of interest.

The operations of the harbours and facilities under the administration of the National Harbours Board recorded a substantial improvement during 1938. Operating income, after payment of interest to the public but before depreciation and interest payable to the government, totalled \$3,640,000, an increase of 33 per cent over the corresponding figure for 1937. Financial assistance provided by the government for operating deficits, debt retirement and capital expenditures amounted to \$3,441,000.

Finally, other charges, consisting mainly of write-down of miscellaneous assets, amounted to \$3,734,000 during 1938-39.

OVER-ALL DEFICIT

Hon. members who have been keeping their pencils sharpened may already have calculated that the figures I have given for the five main categories of expenditures add up to the grand total of \$532,343,000. This is \$2,065,000 lower than the corresponding total for 1937-38, and with total revenues estimated at \$501,677,000 it would appear to indicate an over-all deficit for the year just closed of \$30,666,000 as compared with my budget estimate of approximately \$23,000,000.

In view of the world trade recession, such a result for the past year would, I think, have been encouraging. It has seemed necessary to me, however, to go farther and to add to that deficit some reasonable provision for possible losses arising from the dominion's

guarantee of a basic price of 80 cents for the western wheat crop of 1938. No one can tell at this time what the ultimate loss will be. Our experience in 1935 and 1936 shows how quickly an apparent loss of very large proportions can be wiped out by rapid changes in the level of wheat prices resulting from actual or anticipated changes in the world supply and demand situation. Nevertheless, it seems to be only sound common sense to take account of present facts and the immediate outlook. Unfortunately, I cannot without the possibility of serious adverse consequences do anything which would tend to disclose to speculators in the world's wheat markets what the exact position of the Canadian Wheat Board is in regard to sales and holdings of wheat. I have therefore decided to pick an arbitrary figure of \$25,000,000 and to set this up in our books as a reserve against possible wheat marketing losses.

This will bring my estimate of our over-all deficit for the fiscal year 1938-39 up to \$55,666,000.

In addition to the expenditures already outlined, the dominion has made disbursements during the past year for the acquisition of investments which are treated as active assets in the public accounts. The net increase in these active loans and investments amounted to \$23,524,000.

NET DEBT

As at March 31, 1939, the net debt of the dominion is estimated at \$3,157,334,000. Gross liabilities are estimated at \$3,642,049,000 and our active assets at \$484,715,000. Bonds and debenture stocks bearing the guarantee of the dominion and outstanding in the hands of the public at the close of the fiscal year amounted to \$1,085,466,000. These guaranteed securities outstanding increased during the year by \$34,859,000. There are also outstanding other contingent liabilities arising out of guarantees given under relief acts and various other Acts. These are fully set out in the white paper which is being placed on *Hansard*.

III

BUDGET FORECAST, 1939-40

I turn now from the role of historian to the task of the prophet. Under present world conditions, this task is not an easy one. The economic pattern of 1939-40 is not as yet clearly discernible and a major turn in world events may be near at hand which may make conditions either very much better or very different from what one can foresee to-day.

However, a Minister of Finance must take a realistic view based on the trends at work when his forecast is made. Taking such a view, I now estimate that, allowing for the tax changes I am about to announce, our aggregate revenue for the fiscal year 1939-40

will amount to \$490,000,000, made up as follows:

Tax Revenue—	
Customs duties.....	\$ 78,000,000
Excise duties.....	52,500,000
Income tax.....	140,000,000
Sales tax.....	126,000,000
Manufacturers' stamp, importation, and other special excise taxes.....	27,000,000
Bank circulation and insurance company taxes.....	1,800,000
Total tax revenue.....	\$425,300,000
Non-Tax Revenue—	
Post Office receipts.....	\$ 35,600,000
Interest on investments.....	13,600,000
Other.....	13,500,000
Total non-tax revenue.....	\$ 62,700,000
Total ordinary revenue.....	\$488,000,000
Special receipts and credits.....	2,000,000
Grand total revenue.....	\$490,000,000

I am fully conscious that this estimate may prove to be unduly pessimistic.

On the expenditure side, the main estimates provide for a total expenditure of \$457,200,000 of which \$29,400,000 represents defence expenditures which are being capitalized under the special sinking fund plan. To the remaining \$427,800,000 must be added \$122,300,000 asked for in the special supplementary estimates which have already been tabled, making a total of \$550,100,000. If any further supplementary estimates need to be provided during the year, I believe we may assume on the basis of past experience that they will be offset by savings made by the departments in the appropriations based on the main and special supplementary estimates. The estimated total expenditure of \$550,100,000 includes the railway deficit but does not take into account any additional loss which may possibly occur in marketing the 1938 wheat crop, over and above the \$25,000,000 for which provision has already been made, nor does it take into account possible losses with respect to the 1939 crop. No man could possibly estimate what these items may amount to or make even a reasonable guess.

Leaving aside therefore any expenditure in regard to wheat, there will be a probable gap between our revenues and expenditures during the new fiscal year of about \$60,000,000.

Needless to say, I am disappointed to have to contemplate another deficit of this size. I had fervently hoped that this year I would be able to offer to the house a balanced budget and as a result be in a position to begin the process of reducing debt and taxes. I have already outlined the reasons why this "consummation devoutly to be wished" must be deferred and I have discussed at some length the forces which must be set to work to make it possible.

Let no one think that I have changed my mind in regard to the necessity of a balanced budget. Doubtless I will remain the target equally of two extreme schools of thought; on the one hand, those who believe that budget balancing is an outworn fetish, that a nation can continue to do what would soon bring an individual to disaster, and on the other hand, those who believe that governmental expenditures should be ruthlessly slashed regardless of the social distress and the cumulative deflation which would thereby be caused. I trust that Canadians of goodwill, regardless of party, will see that such criticism is merely the penalty which must be paid by public men who go neither to one extreme nor to the other but try to take the common sense middle course.

In times of depression, as I have already shown, increased expenditures on the part of governments are a sheer social necessity. Nevertheless, no nation can go on indefinitely with a budget heavily unbalanced without sooner or later providing a real, not an imagined, basis for fear as to the soundness of the country's financial position. If that fear should take root, nothing which a government could do short of taking over gradually the whole field of private enterprise, could offset the slowing up of private enterprise and the reduction in employment and incomes to which fear and uncertainty would give rise. Canada has had ten years of unbalanced budgets. There is as yet no reason whatsoever for any fear as to our national solvency. But this process cannot go on forever. Governments must be eternally vigilant that they do not simply take the path of least resistance which is that of easy spending. The private citizen must be awake to see that governments resist that temptation. And I may add, the private citizen should endeavour not to put that temptation in the way of governments. Business and financial leaders must make every effort to expand production, employment and incomes in order to avoid the necessity of governments embarking upon work-creating programs.

I for one am convinced that, given peace in the world, if we all put our shoulders to the wheel, we can soon so galvanize our economy that national income will be raised to a point where unbalanced budgets will be a nightmare of the past for the nation as well as for the individual citizen.

TAXATION CHANGES

On the basis of the analysis which I have given, and particularly in view of the forecast which I have made in respect of the over-all deficit for the new fiscal year, hon. members will, I think, agree that any major reductions in taxation, beyond the proposals with respect to the special excise tax, are clearly impossible.

Under current conditions of business recession and the continued threat of international lawlessness, we must courageously face the demands made upon us for unemployment and agricultural distress and for the vital requirements of national defence. Much as I regret it, I am forced to ask our taxpayers to continue for the time being to bear approximately their present burdens, because I am convinced that for us to give up tax revenues at this time would only cause greater burdens and probably other serious difficulties at a later date. The size of our expected deficit might, indeed, suggest under more normal conditions an increase in tax rates but I prefer to make the present rates yield more revenue by doing everything possible to promote an increase in the national income.

For this reason I am recommending a three-year extension of the income tax exemption granted to new metalliferous mines coming into production. As a result of this provision, exploration and development work will be encouraged to go forward on the understanding that any new mine coming into production prior to January 1, 1943, will be exempt from corporate income tax for its first three years of operation, in the same manner as has been the case during the last three years, and in connection with which I gave detailed information earlier in this address.

With a similar purpose in mind, I am recommending to the house another measure which involves the application to all productive industry of the principle which has been applied with such beneficial results to the mining industry. I need not here repeat the argument which I have already used as to the necessity of increased creation of capital works if we are going to solve the problem of unemployment and restore normal business activity. To my mind that argument is unanswerable. The government proposes, therefore, to offer what I believe will be a powerful incentive to all industries to go forward immediately with any justified expansion of plant and with such modernization of machinery and equipment as the progress of recent years has made essential. Any firm, therefore, which begins after May 1 next the construction, installation, betterment, replacement or extension of plant, machinery or fixed equipment will be allowed a credit against income tax equal to 10 per cent of the costs incurred for such capital projects prior to April 30, 1940—one year. This tax credit is to be spread equally over the next three years in which the firm has a taxable income. It will apply to any firm in any industry whether organized as an individual firm, partnership or corporation, except, of course, a new metalliferous mine which already has the benefit of the three-year exemption from corporate income tax.

I am convinced, sir, that this measure will have highly desirable results both immediately and permanently. During the present year it should serve to counteract the several factors which have been holding back investment in new capital enterprise in so many cases and should thereby promote a substantial expansion of employment both in heavy construction and in the machinery and equipment industries. But it should do more than this. It should help to place our industries on the most modern and up-to-date basis, enabling them to cut costs, to compete more effectively in both the domestic and the world markets, and thereby to be in a position to maintain prosperous employment for the longer run future.

Other minor changes in the Income Tax Act will be made for the purpose of clarifying the intent of existing provisions, removing anomalies and closing certain loopholes.

Under the Excise Act it is proposed to increase the rate of duty on spirits used in making vinegar from 27 cents per gallon to 60 cents per gallon. The purpose of this proposal is to stimulate the use of apple cider in making vinegar, and thus to widen the market for low grade apples.

TREATY NEGOTIATIONS AND TARIFF CHANGES

In the sphere of trade negotiations, Canada's outstanding accomplishment of the year now closing was of a dual nature: cooperation with the United Kingdom in the successful negotiations between that country and the United States and the simultaneous revision and enlargement of our existing agreement with the latter country. The three-way negotiations necessitated were lengthy and difficult; and that the two agreements resulting therefrom have so generally commended themselves to the citizens of the countries concerned is in itself a tribute to the spirit of give-and-take in which these three democracies entered jointly upon an admittedly difficult task.

In view of the time devoted earlier in this session to consideration of the new agreement with the United States, I do not propose to refer to it at any length. That it will prove to be as beneficial to both countries as was the one which it has superseded, I have not the slightest doubt. Of the enduring success of the United Kingdom-United States agreement I am equally confident.

I am not suggesting for a moment, sir, that our tasks in this direction are concluded; that the latest agreements, merely because they are the most important and most comprehensive, are necessarily the crown of the arch. On the contrary, they seem to me rather to emphasize the work which remains to be done. And that leads me to remind the house that notice of termination has recently

been given of the agreement existing between this country and the British West Indies—not because Canada does not want an agreement, but because the one which has stood for twelve years is sorely in need of revision. And I may assure this house that when the time comes to sit around a table with their representatives, we shall do so in that spirit of friendliness and goodwill which long has marked the relations of this country with the islands of the West Indies.

As might be expected in the light of earlier legislation, tariff changes to be announced to-day are neither numerous nor of striking importance. Many of them arise out of the provisions of the new agreement with the United States and have already been approved by the House.

TARIFF BOARD REPORTS

Reports from the Tariff Board I have laid on the table to-day, respecting furniture, cigars, cocoa matting, starches and dextrines, worsted weaving yarns, coke, radios and tubes, and automobiles. The report on the radio industry, apart from recommending free entry of certain parts, refers to the bearing of the Patent Act upon the investigation. In this connection the board states that "radio tube manufacturers in Canada have taken full advantage of the protection afforded to them by the terms of the Patent Act". The board expresses the opinion that selling prices of radio tubes in Canada to all classes of purchasers should not be in excess of the recognized list prices in the United States, plus all charges on importation. To that end the board suggests that the proposed reduced duties on parts, unless "immediately reflected" in the published selling prices of Canadian radio tubes, be rescinded. In giving fuller study to other phases of this report than those relating strictly to tariff rates, the government will have to consider the relation thereto of the provisions of the Patent Act respecting the abuse of exclusive rights under patents.

There is, Mr. Speaker, one further Tariff Board report tabled to-day to which I wish to refer. That is the report arising out of the inquiry respecting vegetable oils. As the house well knows from frequent discussions during the last three sessions, this investigation by the board arose out of an application by the National Dairy Council of Canada for the imposition of specific duties upon importations of vegetable oils. The matter being intensely involved and technical, I thought the application a highly proper one for a board inquiry. This inquiry, begun in the fall of 1936, is now completed and the result is the voluminous report I have placed on the table. Very briefly may I outline the nature of the board's recommendations: first, a rearrangement and reclassification of the tariff items relating to animal fats, oils and

greases, as well as of those relating to vegetable oils, with certain proposed changes in the rates of duty; second, the imposition of an excise tax of three cents per pound upon the vegetable oil content of vegetable shortenings and lard compounds, and of two cents per pound on the vegetable oil content of soaps of all kinds, such excise taxes in all instances to apply to both the domestic and the imported product.

This report was received only in time to be tabled with the budget speech. A week ago, however, I was advised by the board as to the nature of its recommendations and these were at once given serious consideration by the government. Since the recommendations, both as regards certain tariff changes and the excise taxes, are such as to require consultation with the United Kingdom government—because of commitments under trade agreements that have applied to these commodities since the Ottawa conference of 1932—the Canadian government decided to refer the matter at once to the government of the United Kingdom. This was done last week, as speedily as the essential abstracts of the report could be coded and transmitted, and we have intimated to the British government that a reply at the earliest possible moment would be greatly appreciated. May I add, Mr. Speaker, that should such reply release Canada from any obligations that may rest upon her at present by reason of these empire agreements, and should the reply be received before the committee stage is over, it will be possible to introduce the necessary resolutions.

Reference to the reports of the Tariff Board laid before parliament to-day provides a fitting opportunity, Mr. Speaker, to pay tribute to one who had, perhaps, most to do with their making but who is not in the place where he was usually to be seen on budget day. I refer to the late Honourable George H. Sedgewick, whose sudden passing was a shock to every member of this house. Highly intelligent, industrious, fair-minded, the soul of integrity, Mr. Sedgewick was admirably fitted for his high position, and I share the general view that his death is a great loss to the public service of this country.

The resolutions to be moved to-day include one which provides for the removal of the special excise tax of three per cent from all imports into Canada under any tariff more favourable than the general tariff. The direct obligation under the Canada-United States agreement was, as members will recall, to remove the tax from the goods covered by the items in schedule I to the agreement. Any further removal of this tax is not a matter for negotiation with another country but is entirely a matter of domestic policy for Canada. The decision taken in connection with the items in the agreement was made, there-

fore, in a full recognition of the larger issues involved, and I am sure that the action I am proposing to-day, which will involve an estimated reduction in taxation of about \$14,000,000, will commend itself to all interests in this country, whether manufacturers, importers or consumers. In this connection, I should mention also the fact that, having in mind that practically all the crude rubber and the primary forms of tin imported into Canada are of empire origin and come now for the most part through empire channels and Canadian ports, the government have decided to impose a duty of 5 per cent ad valorem on such goods when imported under the intermediate or general tariffs.

CONCLUSION

In conclusion, I wish to say, Mr. Speaker, that repeatedly during the past year I have been impressed with the extent to which foreign visitors look on Canada as a specially favoured land. In their view we are blessed in our geographical situation, in our powerful and friendly neighbours, in our political, economic and social institutions, in the sanity and enterprise of our people, and in our rich and varied resources available for productive investment. Many of them indeed have been shocked at the evidence of constant bickering and destructive criticism which they find here, at the tendency of some of our people to overlook the advantages which we possess over most other countries and to belittle our own achievements and the future that should be in store for this country.

I ask you, Mr. Speaker, is it not time for us Canadians "to see ourselves as others see us," to adopt a constructive rather than a negative attitude, and to concentrate with courage and vigour on a united effort to solve our own problems and continue the work of building a greater and better country? If only we can develop more of a national *esprit de corps*, if only we can recreate that spirit of cooperation, mutual helpfulness and constructive enterprise possessed by those who founded this nation at confederation, we need have no fear of the future. I for one have never lost faith that Canadians will successfully meet that challenge.

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 a taxpayer (other than a company deriving income from a metalliferous mine to which section 89 of the act applies) shall be entitled to deduct from the tax that would otherwise be payable under the act amounts not exceeding in the aggregate ten per cent off

capital costs actually incurred and paid in the period beginning May 1, 1939 and ending April 30, 1940 in respect of the construction, installation, betterment, replacement or extension of plant, machinery or fixed equipment during the same period, by deducting, in each of the first three fiscal years of the taxpayer after April 30, 1940 in which the taxpayer has taxable income, an amount not exceeding one-third of the aggregate amount of the deductions authorized.

2. That any metalliferous mine that comes into production after the 31st day of December, 1939, and prior to the 1st day of January, 1943, shall be exempt from income tax for the first three fiscal periods following the commencement of production.

3. That dividends paid by a metalliferous mine to a Canadian company during the period that such metalliferous mine is exempt from taxation under section eighty-nine of the act shall be exempt in the hands of such Canadian company.

4. That the tax imposed at the source on payments by Canadian debtors to non-residents in respect of films, whether copyrighted or not, be increased to 5 per centum on the total amount of such payments.

5. That salaries, bonuses, directors' fees, or other like remunerations, paid by Canadian companies to a non-resident, in excess of \$14,000, shall not be allowed as an expense of such Canadian company.

6. That general overhead expenses of companies shall be rateably apportioned between the taxable and the non-taxable income of such companies.

7. That where any estate or trust is taxable under the act it shall not receive a personal exemption of one thousand dollars.

8. The dividends paid by a personal corporation out of capital gains after all of the income of such corporation has been taxed against and received by its shareholders shall be exempt from taxation.

9. That the resolutions numbered 3, 5, 6, 7 and 8 shall be applicable to the incomes of 1938 and fiscal periods ending therein. Resolution numbered 4 shall be applicable on April twenty-sixth, one thousand nine hundred and thirty-nine. Resolutions numbered 1 and 2 shall come into force as indicated therein.

SPECIAL WAR REVENUE ACT

Resolved, That it is expedient to introduce a measure to amend The Special War Revenue Act, and amendments thereto and to provide:

1. That section 88 of the said act be struck out and the following substituted therefor:

"88. (1) In addition to any duty or tax that may be payable under this part, or any other statute, there shall be imposed, levied and collected a special excise tax of three per cent on the duty paid value of all goods imported into Canada subject to entry under the general tariff payable by the importer or transferee who takes the goods out of bond for consumption at the time when the goods are imported or taken out of warehouse for consumption: Provided that when raw furs imported into Canada are exported therefrom, a drawback of the tax paid may be granted under regulations to be made by the minister.

