

Bank of Canada

Ottawa August 4th, 1942.

The Hon. Marriner S. Eccles,
Chairman of the Board of Governors of
The Federal Reserve System,
Washington.

Dear Mr. Eccles,

A little more than a month ago I forwarded you a copy of the 1942 Budget Speech by the Minister of Finance. With a few relatively unimportant exceptions the proposals which he put forward at that time have now become law and some general comments may therefore be appropriate.

The memorandum which I enclosed in my letter of December 4th, 1941, outlined the over-all price and wage ceiling policy which the government had just adopted, and gave something of the background against which this step was taken. This step did not become necessary because of lack of a vigorous fiscal policy, but because Canada's war requirements were becoming so great in relation to her total productive capacity that every feasible means of preventing inequity in the resulting curtailment of civilian consumption had to be used.

In point of fact, federal taxes had been increased steeply in 1940 and 1941, and actual collections were tripled between the year ending March 1939 and the year ending March 1942. Out of the total increase of \$925 mm., \$510 mm. came from direct taxes, and raised the number of individual income taxpayers from 250,000 to about 2,000,000. A further \$150 mm. of the total increase came from excise taxes on liquor, tobacco and other luxury items, a similar amount from taxes on imports, and the remaining \$115 mm. from increased collections under the 8% general sales tax, which has not been materially changed since 1936.

These tax measures in 1940 and 1941 were accompanied by vigorous efforts to stimulate voluntary saving out of current income. The record of subscriptions to the four public loans which have been issued so far gives some indication of the progress made:

	<u>Total Amount Subscribed</u>	<u>Of Which: Conversion</u>	<u>Number of Subscribers</u>
Jan. 1940	\$250 mm.	\$ 50 mm.	178,000
Sept. 1940	325 "	125 "	151,000
June 1941	837 "	107 "	968,000
Feb. 1942	997 "	152 "	1,681,000

Small denomination War Savings Certificates were also being sold to about 1,200,000 subscribers each month.

However, the government's strenuous tax policy over this period did not prevent a substantial increase in consumers' expenditures from taking place, as the following table shows. The figures are necessarily rough but we believe they indicate with reasonable accuracy the relative magnitudes involved.

	<u>Year ending</u>	
	<u>Dec. 31, 1938</u>	<u>Mar. 31, 1942</u>
War Expenditure ⁽¹⁾	\$ 35 mm.	\$2,670 mm.
Other Government Expenditure	1,025	850
Gross Private Capital Expenditure ⁽²⁾	540	460
Net Foreign Investment	130	-210
Personal Consumption	<u>3,340</u>	<u>4,500</u>
Gross National Product at Market Prices before Depreciation ⁽³⁾	<u>\$5,070 mm.</u>	<u>\$8,270 mm.</u>

(1) Adjusted for a lag in payments, and for changes in inventories destined for war account.

(2) Including investment in inventories of civilian goods.

(3) Equals national income paid out to individuals + undistributed corporate profits + corporate and indirect taxes + depreciation allowances.

In terms of volume (i.e. eliminating price and tax increases) personal consumption rose by something like 15% between 1938 and 1941/2. Obviously no such increase would have been physically possible on top of a war effort of the magnitude which has been developed, except for a phenomenal expansion in total national output. Other facilitating factors were the decline in non-war government expenditure and private capital expenditure, and the surplus of war imports from the United States obtained through drawing upon U. S. dollar reserves.

Even if the economic situation had been satisfactory in the autumn of 1941, it was clear that fiscal measures alone could not keep it so. Shortages were closing in which would certainly limit any further expansion of national output - shortages of materials, particularly imported materials, of labour, of transportation, and electric power. On the other hand, war requirements were increasing every day, with no limit in sight. The other components of national expenditure, apart from personal consumption, offered comparatively minor possibilities for offsetting contraction. It would soon be a question not merely of holding down personal consumption but of actually reducing it, perhaps substantially.

In fact, however, using the test of the general price level, the situation was already getting out of hand. Earlier price rises had been selective and had facilitated rapid adjustment of the economy to war conditions, but after March 1941 a steady and general rise got under way, which was increasing the cost of living index about one per cent a month.

The government decided that there was no hope of avoiding inflation, and consequent unfair distribution of war burdens, without very extensive direct controls over the civilian sector of the economy, and it began with an over-all price and wage ceiling, as of October 1941. It was realized, however, that this could not be maintained for long without strong support from fiscal policy as well as vigorous direct measures to increase supply wherever possible, to simplify the processes of manufacture and distribution, to allocate labour and materials, and to ration consumers where necessary.

There is no need to enlarge on the difficulties of administering these controls in a country with Canada's geographical and economic diversity, and lack of experience in these matters. Fortunately the fundamental decisions were made while the basic supply and demand situation was still fairly close to being in balance, and the direct controls are being worked in under relatively favourable conditions. For the same reason it has been possible to postpone dealing with the difficult problems of co-ordination which have been apparent for some time past. But serious shortages relative to demand are now accumulating rapidly, particularly in the labour field, and it is clear that the direct control programme will soon face its first real test.

Under these circumstances the government felt that further drastic fiscal measures were essential. It is, of course, true that no matter how far taxation can be pushed in practice, a very large field is left wherein limitation of civilian consumption necessarily depends upon the voluntary saving of individuals or upon direct controls. In a situation where the federal deficit, before new tax changes, was going to be well over \$2,000 millions, no practicable tax increases could solve the whole problem, but the situation was such that any step which seemed likely to help on balance needed to be taken.

