debt had increased from $3,200,000,000 pre-war to $13,400,000,000 at Mar. 31, 1946. In industry there was extensive war capacity that had to be converted to peace-time manufacture. The wartime labour force and the members of the Armed Services had to be fitted into a peace-time economy. The multilateral system of trade and payments had broken down and traditional Canadian export markets in Western Europe had been greatly weakened by the War.

Despite these factors, the Canadian economy began to expand in 1946. The rapid but balanced growth in the years immediately after the end of the War appears to be due broadly to five factors, which were, of course, closely related and which reacted upon each other. First, the wartime expansion of Canadian manufacturing capacity revealed that, at an optimum scale of production, Canada could produce many complex goods as cheaply and efficiently as any other nation. This encouraged the rapid conversion of capacity to peace-time use as well as investment in new capacity. Second, the size of the Canadian war effort created confidence among Canadians as to the possibilities of the Canadian economy. This increased confidence was evident in the willingness of Canadians to work, save and invest in Canada. Third, Canada's population expanded rapidly in the post-war period, enlarging the domestic market for many goods and services. The expansion of population was the result of increased immigration (which in turn was made possible by economic expansion), of substantial acceleration in the rate of natural increase and of the union of Newfoundland with Canada. A fourth factor behind the post-war expansion of the Canadian economy has been the success of the search for new minerals and metals. The Quebec-Labrador iron-ore discoveries and the new oil and gas fields in Alberta and Saskatchewan are the most obvious and important examples. These four factors have all affected the fifth factor—the high level of investment. Since 1946, a steadily increasing percentage of Canada's gross national product has been invested; in 1946 the proportion was 14·2 p.c. and in 1952, 22·3 p.c. From 1946 to 1952, capital investment has totalled almost $30,000,000,000 and has accounted for the employment of about 15 p.c. of the labour force. Since 1948, capital investment has exceeded exports as a mainspring of Canadian economic activity and it is worth noting that, since the end of the War, savings in Canada have been sufficient to finance the investment program. While there has been significant investment in Canada coming from abroad, notably from the United States, Canadian net investment in other countries since 1946 has been of similar magnitude. In 1952, for example, Canada was a net creditor in international investment despite the substantial flow of United States investment funds into Canada.

It was with these developments in mind that the Federal Government established its financial policies. At the end of the War there appeared to be four objectives of financial policy: (1) to smooth the change from war to peace; (2) to restore and maintain a free enterprise economy; (3) to promote a high and rising level of employment and income; and (4) to prevent excessive inflation. In the years 1950-52, the task of controlling inflation became even more important as heavy defence requirements were superimposed on an economy already stretched by a heavy investment program.

These four general aims were pursued, not by direct controls, but by fostering the right climate, by offering appropriate incentives and by steering the economy in the desired direction. As World War II drew to an end, a series of measures were enacted to smooth the adjustment to peace-time activity and to give driving power