(2) The tax imposed by this section shall not apply to:

(a) The articles enumerated in schedule V to this act.

(b) Goods, the duty paid value of which does not exceed twenty-five dollars, when imported by mail or express, or by the owner thereof when entering Canada unless more than one entry of such goods be made by one importer during one day from one country, in which case the tax shall be applicable."

2. That any enactment founded on this resolution shall be deemed to have come into force on the twenty-sixth day of April one thousand nine hundred and thirty-nine, and to have applied to all goods imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for which no entry for consumption was made before that date.

EXCISE ACT

Resolved, That it is expedient to introduce a measure to amend The Excise Act, 1934, and amendments thereto and to provide:

1. That the schedule to the said act which sets out the excise duties to be imposed, levied and collected on spirits distilled in Canada be amended by striking out subsection (c) of section 1 of the said schedule and substituting therefor the following:

"(c) On every gallon of the strength of proof used in any bonded manufactory in the production of vinegar, sixty cents, and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon;"

2. That any enactment founded on this resolution shall be deemed to have come into force on the twenty-sixth day of April one thousand nine hundred and thirty-nine.

THE CUSTOMS TARIFF

1. Resolved, that schedule A to the Customs Tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended by chapter seventeen of the acts of 1928, chapter thirty-nine of the acts of 1929, chapter thirteen of the acts of 1930 (first session), chapter three of the acts of 1930 (second session), chapter thirty of the acts of 1931, chapter forty-one of the acts of 1932, chapters six and thirty-seven of the acts of 1932-33, chapters thirty-two and forty-nine of the acts of 1934, chapter twenty-eight of the acts of 1935, chapter thirty-one of the acts of 1936, and chapter twenty-six of the acts of 1937, be further amended by striking thereout tariff items 39, 39a, 39c, 39d, 53, 54, 54a, 55, 63a, 77a, 87(n), 98, 98a, 117, 170, 171a, 172, 172a, 173, 174, 175, 176, 177, 178b, 183, 184, 203, 208g, 208h, 210b, 220(a) and (b), 241, 241a, 255, 265b, 289, 326f, 343, 346a, 386 (c), 390c, 409e (ii), 417, 422a, 427b, 427e, 427h, 435, 438e(3), 445d, 446g, 448, 454, 462b, 466, 476(i) and (ii), 537c, 549e, 569e, 571a, 587b, 597a, 616, 618c, 652, 657b, 663c, 664b, 682a, 696, 804, 810, 814, 816, 818, 825, and orders in council P.C. 1414 and P.C. 2736, the several enumerations of goods respectively and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said schedule A:

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates Applicable to		
					The United Kingdom	Most Favoured Nations	General Tariff Countries
39	(i) Potato starch and potato flour.....per pound When in packages weighing two pounds each, or less, the weight of such packages to be included in the weight for duty.	1 ct.	2 cts.	2 cts.	1 ct.	2 cts.	2 cts.
	(ii) Starch, and all preparations having the quality of starch, n.o.p.....per pound When in packages weighing two pounds each, or less, the weight of such packages to be included in the weight for duty.	1 ct.	1½ cts.	2 cts.	1 ct.	2 cts.	2 cts.
39a	Starch or flour of sago, cassava, or rice; rice meal, rice feed, rice polish, rice bran, rice shorts..per pound	¾ ct.	1½ cts.	1½ cts.	¾ ct. or Free	1½ cts. 17½ p.c.	1½ cts. 17½ p.c.
39c	Dextrine, and combinations or preparations of starch and dextrine without admixture of foreign material, n.o.p.....per pound	½ ct.	1 ct.	1½ cts.	5 p.c. or 1 ct.	7½ p.c. 2 cts.	10 p.c. 2 cts.
39d	Combinations or preparations of starch and dextrine with admixture of foreign material, n.o.p., which, when mixed with cold water, do not form an adhesive paste.....per pound	1 ct.	2 cts.	2½ cts.	5 p.c. or 1 ct.	7½ p.c. 2 cts.	10 p.c. 2 cts.
39e	Resin sizing.....	5 p.c.	7½ p.c.	10 p.c.	5 p.c.	7½ p.c.	10 p.c.
53	Cornmeal.....per barrel	Free	50 cts.	60 cts.	Free	22½ cts.	25 cts.
55	Indian corn.....per bushel	Free	10 cts.	20 cts.	7½ cts. Free	7½ cts. Free	7½ cts. Free
77a	Cocoa beans, not roasted, crushed or ground per one hundred pounds	Free	\$1.50	\$3.00	Free Free	10 cts. \$1.50	25 cts. \$2.00
87	(n) Tomatoes..... but not less than per pound	Free	27½ p.c. 2 cts.	30 p.c. 3 cts.	Free	10 p.c. 1½ cts.	30 p.c. 2 cts.
98	Bananas.....per stem or bunch	Free	50 cts.	\$1.00	Free or 50 cts.	50 cts. 50 cts.	50 cts. 50 cts.
117	Fish livers, fresh, salted or in preservative medium..	Free	Free	Free	Free	Free	Free or 25 p.c.

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates Applicable to		
					The United Kingdom	Most Favoured Nations	General Tariff Countries
170	Books, periodicals and pamphlets, or parts thereof, printed, bound, unbound, or in sheets (not to include blank account books, copy books, or books to be written or drawn upon) in any other than the English language.....	Free	Free	Free	Free	Free	25 p.c. 10 p.c. Free
172	Books, pamphlets and charts, printed or published by any government abroad; official financial and business reports and statements issued by companies or associations abroad; books, pamphlets and reports, for the promotion of religion, medicine and surgery, the fine arts, law, science, technical training, and the study of languages, not including dictionaries. Scripture and prayer cards, and religious pictures and mottoes, not to include frames; books, bound or unbound, which have been actually printed and manufactured more than twelve years; manuscripts; insurance maps; freight rates, passenger rates and time-tables issued by transportation companies abroad and relating to transportation outside of Canada, in book or in pamphlet form.....	Free	Free	Free	15 p.c. Free Free	22½ p.c. 10 p.c. Free	25 p.c. 10 p.c. Free
173	Books which are included in the curriculum of any university, college or school in Canada for use as text books or as works of reference, not to include dictionaries; printed books, pamphlets and cards for use in schools to test the degree of intelligence of pupils; all books for bona fide libraries, and being the property of the organized authorities of such libraries and not in any case the property of individuals or business concerns, under such regulations as may be prescribed by the Minister; directories for free reference libraries; books received from free lending libraries abroad, subject to return under Customs supervision within sixty days.	Free	Free	Free	(15 p.c. Free Free	22½ p.c. 10 p.c. Free	25 p.c. 10 p.c. Free
178b	Printed advertising matter and tickets, time-tables and freight and passenger tariffs issued by railway systems in the British Empire (not including railway systems operating in Canada).....	Free	.....	.....	(Free 22½ p.c. 15 p.c.		

183	(i) Newspapers, or supplemental editions or parts thereof, partly printed and intended to be completed and published in Canada.....	Free	Free	Free	Free	Free	Free
	(ii) Comic and pictorial sections to be inserted in or folded with periodical publications entered for mailing purposes as second-class matter, when the space devoted to advertisements in each section does not exceed 40 per centum of the total space....	Free	Free	Free	Free	10 p.c.	10 p.c.
184	Newspapers, unbound, n.o.p.; tailors' milliners' and mantle-makers' fashion plates, when imported in single copies in sheet form with periodical trade journals.....	Free	Free	Free	Free	Free	Free
197e	Electric cable insulating paper, .0045 inch or less in thickness, and condenser tissue paper.....	Free	10 p.c.	25 p.c.	10 p.c.	10 p.c.	25 p.c.
203	Non-edible seeds, beans, nuts, berries, plants, weeds, barks, and woods, in a crude state or chipped or ground, and extracts and preparations thereof, all of the foregoing when adapted for dyeing or tanning; turmeric, nutgalls and extracts thereof; indigo, indigo paste and extracts of; aniline oil, crude; aniline salts, alizarin and artificial alizarin; annatto, liquid or solid; iron liquor, being solution of acetate or nitrate of iron adapted for dyeing and calico printing; red liquor, being a crude acetate of aluminum prepared from pyroligneous acid and adapted for dyeing and calico printing.....	Free	Free	Free	Free	Free	Free
206b	Dextrose (glucose) solutions, prepared for parenteral administration in therapeutic treatments; component materials and articles to be used in making such preparations.....	Free	Free	Free	Free or 20 p.c.	Free 27½ p.c. (and various other rates)	40 p.c. 40 p.c.
208g	Calcium molybdate, molybdenum oxide, vanadium oxide and tungsten oxide, whether in powder, in lumps, or formed into briquettes by the use of a binding material, when for use in the manufacture of steel, under regulations prescribed by the Minister.....	Free	Free	5 p.c.	Free or 12½ p.c.	Free 20 p.c.	5 p.c. 22½ p.c.
208h	Ethylene glycol, when imported by manufacturers for use exclusively in the manufacture of anti-freezing compounds or of explosives, in their own factories.....	Free	Free	Free	Free	Free	Free
208v	Methyl ethyl ketone; isopropyl acetate; butyl alcohol.....	Free	25 p.c.	25 p.c.	Free	25 p.c.	25 p.c.

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates Applicable to		
					The United Kingdom	Most Favoured Nations	General Tariff Countries
210b	(i) Barilla or soda ash.....per one hundred pounds	15 cts.	25 cts.	30 cts.	20 cts.	30 cts.	30 cts.
	(ii) Sal soda.....per one hundred pounds	20 cts.	30 cts.	30 cts.	20 cts.	30 cts.	30 cts.
220	All medicinal, chemical and pharmaceutical preparations, compounded of more than one substance, including patent and proprietary preparations, tinctures, pills, powders, troches, lozenges, filled gelatine capsules, tablets, syrups, cordials, bitters, anodynes, tonics, plasters, liniments, salves, ointments, pastes, drops, waters, essences and oils, n.o.p.—						
	(a) When dry.....	17½ p.c.	20 p.c.	25 p.c.	17½ p.c.	20 p.c.	25 p.c.
	(b) Liquid, when containing not more than two and one-half per centum of proof spirit.....	20 p.c.	27½ p.c.	40 p.c.	20 p.c.	27½ p.c.	40 p.c.
241	Litharge and mixtures or combinations of litharge with other materials, such mixtures or combinations to contain not less than 50 per centum by weight of litharge, when imported by manufacturers of electric storage batteries, for use exclusively in the manufacture of storage battery plates in their own factories.....	Free	Free	Free	Free	Free	Free
241a	Litharge, n.o.p.....	Free	15 p.c.	15 p.c.	Free	15 p.c.	15 p.c.
265b	Cod liver oil, crude or refined.....	Free	15 p.c.	22½ p.c.	Free	20 p.c.	22½ p.c.
289	Baths, bathtubs, basins, closets, closet seats and covers, closet tanks, lavatories, urinals, sinks and laundry tubs of earthenware, stone, cement, clay or other material, n.o.p.....	15 p.c.	27½ p.c.	35 p.c.	15 p.c.	27½ p.c. (and various rates)	35 p.c.
326f	Moulded illuminating shades, reflectors and refractors of glass, of synthetic resins, of pyroxylin, or of plastics of cellulose acetate or other chemical derivatives of cellulose, of a class or kind not made in Canada, designed for use with lighting fixtures or with portable lamps.....	Free	15 p.c.	32½ p.c.	Free 10 p.c. 10 p.c. 20 p.c.	15 p.c. 27½ p.c. 25 p.c. 27½ p.c.	32½ p.c. 40 p.c. 32½ p.c. 30 p.c.
343	Tin, in blocks, pigs or bars.....	Free	5 p.c.	5 p.c.	Free	Free	Free

344	Tin strip waste and tin foil.....	Free	Free	Free	Free	Free	Free
346a	Zinc slugs or discs, when imported by manufacturers of electric dry batteries for use in the manufacture of seamless cups or shells for such batteries, in their own factories.....	Free	Free	25 p.c.	Free	Free	25 p.c.
351c	Brass wire, when imported by manufacturers of fourdrinier wires or of paper-machine wire cloth, for use exclusively in their own factories.....	Free	15 p.c.	35 p.c.	10 p.c.	30 p.c.	35 p.c.
386	(c) Sheets, plates, hoop, band or strip, hot rolled, being mould boards, shares, cultivator or shoe shapes, plough plates, land sides or disc circles, when such rectangles, circles or sketches are cut to shape but not moulded, punched, polished or otherwise manufactured, when imported by manufacturers of agricultural implements for use exclusively in the manufacture of agricultural implements, in their own factories.....	Free	Free	Free	Free	Free	Free
390c	Piston ring castings of iron or steel, in the rough as from the moulds.....	Free	Free	27½ p.c.	Free or 15 p.c.	Free 22½ p.c.	27½ p.c. 27½ p.c.
403	(f) Wire, of rust or acid resisting steel, twisted or stranded, for use exclusively in commercial fishing operations.....	Free	10 p.c.	25 p.c.	Free	10 p.c.	25 p.c.
409e	(ii) Fruit and vegetable grading, grating, washing and wiping machines and combination bagging and weighing machines, and complete parts thereof; machines for topping vegetables, and machines for bunching and/or tying cut flowers, vegetables and nursery stock, and complete parts thereof; box-lidding machines, egg-graders and egg-cleaners, and complete parts thereof, not including aluminum parts.....	Free	5 p.c.	10 p.c.	Free	5 p.c.	10 p.c. or 35 p.c.
417	Machinery and apparatus and complete parts thereof and structural iron and steel, of a class or kind not made in Canada, when imported for use exclusively in the construction or equipment of factories for the manufacture of sugar from beetroot, or for receiving sugar beets, under regulations prescribed by the Minister.....	Free	Free	Free	Free Free	Free 10 p.c. (various other rates)	Free 35 p.c.

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates Applicable to		
					The United Kingdom	Most Favoured Nations	General Tariff Countries
422a	Concrete road-paving machines, self-propelling, end loading type, with a capacity of 21 cubic feet of wet concrete or more; concrete and asphalt road finishing machines; form graders; sub-graders; combination excavating and transporting scraper units; concrete mixers, transit type; dump wagons or trailers on crawler-tracks, not self-propelled; back-filling machines and equipment, mounted on self-propelling wheels or crawling traction, semi- or full-revolving boom and scraper type; steam or air driven pile hammers or extractors; well-points; truck turntables; all the foregoing of a class or kind not made in Canada, and complete parts thereof.....	Free	10 p.c.	12½ p.c.	Free	10 p.c.	12½ p.c. 30 p.c. 35 p.c.
427b	Ball and roller bearings; complete parts thereof, n.o.p.....	Free	17½ p.c.	35 p.c.	Free or 10 p.c.	17½ p.c. 25 p.c.	35 p.c. 35 p.c.
427e	Automatic machines for making and packaging cigars and cigarettes, not to include tobacco-preparing machines.....	Free	10 p.c.	35 p.c.	Free	10 p.c.	35 p.c.
427h	Motion picture projectors, arc lamps for motion picture work, motion picture or theatrical spot lights, light effect machines, motion picture screens, portable motion picture projectors with or without sound equipment; electric rectifiers or generators designed for use with motion picture projectors; complete parts of all the foregoing, not to include electric light bulbs, tubes, or exciter lamps.....	Free	15 p.c.	35 p.c.	Free	15 p.c.	35 p.c. 37½ p.c. 30 p.c.
435	Locomotives and motor cars for railways, of a class or kind not made in Canada, and complete parts thereof, for use exclusively in mining, metallurgical or sawmill operations.....	Free	12½ p.c.	20 p.c.	Free	12½ p.c.	20 p.c. or 35 p.c.
438e	(3) Parts, n.o.p., of iron or steel, not electro-plated, whether finished or not.....	Free	25 p.c.	40 p.c.	Free	25 p.c.	40 p.c.
	(4) Parts, n.o.p., other than of iron or steel, not electro-plated, whether finished or not.....	Free	30 p.c.	40 p.c.	Free	30 p.c.	40 p.c.

442d	Materials, including all parts, wholly or in chief part of metal, of a class or kind not made in Canada, when imported by manufacturers of goods entitled to entry under tariff items 410g, 410l, 410n, 410o, 410p, 410q, 410u, 410w, 410z, 411, 411a, 411b, 427b, 428c, 428e, 440k and 447a, for use in the manufacture of such goods in their own factories, under such regulations as the Minister may prescribe..... Provided, that materials and parts which are entitled to free entry or to a lower rate of duty than is specified in this item shall not be dutiable under this item.	Free	10 p.c.	10 p.c.		at various rates	
443a	Ovens, of a class or kind not made in Canada, for use in commercial bakeries.....	Free	10 p.c.	30 p.c.	15 p.c.	15 p.c.	30 p.c.
445d	Electric wireless or radio apparatus and complete parts thereof, n.o.p.....	Free	25 p.c.	30 p.c.	Free	25 p.c.	30 p.c.
445o	Acid-free capacitor tissue and paper, plain and gummed; aluminium cans, extruded; automatic record changers and parts for pickups; bias cells; diaphragms with or without spider and voice coil frames, yokes, brackets and housings to be used in the assembly of speakers with mounting not exceeding 6½ inches in width; glass dial crystals and scales; high frequency circuit switches; high frequency iron cores; magnets; motors and gears for automatic tuning; radio frequency ceramics; sheets and punchings of low loss mica; tube shields; vibrators; vulcanized fibre in sheets, rods, strips and tubing; for use in the manufacture or the repair of the goods enumerated in Tariff Items 445d or 597a, or for use in the manufacture of parts therefor	Free	Free	30 p.c.	15 p.c. 15 p.c. 20 p.c. Free 15 p.c. 10 p.c. 17½ p.c. 15 p.c.	22½ p.c. 22½ p.c. 27½ p.c. 25 p.c. 25 p.c. 17½ p.c. 17½ p.c. 20 p.c.	35 p.c. 25 p.c. 35 p.c. 30 p.c. 30 p.c. 22½ p.c. 25 p.c. 25 p.c.