In framing the 1942 Budget the Minister of Finance again laid chief emphasis on direct taxes, with more than half of the estimated \$430 mm. yield from fiscal changes (in a full year) coming from the personal income tax. While the Minister stressed the fact that this was the fairest method of taxation he recognized that it had now reached a level where increasing attention had to be paid to other factors than the individual's income and the number of his dependents, if gross inequities were to be avoided. One of the major difficulties was the varying extent to which taxpayers had contractual savings obligations, such as life insurance premiums, which expenditures do not conflict with the war effort but may well impair an individual's ability to pay taxes.

To meet this situation the government decided, after raising the scheduled rates to a very high

level and replacing marriage and dependents' exemptions with flat rate deductions from the tax, to make part of the tax refundable. To the extent of net premiums paid on life insurance, annuities, or other savings instalment contracts which cannot be postponed without substantial loss to the taxpayer, contractual principal payments on a mortgage on one residence, or contributions to a pension fund, retirement fund or superannuation fund, the taxpayer is entitled to receive the refund currently, or rather to pay less than the full amount of the tax. Otherwise the refundable portion will be returned to him within a specified period after the end of the war with interest at 2%. The refundable portion is limited to one-half of the total tax, or to a certain percentage of taxable income, whichever is less. This percentage is 8% for a single person, and 10% for a married person, with 1% added for each additional dependent. It is also provided that the refundable portion shall not exceed the amount obtained by applying this percentage to a taxable income of \$10,000.

The effect of this measure is, for all except those in the lowest income brackets, to impose a substantial increase in income tax, and on top of that a minimum savings requirement, with credit allowed for the main forms of existing contractual saving. It is estimated that the increase in yield after allowing taxpayers credit for existing contractual saving will be \$115 mm. from the non-refundable part, and \$125 mm. from the refundable portion of the increase. I am attaching charts which show the maximum and minimum amount payable under the new law as compared with the rates in previous years, and with United Kingdom and United States rates, at various levels of income up to \$20,000. In connection with the rates on low incomes it may be well to point out that Canada's 8% general sales tax has no real counterpart in either of the other countries.

Taking account of another cause of extreme difference between individuals, the Budget also provided for exemption from taxable income in respect of medical, dental, hospital and nursing expenses in excess of 5% of the taxpayer's income. The exemption is, however, limited to \$400 for one person plus \$200 for his wife and \$100 for

each child, up to a maximum of \$1,000.

In spite of these and other less important adjustments which have been introduced this year, the Canadian income tax is still a relatively simple and definite one to calculate in comparison with most other countries, and it is now proposed to collect most of it on a current basis. In the case of wages and salaries, a high proportion of the tax will be deducted at the source, beginning in September, with allowance made for dependents and contractual savings. On other types of income the tax must now be paid in quarterly instalments. The instructions and schedules in regard to deductions from wages and salaries have not yet been issued but as soon as they are available I will send you a copy.

Up until the present, when a married woman had sufficient income to be taxable, she and her husband were taxed separately as single persons. This meant that a small addition to a married woman's income which brought it slightly above the tax exemption resulted in a net loss to the family because of the increase in her husband's tax. The 1942 rates aggravated this situation; once her income had gone beyond \$660 a year she could not have offset the loss and paid her own income tax until her income reached at least \$972 a year. In view of the increasingly critical shortage of labour the Minister brought in an amendment during the Budget debate providing that insofar as it was earned income, the income of a wife would not deprive her husband of his married status for tax purposes.

The second major feature of the Budget was the change in the excess profits tax. Formerly this tax, plus the corporate income tax of 18%, had combined to take:

- (1) 40% of all profits, up to 156.7% of the 1936-9 average, and
- (2) 79½% of all profits above that level.

As now revised, the excess profits tax, in conjunction with the normal tax, will take:

- (1) 40% of all profits up to 116 2/3% of the 1936-9 average, and
- (2) 100% of all profits above that level, with one-fifth of this latter amount refundable unconditionally after the war, without interest.

It will be seen that so far as the non-refundable part is concerned the only change has been to lower the level at which the 79½% (now 80%) rate is imposed. This is estimated to increase the total amount of outright taxes on corporations by \$60 mm. in a full year. It is also provided that each corporation must now pay its tax in twelve monthly instalments, beginning six months before the end of its fiscal year. This advance in the time of payment is expected to bring a non-recurring item of about \$250 mm. into the present fiscal year's revenue.

The Minister said he had decided against an outright tax of 100% on excess profits because of the need for as much incentive as possible to economy and efficiency, because corporations will need post-war reserves, and because of the necessary imperfections of the "standard profits" base, even with its present provision for amendment in individual cases by a Board of Referees.

On the other hand, allowing for the effect of the refundable tax, no corporation will now have available for current distribution to shareholders more than 70% of its average gross profits for 1936-9, as compared with a residual of about 80% in the base period. The Minister recognized that this might require a reduction of dividends in some cases but pointed out that insofar as this was caused by the incidence of the refundable part of the tax, the ability of the corporation to play an active part in post-war reconstruction was correspondingly increased. The refundable portion is expected to amount to \$60 mm. in a full year.

In connection with recent increases in the corporate tax, it is well to remember that it is simply a flat rate tax on all the shareholders of a corporation, which, when the rate is high, may be unfair to those share-

holders who have only small or medium incomes. So far as distributed profits are concerned, the main economic value of corporation taxation would seem to lie in convenience and speed of collection rather than in making the total tax structure more equitable or progressive. It is perhaps unfortunate that this has not been emphasized in recent Budgets.

As regards commodity taxation, the Budget reflected the inevitable limitations upon its usefulness in an advanced war economy. In such an economy the production of non-essentials must steadily decline, and a fiscal policy based on taxation of such articles becomes increasingly ineffective as a means of mopping up surplus purchasing power. If, on the other hand, the taxes are applied to necessities, they are likely to be regressive in their effect.

