

takes place within the fields of fiscal and monetary policy and trade and commercial policy.

Fiscal policy, therefore, is not merely a matter of raising money for government purposes in an equitable and efficient manner - it is also a matter of raising money in the way which does least harm to the forms of economic activity and development thought to be most necessary at a particular time, of raising it in a manner which best promotes the over-all conditions of stability and continuity judged to be necessary to economic growth. From the expenditure side it must recognize the implications of subsidies and transfer payments.

For example, in the early post-war years the Federal Government deliberately budgeted for surpluses because of the generally inflationary situation. Because of the rapid decline in government expenditure, it was possible, however, to cut taxes by substantial amounts. The largest of these tax cuts were made in income taxes because it was the policy of the Government, so far as possible, to favour taxation which would not harm the incentives to produce. Again, in the post-Korean situation the rapid rise in defence needs meant higher taxation but while it was necessary to increase income taxes both personal and corporate, taxes on commodities were more sharply increased. The taxation of durable goods such as automobiles, electrical appliances, etc., was particularly severe because it was necessary not only to raise money but to reduce the consumption of items the manufacture of which required the materials and skills also required in the defence effort. This policy was buttressed by the control of consumer credit. The pressure on resources was further eased by discouraging less essential forms of new capital investment through deferring for four years the right to charge depreciation for income-tax purposes. These examples indicate some of the ways in which guidance is given to economic activity through fiscal policy.

The field of monetary policy is to a great extent the responsibility of the Bank of Canada. However, the Deputy Minister of Finance is, ex officio, a director of the Bank and there is the closest liaison between the Department of Finance and the Bank of Canada. During the period of greatest post-Korean inflationary pressure the chartered banks agreed with the Bank of Canada that a further expansion in the aggregate volume of bank lending was not in the national interest and for more than a year they voluntarily maintained a ceiling on their lending. Prior to this the Bank of Canada had raised its discount rate from $1\frac{1}{2}$ to 2 per cent and throughout the period interest rates were permitted to move upward.

In the field of trade and commercial policy, it is sufficient to point out that any Canadian Government must recognize the great stake that Canada has in world trade. Here too the policy of the Government is and has been to work toward the establishment of those conditions which promote the flow of world trade on which our standard of living so heavily depends.