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates Applicable to		
					The United Kingdom	Most Favoured Nations	General Tariff Countries
445p	Ceramic spacers and insulators; copper alloys for welding; getter and getter assemblies; glass bulbs and glass tubing; metal bulbs; mica parts and wire snubbers; molybdenum and molybdenum alloy wire; nickel and nickel alloy tubing, wire, ribbon, screen and strip, coated or not, carbonized or not; wire of tungsten or zinc; all the foregoing when imported by manufacturers of radio tubes for use exclusively in the manufacture of radio tubes, in their own factories.....	Free	Free	30 p.c.	Free 20 p.c. 10 p.c. 10 p.c. 15 p.c. Free	25 p.c. 25 p.c. 30 p.c. 17½ p.c. 20 p.c. Free	30 p.c. 30 p.c. 35 p.c. 22½ p.c. 25 p.c. Free
446g	Electric or gas apparatus designed for welding or cutting and parts thereof, not including motors....	5 p.c.	20 p.c.	30 p.c.	10 p.c. or 10 p.c.	20 p.c. 25 p.c.	30 p.c. 35 p.c.
448	Steel balls and rollers for use only in ball or roller bearings.....	Free	7½ p.c.	10 p.c.	Free	7½ p.c.	10 p.c.
454	Frames not more than ten inches in width, clasps and fasteners (not to include slide or hookless fasteners), when imported by manufacturers of purses, chatelaine bags or reticules for use exclusively in the manufacture of purses, chatelaine bags or reticules in their own factories, under regulations prescribed by the Minister; parts of the foregoing.....	Free	12½ p.c.	20 p.c.	Free	12½ p.c.	20 p.c.
462b	Cinematograph and motion picture cameras, 35 mm., for use by professional motion picture producers having studios in Canada equipped for motion picture production; parts of the foregoing.....	Free	10 p.c.	15 p.c.	Free or 7½ p.c.	10 p.c. 10 p.c.	15 p.c. 30 p.c.
466	Iron sand and iron or steel shot, not further manufactured than crushed or ground, and dry putty, for sawing, polishing, pressure blasting or tumbling purposes.....	Free	Free	Free	Free	Free	Free

476	Surgical and dental instruments of any material; surgical needles; X-ray apparatus; microscopes valued at not less than 50 dollars each, retail; complete parts of all the foregoing.....	Free	Free	Free	Free	Free	Free or 10 p.c.
507e	Plywood made of two or more layers of wood glued or cemented together and faced with metal on one or both sides.....	5 p.c.	20 p.c.	35 p.c.	17½ p.c. 10 p.c. 15 p.c.	20 p.c. 25 p.c. 27½ p.c.	25 p.c. 35 p.c. 30 p.c.
537c	Rovings, yarns and warps wholly of vegetable fibres other than cotton or jute, not to include materials for sewing, stitching or packaging purposes, imported by manufacturers for use exclusively in their own factories.....	Free	10 p.c.	15 p.c.	Free 12½ p.c. 17½ p.c.	10 p.c. 17½ p.c. 22½ p.c.	15 p.c. 25 p.c. 25 p.c.
549e	Filter press cloth made from human hair, imported by manufacturers for use in their own factories....	10 p.c.	27½ p.c.	30 p.c.	20 p.c. or 22½ p.c. and 12 cts.	27½ p.c. 35 p.c. and 30 cts.	30 p.c. 40 p.c. and 35 cts. lb.
551d	Yarns and warps composed wholly of wool or in part of wool or hair, imported by manufacturers for use in their own factories in the manufacture of woven fabrics in chief part by weight of wool or hair and not exceeding six ounces to the square yard when in the gray or unfinished condition, under such regulations as may be prescribed by the Minister..... and, per pound	Free	17½ p.c. 15 cts.	20 p.c. 17½ cts.	10 p.c. 5 cts.	17½ p.c. 15 cts.	20 p.c. 17½ cts.
569e	Firemen's helmets; safety helmets for industrial purposes; parts of such helmets.....	Free	Free	Free	Free or 22½ p.c. and 75 cts. dozen	Free 30 p.c. and \$1.50 dozen	Free 35 p.c. and \$1.50 dozen
571a	(i) Mats with cut pile, of cocoa fibre..per square foot	3 cts.	4 cts.	5 cts.	30 p.c.	37½ p.c.	40 p.c.
	(ii) Mats, n.o.p., rugs, carpeting and matting of cocoa fibre.....per square yard	7½ cts.	9 cts.	10 cts.	30 p.c.	37½ p.c.	40 p.c.
587b	Coke of a kind not produced in Canada or coke which, owing to transportation costs, is not available commercially at point of use in Canada, when imported by manufacturers for use exclusively in manufacturing calcium carbide or rock wool or in metallurgical operations, in their own plants....	Free	Free	Free	Free Free	Free \$1.00 ton	Free \$1.00 ton

Tariff Item		British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates Applicable to		
					The United Kingdom	Most Favoured Nations	General Tariff Countries
597a	Musical instruments of all kinds, n.o.p.; phonographs, graphophones, gramophones and finished parts thereof, n.o.p., including cylinders and records therefor; and mechanical piano and organ players..	15 p.c.	27½ p.c.	30 p.c.	15 p.c.	25 p.c.	30 p.c.
616	(i) Rubber, crude, caoutchouc or India-rubber, un-manufactured.....	Free	5 p.c.	5 p.c.	Free	Free	Free
	(ii) Powdered rubber and rubber or gutta percha waste or junk; recovered rubber and rubber substitute.....	Free	Free	Free	Free	Free	Free
618c	Chlorine derivatives of India-rubber insoluble in carbon tetrachloride, in sheets not exceeding three one-thousandths of an inch in thickness, coloured or not but not printed, lithographed or embossed, when for use in Canadian manufactures.....	Free	5 p.c.	20 p.c.	Free or 5 p.c.	5 p.c. 5 p.c.	20 p.c. 25 p.c.
652	Toilet or dressing combs, n.o.p.; fancy combs, not being jewellery..... but not less than per gross	10 p.c.	25 p.c. \$1.50	27½ p.c. \$2.00	10 p.c.	25 p.c.	27½ p.c.
657b	Parts, unfinished, when imported by manufacturers of cameras, for use in the manufacture of cameras, in their own factories.....	Free	5 p.c.	7½ p.c.	Free	5 p.c.	7½ p.c.
663c	Soya beans, soya bean oil cake and soya bean oil meal, when imported for use as animal or poultry feeds, or as fertilizer, or when imported for use in the manufacture of animal or poultry feeds or fertilizers.....	Free	Free	Free	Free	Free	Free
663g	Fish meal.....	Free	20 p.c.	25 p.c.	15 p.c.	20 p.c.	25 p.c.
682a	Net floats of aluminum, glass, canvas, cork, or rubber, for use exclusively in commercial fishing.....	Free	Free	Free	Free	Free	Free

696	Philosophical and scientific apparatus, utensils, instruments, and preparations, including boxes and bottles containing the same; maps, charts, photographic reproductions and other pictorial illustrations, casts as models, animals as research or experimental subjects; mechanical equipment of a class or kind not made in Canada. All articles in this item, when for the use and by order of any society or institution incorporated or established solely for religious, philosophical, educational, scientific or literary purposes, or for the encouragement of the fine arts, or for the use and by order of any public hospital, college, academy, school, or seminary of learning in Canada, and not for sale, under regulations prescribed by the Minister.....	Free	Free	Free	Free	Free	Free
810	Ladder tapes and braided cords, when imported for use exclusively in the manufacture of Venetian blinds.....	Free			Free		
814	Billets of wood, not further manufactured than rough turned to dowel form, when imported by manufacturers of baseball bats for use exclusively in the manufacture of baseball bats in their own factories.	Free	Free	10 p.c.	Free	10 p.c.	10 p.c.
818	Woven fabrics, wholly of cotton, bleached, when imported by manufacturers of handkerchiefs, for use exclusively in the manufacture of handkerchiefs wholly of cotton, in their own factories.....	Free	22½ p.c	27½ p.c.	7½ p.c.	22½ p.c.	27½ p.c.
825	Woven cord tire fabric, wholly or in chief part by weight of artificial silk or similar synthetic fibres, not to contain silk nor wool, coated with a rubber composition, when imported by manufacturers of rubber, to be incorporated by them in pneumatic tires, in their own factories.....	Free	15 p.c.	25 p.c.	Free	15 p.c.	25 p.c.

2. Resolved, that schedule B to the Customs Tariff be amended by striking thereout tariff item 1049, the enumeration of goods and the rate of drawback of customs duties set opposite thereto, and by inserting the following item, enumerations and rates of drawback of customs duties in said schedule B:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
1049	Bituminous coal, imported on or after March 23rd, 1935.	(a) When converted into coke to be sold. (b) When converted into coke to be sold; provided that not less than thirty-five per centum, by weight, of the bituminous coal so used, as covered by each drawback claim, was mined in Canada Provided that drawback payable under this Item is in lieu of drawback payable under any other item.	50 p.c. 99 p.c.

3. Resolved, that any enactment founded upon the foregoing resolutions to amend the Customs Tariff or schedules thereto shall be deemed to have come into force on the twenty-sixth day of April, one thousand nine hundred and thirty-nine, and to have applied to all goods mentioned in the foregoing resolutions imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

APPENDIX
TO
THE BUDGET, 1939-40

Budget Papers presented by the
Honourable Chas. A. Dunning, M.P., for the
information of Parliament on the occasion
of the Budget of 1939-40.

- A. Review of Government Accounts, 1938-39.
- B. Review of Economic and Financial Conditions, 1938-39.

DOMINION OF CANADA

A. GOVERNMENT ACCOUNTS, 1938-39

COMPARATIVE SUMMARY STATEMENT OF REVENUES AND EXPENDITURES

1. As the final figures for the fiscal year 1938-39 are not as yet available, all statements dealing with revenues, expenditures, investments and balance sheet items are estimated. It is expected that when the books of the year are finally closed, any variations from the figures shown herein will be of slight importance.

2. The following tables show, by main categories and in detail, revenues, expenditures and the increase in net debt for the fiscal year 1938-39, together with comparable figures for the four preceding fiscal years:

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

	1934-35	1935-36	1936-37	1937-38	Estimated 1938-39
	\$	\$	\$	\$	\$
Tax Revenues—					
Customs import duties.....	76,562	74,004	83,771	93,456	78,750
Excise duties.....	43,190	44,410	45,957	52,037	51,313
War tax revenues—					
Banks.....	1,369	1,281	1,210	1,107	1,026
Insurance companies.....	750	761	775	867	891
Income tax.....	66,808	82,710	102,365	120,366	142,025
Sales tax.....	72,447	77,552	112,832	138,055	119,460
Manufacturers', importations, stamps, transportation taxes, etc.....	39,745	35,181	39,641	42,764	42,240
Tax on gold.....	3,573	1,413	—	—	—
Total revenue from taxes.....	304,444	317,312	380,551	448,652	435,705
Non-Tax Revenues—					
Canada Grain Act.....	1,205	1,213	1,192	680	1,130
Canada Gazette.....	47	49	48	47	47
Canals.....	838	890	1,004	1,866	725
Casual.....	4,337	4,636	6,276	6,597	6,980
Chinese revenue.....	6	6	7	2	2
Electricity.....	485	542	646	692	705
Fines and forfeitures.....	90	295	134	209	250
Fisheries.....	43	42	56	60	54
Gas inspection.....	96	91	93	88	80
Insurance inspection.....	139	147	152	162	172
Interest on investments.....	10,903	10,614	11,231	13,120	13,195
Lands, Parks and Forests.....	516	458	478	541	670
Marine.....	218	222	263	336	367
Mariners' fund.....	181	187	205	206	210
Military college.....	20	20	20	20	20
Militia pensions revenue.....	174	178	187	194	194
Ordnance lands.....	16	16	15	16	20
Patent and copyright fees.....	426	455	404	452	463
Penitentiaries.....	74	68	62	63	70
Post Office.....	31,248	32,508	34,275	35,546	35,250
Premium, discount and exchange.....	752	36	—	27	480
Public Works.....	254	251	274	313	307
Radio Licences.....	1,487	1,574	(1) 990	—	—
R.C.M.P. officers' pensions.....	9	11	10	11	11
Weights and measures.....	407	401	396	393	416
Total non-tax revenue.....	54,031	54,910	58,478	61,646	61,818
Total ordinary revenues.....	358,475	372,222	445,029	510,298	497,523
Special Receipts—					
Sundry receipts.....	3,397	320	(2) 8,464	3,010	1,317
Other credits—					
Refunds on capital account.....	80	27	616	1,543	35
Credits to non-active accounts.....	21	27	45	819	2,802
Net credit resulting from various adjustments in Railway accounts authorized by Canadian National Railways Capital Revision Act, 1937	—	—	—	1,023	—
Total Special Receipts and Credits.....	3,498	374	9,125	6,395	4,154
Grand Total Revenue.....	361,973	372,596	454,154	516,693	501,677

(1) As from Nov. 1936, radio licence fees deposited to credit of The Canadian Broadcasting Corporation.

(2) Includes \$8,000,000 from Canadian Wheat Board taken into the accounts as an offset, in part, to the disbursements in 1935-36 re losses on 1930 wheat pool and stabilization operations.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY
DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS.
(000 omitted)

	1934-35	1935-36	1936-37	1937-38	Estimated 1938-39
	\$	\$	\$	\$	\$
ORDINARY EXPENDITURE					
Agriculture.....	7,107	9,399	8,741	9,017	9,501
Auditor General's Office.....	377	429	423	463	476
Civil Service Commission.....	221	259	305	353	382
External Affairs, including Office of Prime Minister.....	1,427	1,290	1,341	1,450	1,101
Finance—					
Interest on Public Debt.....	138,533	134,549	137,410	132,118	128,010
Cost of Loan Flotations.....	2,890	3,577	3,839	4,555	4,975
Premium, Discount and Exchange(net)	—	—	400	—	—
Subsidies to Provinces.....	13,769	13,769	13,735	13,735	13,752
Special Grants to Provinces.....	1,600	3,975	3,225	7,475	7,475
Other Grants and Contributions.....	467	736	540	560	618
Civil pensions and superannuation.....	943	854	787	712	670
Government contribution to Super- annuation Fund.....	1,948	1,875	2,019	2,065	2,220
Old Age Pensions.....	14,942	16,704	21,149	28,653	29,141
General Expenditure.....	3,939	3,735	3,579	3,654	3,707
Fisheries.....	1,641	1,710	1,691	1,850	2,078
Governor General's Secretary's Office...	133	138	143	144	146
Insurance.....	156	193	172	187	198
Justice.....	2,718	2,748	2,773	2,790	2,784
Penitentiaries.....	2,667	2,377	2,372	2,577	2,735
Labour.....	581	660	720	706	796
Technical Education.....	91	99	76	49	30
Government Annuities—Payments to maintain reserve.....	146	272	541	8,941	—
Legislation—					
House of Commons.....	1,796	1,486	1,760	1,516	1,815
Library of Parliament.....	71	76	75	79	79
Senate.....	491	491	587	536	605
General.....	95	55	73	57	75
Dominion Franchise Office.....	1,545	498	53	76	51
Chief Electoral Officer, including elec- tions.....	146	1,089	72	45	100
Mines and Resources—					
Administration.....	—	—	—	(1) 1,491	(1) 184
Immigration and Colonization.....	1,269	1,322	1,313	1,163	1,365
Indian Affairs.....	4,362	4,869	4,904	4,897	5,187
(Interior.....	2,750	2,939	2,887	—	—
Lands, Parks and Forests.....	—	—	—	1,910	1,640
Surveys and Engineering.....	—	—	—	933	2,166
Mines and Geological Survey.....	965	1,040	1,135	658	1,385
Movement of Coal & Domestic Fuel Act.....	2,124	2,103	2,277	2,521	1,900
National Defence—					
Militia Service.....	8,853	10,141	11,346	17,221	16,354
Naval Service.....	2,222	2,380	4,763	4,372	6,623
Air Service.....	2,258	3,777	5,822	10,018	11,355
Sundry Services.....	847	879	992	1,149	878
National Revenue (including Income Tax).....	10,166	10,963	11,205	11,870	11,961
Pensions and National Health—					
Treatment and after-care of returned soldiers.....	10,220	11,060	11,579	12,109	13,679
Pensions, War and Military.....	43,139	42,790	42,801	42,240	42,170
Health Division.....	809	993	873	957	1,068
Post Office.....	30,252	31,438	31,906	33,762	35,706
Privy Council.....	46	46	45	48	52
Public Archives.....	209	165	160	170	172
Public Printing and Stationery.....	368	169	169	161	192
Public Works.....	9,905	12,945	14,519	12,332	15,670
Royal Canadian Mounted Police.....	5,970	6,165	5,901	6,308	6,482
Secretary of State.....	395	705	655	693	776

(1) Prior to 1937-38 general administration expenses were not segregated from other expenditures of the respective services of the departments which were amalgamated to form the Department of Mines and Resources. The figures for 1938-39 represent only Departmental Administration, other administration costs being included as in other departments, under the respective services.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY
DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Continued*

(000 omitted)

	1934-35	1935-36	1936-37	1937-38	Estimated 1938-39
	\$	\$	\$	\$	\$
ORDINARY EXPENDITURE—concluded					
Soldier Settlement.....	746	762	806	801	784
Trade and Commerce.....	3,057	3,458	5,523	4,070	4,961
Canada Grain Act.....	1,679	1,848	1,739	1,675	1,873
Mail Subsidies and Steamship Sub- ventions.....	2,274	2,426	2,120	2,029	2,012
Transport—					
Administration.....	—	—	—	(1) 417	395
Air Service.....	—	—	—	(2) 2,935	3,492
Marine Service.....	5,742	5,857	5,614	4,290	4,417
Canadian Radio Commission.....	1,249	1,500	878	—	—
Canadian Travel Bureau.....	41	248	250	250	250
Railways and Canals.....	4,540	4,002	3,769	3,661	4,757
Maritime Freight Rates Act.....	2,529	2,348	2,506	3,183	2,584
Railway Grade Crossing Fund.....	275	128	54	180	362
Total ordinary expenditure..	359,701	372,539	387,112	414,892	416,372
CAPITAL EXPENDITURE					
Canals.....	338	458	52	—	—
Railways.....	526	287	203	71	27
Public Works.....	6,243	5,799	3,237	4,359	4,660
Total capital expenditure....	7,107	6,544	3,492	4,430	4,687
SPECIAL EXPENDITURE					
Unemployment Relief Act, 1930.....	2	26	—	—	—
Unemployment Relief Act, 1931.....	52	26	—	—	—
Unemployment Relief Act, 1932.....	399	111	—	—	—
Unemployment Relief Act, 1933.....	2,420	494	—	—	—
Unemployment Relief Act, 1934.....	40,114	1,152	—	—	—
Unemployment Relief Act, 1935.....	—	48,027	—	—	—
Administration—Relief Acts.....	—	—	194	378	271
Grants-in-aid to Provinces.....	—	—	28,930	19,493	17,025
Dominion share of joint Dominion-Pro- vincial projects.....	—	—	12,692	8,841	4,544
Dominion Projects.....	—	—	23,554	13,913	16,221
Transportation facilities into mining areas	—	—	1,221	1,324	1,246
Railway Maintenance Relief Work.....	—	—	2,662	—	—
	51,987	49,836	69,253	43,949	30,307
Western Drought Area Relief—					
Direct Relief.....	—	—	5,144	11,925	7,712
Feed and fodder and freight thereon...	—	—	3,517	11,352	1,264
Freight charges on movement of cattle	—	—	90	—	—
Expenses of marketing cattle.....	—	—	—	337	—
Purchase and distribution of food stuffs	—	—	—	972	300
	—	—	8,751	24,586	9,276
Public Works Construction Acts.....	8,673	20,581	—	—	—
1930 Wheat Crop Equalization Payments Act.....	—	6,600	—	—	—
Loss on 1930 Wheat Pool and stabilization operations—					
Payment to Canadian Wheat Board of net liability assumed as at Dec. 2, 1935.....	—	15,856	—	—	—
Loss on 1930 oats pool under guarantee of bank advances to Canadian Co- operative Wheat Producers, Limited	—	174	—	—	—
Provision for reserve against estimat- ed losses on wheat marketing guarantees applicable to the fiscal year 1938-39.....	—	—	—	—	25,000
Total special expenditure....	60,660	102,047	78,004	68,535	73,583

(1) Prior to 1937-38 general administration expenses were not segregated from other expenditures of the respective Services of the Departments which were amalgamated to form the Department of Transport.