Apart, therefore, from liquor and tobacco tax changes, which were estimated to yield \$39 mm. in a full year, commodity tax increases totalled only \$28 mm. and affected chiefly candy and chewing gum, soft drinks, passenger transportation, and jewellery. Only two of the items involved enter into the official cost-of-living index upon which all wage rates are now based, viz:- cigarettes and passenger transportation. In regard to cigarettes the Minister stated that the new tax would not be deemed part of the price for purposes of calculating the index.

The only other tax change related to insurance premiums. A 2% federal levy was imposed in place of the provincial taxes which came off when, by agreement with the federal government, the provinces vacated the income and corporation tax field for the duration of the war. The annual yield was estimated at \$6 mm.

The Budget accounts for the fiscal year 1942/3 are summarized in the last column of the attached tables. It will be seen that while revenue (including refundable taxes) is estimated to increase by \$680 mm. as compared with 1941/2, total expenditure is estimated to increase about \$900 mm. As a matter of fact, the trend of

August 4th, 1942.

war expenditure in the first four months of the fiscal year indicates that the government's net borrowing requirements will increase by a good deal more than the \$200 mm. odd suggested by the Budget figures. On the other hand, the ability of corporations to lend may be less than last year, because of higher taxes and earlier collection. The residual to be borrowed from individuals or the banking system will therefore be considerably greater than last year, in spite of an estimated \$210 mm. increase in personal income tax payments (though individual incomes will of course also increase, probably by a good deal more than that amount).

The Minister of Finance has accordingly taken every opportunity to emphasize what is sufficiently obvious from the figures themselves, viz:- that the introduction of refundable taxes does not mean the government is substituting compulsory for voluntary saving, that on the contrary increased voluntary saving by individuals is needed, and that the refundable tax or minimum savings requirement was introduced only to ensure a more equitable base from which voluntary saving could begin. Notwithstanding the direct controls and the rigorous tax policies which the government has adopted, it is therefore clear that the National War Finance Committee's task of promoting positive saving is one of the greatest urgency.

Yours sincerely,



V—PUBLIC FINANCE : DOMINION GOVERNMENT
CASH REQUIREMENTS

Millions of Dollars

Dept. of Finance and Bank of Canada

FISCAL YEARS ENDING MARCH 31:—	1939	1940	1941	1942	1943
DIRECT WAR EXPENDITURE				(Preliminary)	(Estimates)
Dept. of National Defence—Army.....	15.8	73.3	380.3	506.4	} 2,200.
“ “ “ “ —Navy.....	6.6	13.2	88.2	132.4	
“ “ “ “ —Air.....	11.2	37.7	176.3	386.4	
Expansion of Industry.....	—	—	77.9	243.7	
Other Direct War Expenditure.....	.8	7.3	29.5	74.8	
WAR ADVANCES					
Railways and Merchant Marine.....	—	9.1	16.5	16.5	*
Government Commodity Corporations.....	—	—	9.9	24.3	*
War Supplies Limited.....	—	—	—	36.7	*
Allied Governments—Air Training.....	—	—	34.0	71.3	*
“ “ —Other.....	—	1.3	6.4	7.6	*
FINANCING OF U.K. WAR EXPENDITURE IN CANADA					
Redemption in Advance of Maturity of:					
Dominion Bonds Held in U.K.....(1)	—	70.7	72.0	150.6	*
C.N.R. Bonds Held in U.K.....(2)	—	—	93.6	203.3	*
Repatriation via Bond Holding Account.....(3)	—	6.3	11.5	11.7	*
Accumulation of Sterling Balances by For. Exch. Control Bd. ^(b)	—	15.8	190.1	687.1	*
Gift to U.K.....	—	—	—	—	1,000.
TOTAL—WAR REQUIREMENTS	34.4	234.7	1,186.2	2,479.4	3,330.
OTHER EXPENDITURE					
Interest on Public Debt.....	128.0	129.3	139.2	154.3	*
Cost of Loan Flotations & Amortization of Discount.....	4.9	5.0	6.3	16.4	8.8
Statutory Subsidies to Provinces.....	13.8	13.8	13.8	14.4	14.4
Special Grants to Provinces.....	7.5	5.5	5.5	—	—
Compensation to Provinces for Tax Transfer.....	—	—	—	21.1	84.4
Old Age Pensions Subventions to Provinces.....	29.0	30.0	29.9	29.6	31.4
Unemployment Insurance—Administration.....	—	—	—	2.3	5.0
“ “ —Govt. Contribution.....	—	—	—	7.3	12.0
Soldiers' Pensions and After-care.....	55.6	57.0	54.9	53.3	53.5
Post Office Dept.....	35.5	36.7	38.7	41.5	45.6
Other Ordinary Expenditure (ex. Dept. of Nat. Defence).....	104.4	107.9	104.2	103.5	108.0
Unemployment and Agricultural Relief.....	46.9	57.2	34.8	8.4	5.2
Provision for Reserve against Deficits of Can. Wheat Board ^(c)	25.0	27.0	10.5	12.6	*
Other Special Agricultural Expenditure.....	—	7.5	4.7	41.9	*
C.N.R. Deficit.....	54.3	40.1	17.0	—	—
Other Government-Owned Enterprises.....	4.6	2.0	1.2	1.2	1.4
Capital Expenditure (Net).....	5.4	7.0	3.3	2.3	3.6
TOTAL—OTHER EXPENDITURE	514.9	526.0	464.0	510.1	570.
LOANS AND INVESTMENTS					
Loans to C.N.R. to Meet Maturing Bonds ^(d)(4)	2.1	13.7	1.9	28.9	
“ “ “ for Other Purposes (ex. Repatriation).....	5.9	7.8	10.1	2.4	
“ “ Provinces re Relief.....	15.0	12.6	1.5	.2	
“ “ under Dominion & National Housing Acts.....	2.7	4.4	3.8	2.6	
Other Loans (Net).....	2.6	4.3	2.1	6.8	
Bond Holding Account (ex. Repatriation).....(5)	—	—	11.9	.1	
Unamortized Debt Discount & Commission.....	.6	.3	2.5	10.8	
TOTAL—LOANS AND INVESTMENTS	24.7	43.1	29.6	37.8	
TOTAL CASH REQUIREMENTS	574.0	803.8	1,679.8	3,027.3	3,900.

