

have increased so substantially that our existing taxes will yield a much higher revenue than during the last year or two. Not only will there be a greater volume and value of sales but the rise in individual earnings will bring more incomes into the higher taxation brackets and there will be additional business profits subject to tax. Consequently, the increase in dominion revenues should be larger, proportionately, than the increase in the national income. Nevertheless, our special expenditures caused by war conditions will be substantially increased, and while certain expenditures that have caused heavy drains upon the treasury in recent years, such as those for unemployment relief and wheat marketing, may be largely or wholly eliminated, it can never be forgotten that we start the war with a dominion budget heavily unbalanced under peace-time conditions. It is obvious, therefore, that additional taxes should be imposed immediately. I am confident that the Canadian public as a whole will expect this parliament to have sufficient courage to impose upon them such new or additional levies as will demonstrate an immediate and resolute effort to pay our way.

In this spirit we have prepared the program of tax increases which I am now about to recommend to the house. They may be regarded in some quarters as drastic, but I am sure that the Canadian public will accept them as an inevitable incident of the vital struggle in which we are engaged and as essential to avoid greater evils and burdens at a later date. They are comprehensive in their incidence because we believe that no person will desire to escape some additional taxation. They have been carefully studied to make sure that they will be in conformity with our fundamental aim of providing for equality of sacrifice on the basis of ability to pay.

The main feature of this tax program is an excess profits tax of general application. If we are not to impair the incentive to maximum efficiency or retard the prompt utilization of our entire resources and the achievement of full productivity and employment we must be able to hold out to business men the opportunity of making a reasonable profit and also the chance of securing some compensation for exceptional efficiency and willingness to take the risks inherent in industrial enterprise in war-time. But under war-time conditions when important sacrifices are being asked from the humblest citizen and when human lives are at stake, no government can justify the making of profits that are excessive or unreasonable.

It is an extremely difficult matter to devise an excess profits tax which will be fair to all kinds of businesses. No one who has not attempted to draft such a measure can appreciate the range of thorny problems involved. In the first place the normal rate of profits is not the same for all industries. Risks are far greater in some businesses than in others and, accordingly, the rate of return must be higher if such risky industries are to obtain the capital they need and to survive. They would be severely discriminated against under a general measure which taxed all profit above a common level on the assumption that the annual rate of return should everywhere be the same. Furthermore, not all businesses require the same proportion of capital in relation to value of output. Thus under normal conditions with no excess profits being made, the ratio of profits to capital of a company in a business using relatively a small amount of capital will appear abnormally high even though there be no profiteering. Thus, while an excess profits tax based on rate of return on capital may be entirely fair and reasonable over a wide range of industry, there are instances where it would operate with undue hardship. This should be recognized at the outset and provided for.

The United Kingdom in its recently imposed tax on armaments profits adopted the method of imposing the tax on the increase in the amount of a firm's profits as compared with the average profit made by the firm in recent years. This method assumes that profits in the selected base years might fairly be regarded as normal, and therefore that any increase over this normal rate is the measure of excess profits due to war conditions. The United Kingdom taxes such abnormal profits at the rate of 60 per cent. The method may work with reasonable fairness in the United Kingdom for the limited number of companies to which it applies but in Canada it would not be satisfactory for a measure of general application because a number of our industries have not been making normal profits in recent years, and indeed in some cases have not been making any profits at all.

It is obvious, therefore, that each of the two general methods of taxing excess profits, which I have discussed, would operate unfairly in certain cases. After much study and careful consideration with a view to being fair to all types of business, it was decided to combine the two methods as alternatives in the measure which we are recommending to the house. Accordingly a business concern may elect to be taxed on either one of the two bases, that is to say, either on the basis of a graduated scale