ability to use fiscal policy (pp 505-7). To be acceptable and useful, fiscal measures cannot be haphazard and unco-ordinated; they must include tax as well as expenditure changes and the latter must be constructive and reversible (pp 520-1). As the Commission puts it, ". . . a series of minor measures or fiscal steps which have more eye-appeal than effects are no substitute for a broad and well-thought-out general policy which is clearly aimed at stabilizing the economy. Appropriate fiscal deficits or surpluses incurred in sensible ways for sensible purposes are, after all, not national disasters - they are acts of prudent economic management."

(e) Exchange rate policy

Fiscal measures take on an increased importance under a fixed exchange rate system. This is partly because monetary policy has less effect on expenditures when it does not induce changes in the value of the Canadian dollar (pp 435-6, 442, 444). However, it is also because international capital flows which affect Canada's holdings of exchange reserves are particularly sensitive to interest-rate differentials; thus, the monetary authorities' freedom to pursue policies widely divergent from those elsewhere, particularly the United States, is limited (pp 472-3, 489-92).

The Commission takes the view that the present exchange rate parity is an appropriate one (p. 503) and points out that the difference between a fixed and flexible exchange rate system is not as great as is sometimes believed (pp 488-90). Nevertheless, the fixed rate will involve large swings in the official reserves from time to time (pp 491-2, 495) and impose limits on domestic policy. However, the Commission believes that frequent changes in a fixed rate are not practical (p. 492) although it does not rule out the occasional change in the long-run.