* See following note.

(a) The 1942/3 estimates are highly tentative. The figure for "Direct War Expenditure" is the total of departmental estimates. The "Gift to U.K." is as provided in the War Appropriation (U.K. Financing) Act, 1942. "Other Expenditure" and "Total Cash Requirements" are as given in the Budget Speech. Asterisks indicate where no complete estimate is available.

(b) Apart from advances to the F.E.C.B. by the Dominion Govt. (\$325 mm.

in 1940/1 and \$400 mm. in 1941/2) which do not show in this consolidated table, the main sources of funds for the accumulation of sterling balances have been temporary borrowings from the Bank of Canada (sale of sterling by the F.E.C.B. to the Bank under agreement to repurchase), and the Can. dollars which become available to the F.E.C.B. as the result of net sales of gold or U.S. dollars. The negative figure for "Other Self-Financing" in 1940/1 arises out of the large transfer of gold and exchange to the F.E.C.B. in connection with the Foreign Exchange Acquisition Order of May, 1940.

V—PUBLIC FINANCE : DOMINION GOVERNMENT
SOURCES OF FINANCING

Millions of Dollars

Dept. of Finance and Bank of Canada

FISCAL YEARS ENDING MARCH 31:—	1939	1940	1941	1942	1943
REVENUE				(Preliminary)	(Budget Estimates)
National Defence Tax.....	—	—	27.7	106.6	505.0
Income Tax on Individuals.....	46.9	45.4	75.9	189.5	
Of Which: Refundable.....	—	—	—	—	(70.0)
Income Tax on Corporations.....	85.2	77.9	131.6	185.8	305.0
Excess Profits Tax.....	—	—	24.0	135.2	465.0
Of Which: Refundable.....	—	—	—	—	(25.0)
Succession Duties.....	—	—	—	7.0	15.0
Withholding Tax on Dividends, Interest, etc.....	9.9	11.1	13.0	28.3	28.0
Excise on Liquor.....	18.4	21.0	33.8	46.0	156.3
Excise on Tobacco.....	34.5	42.1	58.4	68.3	
Sundry Excise & Other Taxes.....	24.9	27.1	40.4	113.8	
Customs Import Duties.....	78.8	104.3	130.8	142.4	135.0
Special Excise Tax on Imports.....	15.6	2.0	1.0	.9	.9
War Exchange Tax.....	—	—	61.9	100.9	95.0
Sales Tax.....	122.1	137.4	179.7	236.2	218.0
Post Office Department.....	35.3	36.7	40.4	46.0	105.0
Return on Investments.....	14.4	14.6	17.6	25.8	
Other Ordinary Revenue.....	12.0	14.7	17.5	19.2	
Special Revenue.....	1.2	.2	3.0	10.0	
TOTAL REVENUE	499.2	534.5	856.7	1,461.9	2,144.5
Of Which: Refundable.....	—	—	—	—	(95.0)
BORROWING					
War Savings Certificates and Stamps (Net) ^(a)(1)	—	—	58.0	84.8	
Other Funded Debt Payable in Canada Only (Net).....(2)	48.9	394.3	690.9	1,540.8	
Treasury Bills (Net).....(3)	5.0	—	75.0	40.0	
Funded Debt Payable in London (Net) (ex Repatriation).....(4)	7.9	3.6	2.9	.9	
Funded Debt Payable in New York (Net).....(5)	19.9	.2	.4	10.0	
Sterling Temporarily Placed with Bank of Canada by F.E.C.B. ^(b)	—	—	69.0	206.9	
Other Self-Financing by Foreign Exchange Control Board ^(b)	—	15.8	203.9	80.2	
Government Annuities.....	15.4	17.4	15.6	16.9	
Insurance and Superannuation Funds ^(f)	4.5	4.6	5.2	11.2	
Interest Due & Outstanding and Outstanding Cheques.....	2.9	9.4	8.5	25.9	
Reserve re Canadian Wheat Board ^(c)	25.0	25.0	10.5	7.9	
Other Liabilities.....	9.8	2.1	9.1	21.5	
TOTAL BORROWING	98.1	414.8	734.6	2,025.2	
TOTAL REVENUE + BORROWING	597.3	949.3	1,591.3	3,487.1	
Increase or Decrease in Cash Balances.....	23.8	146.2	93.0	459.8	
Increase or Decrease in Other Current Assets.....	.5	.7	4.5		
TOTAL CASH REQUIREMENTS (as per opposite page).....	574.0	803.8	1,679.8	3,027.3	3,900.

NET INCREASE IN DOMINION & C.N.R. BONDED DEBT^(g)

Dominion Bonded Debt (ex Repatriation) (See items 1 to 5 above)...	65.9	390.5	820.6	1,654.7
C.N.R. Bonds (ex Repatriation) (See item 4 on opposite page) ^(d)	2.1	13.7	1.9	28.9
Bond Holding Account (ex Repatriation) (See item 5 on opposite page)	—	—	11.9	.1
Official Repatriation (See items 1 to 3 on opposite page).....	—	77.0	177.1	365.6
Net Discount Earned on Repatriations.....	—	7.3	13.6	11.7
NET INCREASE IN DOMINION & C.N.R. BONDED DEBT^(g)	68.0	292.5	616.1	1,248.4

(c) Actual payments to the Wheat Board out of the "Reserve against Deficits" were:—52.0 in 1939/40 and 4.6 in 1941/2. During the fiscal years under review the bank loans of the Can. Wheat Board increased or decreased as follows:—60.7, 18.2, 58.1, 15.6.

