declared war, the Canadian Government committed itself to a pay-as-you-go policy carried to the farthest practicable limit. Arguing that the real resources required to fight a war must come almost wholly from current production, the then Minister undertook to finance Canada's war effort by raising taxes to the highest tolerable point and by borrowing as much as possible of any needed additional funds out of current savings rather than by the inflationary expansion of money and credit. At that time no one dreamed that Canada would find it necessary or even possible to mobilize the war effort which was later to be her share. It became an all-out effort and it cost Canada something of the order of $20 billion. It was extremely fortunate therefore that from the very start of the war Canada was committed to this type of financial policy.

Those who are familiar with the record will agree, I think, that the policy was carried out with great vigour and determination. New and higher taxes were imposed with a Draconian severity and in the end over 53% of all government expenditures during the war was financed out of tax revenues. Similarly, the record achieved in mobilizing the savings of the public was a good one. A nation-wide and increasingly efficient organization was developed which in two War Loan and nine Victory Loan campaigns succeeded in raising over $12.2 billions of new cash. It was, however, impossible for the Government to avoid some use of the banking system as a direct source of borrowing, and the public was also responsible for an expansion of bank credit through temporary borrowings to assist in Victory Loan purchases and through some selling of bonds to the banking system in between loan campaigns. However, according to the calculations of the Bank of Canada, the total increase in money supply between the end of 1939 and the end of 1945 was only $2.1 billion, or roughly 156%.

It was this fiscal and financial policy that, by "mopping up" surplus purchasing power, really made possible the success of our direct wartime controls of prices and wages. In the late thirties, prices had not recovered from the disastrously low levels of the depression. The outbreak of war, with its threat of commodity shortages, stiffened prices sharply all over the world and in our case the price rise was amplified by a 10% reduction in the external value of the Canadian dollar. In the summer of 1941, as Canada and other countries began to cross into the zone of full employment, inflationary pressures began increasingly to assert themselves. It was under those conditions that in October of that year Canada imposed its complete, overall ceiling on prices. At the same time a ceiling was placed on wages and salaries and a little later the excess profits tax was raised from 75% to 100%. For successful administration it became necessary to supplement the price ceiling program with a vigorous combination of supply controls, production directives, export controls, bulk purchasing, subsidies and rationing.

This "tough" and realistic policy, ably administered and firmly enforced, succeeded in holding the general level of retail prices in Canada almost completely stable for more than four years. From October, 1941, to December, 1945, the index of the Canadian cost of living rose by only 4% and the rise in wholesale prices was only 10.6%. Our wartime policies had thus succeeded to a remarkable extent in holding the evils of inflation in check. We had enormously increased our production and maintained a reasonable balance in our economy. By preventing a headlong upward rush of prices, we had kept down