

While some price adjustments were necessary if the expansion of civilian output was not to be retarded, this expansion also provided the basis for the ultimate decline of inflationary pressures. With the end of the War, genuine progress could be made in overcoming the shortages of civilian goods and equipment. Moreover, it was possible to look forward to a decline in costs in some directions as more skilled labour became available for civilian production, as shipping costs declined, as expensive substitute materials and abnormal sources of supply could be gradually dispensed with, and as civilian production increased towards full capacity. It was apparent, therefore, that the need for anti-inflation controls would eventually disappear, and plans were made for gradual decontrol.

Removal of Subsidies.—Since subsidies had to be removed before returning to a free price structure, their use was gradually reduced. All outstanding subsidy arrangements were reviewed with the aim of reducing or eliminating them at the earliest feasible time, even at the cost of some moderate price increases. With the end of the War, improved shipping conditions, the elimination of war risk insurance and the opening up of more economical sources of supply all combined to reduce the need for import subsidies on a number of products. The most significant item affected was petroleum, and during 1945 it became possible to eliminate completely subsidies on all petroleum imports except those entering the Prairie Provinces.

Other import and domestic subsidies, however, had been necessitated by cost increases which were likely to persist indefinitely, and which therefore had to be recognized sooner or later in the price structure. A considerable number of subsidies of this type were removed in 1945 and 1946, involving some price increases. For example, the subsidies on imported wool were removed (except for those on wool tops, worsted fabrics and yarns from unusual sources of supply) and subsidies on imported cotton were reduced appreciably (by about one-third at the time). These changes necessitated some moderate increases in the maximum retail prices of clothing and other textiles, though the system of price control was tightened in the whole textile field to ensure that the increases were limited only to the permissible amounts. The subsidy on petroleum products imported into the Prairie Provinces was reduced and maximum prices of petroleum products were increased. This subsidy had been necessitated by a shift to more distant sources of supply, and there was no prospect of any early reduction in the costs of such imports. On June 1, 1946, the consumer milk subsidy of two cents per quart was eliminated and control over milk prices was returned to the Provincial Governments.

Import and Export Pricing Problems.—The problem of removing import subsidies was closely related to other problems arising from the relatively low Canadian price level which was largely the result of Canada's success in keeping prices down during the War. The fact that Canadian prices had risen less than prices in many other countries tended to discourage imports. As the United Kingdom and other countries began to rebuild their trade, it became clear that a variety of imports from such countries would not be available at prices in line with those prevailing in the basic period. It was not feasible to bridge the gap between import costs and domestic ceilings by subsidy except in the case of essentials, since this would have been inconsistent with the policy of subsidy removal discussed above, and would have meant a rapidly increasing volume of subsidy payments as imports increased.