(d) Excludes equipment trust certificates, whose retirement is provided for out of operating expenses.

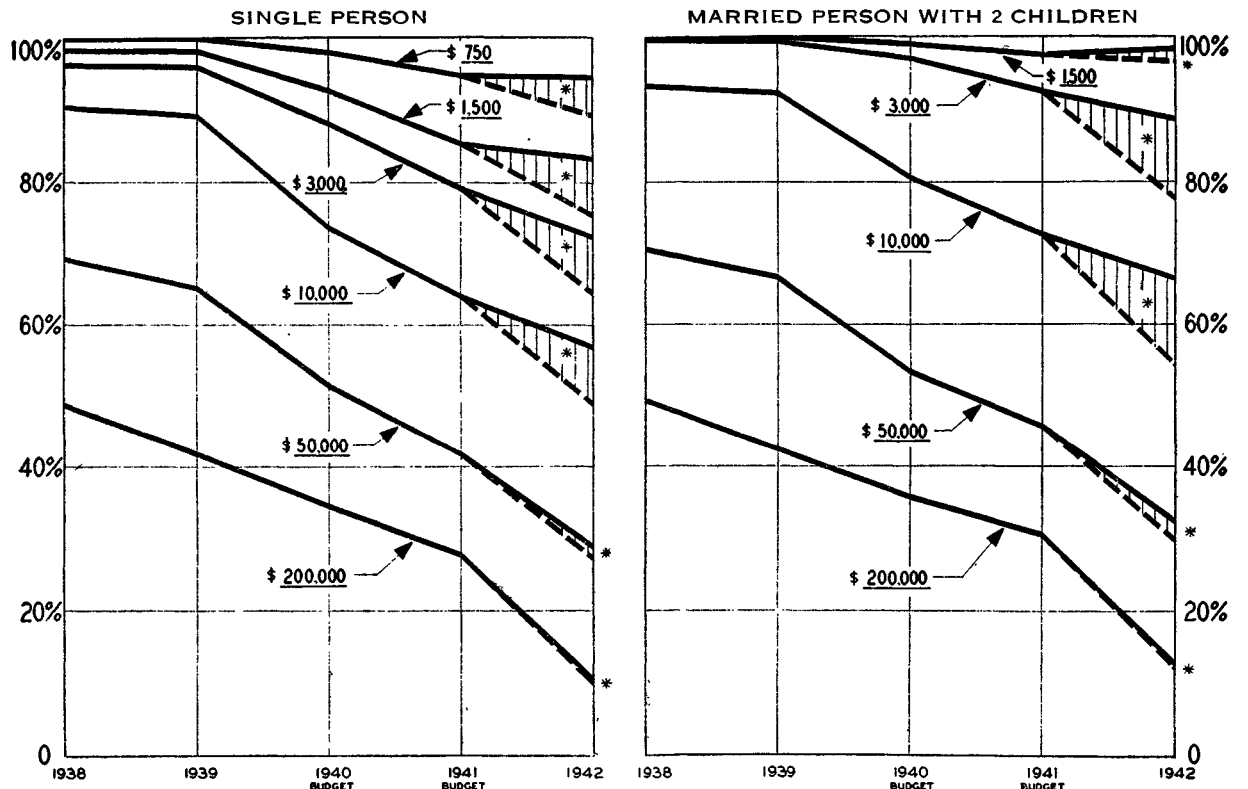
(e) Includes Non-Interest Bearing Certificates.

(f) Includes the cash holdings but not the investments of the Unemployment Insurance Fund.

(g) Gross bonded debt outstanding less sinking funds and Bond Holding Account. See also footnote (d).

