administratively feasible, (2) that if, as seemed probable, they might have to be maintained for a long time, they would tend to impair the productive efficiency of the economy and to undermine the foundations of the very freedom we were seeking to defend, and (3) that in any case they would do nothing to attack the root causes of the threatened inflation, the Government decided to rely upon the indirect methods of fiscal, monetary and credit policies, supplemented where necessary and where capable of easy administration by a few direct controls at particular points of pressure.

Post-Korean budgets reflected this reversal in the immediately preceding trend of fiscal policy. Faced by the prospect of soon reaching more than double the recent level of total expenditures, despite the savings and deferments he was able to effect in the non-defence field, the Finance Minister sought to produce what he called a fully or amply balanced budget by tax increases, and to secure certain supplementary anti-inflationary benefits by the particular distribution of these tax increases. Taxes on personal and corporate incomes were increased by 20 per cent, but an excess profits tax was avoided because of what was believed likely to be, under the prospective conditions, its hampering effect on efficiency and productivity as well as its inequities and its administrative difficulties. Nearly half of the increased revenue yield was designed to come from increased sales and excise taxes, because the Minister believed that while such commodity taxes would, in the first instance, raise prices, it was fundamentally more anti-inflationary to restrain consumption and encourage saving by such taxes on spending than still further to increase taxes on incomes which are, in effect, taxes on producing.

While the Minister aimed in his post-Korea budgets at little better than a balance, his actual revenues reflected a more rapidly rising trend of incomes and spending than he had expected and there has also been the perhaps inevitable lag in getting a large defence programme operating at full speed. As a result there was a budgetary surplus of $211 million in 1950-51 and one of $248 million in 1951-52. These surpluses brought to $2,236 million or 16.7 per cent the decrease in the net debt of Canada since the end of the war. For the current fiscal year, the budget forecast was for a slight surplus and it would now appear that this forecast will prove to be approximately accurate.

An interesting special feature of the budget of April 10, 1951, was the announcement of a novel experiment in fiscal policy to restrain less essential forms of capital investment. This involved the withdrawal for a four-year period of the right to depreciate assets acquired after the date of the budget, except for stipulated classes of undertakings deemed essential for defence purposes or for basic national development. It thus provided a stiff financial deterrent intended to conserve steel and other strategic materials in short supply and to discourage the type of investment which might be attractive not because of its long-run soundness but because it could be written off out of expected high profits in a few years of high corporate-income tax. The device had sufficient teeth in it to compel the review of many expansion programmes and to cause a shift in the pattern and distribution of