planned investment toward the more fundamental and essential types of investment. It is being dropped at the end of this year.

It is scarcely necessary for me to add that the type of fiscal policy I have described has been the target of criticism, particularly in the last two or three years, by critics who contend, inter alia, that Canadian tax policy has been unduly and unnecessarily severe, that current high tax rates tend to blunt incentives and impair efficiency, and that reliance for contra-inflationary influence should have been placed on voluntary public saving rather than on savings resulting from a budgetary surplus....

Money and Credit Policies

Anti-inflationary fiscal policy in this recent period has been supplemented by monetary and credit policies with a similar bias. In October, 1950, the Bank of Canada raised its discount rate from 1½ to 2 per cent. As the commercial banks had not been borrowing from the central bank, the effect of this action was essentially psychological - it served as an indication of the central bank's appraisal of the market and a warning that its open market operations would likely be used in the direction of restraint rather than of expansion. The Bank continued to follow a policy of keeping the commercial banks in a fairly tight cash position. It was not long before the pressure of underlying forces brought a general upward adjustment of interest rates. Before Korea, the yield on long-term bonds was 2.7 per cent. By March 1951, it had risen to 3.2 per cent and today it is about 3.7 per cent. In November 1950, the Government moved to restrain the expansion of credit by the introduction of consumer credit regulations, which were sharply stiffened four months later. In February 1951, after a substantial growth in the outstanding volume of bank credit had occurred, a conference of the ten chartered banks called by the Bank of Canada resulted in a voluntary agreement under which the banks agreed to revise their lending policies in such a way as to avoid any further increase in the aggregate volume of bank loans and investments and to restrict certain categories of loans, including loans on securities and for instalment financing.

In addition to these policies designed to attack the root causes of inflation, modest use has been made of certain direct controls, including the controls or priorities relating to the use of a few strategic materials in short supply such as steel, base metals and certain chemicals. Finally, the decision made by the Government in September 1950, to unpeg the Canadian dollar, which I shall have occasion to discuss later, was another contribution made at this time to the fight against inflation. The subsequent rise in the Canadian dollar has had the effect of reducing the cost of imports and the internal price of many of our exports by up to as much as 11 or 12 per cent below what they would otherwise have been.

Logic would suggest that Canada's indirect policies might take longer to produce their effects than the application of direct controls. In any case, the Canadian indices of wholesale prices and the cost of living kept rising after June 1950, for a somewhat longer period and, particularly in the latter case, to a higher level than