(2) Prior to 1937-38 expenditures on civil aviation, now the Air Service Branch of the Department of Transport, were included under expenditures for the Air Service Branch of the Department of National Defence.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY
DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(000 omitted)

	1934-35	1935-36	1936-37	1937-38	Estimated 1938-39
	\$	\$	\$	\$	\$
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Fund—					
Canadian National Railway System, ex-eastern lines.....	42,590	41,796	37,449	37,882	48,194
Eastern lines.....	5,818	5,625	5,854	4,464	6,120
Prince Edward Island Car Ferry and Terminals.....	—	—	—	—	(¹) 388
Canadian National Steamships.....	—	270	—	—	—
National Harbours Board.....	—	1,126	250	289	138
Trans-Canada Air Lines.....	—	—	—	111	818
Total charged to consoli- dated fund.....	48,408	48,817	43,553	42,746	55,658
Loans and advances non-active—					
Canadian National Steamships.....	487	(Cr.) 333	(Cr.) 1,754	104	6
National Harbours Board.....	1,242	2,456	2,419	1,983	3,303
Total non-active advances...	1,729	2,123	665	2,087	3,309
Total government-owned en- terprises.....	50,137	50,940	44,218	44,835	58,967
OTHER CHARGES					
Write-down of assets chargeable to Con- solidated Fund—					
Reduction in soldier and general land settlement loans.....	469	488	628	750	960
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources.....	21	27	44	14	49
Canadian National Railways Securi- ties Trust Stock—Reduction due to line abandonments during calendar year 1938.....	—	—	—	(²) —	2,713
Cancellation of Canadian Farm Loan Board—Capital Stock.....	—	—	20	10	12
Province of Manitoba Treasury Bills..	—	—	—	805	—
Non-Active Accounts—					
General Land Settlement Loans.....	—	—	—	139	—
Active assets transferred to non-active.	11	—	(³) 18,487	—	—
Total other charges.....	501	515	19,179	1,718	3,734
Grand total expenditures....	478,106	552,585	532,005	534,408	557,343

(¹) Included with Eastern lines in previous years.

(²) An amount of \$711,000 representing line abandonments during the calendar year 1937 was included in the adjustments resulting from the Canadian National Railways Capital Revision Act, 1937.

(³) Dominion contribution to Voluntary Debt Adjustment Programme effected in Provinces of Manitoba and Saskatchewan respecting Drought Area Relief that was financed by the Dominion up to January 1, 1935—Manitoba \$805,000, Saskatchewan \$17,682,000.

SUMMARY OF REVENUES AND EXPENDITURES
(000 omitted)

	1934-35	1935-36	1936-37	1937-38	Estimated 1938-39
	\$	\$	\$	\$	\$
Ordinary expenditures.....	359,701	372,539	387,112	414,892	416,372
Ordinary revenues.....	358,475	372,222	445,029	510,298	497,523
Deficit (—) or surplus (+) on ordinary account.....	—1,226	—317	+57,917	+95,406	+81,151
Special expenditures.....	60,660	102,047	78,004	68,535	73,583
Less special receipts.....	3,397	320	8,464	3,010	1,317
Balance.....	57,263	101,727	69,540	65,525	72,266
Add—Capital expenditures.....	7,107	6,544	3,492	4,430	4,687
“ Government Owned Enterprises..	50,137	50,940	44,218	44,833	58,967
“ Other charges.....	501	515	19,179	1,718	3,734
	115,008	159,726	136,429	116,506	139,654
Less other credits.....	101	54	661	3,385	2,837
	114,907	159,672	135,768	113,121	136,817
Add deficit or deduct surplus as above..	1,226	317	57,917	95,406	81,151
Over-all deficit or increase of direct net debt.....	116,133	159,989	77,851	17,715	55,666

REVENUES 1938-39

3. The total revenues of the Dominion from taxation and other sources aggregated \$501,677,000. This represents a decrease of \$15,016,000 or 2.9% from the all-time record revenue received in the previous fiscal year, 1937-38.

4. Total revenue from taxation amounted to \$435,705,000, a decline of \$12,947,000 from that collected in the previous year. All the main sources of taxation, with the exception of the income tax, recorded decreases.

5. Income tax receipts totalled \$142,025,000, the highest ever reported, or an increase of 18.0% over the \$120,366,000 collected in the fiscal year 1937-38. Of the receipts, \$85,185,000 was from the tax on corporation incomes; \$46,937,000 from the tax on individual incomes and \$9,903,000 from the 5% tax on interest and dividends.

6. The sales tax was the second largest revenue producer. Receipts from this tax totalled \$119,460,000, a decrease of \$18,595,000 as compared with those for the previous year. This decrease is due in part to the decline in general business activity and in part to the exemption from the sales tax of the major materials used in house construction provided for by the budget of last year.

7. Other excise taxes, including the 3% special excise tax on imports, the stamp tax on cheques, etc., and the taxes on sugar, automobiles and rubber tires, matches, toilet preparations, Pullman tickets, telegraph and telephone messages and other miscellaneous commodities, accounted for total receipts of \$42,240,000, a decrease of only \$524,000 from the previous year.

8. Receipts from excise duties, mainly on liquor and tobacco, remained practically unchanged at \$51,313,000.

9. The yield from customs duties is now estimated at \$78,750,000, a decrease of \$14,706,000, or 15.7%, from the amount collected in 1937-38. This decrease in customs revenue paralleled the decline in imports which dropped 17.6% in the fiscal year ended March 31, 1939, as compared with the previous fiscal year.

10. Non-tax revenues, or revenues from services rendered by the various departments and interest on investments, totalled \$61,818,000 compared with \$61,646,000 in the previous year. The largest non-tax item is the receipts of the Post Office which totalled \$35,250,000 during 1938-39, approximately the same as the total for the preceding fiscal year. The operations of the Post Office last year resulted in a nominal deficit of \$456,000. The Post Office accounts do not include the rental value and other costs of premises occupied and equipment used, nor do they include any credit to the Post Office for services rendered to other departments through the free use of the mails.

The second largest non-tax revenue item is Interest on Investments which totalled \$13,195,000, approximately the same as that received in the previous year.

Casual Revenue, including Mint handling charges, Dominion's share of surplus profits of the Bank of Canada, receipts from various provinces for services rendered by the Royal Canadian Mounted Police, and other miscellaneous items, totalled \$6,980,000.

11. Special receipts and other credits totalled \$4,154,000 compared with \$6,395,000 in the fiscal year 1937-38. The main item in this category is the credit of \$2,713,000 on account of line abandonments by the Canadian National Railways, a corresponding charge appearing on the expenditure statement under Other Charges. The decrease in 1938-39 as compared with the previous year is largely accounted for by a non-recurring item in the 1937-38 accounts, receipts of \$1,500,000 from the sale of the Sorel Shipyards.

EXPENDITURES, 1938-39

12. The comments which follow will deal with expenditures classified by the usual main categories: Ordinary Expenditures, Capital Expenditures, Special Expenditures (chiefly for unemployment and agricultural relief), Operating Deficits of and Non-active Advances to Government Owned Enterprises, and Other Charges. All disbursements under these categories are included as expenditure in arriving at the over-all deficit or increase in net debt.

ORDINARY EXPENDITURES

13. Ordinary expenditures, which include interest on the public debt and the general administrative expenses of the Government, totalled \$416,372,000, an increase of \$1,480,000 over the previous fiscal year.

There were no very large increases in the ordinary expenditures of any particular department. The largest increase, namely, \$3,288,000, occurred in the ordinary expenditures of the Public Works Department. Expenditures of the Department of National Defence increased by \$2,450,000 to \$35,210,000, due to the accelerated defence programme instituted two years ago. Increased cost of operating the Post Office Department amounted to \$1,944,000 and was in large part due to increased air mail and city delivery services.

The largest decrease in ordinary expenditures is found in the amount required for interest on the public debt. This annual charge declined by \$4,108,000, due mainly to the refunding at substantially lower interest rates of the 5½% Victory Loan issue which matured on December 1, 1937. The item of \$8,941,000 for maintaining the reserve of the Government Annuities fund which was included in the expenditures for 1937-38 did not recur in the last fiscal year.

CAPITAL EXPENDITURES

14. Total expenditures charged to capital amounted to \$4,687,000 compared with \$4,430,000 in the previous year. The main items in this category are expenditures arising out of dredging the St. Lawrence Ship Channel and the construction of airways and airports.

SPECIAL EXPENDITURES

15. Special expenditures for the alleviation of unemployment conditions and of agricultural distress amounted in 1938-39 to \$48,583,000 compared with \$68,535,000 in the previous year. Direct grants-in-aid to provinces declined from \$19,493,000 in 1937-38 to \$17,025,000 in 1938-39, and the Dominion's share of joint Dominion-Provincial projects, including transportation facilities into mining areas and the construction of highways to promote the development of tourist traffic, decreased from \$10,165,000 to \$5,790,000. The total cost of public works and other projects including administration for which the Dominion was solely responsible, amounted to \$16,492,000 as compared with \$14,292,000 during the preceding year.

In 1938 drought conditions in Western Canada were much less severe and less extensive than in 1937 and the special drought area was confined to certain municipalities and local improvement districts of the Province of Saskatchewan. Consequently expenditures under the heading of Western Drought Area Relief dropped in 1938-39 to \$9,276,000, allocated as follows: Direct Relief, \$7,712,000; Feed and Fodder, \$1,264,000; and Purchase and Distribution of Foodstuffs, \$300,000.

16. The following table compares the expenditures made for direct relief and various unemployment relief projects during each of the last two fiscal years:

	1937-38	1938-39
Grants-in-aid to Provinces.....	\$ 19,493,000	\$ 17,025,000
Dominion's share of joint Dominion-Provincial Projects....	10,165,000	5,790,000
Dominion Projects:		
Department of Public Works.....	7,099,000	5,800,000
Department of National Defence.....	75,000	368,000
National Harbours Board.....	1,565,000	—
Department of Mines and Resources.....	1,475,000	3,336,000
Department of Agriculture.....	1,937,000	3,492,000
Department of Transport.....	882,000	2,240,000
Miscellaneous and Sundry Departments.....	1,259,000	1,256,000
Western Drought Area Relief:		
Direct Relief.....	11,925,000	7,712,000
Agricultural Relief (feed, fodder, etc.).....	11,689,000	1,264,000
Foodstuffs.....	971,000	300,000
	<u>\$ 68,535,000</u>	<u>\$ 48,583,000</u>

17. The following table shows the Dominion's relief expenditures of a direct nature since the passing of the first Relief Act in 1930:

(000 omitted)

	Direct Relief including Grants-in-Aid	Joint Dominion-Provincial Works and Projects	Dominion Works and Projects	Western Drought Area Relief	Write-off of Provincial Loans	Miscellaneous Relief Expenditures	Total
	\$	\$	\$	\$	\$	\$	\$
Period Sept. 22, 1930, to Mar. 31, 1935.....	77,767	49,643	29,977 ⁽¹⁾	15,088	.....	3,532	176,007
Year ended Mar. 31, 1936.....	26,570	10,408	38,132 ⁽²⁾	4,000	.....	306	79,416
Year ended Mar. 31, 1937.....	28,931	12,472	27,585	8,751 ⁽³⁾	18,487	265	96,491
Year ended Mar. 31, 1938.....	19,530	10,165	13,847	24,586	.....	407	68,535
Year ended Mar. 31, 1939 (estimated).....	17,025	5,790	16,492	9,276	.....	.....	48,583
Total.....	169,823	88,475	126,033	61,701	18,487	4,510	469,032

⁽¹⁾ Includes \$5,000,000 Province of Saskatchewan Treasury Bills written off and charged to expenditure

⁽²⁾ Represents Province of Saskatchewan Treasury Bills written off and charged to expenditure.

⁽³⁾ Written down to non-active assets as of March 31, 1937.

In the above table, no account is taken of loans to Western Provinces under Relief Acts, loans to cover labour cost of special railway works programmes and losses borne by the Dominion as a result of wheat marketing operations.

18. The last item in this classification is the provision for possible losses arising from the Dominion's guarantee of a price of 80 cents per bushel, basis No. 1 Northern, Fort William, for the Western wheat crop of 1938. It is impossible to forecast at the present time what will be the ultimate financial result of this wheat marketing programme in view of the incalculable factors determining world supply of, demand for and price of wheat; and it would be unwise to disclose to the wheat markets of the world the present position of the Canadian Wheat Board. It has therefore been thought advisable to take a purely arbitrary figure of \$25,000,000 and to set up this amount in our books for the past fiscal year as a reserve against possible losses in respect of the marketing of the 1938 wheat crop.

GOVERNMENT OWNED ENTERPRISES

19. The next major classification of expenditures comprises the losses of, and non-active advances to, government owned enterprises which are operated as separate corporations.

Canadian National Railways

20. The operating revenues of the Canadian National Railways for 1938 amounted to \$182,242,000, a decrease of \$16,155,000 or 8.1% from the preceding year. The decrease in revenues was particularly severe on the lines operated in the United States, where the decrease was 23% as compared with 5% on the lines in Canada. Increased grain movement offset in part large decreases in movement of freight originating at the mine, forest and factory.

Operating expenses of the system decreased by \$4,614,000 to \$176,175,000, or 2.6% compared with 1937. This decrease was effected notwithstanding increases in wage costs due to the restoration of basic wage rates in Canada and to wage increases in the United States. As a result of these wage increases, operating expenses in 1938 were higher by \$6,082,000 than they would have been under the wage scales prevailing in 1937.

The system had a deficit of \$3,549,000 before interest charges, compared with income available for interest charges in 1937 amounting to \$8,287,000. After payment of interest amounting to \$49,839,000 due to the public and \$926,000 due to the Government, there was a net cash deficit of \$54,314,000 for the year compared with \$42,346,000 in the previous year, an increase of \$11,968,000.

The operating deficit of the Prince Edward Island Car Ferry and Terminals during 1938 was \$388,000 as compared with \$333,000 in 1937. In previous years, this item was included in the Eastern Lines deficit of the Canadian National Railways; beginning with 1938 this expenditure is being set up as a separate account.

National Harbours Board

21. The operations of the harbours and facilities under the administration of the National Harbours Board in 1938 recorded a substantial gain over the preceding year. Operating income for the calendar year 1938, after payment of interest to the public but before depreciation and interest payable to the Government, totalled \$3,640,000. This represented an increase of 33% over the operating income of \$2,734,000 reported in 1937.

Financial assistance provided by the Government to harbour commissions under the administration of the Board and charged to Dominion expenditure during the past fiscal year, amounted to \$3,441,000. This amount was made up as follows: \$138,000 for the operating deficits of the harbours at Quebec

and Churchill and the Prescott Elevator; \$358,000 for non-active advances for the deficit of the Jacques Cartier Bridge at Montreal; \$2,160,000 for retirement of debentures of the harbour commissions at Halifax, Quebec and Saint John; and \$785,000 for capital expenditures at Saint John, Quebec, Three Rivers and Chicoutimi.

Canadian National Steamships

22. The 1938 operations of the Canadian National (West Indies) Steamships Limited resulted in a surplus of \$276,000 after payment of bond interest to the public but before depreciation and interest on government advances. This surplus was paid to the Government in partial payment of interest. It compared with a surplus of \$189,000 in 1937. An advance of \$6,000 was made to the Company for capital improvements on vessels under its control.

Trans-Canada Air Lines

23. The operations of the Trans-Canada Air Lines for the calendar year 1938 resulted in a deficit of \$818,000 after interest on capital and depreciation. This compared with a deficit of \$111,000 for the period June 1 to December 31, 1937.

Summary

24. The total amount charged to Dominion expenditures, arising out of operating deficits and non-active advances to all government owned enterprises was \$58,967,000. The corresponding total in 1937-38 was \$44,833,000. The increase of \$14,134,000 was accounted for mainly by the increase in the deficit of the Canadian National Railways. Loans and advances to government owned enterprises which are treated in the Public Accounts as active assets are referred to in a later section.

OTHER CHARGES

25. Other Charges, the final main category of expenditures, amounted to \$3,734,000 as compared with \$1,718,000 in the fiscal year 1937-38. This item is comprised of the annual write-offs of Soldier and General Land Settlement loans and seed grain and relief accounts, and the charge to Consolidated Fund on account of line abandonments by the Canadian National Railways which is charged through the Canadian National Railways Securities Trust.

SUMMARY OF EXPENDITURES

26. The grand total of the preceding expenditures, i.e., Ordinary, Capital, Special, Government Owned Enterprises, and Other Charges, is \$557,343,000 for the fiscal year 1938-39 as compared with \$534,408,000 in the fiscal year 1937-38 or an increase of \$22,935,000.

27. The following table shows the percentage distribution of revenues and expenditures for a number of important items of revenue and expenditure. Receipts from various taxes and other revenue sources are shown as percentages both of total revenues and of total expenditures. Similarly, several of the main items of expenditure or groups of such items are shown as percentages both of total expenditures and of total revenues. This table should only be used for the purpose of drawing broad conclusions as to the relative burdens imposed on the treasury by the several important services or obligations of Government.

