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SPEECH BY MR. G. F. TOWERS
General Chairman of the National War Finance Committee
At Moncton -- April 21, 1944

Mr. Chairman, when you were good enough to extend an invitation to me to speak here to-day, you were not unaware of the fact that Canada's Sixth Victory Loan is in the offing. I do not imagine that anyone will be surprised if my remarks contain the elements of a sales talk - and so they will. I realize, however, speaking to a Canadian audience in the spring of 1944, that Victory Loan campaigns are very familiar to our people. In fact, it might be said that they have begun to be a habit under our war financing programme. The Canadian people know very well that these Loans are designed to raise the money to back up our fighting men, and this fact alone ensures their enthusiastic support.

But the people, in lending this support, are entitled to expect that their interests are being protected, and that the war finance programme, indeed, the whole economic structure on the home front, should be designed to bring this country to the conclusion of hostilities in a state of order - rather than confusion and chaos. They are entitled to expect that our war financing programme will provide for the best possible conditions for conversion to peace.

Therefore, what I propose to do to-day is to attempt a form of stock-taking. This might be placed under two main headings - What have we done to protect these interests? And what are we doing now to protect them in the future?

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Let us look first at how our war financing programme began, back at the beginning of the war, or even a little before. There is nothing easier than visualizing the effects that a total war will have on the home front. It can be assumed that a great number of men will be drawn into the Armed Services, that a large body of workers will become engaged in war industries, and that a substantial reduction will take place in the number of people available for the production of goods and services for civilians. One knows that government expenditures will be tremendous, and that the money incomes of the people will be high. Plenty of money and a relative scarcity of goods - these are the economic hallmarks of war. Left to themselves, these things produce inflation. That is an economist's word. I prefer to describe the process as a great rise in the cost of living.

There is nothing theoretical about such a development. The process, sad to say, is going on in most parts of the world to-day. It is particularly evidenced in occupied countries which have been flooded with their own money. The enemy have taken some pains to see that they brought this about, knowing what a powerful weapon of disruption it can be. It is also going on in countries which have been unable to organize effective measures of prevention. In China, in the Middle East and in countries whose population totals hundreds of millions, it is almost the number one problem to-day. Canadians need to have a practical knowledge of these world-wide conditions. The scourge of inflation is going to leave its mark on many parts of the world, and will influence events for many years to come.

As far as we were concerned, these things had to be avoided. How could we best guard against them? We began by attacking the inflationary forces at the outbreak of hostilities. We introduced controls which would give us financial stability by overcoming wildly fluctuating exchange rates, a depressed bond market and a flight of capital beyond our borders. Having done this, it was possible to pursue policies which gave some assurance that even the tremendous government borrowing necessitated by war could be accomplished at low rates of interest. And so the door was opened to the institution of a continuing campaign for savings and investment in Victory Bonds and War Savings Certificates for the duration of the war.

We could not, however, place undue reliance on this method of raising money. In order to keep our affairs in good order, it was necessary to pay as much as possible of the war costs by taxation. The Minister of Finance, in his first War Budget address on September 12, 1939, forecast the policies which have been followed for the last four and a half years. He said:

"Because we believe it is the part of wisdom, we shall follow as far as may be practicable a "pay-as-you-go" policy. In imposing the new tax burdens which this policy will require, we shall be guided by our belief that all our citizens will be ready to bear some of the share of the cost of war, but we shall insist on the principle of equality of sacrifice on the basis of ability to pay. We shall not, of course, be able to meet all war costs by taxation because we cannot carry taxes beyond a point where

they seriously interfere with production. But we are not prepared to be timid or light-hearted in judging where this point lies. What we cannot meet by taxation, we shall finance by borrowing from the Canadian public at rates as low as possible."

Earlier in my remarks I expressed the view that it was easy to visualize in advance the major economic and financial problems arising from total war. The measures which should be taken to solve these problems are not difficult to determine in principle, but the correct timing and successful application of the solutions present great difficulties. I remember that in the early days of the Savings campaign there was widespread doubt as to the desirability of pushing it hard. Objections were expressed to the policy of urging people to go "easy on spending - strong on saving". Some feared this would have an adverse effect on business. But it is not in human nature for a multitude of people to overstep the mark in curtailing spending. The most one can hope for is a degree of saving which will contribute very largely, but not entirely, to the solution of war-time problems. To avoid a great increase in the cost of living, there comes a time when taxation and saving must be supplemented by direct controls - price ceiling and rationing.

In describing the price ceiling policy, I would say it is, in essence, a statement by the Government to the people along these lines: The Government says, "You, the people of Canada, have saved substantial sums of money and invested them in Victory Bonds and War Savings Certificates. A fine effort has been made.

