

a new plateau had been reached with wholesale prices a little more than double, and the cost-of-living index about 60 per cent in excess of, the respective pre-war levels. The next year and a half was to be a period of approximate stability in prices, with the fires of inflation banked, though probably not extinguished.

Korean War

Then this short spell of fairly normal conditions, which had seemed like the beginning of a promising period of sustained peacetime expansion, was rudely interrupted by the Korean war. Suddenly we had to superimpose a defence programme involving expenditures rising to four or five times their previous size on an economy which was already straining its resources to meet the demands of an unprecedented capital investment programme and of a public anxious to increase both its volume of consumption and its leisure. At the same time, in Canada as in other countries, we were too near the end of World War II to have forgotten the nature of a full-fledged war economy, and immediately there began a wave of abnormally heavy buying, by consumers as well as by trade and industry, in order to forestall the expected shortages and higher prices of a war period. Again, because we export more than a fifth of everything we produce and import more than a fifth of everything we consume, a major source of the renewed pressure on our price structure was the inflationary rise in prices throughout the world.

In the new war against Communism and this renewed war against inflation, the major task of public policy was to assess priorities, limit competing demands and assure that adequate resources were available for the tasks with the highest priority ratings. In its approach to this task, the Government had to make a choice between a system of comprehensive, direct controls and the application of general policies designed to bring about the desired results indirectly.

Anti-Inflation Policy

There was great temptation and pressure to use the direct method and apply immediately overall price-controls. The control of inflation during the war had been highly successful and the public tended to attribute this success solely to the spectacular imposition and maintenance of a general price-ceiling and failed to understand how much it depended on the powerful indirect controls that were also at work - the very heavy taxation, the stiff controls over credit and the vigour with which the campaigns to maximise and mobilise public savings were conducted - as well as on a massive application of direct controls on many other aspects of economic life and on general patriotic support which can be sustained only in a full-out war effort. Close analysis of the new situation, however, revealed an entirely new set of conditions. We appeared to be faced not with a short, all-out war but with a hot phase of a cold war of indeterminate duration, perhaps five to ten years, perhaps longer, a war effort that might take 10 to 20 per cent of our national product rather than 40 to 40 per cent, a continuing struggle in which the strength and vitality of our free institutions might be as important as our armed might. Believing, therefore, (1) that overall price controls could not obtain the almost universal support they would need to make them