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1938-39
(000 omitted)

Revenues	Amount (estimated)	Percentage of total Revenues	Percentage to total Expend- itures
	\$	%	%
Ordinary Revenue—			
Income Tax.....	142,025	28.31	25.48
Customs Import Duties.....	78,750	15.70	14.13
Excise Duties.....	51,313	10.23	9.21
Sales Tax.....	119,460	23.81	21.43
Manufacturers' importation, stamp taxes, etc.....	42,240	8.42	7.58
Other tax revenues.....	1,917	0.38	0.34
Total revenue from taxes.....	435,705	86.85	78.17
Non-Tax revenues.....	61,818	12.32	11.09
Total Ordinary Revenue.....	497,523	99.17	89.26
Special Receipts and Credits.....	1,317	0.26	0.24
Other Receipts and Credits—			
Refunds of capital expenditures and credits on non-active accounts.....	2,837	0.57	0.51
Grand Total Revenues.....	501,677	100.00	90.01

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES,
1938-39—*Concluded*
(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expend- iture	Percentag to total Revenue
	\$	%	%
Ordinary Expenditure—			
Interest on public debt.....	128,010	22.97	25.52
Cost of loan flotations—			
Amortization and other charges.....	4,975	0.89	0.99
Public Debt Charges.....	132,985	23.86	26.51
Subsidies and special grants to Provinces.....	21,227	3.81	4.23
Old Age Pensions.....	29,141	5.23	5.81
Civil pensions and superannuation.....	670	0.12	0.13
Pensions and after-care of soldiers—			
Pensions, war and military.....	42,170	7.57	8.41
Treatment and after-care of returned soldiers.....	13,679	2.45	2.73
Total.....	55,849	10.02	11.14
Agriculture.....	9,501	1.70	1.89
Fisheries.....	2,078	0.37	0.42
Legislation.....	2,725	0.49	0.54
Mines and Resources.....	13,827	2.48	2.76
National Defence.....	35,210	6.32	7.02
Post Office.....	35,706	6.41	7.12
Public Works.....	15,670	2.81	3.12
Transport.....	16,257	2.92	3.24
All other.....	45,526	8.17	9.07
Total Ordinary Expenditure.....	416,372	74.71	83.00
Capital Expenditure—			
Railways.....	27	—	—
Public Works.....	4,660	0.84	0.93
Total Capital Expenditure.....	4,687	0.84	0.93
Special Expenditure—			
Reserve for losses on wheat, 1938-39.....	25,000	4.49	4.98
Grants-in-aid to Provinces.....	17,025	3.05	3.39
Dominion Projects.....	16,221	2.91	3.23
Western Drought Area Relief.....	9,276	1.66	1.85
Miscellaneous.....	6,061	1.09	1.21
Total Special Expenditure.....	73,583	13.20	14.66
Government Owned Enterprises—			
Losses charged to Consolidated Fund—			
Canadian National Railways.....	54,702	9.82	10.90
National Harbours Board and Trans-Canada Air Lines...	956	0.17	0.19
Loans and Advances Non-active—			
Canadian National Steamships and National Harbours Board.....	3,309	0.59	0.66
Total Government Owned Enterprises.....	58,967	10.58	11.75
Other Charges—			
Write-down of assets.....	3,734	0.67	0.75
Grand Total Expenditures.....	557,343	100.00	111.09

OVER-ALL DEFICIT

28. As estimated total revenues amounted to \$501,677,000 and estimated total expenditures to \$557,343,000, the total over-all deficit for the fiscal year ended March 31, 1939, is estimated at \$55,666,000. In the preceding fiscal year, the comparable deficit was \$17,715,000.

LOANS AND INVESTMENTS

ACTIVE ASSETS

29. In addition to the expenditures for the year, as already outlined, the Dominion has made disbursements for the acquisition of investments which are considered as active assets in the Public Accounts. These active assets are deducted from the total direct debt in arriving at the figure of net debt. During the fiscal year 1938-39, net disbursements on account of active loans and investments totalled \$23,524,000 as compared with a net credit of \$4,204,000 in 1937-38.

LOANS TO PROVINCES

30. Under authority of the annual Relief Acts, 1931 to 1935, inclusive, the Dominion had power to grant financial assistance to a provincial government by way of loan, advance or guarantee without limitation as to purpose or amount. Up to the close of the fiscal year 1935-36, loans had been granted to the four Western Provinces for purposes other than relief including the retirement of maturing provincial obligations, and, to a limited extent, ordinary provincial government expenditures. Since April 1, 1936, the Dominion's lending power has been limited to the making of loans only where necessary to enable a province to pay its share of unemployment relief expenditures pursuant to agreements with the Dominion entered into under authority of the relative Relief Act.

Loans made by the Dominion during the fiscal year 1938-39 were confined to two provinces, namely, Manitoba and Saskatchewan. The total amount of loans authorized during the year was \$15,085,256, and during the period April 1, 1938, to April 21, 1939, the total amount advanced, including \$253,000 authorized during the previous year, was \$13,262,885. Additional loans not in excess of \$2,075,371 may be made before April 30, 1939, and charged to the fiscal year 1938-39 upon the submission of certified statements of expenditures or commitments by the Governments of Manitoba and Saskatchewan. The maximum additional amount which may be advanced is divided, \$537,500 for Manitoba and \$1,537,871 for Saskatchewan. In addition, the Dominion agreed to accept Saskatchewan treasury bills to the amount of \$1,250,752 in respect of certain interest accruals on previous relief loans which the Province was unable to pay in cash.

During the year repayments of loans previously given were made to the amount of \$1,067,339, as follows: Manitoba, \$906,501; Saskatchewan, \$31,332 and British Columbia, \$129,506.

The following tables show the net loans as at April 21, 1939, made to each province during each fiscal year and a classification of such loans on the basis of the general purposes for which the loans were given:

NET LOANS TO PROVINCES UNDER RELIEF ACTS BY FISCAL YEARS

	Manitoba	Saskatchewan	Alberta	British Columbia	Total
	\$	\$	\$	\$	\$
1931-32.....	2,738,812	10,934,341	4,097,740	4,813,124	22,634,017
1932-33.....	5,171,904	7,578,556	1,902,041	912,636	15,565,137
1933-34.....	2,273,283	5,469,240	4,050,743	1,321,761	13,115,027
1934-35.....	2,874,631	10,141,014	1,926,476	7,966,714	22,908,835
1935-36.....	2,396,226	14,245,478	13,104,000	12,558,445	2,304,149
1936-37.....	4,626,000	6,058,879	805,198	3,972,400	15,462,477
1937-38.....	2,959,188	11,604,787	193,000	1,541,636	16,298,611
1938-39 (not final).....	873,499	12,702,305	—	—129,506	13,446,298
	23,963,543	78,734,600	26,079,198	32,957,210	161,734,551
Less reductions as provided by votes 392 and 393 of further supplementary estimates 1936-37.....	804,897	17,682,158	—	—	18,487,055
	23,158,646	61,052,442	26,079,198	32,957,210	143,247,496

NET LOANS TO PROVINCES UNDER RELIEF ACTS CLASSIFIED AS TO PURPOSE

	Loans Specifically to meet Maturing Obligations and Interest	Loans Specifically for Agricultural Relief, including Purchase of Seed Grain	Loans for Provincial Purposes Generally including Direct Relief and Public Works	Total
	\$	\$	\$	\$
Manitoba.....	1,139,455	234,819	22,589,269	23,963,543
Saskatchewan.....	3,934,341	15,103,421	59,696,838	78,734,600
Alberta.....	8,577,000	3,102,748	14,399,450	26,079,198
British Columbia.....	9,818,845	—	23,138,365	32,957,210
	23,460,641	18,440,988	119,823,922	161,734,551
Less reductions as provided by votes 392 and 393 of Further Supplementary Estimates 1936-37, Manitoba \$804,897 and Saskatchewan, \$17,682,153				18,487,055
				143,247,496

CANADIAN NATIONAL RAILWAYS

31. In addition to paying the net income deficit of the Canadian National Railways, the Dominion made advances to the Railway for capital purposes amounting to \$59,794,000, classified as follows:

Under Canadian National Railways Financing and Guarantee Act, 1938, (capital expenditures and retirement of miscellaneous obligations).....	\$ 10,755,000
Under Canadian National Railways Refunding Act, 1938.....	45,314,000
Construction of Senneterre-Rouyn Branch Line.....	1,925,000
Purchase of Trans-Canada Air Lines Capital Stock.....	1,800,000
	<u>\$ 59,794,000</u>

These loans, together with previous advances of \$7,283,000 outstanding at the beginning of the year, were repaid to the extent of \$50,000,000 from the proceeds of a Dominion guaranteed Canadian National Railway Company Bond issue dated January 15, 1939. This issue was comprised of \$15,000,000 2½% Seven-Year Bonds sold to the public at a price to yield 2.40% and \$35,000,000 3% Twenty-Year Bonds sold at a price to yield 3.19%. At the close of our fiscal year, temporary loans to the Railway remained outstanding in the amount of \$17,077,000; this amount is carried as an active asset in the Dominion's books.

There was also advanced to the Railway Company \$1,500,000 as a temporary loan pending the passing of its 1939 budget. Loans made in the fiscal year 1935-36 for betterment and repairs to railway equipment were paid off to the extent of \$395,000, the amount of the third and final annual instalment. The railway company also paid the first instalment of \$517,000 under the terms of a hire-purchase agreement relating to certain equipment purchased by the Government in 1935-36 and 1936-37 at a cost of \$6,723,000 and leased to the railway.

OTHER LOANS AND INVESTMENTS

32. During the fiscal year the Government purchased an additional \$140,000 of the capital stock of the Canadian Farm Loan Board and an additional \$2,700,000 of its 3½% bonds. Loans in the amount of \$13,000 made to the Board on account of losses under Part II of the Act during the fiscal years 1936-37 and 1937-38 were repaid in the year under review. Capital stock in the amount of \$12,000 was cancelled and written off. A further amount of \$7,000 was advanced as initial capital under the authority of the Canadian Fisherman's Loan Act. As at March 31, 1939, the total investment of the Government in the Canadian Farm Loan Board amounted to \$34,420,000.

33. During the fiscal year 1938-39, 2,720 loans were approved under the Dominion Housing Act and the National Housing Act in the amount of \$15,605,000, bringing the total to March 31, 1939, to \$30,629,000. During the year the Dominion's share of loans actually made less repayments amounted to \$2,665,000. Housing loans are made jointly by the Government and approved lending institutions and are secured by first mortgage or hypothec, running jointly to the Government and the approved lending institution. Loans are normally made not in excess of 80% of the cost or appraised value of the completed property, whichever is the lesser. However, in the case of owner-occupied houses where the lending value does not exceed \$2,500 a loan may be made up to 90% of the said lending value.

34. Under the Municipal Improvements Assistance Act, 1938, the Government approved loans prior to March 31, 1939, amounting to \$3,143,000 to municipalities to enable them to finance the construction of municipal self-liquidating projects. As at March 31, 1939, the amount actually paid out on such loans was \$815,000. These loans bear interest at the rate of 2% per annum and are amortized over a period not longer than the estimated useful life of the project. The province in which the municipality is located is required to guarantee the payments of interest on and amortization of any such loan.

35. There was advanced during the year \$789,000 to the National Harbours Board for capital construction purposes at the ports of Montreal and Vancouver. Credits of \$97,000 were received during the year on account of loans previously made to these two harbours. The Government has received a substantial part of the interest accrued on the obligations issued by these two ports and accordingly these loans are considered as active assets.

36. The cost of the Government's investment in the capital stock of the Bank of Canada increased by \$820,000 during the year. Under the provisions of the 1938 amendment to the Bank of Canada Act the Government in acquiring all the capital stock of the Bank was required to reimburse the Bank the amount of \$920,000 paid to the holders of Class "A" shares, being the difference between the price of \$59.20 paid to the holders of said shares and their par value of \$50.00. The Government's holdings of Class "B" shares in the amount of \$5,100,000 were paid off and 100,000 new shares of \$50.00 par value were purchased.

37. Loans to the Canadian Pacific Railway Company made in previous years for relief purposes were reduced by repayments of \$211,000. In addition, the railway company paid the first instalment of \$882,000 under the terms of a hire-purchase agreement relating to certain equipment purchased by the Government in the fiscal years 1935-36 to 1937-38 at a cost of \$5,730,000 and leased to the railway.

38. During the fiscal year, two provincial governments (Nova Scotia and Manitoba) reduced their indebtedness to the Dominion by \$105,000 on account of Housing loans made during the early post-war period.

39. The Canadian Broadcasting Corporation repaid \$50,000 on the loan obtained by it during the fiscal year 1937-38.

40. Active loans to the Soldier Settlement Board were reduced by payments of \$573,000.

41. The following statement shows the net changes in active investments during the last fiscal year together with comparable figures for the four preceding years:—

LOANS AND INVESTMENTS, ACTIVE

(000 omitted)

	1934-35	1935-36	1936-37	1937-38	Estimated 1938-39
	\$	\$	\$	\$	\$
Canadian National Railways.....	16,579	3,689	4,573	Cr. 27,429	3,859
Canadian Pacific Railway.....	—	1,270	555	Cr. 211	Cr. 211
Canadian Farm Loan Board.....	353	7,933	10,991	3,848	2,834
Dominion and National Housing Acts— Loans.....	—	82	995	1,678	2,065
Municipal Improvements Assistance Act, 1938—Loans.....	—	—	—	—	815
National Harbours Board.....	393	1,438	323	1,890	692
Provinces—under relief legislation.....	22,909	42,304	15,462	16,299	15,149
Provinces—Post War Housing Loans.....	Cr. 397	Cr. 3,003	Cr. 2,038	Cr. 1,422	Cr. 105
Railway Equipment purchased.....	—	7,244	5,120	89	Cr. 1,399
Soldier and general land settlement.....	Cr. 102	Cr. 566	Cr. 489	505	Cr. 573
Roumanian Government.....	—	—	—	359	—
Bank of Canada—Capital Stock.....	—	—	5,100	—	820
Canadian Broadcasting Corporation.....	—	—	—	500	Cr. 50
Canadian National (West Indies) Steam- ships.....	—	—	—	450	—
Net Advances.....	39,735	60,391	40,592	Cr. 3,444	24,496
Less write-offs— Soldier and general land settlement loans.....	—469	—488	—628	—750	—960
Canadian Farm Loan Board—capital stock.....	—	—	—20	—10	—12
Write-down to non-active assets— Manitoba and Saskatchewan treasury bills.....	—	—	—18,487	—	—
Net change in active investments.....	39,266	59,903	21,457	Cr. 4,204	23,524

LOAN FLOTATIONS

42. During the fiscal year under review the Government issued obligations in the amount of \$286,785,138. The new issues were floated in the domestic, London and New York markets. Maturing obligations in the amount of \$215,620,708 were redeemed out of the proceeds of the new issues, the remainder of the proceeds providing cash for the current purposes of government.

43. The following table gives details of the amounts, terms and purposes of the new issues and the prices at which they were sold:—

LOAN FLOTATIONS, 1938-1939

Issue Date	Maturity Date	Interest Rate	Where Payable	Price		Yield at		Amount Issued	Purpose	
				To Public	To Government*	Public Price	Price to Government		Refunding Amount	Int. Rate
1938		%		\$	\$	%	%	\$	\$	%
June 1....	June 1, 1944	2	Canada	99.375	98.70	2.11	2.23	90,025,000	90,000,000	2
June 1....	June 1, 1958	3	Canada	99.00	98.04	3.07	3.13	49,200,000		
July 1**.	July 1, 1903	3½	London	98.50	97.33	3.34	3.41	48,000,667	37,271,230 15,056,007	3 3½
July 1....	July 1, 1939	4	Canada (School Lands)	—	100.00	—	4.00	33,293,471	33,293,471	4
Nov. 15..	Nov. 15, 1938	3	New York	97.25	95.25	3.14	3.25	40,000,000	40,000,000	2
1939										
Feb. 1....	May 1, 1941	1½	New York	—	99.75	—	1.30	20,000,000	—	—
Net increase in treasury bills outstanding March 31, 1939, over March 31, 1938....									281,785,138 5,000,000	215,620,708 —
									286,785,138	215,620,708
Total amount issued for refunding purposes.....									215,620,708	
Total amount issued to provide new cash.....									71,164,430	
									286,785,138	

* Price to public, less commissions to underwriters and dealers.

** Issued in January, 1938.

44. During the year the practice of offering fortnightly issues of three months' treasury bills was continued. The last issue of treasury bills during the fiscal year 1938-39 was sold at a discount of 0.643%. The average cost to the treasury of funds obtained by the twenty-five offerings during the year was a discount basis of 0.601%. The record low yield on these offerings was obtained for the issue dated June 15, 1938, namely, 0.465%. The total amount of treasury bills outstanding on March 31, 1939, was \$155,000,000, an increase of \$5,000,000 over that outstanding at the close of the previous fiscal year.

45. As at March 31, 1939, the average rate of interest on the Dominion's direct funded debt (including treasury bills) outstanding was 3.52%.

46. As a result of refunding operations carried on since October, 1935, a saving of \$9,309,000 in annual interest charges on the direct funded debt has been effected. During this period Dominion obligations (excluding treasury bills) fell due and were refunded in the total amount of \$769,579,000.

As at March 31, 1930, 84.4% of the Dominion's direct funded debt carried coupon rates of interest in excess of 4%. As at March 31, 1939, only 35.6% of the direct funded debt bore interest at a rate in excess of 4%.

By October, 1943, all the Dominion's direct funded debt bearing interest at the rate of 5%, an amount of \$388,663,000, will mature or become callable. If it should be possible to refund this debt at an average interest rate of 3%, the annual saving in interest charges thereby resulting would amount to \$7,773,000.

NATIONAL DEBT

47. At the close of the fiscal year there were outstanding unmatured funded debt and treasury bills of the Dominion in the amount of \$3,385,723,000. Of this total, securities in the amount of \$69,994,000 were held in the sinking funds against certain issues payable in London. The remaining amount, \$3,315,729,000, was outstanding in the hands of the public. Other liabilities, consisting chiefly of annuity, superannuation, and insurance funds, Post Office Savings Bank deposits, trust and contingent funds, were outstanding on the same date in an estimated aggregate amount of \$326,320,000. Adding the two last named items together gives the amount of the gross liabilities of the Dominion, namely, \$3,642,049,000. On the other side of its balance sheet, the Dominion had active assets of \$484,715,000 representing cash on hand and active loans and investments. The net debt of the Dominion, the difference between the gross liabilities and the active assets, is therefore estimated at \$3,157,334,000. The increase over the same date last year amounted to \$55,666,000, namely, the amount of the over-all deficit for the fiscal year.