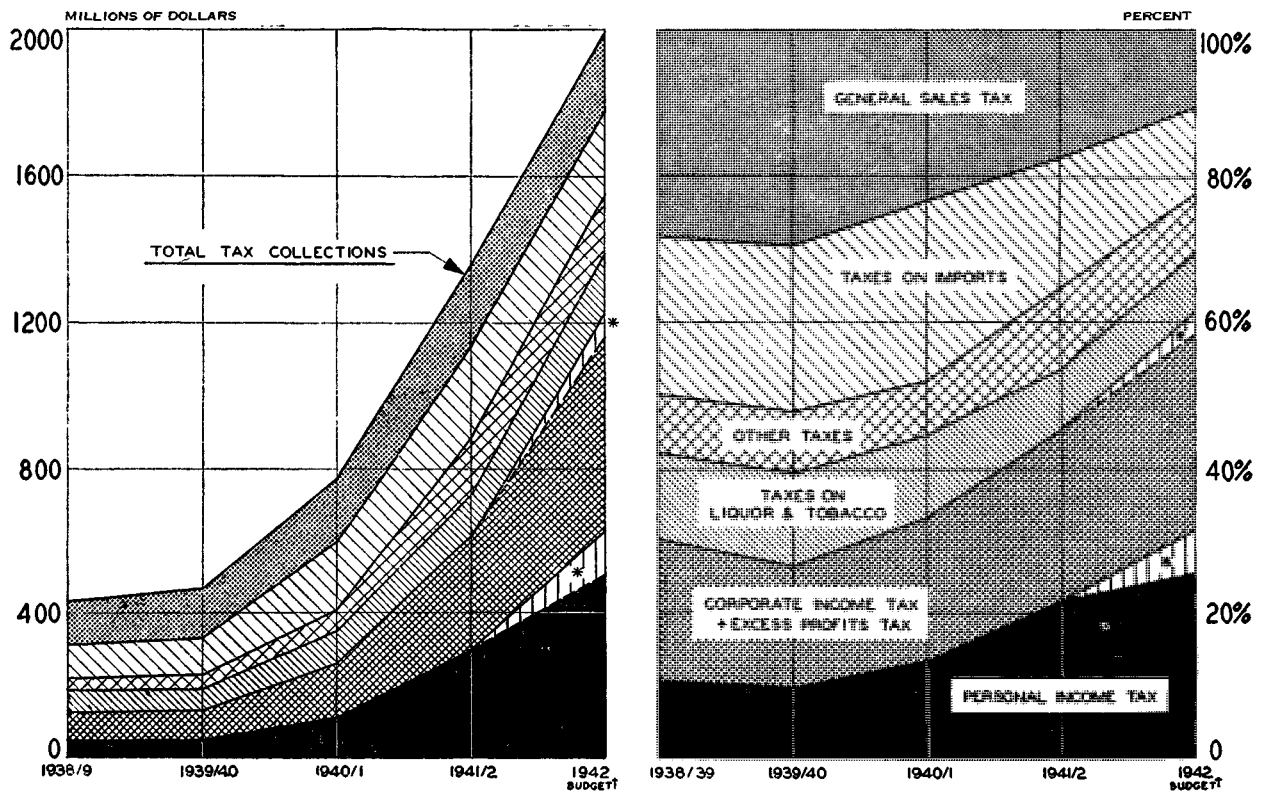
V—PUBLIC FINANCE : DOMINION GOVERNMENT

SELECTED INCOMES : PERCENT LEFT AFTER DEDUCTION OF INCOME TAX**



** Includes provincial income tax (Ontario) until suspended by agreement with federal govt. Assumes all income in excess of \$14,000 to be investment income. *Refundable portion of 1942 tax. See footnote (**) on facing page.

