

the individual efforts of our people could best be brought into full play. I believe the Canadian Government has done a fairly good job in assuring a favourable environment, keeping our house in good order and, where necessary, providing constructive leadership.

Perhaps, I may illustrate by a few comments in regard to our fiscal and financial policies. In a modern state the governmental budget by virtue of its size alone, is bound to have an important influence on the entire economy. For this reason the government's spending and taxing activities must be based on more than purely financial considerations. We have in Canada tried to adjust our fiscal policy so as to promote the health expansion and development of our economy. As soon as we declared war in September 1939, we pledged ourselves to follow "as far as may be practicable a pay-as-you-go policy". Though the scale of our war effort was to increase beyond anything we had dreamed of, nevertheless we were reasonably successful in carrying out that pledge. In the seven fiscal years ending March 31, 1946, we paid for 57 per cent of our total expenditures out of taxation and other revenues, and most of what we had to borrow was raised from the Canadian public rather than by bank financing. In the first three fiscal years following the close of the war, we budgeted for substantial surpluses. We did so for two reasons. In the first place, the country was in the midst of an unprecedented postwar boom. The huge backlog of demand at home and abroad, pressing against tight supplies, was exerting a strong upward pressure on prices. We therefore tried to keep the brakes on inflationary tendencies by getting expenditures down and keeping revenues up. In the second place, it seemed good old-fashioned horse-sense to lay a little away during good times if we were to keep the fiscal apparatus in good shape for any emergency which might arise in the future. As a result of this policy, we have achieved budget surpluses in each of the postwar years -- \$373 million in 1946-47, \$676 million in 1947-48, \$595 million in 1948-49 and \$111 million in 1949-50. Stated in another way, we have been able to reduce our national debt in the last four years by almost \$1.8 billion or over 13 per cent.

Sound fiscal policy, however, is more than just a matter of budgeting for surpluses and reducing the national debt. By the beginning of 1949 it seemed to us that the postwar inflation had probably about reached its end -- indeed, there was some evidence, particularly the decline in economic activity in this country, that a new deflationary threat might be on the horizon. On economic grounds, therefore, it was no longer necessary deliberately to reduce purchasing power in the hands of the public. On the contrary, it appeared that the maintenance of high income and employment might require a fillip to consumer spending. Hence, in the budget brought down on March 22, 1949, we reduced taxes boldly, concentrating the reductions in such a way as best to stimulate consumption. Personal income tax exemptions were restored to the prewar level and a large number of wartime commodity taxes were eliminated entirely. In addition, a real start was made on the problem of eliminating the double taxation of business profits by giving to the individual shareholder a credit against his personal income tax equal to 10 per cent of his income from corporate dividends. Apart from the question of equity, our purpose in making this innovation in income taxation was to stimulate venture capital. Events since that time I believe have confirmed the basic soundness of our thinking and of the measures taken in the budget of last year. Despite conditions in other parts of the world on which we are so heavily dependent, economic activity in Canada was maintained on a generally rising level throughout 1949.