48. The following is a statement showing the liabilities and assets of the Dominion as estimated at March 31, 1939:—

LIABILITIES—MARCH 31, 1939
(estimated)

Bank Circulation Redemption Fund.....	\$	5,462,000	
Post Office money orders, postal notes, etc., outstanding.....		3,800,000	
Post Office Savings Bank deposits.....		23,101,000	
Insurance and Superannuation Funds—			
Government Annuities.....	\$	121,737,000	
Insurance Fund—Civil Service.....		12,425,000	
Insurance Fund—Returned Soldiers.....		17,758,000	
Retirement Fund.....		9,409,000	
Superannuation Funds.....		58,700,000	
			220,029,000
Trust Funds—			
Indian Funds.....		14,154,000	
Common School Funds.....		2,677,000	
Contractors' Securities Deposits.....		1,403,000	
Other Trust Funds.....		3,800,000	
			22,034,000
Contingent and Special Funds.....			28,170,000
Outstanding cheques.....			9,600,000
Province Debt Accounts.....			9,624,000
Interest due and outstanding.....			1,750,000
Funded Debt—			
Unmatured less sinking funds.....		3,315,729,000	
Matured and Outstanding.....		2,750,000	
			3,318,479,000
	\$		3,642,049,000

ASSETS—MARCH 31, 1939
(estimated)

Active Assets—			
Cash, working capital advances and other current assets.....	\$		38,761,000
Bank of Canada Capital Stock.....			5,920,000
Canadian Broadcasting Corporation—Loan.....			450,000
Canadian National (West Indies) Steamships Ltd., Loan.....			450,000
Dominion and National Housing Acts—Loans.....			5,420,000
Municipal Improvement Assistance Act, 1938—Loans.....			815,000
Loans to Provinces—			
Post War Housing Loans.....	\$	3,203,000	
Unemployment Relief Loans.....		144,950,000	
Alberta—Subsidy Overpayment.....		469,000	
			148,622,000
Loans to National Harbours Board—			
Montreal.....		60,847,000	
Vancouver.....		24,937,000	
			85,784,000

ASSETS—MARCH 31, 1939—*Concluded*
(estimated)

New Westminster Harbour Commission—Loan.....	\$	275,000	
Canadian Farm Loan Board—Advances and Capital Stock.....			34,420,000
Railway Accounts—			
Canadian National Railways—			
Advances, Financing and Guarantee Act, 1938.....	\$	1,735,000	
Refunding Act, 1938—Advances.....		14,920,000	
Senneterre-Rouyn Railway Line.....		313,000	
Trans-Canada Air Lines.....		100,000	
Temporary Loans.....		1,500,000	
Purchase of equipment—leased.....		6,206,000	
			24,783,000
Canadian Pacific Railway—			
Loan for betterment or repair of railway equipment.....		1,070,000	
Loan for wages on special works programme.....		333,000	
Purchase of equipment—leased.....		4,848,000	
			6,251,000
Loans to Foreign Governments—			
Greece.....		6,525,000	
Roumania.....		24,320,000	
			30,854,000
Soldier and General Land Settlement Loans.....			40,700,000
Seed Grain and Relief Advances.....			2,312,000
Canadian Government Railways Working Capital.....			16,772,000
Bond Holding Account.....			328,000
Deferred Debits—			
Unamortized discount and commission on loans.....			41,798,000
	\$	484,715,000	
Net Debt, March 31, 1939 (estimated).....	\$	3,157,334,000	
Net Debt represented by—			
A—Expenditure and non-active assets (estimated) March 31, 1939.			
Capital Expenditures—			
Public Works—			
Canals.....	\$	240,318,000	
Railways.....		429,711,000	
Public Buildings, harbour and river improvements.....		291,164,000	
Military property and stores.....		12,057,000	
Territorial accounts.....		9,896,000	
			983,146,000
Loans non-active—			
Canadian National Railways Securities Trust Stock.....			266,613,000
Canadian National Railways Stock.....			18,000,000
Canadian National Steamships.....			13,864,000
Railway Accounts (old).....			62,791,000
Loans to Province of Saskatchewan (Relief Acts).....			17,682,000
National Harbours Board—			
Quebec.....		26,925,000	
Chicoutimi.....		3,838,000	
Churchill.....		9,000	
Halifax.....		12,168,000	
Saint John.....		16,397,000	
Three Rivers.....		3,731,000	
Montreal (Jacques Cartier Bridge).....		3,672,000	
			66,740,000
Seed Grain and Relief Advances.....			429,000
Soldier and General Land Settlement.....			16,613,000
Miscellaneous Advances.....			3,536,000
B—Consolidated Fund—			
Balance, consolidated fund brought forward from March 31, 1938.....	\$	1,657,413,000	
Excess of expenditure over revenue, fiscal year ended March 31, 1939 (estimated).....		50,507,000	
			1,707,920,000
	\$	3,157,334,000	

49. The following table gives a statement of the unmatured funded debt and treasury bills of the Dominion outstanding as at March 31, 1939, and the annual interest charges thereon:—

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31,
1939, AND ANNUAL INTEREST CHARGES

Date of Maturity	Rate per cent.	Where Payable	Amount of Loan	Annual Interest Charges
			\$ cts.	\$ cts.
1939, June 1.....	1	Canada	20,000,000 00	200,000 00
June 1.....	1	Canada	20,000,000 00	200,000 00
July 1.....	4	Canada	33,293,470 85	1,331,738 83
Oct. 15.....	4	Canada	47,269,500 00	1,890,780 00
Oct. 15.....	2½	Canada	7,933,000 00	198,325 00
Nov. 15.....	2	Canada	20,000,000 00	400,000 00
1940, Mar. 1.....	3	Canada	115,013,636 82	3,450,409 10
June 1.....	1½	Canada	80,000,000 00	1,200,000 00
Sept. 1.....	4½	Canada	75,000,000 00	3,375,000 00
1941, Mar. 15.....	1	Canada	45,000,000 00	450,000 00
May 1.....	1½	New York	20,000,000 00	250,000 00
Nov. 15.....	5	Canada	141,663,000 00	7,083,150 00
1942, June 1.....	2	Canada	60,000,000 00	1,200,000 00
Oct. 15.....	3	Canada	40,409,000 00	1,212,270 00
1943, June 1.....	2½	Canada	20,000,000 00	500,000 00
Oct. 15.....	5	Canada	147,000,100 00	7,350,005 00
1944, Jan. 15.....	2½	New York	30,000,000 00	675,000 00
June 1.....	2	Canada	90,625,000 00	1,812,500 00
Oct. 15.....	4½	Canada	50,000,000 00	2,250,000 00
Nov. 15.....	2½	Canada	20,000,000 00	500,000 00
1945, Aug. 15.....	2½	New York	76,000,000 00	1,900,000 00
Oct. 15.....	4	Canada	88,337,500 00	3,533,500 00
1946, Feb. 1.....	4½	Canada	45,000,000 00	2,025,000 00
1947, Oct. 1.....	2½	London	4,888,185 64	122,204 64
1949, June 1.....	3½	Canada	33,500,000 00	1,088,750 00
Oct. 15.....	3½	Canada	138,322,000 00	4,841,270 00
1950, July 1.....	3½	London	137,058,841 00	4,797,059 43
1951, Nov. 15.....	3½	Canada	60,000,000 00	1,950,000 00
1952, May 1.....	5	New York	100,000,000 00	5,000,000 00
Oct. 15.....	4	Canada	56,191,000 00	2,247,640 00
1955, May 1.....	3½	London	48,666,666 67	1,581,666 67
June 1.....	3	Canada	40,000,000 00	1,200,000 00
June 1.....	3	Canada	55,000,000 00	1,650,000 00
1956, Nov. 1.....	4½	Canada	43,125,700 00	1,940,656 50
1957, Nov. 1.....	4½	Canada	37,523,200 00	1,688,544 00
1958, June 1.....	3	Canada	49,200,000 00	1,476,000 00
Sept. 1.....	4	London	73,000,000 00	2,920,000 00
Nov. 1.....	4½	Canada	276,687,600 00	12,450,942 00
1959, Nov. 1.....	4½	Canada	289,693,300 00	13,036,198 50
1960, Oct. 1.....	4	London	93,926,666 66	3,757,066 67
Oct. 1.....	4	New York	100,000,000 00	4,000,000 00
1961, Jan. 15.....	3½	New York	48,000,000 00	1,500,000 00
1963, July 1.....	3½	London	48,666,666 66	1,581,666 67
1966, June 1.....	3½	Canada	54,703,000 00	1,777,847 50
Perpetual.....	3	Canada	55,000,000 00	1,650,000 00
1967, Jan. 15.....	3	New York	55,000,000 00	1,650,000 00
1968, Nov. 15.....	3	New York	40,000,000 00	1,200,000 00
Demand.....	6	Canada	4,000 00	240 00
Demand.....	6	Canada	11,827 40	709 64
Demand.....	3½	Canada	9,600 00	336 00
Treasury Bills due April 14, 1939	.690	Canada	30,000,000 00	207,000 00
Treasury Bills due May 1, 1939	.691	Canada	25,000,000 00	172,750 00
Treasury Bills due May 15, 1939	.681	Canada	25,000,000 00	170,250 00
Treasury Bills due June 1, 1939	.670	Canada	25,000,000 00	167,500 00
Treasury Bills due June 15, 1939	.665	Canada	25,000,000 00	163,750 00
Treasury Bills due June 30, 1939	.643	Canada	25,000,000 00	160,750 00
			3,385,722,461 70	119,198,476 15
Payable in Canada.....			2,510,515,435 07	74.15%
Payable in New York.....			469,000,000 00	13.85%
Payable in London.....			406,207,026 63	12.00%
			3,385,722,461 70	100%
Less bonds and stocks of the above loans held as sinking funds ..			69,993,620 41	
			3,315,728,841 29	

INDIRECT LIABILITIES

50. Bonds and debenture stocks bearing the guarantee of the Dominion outstanding in the hands of the public at the close of the last fiscal year, amounted to \$1,085,466,000. Canadian National Railway guaranteed obligations increased during the year by \$34,919,000 to \$1,054,866,000. This increase was due to the issue of \$50,000,000 guaranteed bonds to repay temporary loans previously obtained from the Government for capital expenditures and the retirement of matured debt. Of this matured debt, \$15,081,000 had been previously guaranteed by the Dominion. Guaranteed bonds of harbour commissions were paid off in the amount of \$60,000 during the year.

51. There were also outstanding on March 31, 1939, other contingent liabilities arising out of guarantees given under Relief and Seed Grain legislation. The only increase in these liabilities during the fiscal year arose from the new guarantees given under The Seed Grain Loans Guarantee Act, 1938. Under provincial statutes the Provinces of Alberta and Saskatchewan guaranteed loans made by chartered banks to municipalities for seed grain assistance to farmers during the crop year 1938. To make these loans possible, The Seed Grain Loans Guarantee Act, 1938, authorizes the Governor in Council to add the Dominion's guarantee to that of the province. The province is not required to fulfil its guarantee until three years after the date of any loan and the Dominion's liability is only to the amount that the province is unable to fulfill its guarantee. The maximum amount of loans authorized to be guaranteed under our 1938 Act was \$16,400,000, of which \$14,500,000 was to be in respect of Saskatchewan and \$1,900,000 in respect of Alberta. The precise amount which will bear the Dominion's guarantee is not yet determined, but general guarantees have been executed for an amount not exceeding the maximum amounts authorized.

52. As at the close of the fiscal year, guaranteed bank loans to the Canadian Wheat Board were also outstanding in the amount of \$61,155,470. These loans were obtained by the Board for the purpose of financing the purchase of the 1938 wheat crop at the fixed price of 80 cents per bushel basis No. 1 Northern, Fort William. There were also still outstanding guaranteed bank loans to the Canadian Co-operative Wheat Producers Limited in the amount of \$173,665, relating to the purchase of oats in the year 1935 for account of the Province of Saskatchewan. The guarantee of the Dominion to the Winnipeg Grain and Produce Clearing Association Limited, referred to in previous budgets, is still outstanding. No liability accrues from day to day in connection with the guarantee as margin deposits are made to the Clearing Association daily.

53. At March 31, 1939, 65,690 Home Improvement Loans had been granted by banks and approved lending institutions to home owners in the amount of \$26,228,621. Repayments to the same date in respect of these loans amounted to \$13,164,000, or over 50% of the total amount of loans made. The Dominion's contingent liability arising out of these loans is limited to 15% of the aggregate of such loans made by each approved lending institution. As 75 loss claims for \$19,037 have been paid, the maximum contingent liability as at March 31, 1939, was \$3,915,256. In terms of dollar losses to total volume of loans, this loss ratio is only 1/13 of 1%.

54. Under the Dominion Housing Act, 1935, and the National Housing Act, 1938, the Dominion has accepted and is accepting certain obligations arising out of its contracts with approved lending institutions which, while not expressed in the form of a guarantee, may nevertheless be regarded as contingent or indirect liabilities.

The manner in which losses in respect of any loan are to be borne by the Dominion and the lending institution is fixed by the contract. The general principle is that the Dominion bears two-thirds of the loss if at the time the loss is sustained the principal amount of the loan repaid, less any other amounts

due, is equal to or less than the amount advanced by the Dominion and one-third of the loss if at the time the loss is sustained the principal amount repaid, less any other amounts due, is more than the amount advanced by the Dominion. In the case of small loans (that is for amounts not in excess of \$4,000 in the case of a single dwelling place or not in excess of \$700 per habitable room in the case of a multiple family dwelling), the share of the loss to be borne by the Dominion is not more than 80% and not less than 50% of the loss. The above provisions apply to loans made under both the present National Housing Act and its predecessor the Dominion Housing Act. Under the National Housing Act a new provision has been added to encourage the making of small loans in such small or remote communities and in such districts of other communities as may be designated by the Minister of Finance in any contract. In respect of such loans, the Dominion has agreed in contracts with certain lending institutions to pay losses sustained by any such lending institution up to certain amounts determined by the contract which are not less than 7% and do not exceed 25% of the total amount of such loans made in such areas by the lending institution.

The total amount of loans approved at March 31, 1939, under the Dominion Housing Act, 1935, and the National Housing Act, 1938, was \$30,628,894. No losses had been realized by the Dominion as of that date.

55. The following is a statement of bonds and debenture stocks and other indebtedness guaranteed by the Dominion outstanding as at March 31, 1939:

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE DOMINION
GOVERNMENT AS AT MARCH 31, 1939

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	\$
Jan. 15, 1942....	Canadian National.....	2	20,000,000 00
Feb. 15, 1943....	Canadian National.....	2	55,000,000 00
Feb. 1, 1944....	Canadian National.....	2½	15,500,000 00
May 1, 1944....	Canadian National.....	3	35,000,000 00
Jan. 15, 1946....	Canadian National.....	2½	15,000,000 00
July 1, 1946....	Canadian Northern.....	6	24,238,000 00
April 1, 1948....	New Westminster Harbour Commissioners.....	4½	700,000 00
Dec. 15, 1950....	Canadian National.....	3	50,500,000 00
Sept. 1, 1951....	Canadian National.....	4½	50,000,000 00
Feb. 1, 1952....	Canadian National.....	3	20,000,000 00
Aug. 1, 1952....	Saint John Harbour Commissioners.....	5	687,953 04
Feb. 15, 1953....	Canadian National.....	3	25,000,000 00
July 10, 1953....	Canadian Northern.....	3	9,359,996 72
Feb. 1, 1954....	Canadian National.....	5	50,000,000 00
Mar. 1, 1955....	Canadian National (West Indies) Steamships Limited.....	5	9,400,000 00
June 15, 1955....	Canadian National.....	4½	50,000,000 00
Feb. 1, 1956....	Canadian National.....	4½	70,000,000 00
July 1, 1957....	Canadian National.....	4½	65,000,000 00
July 20, 1958....	Canadian Northern.....	3½	7,896,543 54
Jan. 15, 1959....	Canadian National.....	3	35,000,000 00
May 4, 1960....	Canadian Northern Alberta.....	3½	3,149,998 66
May 19, 1961....	Canadian Northern Ontario.....	3½	34,229,996 87
Jan. 1, 1962....	Grand Trunk Pacific.....	3	34,992,000 00
Jan. 1, 1962....	Grand Trunk Pacific.....	4	8,440,848 00
July 1, 1969....	Canadian National.....	5	60,000,000 00
Oct. 1, 1969....	Canadian National.....	5	60,000,000 00
Nov. 1, 1969....	Harbour Commissioners of Montreal.....	5	19,000,000 00
Feb. 1, 1970....	Canadian National.....	5	18,000,000 00
By drawings.....	Canadian National.....	2	22,351,232 47
Various dates 1939-54.....	City of Saint John Debentures assumed by Saint John Harbour Commissioners.....	Various	832,384 78
Perpetual.....	Grand Trunk Guaranteed Stock.....	4	60,833,333 33
do	Grand Trunk Debenture Stock.....	5	20,782,491 67
do	Great Western Debenture Stock.....	5	13,252,322 67
do	Grand Trunk Debenture Stock.....	4	119,839,014 33
do	Northern Railway of Canada Debenture Stock..	4	1,499,979 67
			\$ 1,085,466,095 75

Other Liabilities Guaranteed

	Principal Amount Outstanding Mar. 31, 1939
Bank Advances, re Province of Manitoba Savings Office.....	\$ 6,688,965
Bank Advances, re Government of Newfoundland.....	625,000
Province of Manitoba Treasury Bill.....	4,878,764
Province of British Columbia Treasury Bill.....	626,534
Bank Advances, re Canadian Co-operative Wheat Producers Limited (Sas- katchewan Oats Account).....	173,665
Bank Advances, re Canadian Wheat Board.....	61,155,470
Winnipeg Grain and Produce Clearing Association, Ltd. Day to day mar- gins of the Canadian Wheat Board (closed out daily).....	—
Bank Advances, guaranteed under Saskatchewan Seed Grain Loans Guar- antee Act, 1936.....	2,555,113
Bank Advances guaranteed under Seed Grain Loans Guarantee Act, 1937....	not determined
Bank advances, guaranteed under Seed Grain Loans Guarantee Act, 1938....	not determined
Loans made by approved lending institutions under Dominion Housing Act, 1935 and National Housing Act, 1938.....	indeterminate
Loans made by approved lending institutions under The Home Improvement Loans Guarantee Act, 1935.....	3,915,256
Deposits maintained by the chartered banks in the Bank of Canada.....	205,641,646

B. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS, 1938-39

1. The following tables and related paragraphs present a comprehensive survey of general economic conditions in Canada during the past year. For purposes of comparison figures for certain earlier years are also provided, and in the case of the more important factors statistics on a monthly basis are given covering the last two fiscal years.

