to the dynamic Canadian economy. These measures included the establishment of the Industrial Development Bank, the enactment of the Farm Improvement Loans Act and the establishment of the Central Mortgage and Housing Corporation and the Export Credits Insurance Corporation. In addition to establishing the latter Corporation, Parliament gave the Minister of Finance authority to grant export credits to other countries. A $1,250,000,000 loan to the United Kingdom was the largest of such export credits.

In the annual Budget speeches of the Minister of Finance will be found his diagnoses of the economic stituation and his prescriptions of policy. For the first three post-war years the Budget speeches show him balancing several competing factors: first was the belief that the high wartime taxes reduced incentive to work and to invest; second was the belief that in periods of prosperity the national debt should be reduced; and third was the idea that a Budget surplus would help offset the inflationary forces of the post-war economy.

In the first three post-war Budgets, tax rates were reduced but substantial surpluses were achieved. In the Budget of 1949 a very small surplus, little better than a balance, was planned and the program of tax reduction to peace-time levels was completed. The main features of the 1949 Budget were a drastic recasting of commodity taxes and the beginning of a program to eliminate the double taxation of business profits, believed to be one cause of the relative shortage of equity capital.

By the end of 1948, a stable economic condition had been reached and during the following year and a half there was relatively little change in prices and inflation was well under control. This period of normal conditions was interrupted by the outbreak of the Korean war in June 1950. The defence program then adopted required expenditures that were to rise to four or five times their previous size. The economy was already strained by the capital investment program and by a high level of consumer spending.

Following the outbreak of the Korean conflict the size of the defence program made it necessary for the Federal Government to assess priorities, to limit competing demands, and to assure that there were adequate resources for the most important national needs. There were two main methods available for this task: comprehensive direct controls and general fiscal and monetary policies, which operate indirectly. Direct controls were judged to be burdensome to administer, needlessly restrictive of individual freedom and quite unsuited to a long-time effort.

The Federal Budgets after June 1950 reflected the decision to use general fiscal and monetary methods. Budgets were designed to pay for the defence program without borrowing and to use the necessary tax increases to control inflation where possible. Taxes on personal and corporate income were increased by 20 p.c. About half the new revenue required came from increased sales taxes and excise taxes. The Minister of Finance took the view that these affected the incentive to produce less adversely than would further increases in the taxes on income.

Though successive Budgets during the Korean conflict were designed to produce only a little better than a balance, rising national production and the lag in defence production produced moderate surpluses in 1950-51 and in 1951-52.

Monetary policies supplemented Budget policy. In October 1950, the Bank of Canada raised its discount rate from 1½ to 2 p.c. Interest rates on long-term bonds rose from 2·7 p.c. pre-Korea to 3·2 p.c. in March 1951 and, by the end of 1952, to 3·7 p.c. Consumer credit was restrained by regulations in November