

Policy During Expansion

This review of the bright prospects for 1960 and the lurking dangers which are inseparable from it leads me to ask what are the appropriate economic policies for the year which lies ahead of us? What useful part can Government fiscal policy play in the development of the economy? How may it be employed to make the fullest use of the enterprise of all Canadians for the good of all, to promote stability in the economy, to resist the perils of inflation and to help the competitive position of Canadian producers in world markets?

Admittedly public policies have their limitations. Governments are not omnipotent. Although they are expected to do much, they cannot do everything. In a free society where the laws of supply and demand are still the most dominant of all economic forces, how may fiscal policy be employed to aid in achieving the accepted economic goals of that society?

The experience of the last two and a half years has taught us that in a period when economic conditions are changing rapidly fiscal policy must be flexible. It must be adapted as far as possible to changing conditions. It is not easy to alter fiscal policy to keep fully abreast of conditions when they are undergoing rapid or frequent change. So much of government fiscal policy must express itself annually in the Budget measures. Adaptations between budgets are not possible on a large scale. This fact adds to the importance and responsibility of the Budget and the accuracy of the economic forecasts on which it is based.

In the last several years we have seen practically every kind of economic trend expressed in the Canadian economy. It has been necessary to adapt fiscal policy from time to time accordingly. The policy which guided the Budget of 1959 was not the same as that which governed the Budget of 1958. The conditions of 1960 are different from those of either 1958 or 1959. What then is the sound fiscal policy to meet the conditions of 1960?

Why Deficits?

I have on other occasions in recent months reviewed the sound reasons why we deliberately budgeted in 1958 for a substantial deficit and in 1959 for a reduced deficit. Each of these programmes was adapted to the circumstances then confronting us. Two years ago we were meeting the problems of a recession then at its low point, and were seeking to use fiscal measures to offset the decline in business activity and to stimulate recovery. We gave strong support to new housing construction; we increased substantially our own direct expenditures on capital projects; we reduced our own resources to increase those of the provinces and municipalities; we sustained and enlarged the general purchasing power of the Canadian public both by tax reductions and increases in pensions and other welfare payments.