The figures used throughout are those published by the Dominion Bureau of Statistics, unless otherwise indicated. Where an index or average figure is given for a fiscal, rather than a calendar year, it represents an average of the monthly data during the period concerned. All indexes shown as based on the year 1926 are to be construed as based on the calendar year 1926, and not the fiscal year.

CANADIAN ECONOMIC CONDITIONS

SUMMARY TABLES

	Fiscal Years ended March 31							Mar. 1938	Mar. 1939
	1927	1929	1933	1936	1937	1938	1939		
Group I.—Comprehensive Indexes (1926=100)									
Physical volume of business.....	101.9	122.1	74.8	104.4	115.2	120.8	113.8	108.8	113.1†
Volume of manufacturing.....	101.1	117.5	70.8	103.8	117.6	119.8	108.4	101.8	107.5†
Mining.....	103.0	121.1	104.2	150.7	166.5	196.0	194.8	195.7	196.7
Forestry.....	99.7	104.3	64.2	109.2	131.8	130.3	106.5	103.2	110.4
Carloadings.....	102.6	112.5	63.8	71.9	77.9	79.9	72.8	75.0	71.8
Electric power output.....	104.7	136.6	132.4	198.9	218.0	229.0	220.9	222.5	233.1
Employment.....	100.8	113.7	84.4	100.3	104.4	115.7	110.8	112.3	110.9
National income†.....	100.0	111.2	72.1	80.1	87.6	97.3	90.0	—	—
Dollar value of retail sales† (1930=100)...	93.2	110.1	66.8	71.1	74.0	78.6	77.5	62.7*	60.6*
Group II.—Price Levels and Financial Factors (1926=100)									
Wholesale prices.....	98.8	95.8	65.5	72.3	77.2	84.6	76.0	83.1	73.2
Cost of living.....	99.6	98.9	79.9	79.6	81.2	83.6	83.9	84.2	82.9
Common stock prices.....	101.8	173.3	52.1	101.2	125.5	117.6	103.8	99.2	103.7
Dominion Government bond prices.....	100.4	102.4	100.3	113.6	117.0	115.1	117.5	116.8	117.9
Dividend payments.....	101.8	123.7	79.9	96.3	112.9	139.0	143.4	146.2	136.6
Bank deposits.....	101.0	116.1	98.5	109.5	116.4	122.0	126.8	121.5	126.9
Active currency circulation.....	101.0	105.4	75.9	93.8	102.3	111.1	113.4	100.6	114.5

*Month of February.

†Nearest calendar year.

‡Preliminary.

SUMMARY TABLES—Continued

	Calendar Years					
	1926	1928	1932	1936	1937	1938
Group III.—Gross Value of Production in Major Industries	(Millions of Dollars)					
Agriculture.....	1,714.5	1,806.0	766.8	1,070.6	1,054.1	1,025.9*
Forestry.....	555.8	580.2	349.3	400.3	505.6	401.7*
Fisheries.....	73.1	70.7	33.7	51.1	51.2	49.0*
Mining.....	276.8	313.1	265.0	497.3	602.6	644.5*
Construction.....	385.9	488.4	132.9	258.0	351.9	300.0*
Manufacturing.....	3,100.6	3,582.3	1,980.5	3,002.4	3,623.2	3,266.0*
Group IV.—Foreign Trade and International Transactions†						
Merchandise exports (all gold excluded).....	1,276.6	1,363.6	497.9	950.5	1,012.1	848.7
Net exports of non-monetary gold†.....	30.4	40.1	70.0	131.6	145.1	160.5
Total exports, including non-monetary gold.....	1,307.0	1,403.7	567.9	1,082.1	1,157.2	1,009.2
Merchandise imports (all gold excluded).....	1,008.3	1,222.3	452.6	635.2	808.9	677.5
Total trade.....	2,315.3	2,626.0	1,020.5	1,717.3	1,966.1	1,686.7
Export balance.....	+298.7	+181.4	+115.3	+446.9	+348.3	+331.7
Net tourist receipts.....	102.5	167.7	155.0	140.9	166.8	149.0*
Net interest and dividend payments going abroad.....	201.0	221.0	261.8	233.8	246.2	242.0*
Net capital export (direct estimate).....	††	82.0	11.4	253.7	198.8	160.1*

* Preliminary estimate. Certain of these figures have not yet appeared in official publications, or represent revisions of previously published figures.

† Adjusted for earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

‡ It should be noted that the export and import figures given in the table above, which have been compiled from official trade returns, differ slightly from the adjusted figures used in making up the Balance of International Payments. In the remaining part of the table certain less important items in the Balance of Payments have not been detailed.

†† Not available.

PHYSICAL VOLUME OF BUSINESS

2. The index for the physical volume of business in Canada is the most comprehensive single measure of the level of general economic and business activity. It is made up by the Dominion Bureau of Statistics from 46 constituent items weighted according to their relative importance in the economy as a whole, and is adjusted for seasonal fluctuations. Included in the making of this index are such items as mineral production, manufacturing in its chief branches, construction, electric power output, trade employment, carloadings, imports and exports. Agricultural production as such does not find a place in this index, nor do fishing and lumbering as primary activities, but the processing of and trade in the products of these industries is reflected in the index. Correction is made, where necessary, for changes in the price factor in order that the index shall properly record only changes in the *physical* volume of business done. 1926 is taken as the base year. Following are presented the index numbers for each fiscal year since 1927 and the index for each month in the last two fiscal years.

INDEX OF PHYSICAL VOLUME OF BUSINESS

(1926=100)

Fiscal Years ended March 31												
1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
101.9	108.0	122.1	122.0	105.4	80.3	74.8	84.9	96.4	104.4	115.2	120.8	113.8†

† Preliminary.

MONTHLY INDEX*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	124.0	122.0	126.0	126.5	123.4	123.8	127.4	127.9	121.4	111.8	106.7	108.8	120.8
1938-39.....	112.4	110.7	108.4	109.1	110.5	119.2	118.6	123.4	115.6	113.0	111.7	113.1†	113.8†

*Seasonally adjusted.

†Preliminary.

It will be seen that business activity as measured by this index reached a level, in the fiscal year 1937-38, that was very nearly as high as any of the pre-depression years. The peak in activity, which it will be noted was higher than the average for 1929, occurred in November, 1937, at 127.9. From there the index declined rapidly to 106.7 in February, 1938, a drop of 16.6%. During the spring and summer of 1938 activity remained fairly stable and then rose sharply in the autumn and fell back somewhat this past winter. It will be noted, however, that the figures for the first three months of 1939 are 3.2% above those for the corresponding period of the previous year.

AGRICULTURE

3. The gross value of agricultural production in 1938 remained only very slightly below the levels of the two previous years. In general this occurred because lower prices offset increased production. This was particularly true for wheat; the crop amounted to 350,010,000 bushels compared with 180,810,000 in 1937, but the average price received by farmers for their wheat crop, up to December 31st, was estimated at 59c. compared with \$1.02 the previous year. The better yield was sufficiently widespread to reduce very considerably the area of crop failure.

In dairying pastures were good throughout the Dominion and there was a long open season. Supplies of milk and butter were, therefore, plentiful and butter stocks on hand have been large in recent months. Factory production of cheese was lower during the first three quarters of 1938 than in the corresponding period of the previous year, but it has increased substantially during the last six months.

Live stock marketings during the past year were much lower than during 1937 when the drought forced disposal of many cattle in the West. Live stock prices have recently improved, however. Because feed prices have declined drastically since March, 1938, live stock production has been substantially more profitable than would be implied by the figures given for gross income in the table below. Tobacco acreage and production continue to increase steadily.

GROSS VALUE OF AGRICULTURAL PRODUCTION

(Millions of Dollars)

	Calendar Years					
	1926	1928	1932	1936	1937	1938*
<i>All Agricultural Production.....</i>	1,714.5	1,806.0	766.8	1,079.6	1,054.1	1,025.9
Wheat.....	442.2	451.2	154.8	205.3	184.7	205.4
All other field crops.....	662.8	673.8	297.7	407.0	371.5	323.5
Dairy products.....	277.3	297.6	159.1	211.4	228.4	230.0
Live stock.....	178.4	197.0	65.2	131.0	141.0	137.0
Poultry and eggs.....	83.6	106.7	42.1	53.2	51.8	50.0
Fruit and vegetables.....	43.1	48.8	32.2	43.8	41.9	41.0
Tobacco.....	7.4	6.8	6.1	9.4	17.1	19.7
All other agriculture.....	19.7	23.2	9.6	18.5	17.7	19.3

* Subject to revision.

GENERAL INDEX OF FARM PRICES

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	91.4	87.8	83.7	92.5	84.9	86.3	86.5	83.9	84.2	86.3	85.1	83.0	86.3
1938-39.....	82.5	77.3	76.6	71.5	64.2	63.8	63.8	64.0	64.6	64.8	64.7	65.1	68.7

*Seasonally adjusted.

MINING

4. Although the production of gold, copper, lead, zinc, platinum, natural gas and crude petroleum all reached new peak figures in 1938, the value of all mineral production for the year was down about 2.7% from 1937. Despite the higher volume, lower prices, particularly in the case of the base metals, resulted in a reduction in values. With the exception of gold and petroleum the value of production in all categories was down substantially from the previous year.

Petroleum production, in Alberta, increased rapidly during the year despite marketing limitations. In the Turner Valley field, 38 wells were brought into production, substantially extending the proven area of the field. Another recent development of considerable interest is the report of significant evidence of a large and apparently commercial deposit of high grade iron ore in Ontario west of Fort William.

Employment in mining averaged slightly higher in 1938-39 than in the previous year, a reflection of the high level of operation maintained throughout the year despite lower prices.

VALUE OF MINERAL PRODUCTION

(Millions of Dollars)

	Calendar Years					
	1926	1928	1932	1936	1937	1938
<i>Value of All Minerals.....</i>	240.4	275.0	191.2	361.9	457.4	444.8
Gold.....	36.3	39.1	71.5	131.3	143.3	165.9
Copper.....	17.5	28.0	15.3	39.5	68.9	58.0
Nickel.....	14.4	22.3	7.2	43.9	59.5	53.9
Lead.....	19.2	15.6	5.4	15.0	21.1	14.0
Zinc.....	11.1	10.1	4.1	11.0	18.2	11.7
Silver.....	13.9	12.8	5.8	8.3	10.3	9.6
Coal.....	59.9	63.8	37.1	45.8	48.8	43.9
Petroleum.....	1.3	2.0	3.0	3.4	5.4	11.8
All others.....	66.8	80.7	41.8	63.7	81.9	76.0

PHYSICAL VOLUME OF MINERAL PRODUCTION

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	185.2	191.4	201.5	215.3	212.3	203.8	186.9	207.9	183.8	179.1	188.8	195.7	196.0
1938-39.....	212.7	199.4	176.6	192.1	198.0	202.1	201.4	206.6	183.1	176.8	190.9	196.7	194.8

*Seasonally adjusted.

EMPLOYMENT IN MINING

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	151.1	152.0	155.3	155.7	154.5	157.8	159.4	154.3	150.2	154.0	154.5	150.0	155.2
1938-39.....	156.0	155.0	156.7	156.7	154.4	150.2	156.4	150.5	157.2	159.1	160.7	163.7	157.4

*Seasonably adjusted index as at first of month.

FORESTRY

5. The value of forestry production in 1938 was substantially below that of 1937. The decline was most evident in the newsprint, wood pulp and Eastern lumbering industries. Newsprint mills were forced to curtail production due both to a reduction in consumption and to the working off of publishers' stocks accumulated in the previous year in anticipation of price increases. While mill stocks now are somewhat above last year's levels, publishers' stocks by February had been reduced to only slightly more than half the abnormal volume of February last year.

Lumbering activity in Eastern Canada in 1938 was much below 1937. In British Columbia, however, timber shipments to overseas markets were slightly above the previous year. Recent lumbering activity in British Columbia as reflected in the amount of timber scaled during the first three months of 1939 shows an increase of 59.7% over those months of 1938.

Logging employment, which reflects woods operations of all the forest industries, has in recent months been at levels only about one-half of those of a year ago. This lower level follows upon an accumulation of stocks of pulpwood and saw-logs last year, as well as the reduced level of production of paper, woodpulp and lumber during the past few months as compared with a year ago.

FORESTRY PRODUCTS

(Millions of Dollars)

	Calendar Years					
	1926	1928	1932	1936	1937	1938
Gross Value of All Forestry Products.....	555.8	586.2	349.3	400.3	505.6	401.7*
Newsprint (In above).....	121.1	144.1	85.5	105.2	126.4	105.0*
Planks and boards exported.....	61.9	47.7	12.6	36.9	45.4	35.9
Wood pulp exported.....	52.1	45.6	18.9	31.2	41.8	27.7

*Preliminary.

PHYSICAL VOLUME OF FORESTRY PRODUCTION

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	138.0	133.6	142.5	139.2	136.7	153.3	133.8	127.5	135.1	109.7	113.3	103.2	130.3
1938-39.....	100.4	91.9	96.7	101.4	102.2	110.2	107.1	112.8	111.7	120.7	111.6	110.4	106.5

* Seasonally adjusted.

LOGGING EMPLOYMENT

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	168.4	120.8	142.1	175.8	189.2	218.9	240.8	246.6	245.3	223.3	200.1	171.1	195.2
1938-39.....	146.1	135.8	121.9	121.1	90.4	89.5	91.0	105.3	114.8	103.9	98.4	87.5	108.8

* Seasonally adjusted index as at first of month.

FISHERIES

6. The fisheries catch on both the East and the West coast was good as regards quantity and the salmon catch was of high quality. Prices and the demand for Eastern fish, for halibut and for the cheaper varieties of salmon, were lower than the year before. As a consequence the value of output and exports declined in comparison with 1937.

FISHERIES

(Millions of Dollars)

	Calendar Years					
	1926	1928	1932	1936	1937	1938
Gross Value of Production.....	73.1	70.7	33.7	51.1	51.2	48.8*
Salmon marketed (in above).....	19.6	17.9	8.0	13.0	12.4	12.0*
Value of fish exported.....	36.0	36.3	18.5	24.0	28.0	25.0

* Preliminary.

MANUFACTURING

7. Activity in manufacturing revealed a considerable diversity of movement during the fiscal year 1938-39. Although the general index dropped from 119.8 in the previous year to 108.4, a decline of about 10%, some industries, particularly those manufacturing foodstuffs, tobacco and boots and shoes, suffered relatively slight declines, while others, particularly textiles, steel and automobiles were down appreciably more than the general index. Figures for the first three months of 1939, however, show a substantial increase over the same months of last year in the general index.

Manufacturing employment averaged about 4.8% lower in 1938-39 than in the preceding fiscal year. The peak was reached in October, 1937, when the index stood at 118.5, but succeeding months brought a decline to a low point of 107.5 in August, 1938, some 6.4% below the same month of the previous year. In recent months the comparison has become more favourable, however, and March figures show a decline of only 3.2% from March a year ago.

INDEXES OF PHYSICAL VOLUME OF MANUFACTURING

(1926=100)

	Fiscal Years ended March 31							Mar. 1938	Mar. 1939
	1927	1929	1933	1936	1937	1938	1939		
MANUFACTURING OF ALL KINDS.....	101.1	117.5	70.8	103.8	117.6	119.8	108.4†	101.8	107.5†
<i>Selected Industries—</i>									
Foodstuffs.....	100.0	97.1	83.4	91.9	105.8	101.8	102.2	93.0	104.0
Tobacco.....	102.3	138.2	107.1	139.3	153.9	178.3	182.1	101.5	230.9
Boots and shoes.....	101.5	97.7	84.0	110.1	108.4	114.2	109.7*	115.2*	120.8*
Textiles.....	101.6	103.4	71.9	113.0	123.3	123.4	108.9	130.8	121.6
Steel production.....	104.5	169.0	40.4	135.9	150.8	177.4	136.1	161.2	130.0
Automobile production.....	100.7	145.2	26.9	80.4	98.8	93.1	77.2	62.2	75.1
Crude petroleum (imports).....	104.7	146.6	138.4	201.2	298.1	221.3	207.3	167.6	179.6

*12 months ending February and month of February.

†Preliminary.

PHYSICAL VOLUME OF ALL MANUFACTURING PRODUCTION

Monthly Index*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	120.3	122.3	125.1	127.2	121.4	122.9	133.6	132.4	120.5	108.6	101.3	101.8	119.8
1938-39.....	103.2	104.7	103.5	101.3	100.9	114.2	113.2	125.3	111.3	111.1	105.0	107.5†	108.4†

*Seasonally adjusted.

†Preliminary.

EMPLOYMENT IN MANUFACTURING

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	112.1	113.2	114.7	115.9	114.8	117.9	118.5	117.8	117.5	115.9	114.5	112.9	115.5
1938-39.....	111.7	109.7	110.2	109.5	107.5	110.6	109.0	109.9	111.3	111.3	110.0	109.3	110.0

*Seasonally adjusted index as at first of month.

CONSTRUCTION

8. The value of total construction, as indicated by the figures of contracts awarded, was 13.8% less in the latest fiscal year than in the one preceding, but about one-third of this decline appears to have been due to lower construction costs. Contrary to the general trend, not only of construction but of most business activity, contracts for residential construction in the past year showed an increase of 16.5% over the preceding year, and during the first quarter of 1939, showed an increase over the same period in 1938 of 92%. Loans approved under the National Housing Act, which went to finance a substantial fraction of this residential building, were 77% greater in 1938-39 than in 1937-38. Loans under the Home Improvement Plan were at their maximum during the spring and summer of 1937, declined during the following six months, recovered during the summer of 1938 and for the past seven months have exceeded the same months in the two preceding years. In fact the total for the last fiscal year was only about 3½% below the previous year, which decline was probably no more than could be explained by the fall in building costs.

In other than residential construction the decline from 1937 was severe. Of a drop of \$39 million in contracts other than residential between fiscal year 1937-38 and fiscal year 1938-39, \$21 million are accounted for by the 57% decline in contracts for roads and streets, and \$17 million by the 51% decline in industrial construction. Residential and other private construction, especially industrial and commercial, still remain very far below their pre-depression levels.

CONTRACTS AWARDED

(Millions of Dollars)

	Fiscal Years ended March 31							March, 1938	March, 1939
	1927	1929	1933	1936	1937	1938	1939		
<i>Total Contracts Awarded</i>	380.8	500.2	104.3	163.0	161.9	218.8	188.6	10.4	9.0
Residential.....	111.0	137.4	26.0	36.9	49.6	54.1	63.0	2.1	3.7
All other.....	269.8	362.8	78.3	126.1	112.3	164.7	125.6	8.3	5.3

MONTHLY INDEX OF CONTRACTS AWARDED*

(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	101.7	66.2	74.1	52.8	60.9	59.0	61.0	49.1	76.0	55.7	38.9	59.9	62.9
1938-39.....	65.3	53.2	53.1	53.8	55.7	54.1	55.2	50.4	74.8	45.6	69.1	53.0	50.9

* Seasonally adjusted.