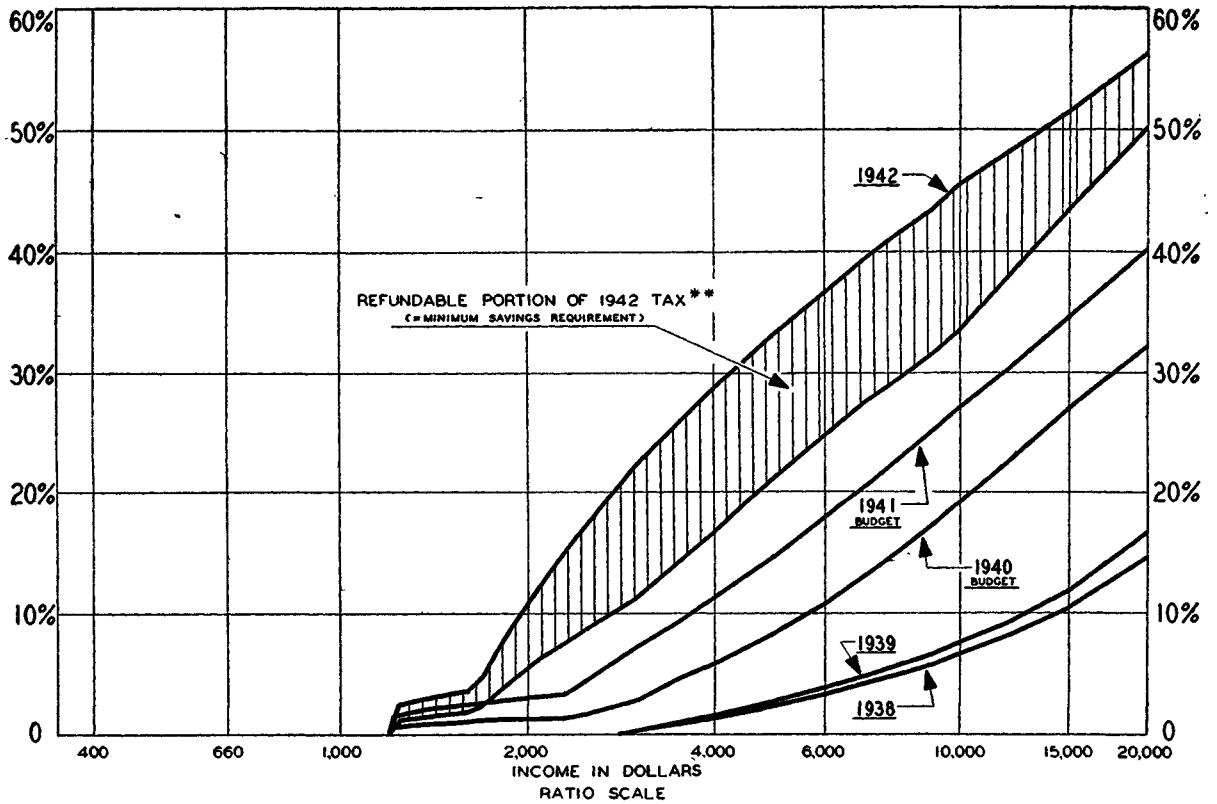
DISTRIBUTION OF TOTAL TAX COLLECTIONS



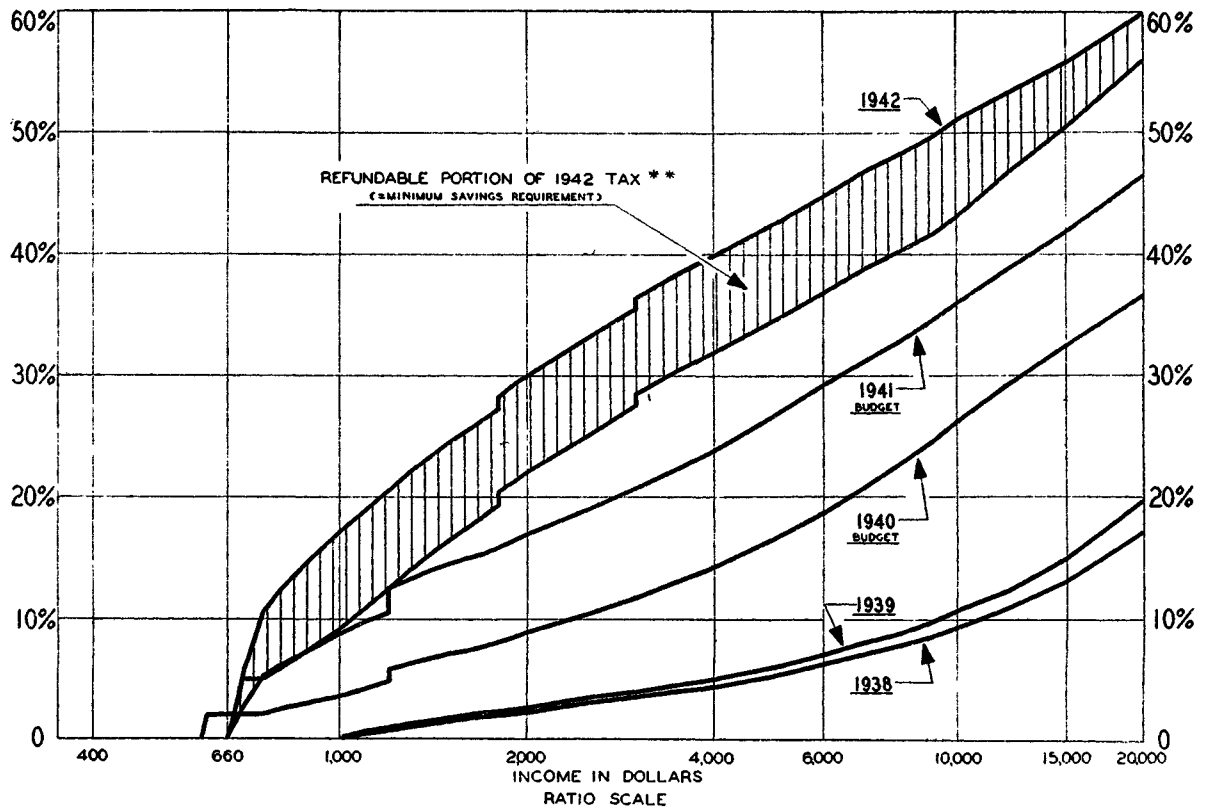
† Estimate for full year at 1942 budget rates.

