influence the Canadian economy.

Principles of the Budget

In the annual budget speeches are to be found the Canadian Finance Minister's diagnosis of the prevailing and prospective economic situation and his prescription of the type of fiscal and financial policy which he believed to be required. The speeches for the first three post-war years show clearly his recognition that public finance is more than the mere arithmetic of balancing the year's accounts and that the national budget is an integral part of the nation's business, influenced by and having its influence on the state of employment, income and prices. They show him attempting to achieve in his fiscal policy a judicious balancing of several competing considerations. First was the recognition that the very high wartime tax-rates tended to weaken initiative, blunt economic incentives and thus impair productivity at a time when maximum, efficient effort was essential to economic health and progress. Against this argument for lowering taxes, the Minister had to balance two opposing considerations: one, the general belief that it was a good thing to pay off debt in years of high prosperity, particularly when the debt had recently been built up to such huge proportions; and, two, the argument that it was desirable to help offset by a budgetary surplus the powerful inflationary pressure being exerted by the large backlog of deferred demand and the enormous volume of liquid resources which the war's financing had placed at the disposal of consumers.

The relative weight assigned to each of these factors varied to some extent from time to time with the changing economic climate. In the first three post-war years taxes were cut drastically but not to such a point as to prevent a substantial surplus, which was a declared aim of the second and third post-war budgets. The excess-profits tax was first reduced and then repealed at the end of 1947. The standard rate of corporate income tax was reduced from 40 to 30 per cent in 1946. Personal income tax rates were cut successively in 1946, 1947 and 1949, with the total reduction amounting to between 60 and 70 per cent for the great majority of taxpayers.

By the beginning of 1949 the Minister was confident that the post-war inflation had subsided at least for the time being, and there were indications in business trends in your country that it was time to shift from the anti-inflationary bias of fiscal policy. In his new budget, therefore, he attempted to complete the process of tax reduction to levels that might be expected to persist in peacetime and aimed at little better than a balance in the accounts - a surplus of only $85 million. There were further cuts in income tax but the main feature was the drastic recasting of commodity taxes. A great variety of commodity taxes were repealed and replaced by what was intended to be a normal peacetime structure, consisting of three parts: first, rather heavy sumptuary taxes on liquor and tobacco; second, the general sales tax levied at 8 per cent at the manufacturer's level on a wide list of goods, but excluding all production goods, all building materials and practically all foods; and third, an additional special excise tax of 10 per cent on a relatively small but highly productive list of articles of mass consumption ranging from cosmetics and furs to radios and motor cars.