LOANS APPROVED UNDER NATIONAL HOUSING ACT*

(Thousands of Dollars)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
1935-36.....	—	—	—	—	—	—	214	152	159	142	89	48	804
1936-37.....	432	281	698	690	518	424	372	301	450	407	317	506	5,396
1937-38.....	865	821	919	1,049	753	551	742	636	500	456	342	1,190	8,824
1938-39.....	832	1,496	2,097	1,707	1,031	1,241	1,260	1,740	1,241	646	763	1,542	15,605
Grand Total.....													30,029

*Dominion Housing Act prior to August, 1938.

LOANS APPROVED UNDER HOME IMPROVEMENT PLAN

(Thousands of Dollars)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
1936-37.....	—	—	—	—	—	—	—	682	516	303	306	598	2,405
1937-38.....	1,240	1,606	1,592	1,342	1,146	1,206	1,185	916	613	377	367	533	12,123
1938-39.....	956	1,325	1,437	1,233	1,138	1,311	1,224	968	648	403	400	650	11,702
Grand Total.....													26,230

RAILWAYS

9. The lower level of general business activity in 1938 was reflected in a decline in railway freight and passenger traffic and operating revenues, despite the greater volume of traffic in grains and ores. During recent months carloadings have been much below the levels of the previous year but the figures for March show an increase over those for January and February, and a substantially smaller decline from the previous year. This lower level of carloadings in the first quarter of 1939 compared with 1938 is common to almost all categories of freight loaded, only grain and coke showing substantial increases.

RAILWAYS

	Calendar Years						Mar. 1938	Mar. 1939
	1926	1928	1932	1936	1937	1938		
<i>All Railways</i>								
Operating Revenues (millions of dollars).....	493.6	563.7	293.4	334.8	355.1	337.0*	25.9	25.9
Net Operating Income (millions of dollars).....	40.2	57.9	-62.9	-34.8	-31.2	†	†	†
Carloadings (thousands of cars).....	3,267	3,706	2,170	2,494	2,035	2,429	200	191
Railway Payrolls (millions of dollars).....	260.4	287.8	181.1	182.0	193.4	195.0*	15.0†	14.7†

*Preliminary.

†Not available.

‡February.

MONTHLY INDEX OF CARLOADINGS*

(1926 = 100)

Fiscal Years	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	80.2	78.9	78.5	85.8	82.7	85.1	77.0	79.5	84.4	77.2	75.0	75.0	79.9
1938-39.....	71.4	71.8	68.7	71.5	76.3	81.0	76.0	74.2	73.7	70.7	66.7	71.8	72.8

*Seasonally adjusted.

FOREIGN TRADE

10. Exports of merchandise, from which gold is excluded because its movement is subject to special forces, showed a fall of 15·1% in the fiscal year just ended, as compared with the previous year. The decline was due chiefly to the fall of 19·2% in our exports to the United Kingdom and the fall of 16% in those to the United States, because exports to other Empire countries and to other countries as a group, fell only very little. Our exports to the United States fell during the late months of 1937 and the early months of 1938, as production in that country declined, but they recovered during the summer and fall of last year and in the first three months of 1939 they have been 16% above the same months a year ago. Exports to the United Kingdom were well maintained until the spring of 1938 but since that time each month's exports have been below that of the corresponding month the year before. Net exports of non-monetary gold (which include an adjustment for earmarked gold) have continued to increase. The decline in the March figures shown above was due to the timing of shipments last year rather than to a fall in production.

Imports in the latest fiscal year show a decrease of 17·6% in comparison with the previous year, with the result that the excess of exports, including gold, over imports was slightly higher than the year before.

The decline in the value of exports was due very largely to the decline in their price as the volume of goods exported was generally well maintained. In the case of imports, however, there was a much smaller decline in price and the majority of the decrease was the result of lower volume.

Exports of wheat in the past fiscal year show the greatest decline in value of any of the commodities, reflecting the severe fall in wheat prices. Exports of wood pulp and paper also declined substantially, though in the first quarter of this year paper exports have been 8·8% above a year ago. The tonnage of copper exported reached a record high level in the past year but lower prices brought the value below that of the year before, although values in the last two months have been higher than the same months last year. Exports of planks and boards fell off in 1938 but in each of the first three months of this year have shown an increase over a year before. It will be noted that exports of fish and of milk products in 1938-39 were about the same as in 1937-38, while exports of fruits and vegetables were increased by more than 21%. These three groups of exports have all been higher in recent months than they were a year ago.

FOREIGN TRADE

(Millions of Dollars)

	Fiscal Years ended March 31							Mar. 1938	Mar.† 1939
	1927	1929	1933	1936	1937	1938	1939†		
Merchandise Exports (all gold excluded).....	1,260.7	1,376.5	476.9	774.3	991.1	991.2	841.6	74.2	70.0
Net Exports of Non-Monetary Gold.....	34.8	36.5	70.7	120.6	137.3	147.7	167.5	17.6	15.8
Total Exports, including Non-Monetary Gold.....	1,295.5	1,413.0	547.6	894.9	1,128.4	1,138.9	1,009.1	91.2	86.8
Merchandise Imports (all gold excluded).....	1,030.9	1,265.7	406.4	562.7	671.9	799.1	658.2	65.1	58.4
Total Trade.....	2,326.4	2,678.7	954.0	1,457.6	1,800.3	1,938.0	1,667.3	156.3	145.2
Export Balance.....	+264.6	+147.3	+141.2	+332.2	+456.5	+339.8	+350.9	+26.1	+28.4
<i>Merchandise Trade by Countries</i>									
<i>(all gold excluded)</i>									
United Kingdom—									
Exports.....	448.0	431.7	185.1	319.8	406.8	407.8	326.9	27.9	26.1
Imports*.....	163.9	194.0	86.5	117.9	129.5	145.0	116.0	8.3	7.2
Other Commonwealth Countries—									
Exports.....	94.3	107.0	38.2	78.2	88.2	108.7	103.5	10.6	9.6
Imports*.....	50.2	63.4	33.9	59.8	68.7	88.2	66.0	3.1	1.6
United States—									
Exports.....	472.5	508.9	144.7	286.5	364.4	343.3	288.5	23.4	25.4
Imports*.....	687.0	808.0	232.5	319.5	393.7	487.3	417.0	31.2	27.0
Other Countries—									
Exports.....	245.9	328.9	109.0	89.8	130.8	130.0	122.7	12.3	8.9
Imports*.....	129.8	120.3	53.5	65.5	80.0	78.6	65.9	3.9	3.6
<i>Principal Commodity Exports</i>									
Non-Monetary Gold†.....	34.8	36.5	70.7	120.6	137.3	147.7	167.5	17.6	15.8
Paper, chiefly Newsprint.....	123.2	148.4	77.2	97.1	117.8	129.9	115.0	9.5	10.1
Wheat and Wheat Flour.....	421.8	493.6	147.5	168.0	245.0	139.5	100.3	0.2	5.1
Copper and its Products.....	14.9	28.0	12.3	31.0	40.2	57.3	53.9	5.1	5.5
Nickel.....	12.9	23.9	7.5	41.6	45.9	61.9	49.6	0.1	4.9
Planks and Boards.....	59.8	47.7	11.1	27.6	40.3	43.7	37.1	3.1	3.4
Meats.....	29.4	19.2	6.7	24.2	36.1	41.4	35.3	3.3	3.4
Wood Pulp.....	49.9	44.9	17.8	28.1	33.2	40.0	26.8	2.9	2.5
Automobiles and Parts.....	36.4	45.4	7.8	27.1	22.3	23.3	23.3	3.3	2.9
Fish.....	34.5	34.9	16.6	24.4	25.1	26.3	26.1	2.5	2.5
Fruits and Vegetables.....	18.7	12.0	11.4	16.1	13.6	16.6	20.2	0.7	1.0
Milk and its Products.....	41.6	35.8	11.7	10.8	14.4	17.7	17.6	0.4	0.9

* Import figures by countries given for fiscal year 1939 and for the monthly comparison are those for the 12 months ending February and for the month of February, respectively, the March imports by countries not being available at time of making up this table.

† Adjusted for earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

‡ Preliminary.

EMPLOYMENT AND UNEMPLOYMENT

11. The general index of employment in all industries recorded a decline of 4.2% in the fiscal year 1938-39 from the previous fiscal year. Lower employment in manufacturing and logging was principally responsible for the decline, since other components of the index, notably mining, construction and maintenance and trade recorded slight increases. In general employment fell off to a smaller extent than business activity during the recession of the summer and autumn of last year, but the upward movement since that time has, on the other hand, been relatively slower than that of general business recovery.

The average number of all persons in receipt of material aid to which the Dominion has contributed during the twelve months ending February, 1939, was 6.6% less than in the fiscal year 1937-38, a decline shared proportionately by both agricultural and urban registrations. Increased registrations of employable unemployed and of persons on relief in urban centres during the past autumn and winter reflect the contraction in employment, particularly in manufacturing, indicated on the following page. In February, 1939, the number of employable unemployed persons on relief was 190,000.

The average number of wage-earners unemployed, as estimated by the Dominion Bureau of Statistics, recorded an increase in the twelve months ending February as compared with the previous fiscal year. These estimated figures show an average for the calendar year 1938 of 407,000, which may be compared with an average of 337,000 in 1937, of 646,000 in 1933, and of 107,000 in 1929.

EMPLOYMENT INDEXES

(1926=100)

	Fiscal Years ended March 31							March 1, 1938*	March 1, 1939*
	1927	1929	1933	1936	1937	1938	1939		
<i>All Industries</i>	100.8	113.7	84.4	100.3	104.4	115.7	110.8	112.3	110.9
Manufacturing.....	100.8	112.7	81.8	99.2	104.7	115.5	110.0	112.9	109.3
Logging.....	100.2	116.6	42.7	124.5	153.4	201.6	107.4	171.1	87.5
Mining.....	101.2	115.5	97.2	125.8	140.7	155.2	157.4	156.6	163.7
Transportation.....	100.4	106.7	82.7	81.7	84.6	85.2	84.3	84.5	85.9
Construction and Maintenance.....	101.4	120.2	77.1	94.3	83.5	104.0	110.0	98.2	129.7
Trade.....	100.8	118.2	114.4	123.4	128.4	132.5	133.4	130.4	133.4

*Seasonally adjusted.

EMPLOYMENT—ALL INDUSTRIES

Monthly Index*
(1926=100)

Fiscal Years	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	109.1	110.4	114.3	116.8	116.8	118.4	119.6	119.8	118.8	117.8	114.7	112.3	115.7
1938-39.....	111.2	111.5	111.9	111.4	109.0	110.6	111.0	109.7	111.3	111.3	110.6	110.9	110.9

* Seasonally adjusted index as at first of month.

EMPLOYABLE UNEMPLOYED IN RECEIPT OF MATERIAL AID

From the National Registration—Department of Labour
(thousands)

Fiscal Years	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	245	215	182	160	143	117	122	136	154	168	175	175	166
1938-39.....	169	154	138	132	124	115	124	143	162	181	190*	—	151†

* Subject to revision.

† 12 months ending February.

ALL PERSONS IN RECEIPT OF MATERIAL AID

From the National Registration—Department of Labour
(thousands)

Fiscal Years	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
<i>All Persons—</i>													
1937-38.....	1,160	1,038	901	793	744	725	802	877	957	1,015	1,044	1,045	925
1938-39.....	1,024	956	885	836	758	554	641	787	896	970	1,012*	—	864†
<i>AGRICULTURE—</i>													
1937-38.....	326	300	265	229	233	269	331	363	377	383	389	392	321
1938-39.....	392	380	364	339	287	109	168	252	292	308	318*	—	300†
<i>URBAN—</i>													
1937-38.....	834	738	636	564	511	456	471	514	580	632	655	653	604
1938-39.....	632	576	521	497	471	445	473	535	604	668	694*	—	564†

* Subject to revision.

† 12 months ending February.

WAGE EARNERS UNEMPLOYED

Estimated by Dominion Bureau of Statistics
(thousands)

Fiscal Years	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	407	327	294	277	245	225	242	291	381	403	436	456	332
1938-39.....	437	400	387	407	368	346	378	398	472	485	491	—	419*

* 12 months ending February.

PRICES

12. The general index of wholesale prices, as shown below, fell by about 11.9% between March, 1938, and March, 1939. A substantial part of the fall in the general index is due to the importance in our index of wheat and other grain prices which declined rapidly during 1938. A remarkable feature of price movements during the past year was the decline even in prices of fully and chiefly manufactured goods, which dropped 10.8% from March, 1938, to March, 1939. Prices of finished goods are normally much more stable than others.

The very substantial decline in prices of what we sell abroad as compared with the relatively slight decline in prices of what we buy abroad is a striking feature of the figures shown in the table below. The fall in wheat prices has been the principal factor in this unfavourable movement in the terms of our trade with the rest of the world.

It will be noted that retail prices and the cost of living have declined by about 3% and 1.5% respectively since March, 1938. A substantial decline in food prices and small declines in fuel and clothing have largely been offset by a rise in rents.

PRICES

Indexes
(1926=100)

	Fiscal Years ended March 31							Mar. 1938	Mar. 1939
	1927	1929	1933	1936	1937	1938	1939		
<i>Wholesale Prices.....</i>	98.8	95.8	65.5	72.3	77.2	84.6	76.0	83.1	73.2
Consumer's goods.....	98.5	95.2	70.4	73.6	75.7	79.7	76.1	79.0	74.1
Producer's goods.....	99.0	95.9	61.3	69.7	70.4	85.5	72.1	82.5	68.1
Export prices(†).....	100.0	94.2	54.9	62.6	71.3	81.1	65.9	79.7	60.7
Import prices(†).....	100.0	96.1	70.5	78.0	82.1	89.0	82.2	84.2	80.9
<i>Retail Prices.....</i>	99.5	98.9	71.3	74.6	73.9	79.0	78.7	79.7	77.3
<i>Cost of Living.....</i>	99.6	98.9	70.9	79.6	81.2	83.6	83.8	84.2	82.9

† For the fiscal years 1927, 1929 and 1933 figures for nearest calendar years are given.

WHOLESALE PRICES

Monthly Index*
(1926=100)

Fiscal Years	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Average
1937-38.....	86.2	85.1	84.6	87.5	85.6	85.0	84.7	83.1	82.7	83.8	83.6	83.1	84.6
1938-39.....	82.3	80.3	80.1	78.6	76.0	74.5	74.1	73.5	73.3	73.2	73.2	73.2	76.0

*Seasonally adjusted.

FINANCIAL FACTORS

13. Financial conditions during the past year have reflected the continued easy money position at home, the modest revival in business and the disturbances due to repeated crises abroad. Both our stock and bond markets have



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followed the general trend of the American markets, though they show a somewhat smaller net upward movement. Long term interest rates, indicated in the table below by the yield on Dominion bonds, averaged lower than in any previous fiscal year. Short term rates were lower on the average than in preceding years, though occasional months have shown higher rates.

In the field of foreign exchange the year was marked by a decline of nearly all currencies relative to the American dollar. The premium on the American dollar in terms of the Canadian dollar rose during the spring and summer of 1938 to an average of about 1% in June, and since that time has fluctuated between 0.3% and 1% in terms of monthly averages. Sterling exchange has declined from about \$5.00 in March, 1938, a year ago, to about \$4.70 recently.

Total net new bond issues in 1938 were approximately \$119 millions, compared with \$60 million in 1937, the increase being accounted for by Dominion and Canadian National Railway issues. As in 1937 there was a small net retirement of corporation bonds. The amount of bonds payable in foreign currencies retired in 1938 was \$69 million compared with \$121 million in 1937, and \$194 million in 1936. It is estimated that there was a total net export of capital amounting to about \$160 million, but that there was a net sale of securities to foreigners of about \$29 million, mainly in the form of Canadian common and preferred stocks.

Between March, 1938, and March, 1939, the Bank of Canada increased its total reserves by nearly 14%. It increased its holdings of gold substantially, but reduced its holdings of securities by a smaller amount. The result was an increase in the cash reserves of the chartered banks of \$14 million. Canadian deposits of the chartered banks in turn rose by \$106.4 million, which constituted an increase of 4.5%. Both the investments and the current loans of the banks increased, the increase in current loans amounting to 6.4%.

FINANCIAL FACTORS

	Fiscal Years ended March 31							Mar.,	Mar.,
	1927	1929	1933	1936	1937	1938	1939	1938	1939
<i>Security Prices and Yields</i>									
Indexes of Common Stock Prices (1920=100)									
General Index.....	101.8	173.3	52.1	101.2	125.5	117.6	103.8	99.2	103.7
Industrials.....	102.4	222.2	60.1	161.8	207.6	192.2	171.8	164.0	171.4
Gold Mines.....	—	94.1	59.0	116.7	132.0	112.7	118.8	111.4	118.2
Dominion Bonds—Average Yields (%).....	4.82	4.64	4.94	3.57	3.23	3.32	3.03	3.14	2.97
Dominion Treasury Bills—Average Yield (%).....	—	—	—	1.193	.778	.739	.601	.554	.656
<i>Banking and Currency</i> (Millions of Dollars)									
Bank of Canada—									
Total Reserves.....	—	—	—	172.5	194.8	200.0	217.5	205.5	233.9
Total Security Holdings.....	—	—	—	116.7	135.8	166.6	179.5	173.1	158.4
Active Note Circulation.....	—	—	—	49.7	70.6	95.9	107.8	100.0	107.2
Government Deposits.....	—	—	—	24.6	23.1	23.7	24.0	23.4	19.3
Chartered Banks' Cash Re- serves.....	—	—	—	214.7	230.6	243.1	259.5	242.8	257.4
Chartered Banks—									
Canadian Deposits.....	1,078.0	2,274.0	1,929.0	2,145.2	2,280.1	2,390.6	2,482.0	2,379.0	2,485.4
Notice Deposits.....	1,355.7	1,507.0	1,378.3	1,467.0	1,530.6	1,584.7	1,649.0	1,623.4	1,700.4
Demand Deposits.....	557.8	682.4	473.1	578.6	646.0	684.0	705.0	648.0	705.2
Total Security Holdings.....	517.8	517.0	726.2	1,116.0	1,370.3	1,430.7	1,450.5	1,438.4	1,490.0
Current Loans in Canada.....	957.7	1,212.9	997.9	810.1	685.6	744.1	799.4	752.5	800.6
Call Loans in Canada.....	145.5	260.1	109.0	80.3	104.0	94.3	64.5	62.9	55.7