

seems clear that as a nation destined by her resources and geography to be a great trading nation, Canada cannot escape the effects of world-wide difficulties by pursuing isolationist economic policies.

Canada's Domestic Financial Policy has been an Essential Factor In Our Prosperity.

As with external trade problems, panaceas have been freely offered to us as a solution for some of our domestic problems. You will remember that by the beginning of the year 1950, we had successfully surmounted the most pressing post-war problems. The Canadian economy was running at a high level. Our prices at that time had been relatively stable for no less than a year and a half. Not only had the huge volume of government expenditures necessitated by the War and post-war reconversion been considerably reduced, but we had made substantial reductions in our national debt as well. And I might perhaps here in passing point out that our total reduction of the entire public debt since the War has been up to this date no less than 20 per cent, an amount of \$2.2 billion, which effects a reduction in the interest charges upon our public debt of \$60 million per annum. It is probably hard for us to remember this at the present time, but Federal taxes also had been progressively cut up until 1950; and all in all, it seemed as if we were then entering into a new period of orderly post-war development.

Then, overnight, came the aggression in Korea. Its aggravation of the peril of Soviet imperialism already facing the world resulted immediately in greatly increased security programmes in all the free countries. Our own defence expenditures almost doubled, and in 1951 and 1952, they amounted to virtually 50 per cent of the total expenditure of the Government and accounted for not less than 10 per cent of the gross production of the nation. This development was duplicated in the other free nations and was accompanied by a rise in the demand for a number of relatively scarce materials. This resulted immediately in a substantial increase in world price movements.

These world-wide movements and our own planned redirection of our economic effort for defence purposes reflected themselves in Canada in rather sudden price-increases and shortages of essential materials here. At once many people thought that the wartime price control should again be put into effect. They overlooked the fact that price controls constituted only a part of the whole wartime control apparatus which extended also to wages, supplies of essential materials, rationing and numerous other expedients including very high taxes. However, most Canadians thought, and we thought, that this type of all-inclusive rigid control, while appropriate to the relatively short period of total war, was not desirable in our present long-term peacetime, or if you like, cold-war defence effort. We did not think that this type of rigid control would work in peacetime. And we were right. Where it was tried, it did not work. Other countries, as a result, have suffered in their defence efforts from the distortions caused by an unsuccessful price control policy.

Thus in Canada we avoid the tempting, easy way by adopting the hard and sound way. We adopted a pay-as-you-go policy for defence expenditures. To this end, we increased taxes, imposed credit restrictions, and by withdrawing depreciation allowances, discouraged unessential activity in favour of essential development. Our aim was to reduce the inflationary pressure upon our economy; and at the same time to encourage its further expansion and development so that we could take care of our heavily-increased defence production and also of essential civilian needs.