V—PUBLIC FINANCE : DOMINION GOVERNMENT

INCOME TAX* AS PERCENTAGE OF INCOME
MARRIED PERSON WITH 2 CHILDREN



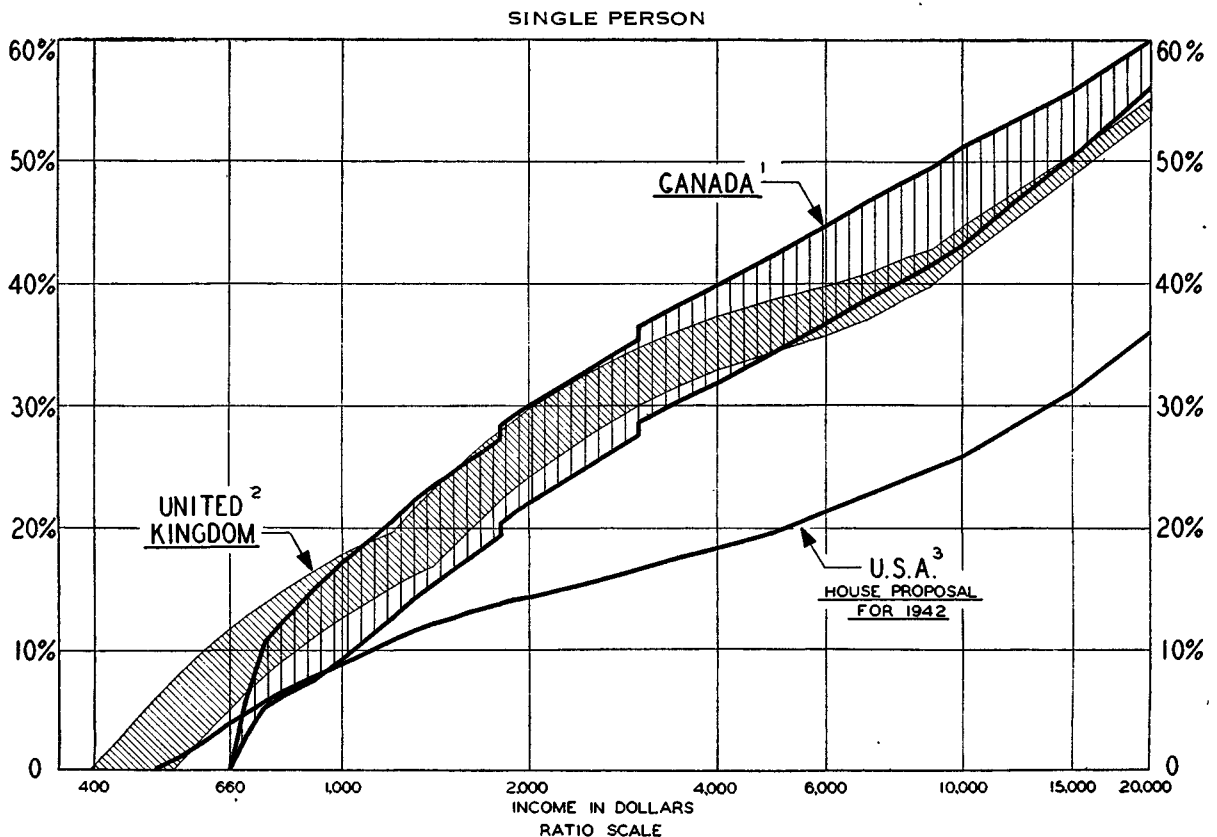
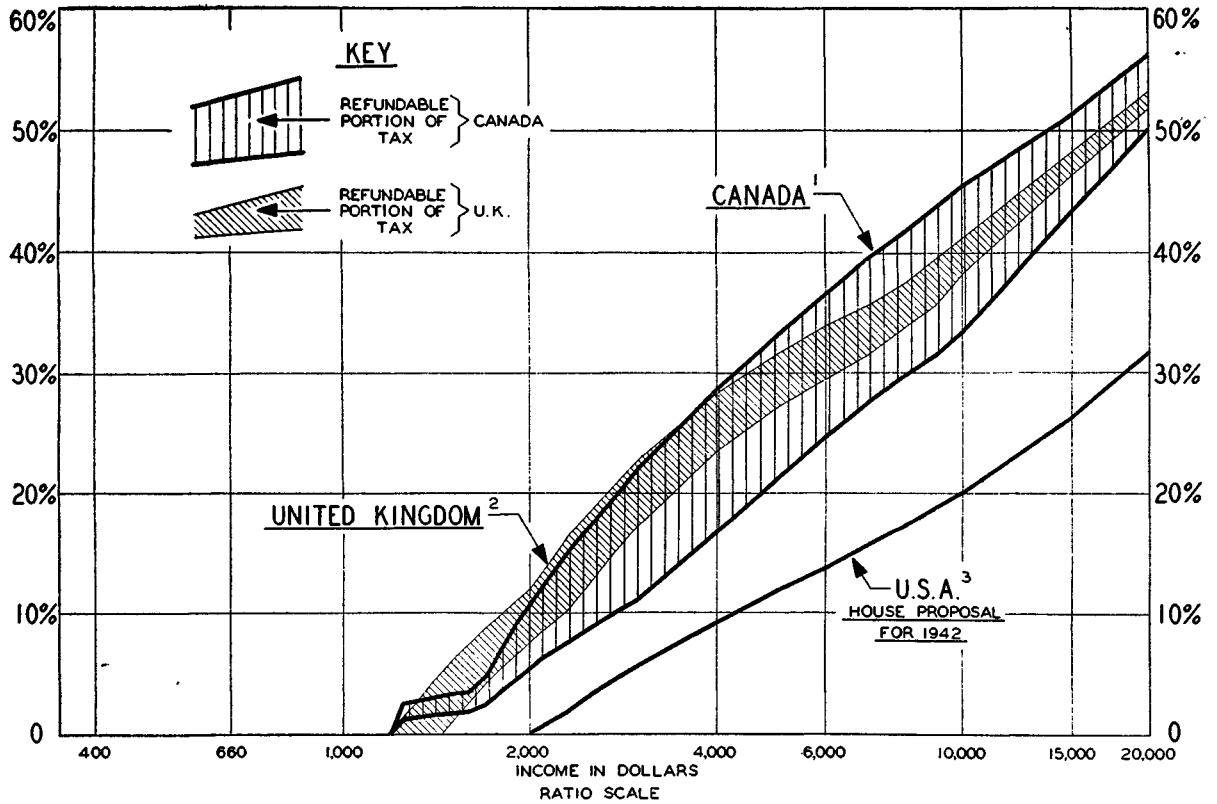
SINGLE PERSON



* Includes provincial income tax (Ontario) until suspended by agreement with federal govt. Assumes all income in excess of \$14,000 to be investment income.
 ** The taxpayer is entitled to deduct from the refundable portion of his tax any payments he is making in respect of certain specified types of contractual savings commitments, such as life insurance, mortgage principal, or superannuation.

V—PUBLIC FINANCE : 1942 INCOME TAX RATES : CANADA, U.K. AND U.S.A.

INCOME TAX AS PERCENTAGE OF INCOME
MARRIED PERSON WITH 2 CHILDREN



(1) Canada: Taxpayer is entitled to current return of refundable portion in respect of payments made in certain specified types of contractual savings commitments. See footnote (**) on page 57.
 (2) United Kingdom: Taxpayer is not entitled to return of any part of refundable portion until after the war.
 (3) United States: Includes state income tax (New York). Federal rates are those proposed by the House Ways and Means Committee and passed by the House of Representatives on July 20, 1942.

August 14, 1942.

My dear Governor Towers:

I wish to acknowledge receipt of your letter of August 4 with enclosures. I greatly appreciate the time you have taken to write me so fully regarding the development and operation of the Canadian fiscal program. Your letter is extremely interesting as well as very informative. I only wish that we were able in this country to deal as effectively with the inflationary development now as you have been able to do in Canada. The leadership in your country is to be congratulated for the intelligence as well as the courage and vigor which they have shown in handling so promptly and effectively the very difficult economic situation which an all-out war inevitably is creating for all countries.

I have taken the liberty of having your letter and enclosures photostated and copies sent to all of our Board members and to some of the staff members working in the fiscal field, as well as to several Treasury people, including Mr. Daniel W. Bell, the Under Secretary, Mr. Randolph E. Paul, who is handling the tax problem, and Mr. George C. Haas, who is head of their Research Division.

I am looking forward to seeing you and having a long visit with you on your next trip to Washington.

Sincerely yours,

Honorable G. F. Towers,
Governor,
Bank of Canada,
Ottawa, Canada.

MSE:VE:b