Nevertheless, there are a great number of individuals who (not surprisingly) have kept in their pockets or in their bank accounts spare cash which they obviously desire to spend. If we let those people compete with each other for a limited supply of goods, those with the lowest incomes and largest families will lose the race. So we will see that everyone is given a fair chance to get the available goods at reasonable prices - and we hope you will invest in Victory Bonds the money which would otherwise have gone down the drain of high living costs."

With the institution of the price ceiling and wage control, the broad pattern of war-time economic and financial policy was complete. Since then the main task has been that of keeping the pattern intact, and that is a terribly difficult job. If anything which I have said carried the impression that I believed the battle was won, I regret it. The battle is not won, and won't be won until war-time shortages have disappeared. No success achieved so far in keeping down the cost of living (and I believe our success is greater than that of any other country) should lull us into the belief that relaxation is possible.

This brings us then to the question of, "Where do we stand now?" The civilians of most of the belligerent countries have had a terrible time in this war. Those who have been really affected by the war look at our civilian life in North America and consider, with some justice, that from a material point of view we have been almost untouched. There is one very practical form in which we can return thanks for our relative good fortune. That is by sticking to our jobs, no matter how long this show lasts.

One of those jobs is to keep this country in such shape that when our men come back they will not find their future marred or impeded, or even for a time destroyed, by disorderly or chaotic conditions at home. Saving and investing in Victory Bonds is one of the greatest voluntary contributions any of us can make to the preservation of stability.

Now, after over four years of constantly preparing for it, we stand on the brink of what we have been warned will be the greatest battle in the history of mankind. We, as civilians, have no way of knowing what a cataclysmic event this will be. As someone remarked recently, "This war is all over but the fighting". But the fighting that lies ahead will require from soldiers and civilians a greater unity than we have ever known. While our generals warn of losses, the people talk of victory. We have mentally written off this war months earlier than the British. But even they are being warned that they must brace themselves for bad losses. Sir Archibald Sinclair, British Secretary for Air, has reminded us that despite the long and costly retreat from Russia, the German Armies are still almost intact. They are fighting hard, and with very little sign of weakening morale.

We have been told by our military leaders that if we go about it properly, we shall break through the fortresses Germany is building, and that the German Army will in due course collapse. But we must remember that they warned us that - even now - no one knows how long it will take, or what it will cost. Even though the Germans are on the defensive, they still cling strongly to the theory that the people of democratic countries cannot persevere under a stringent war economy without compulsion.

This, then, is what we now face. The future depends upon what we are able to do now.

To do our share, as a member of the United Nations, Canada will spend over the next year roughly \$100 millions a week. Our Navy has now reached a strength which is equivalent to the British Navy of pre-war days. Carrying Canadian troops, food, munitions and war materials overseas are 100,000 men in our fighting navy and merchant marine. The cost of maintaining this sea strength is about \$8 millions a week.

Our Army is the most powerful unit and the best equipped for its size of any in existence to-day. But since this heavily mechanized force has been deliberately designed for shock operations, demands for equipment and replacements are extremely heavy. Canadian soldiers have fought almost all over the world - as they are now fighting in Italy. It is costing our people \$30 millions a week to maintain this unit.

Our Air Force is now the fourth strongest in the world. We will have 44 R.C.A.F. squadrons in service this year - as well as providing roughly one-quarter of the flying strength of the R.A.F. This requires a cash outlay of \$21 millions a week.

Canada is now the fourth highest nation in production of war supplies. Less than one-third of our production, however, is used to supply our own forces. The remainder goes to fill the needs of the United Nations. Half the motor transport of the Eighth Army, for instance, came from Canadian factories. With more than a million of our people engaged directly in war industries, the cost of equipment and supplies produced last year was about

double the whole amount which Canada spent in the first World War, including the demobilization period.

I would like to make special reference to another achievement which may be regarded with some pride. Because we have been able to distribute holdings of government securities widely, a great number of Canadians will emerge from this war with a nest-egg of savings. In addition, they will have a stake in this country and its future.

These stirring times will not end with the conclusion of hostilities. On the contrary, we shall face new and serious problems. We need to have our people in a position to cope with individual emergencies. Canadians, as individuals, have increased their holdings in Government bonds by approximately \$2½ billions. That they will own still more by the end of the war is, to my mind, a most encouraging feature of our situation. It justifies all the effort which is being put into this War Savings campaign.

Reference is often made to the backlog of war-time savings when discussions take place on post-war demands for goods. I have no doubt that a fair volume of Bonds and Certificates will be turned into cash at some time after the war for the purchase of the new goods that will be coming on the market. Some people, out of choice or necessity, will use savings to finance part of their living expenses. But I certainly do not expect a great flood of savings to be used for these purposes in the immediate post-war years. Once people have acquired a savings habit, and accumulated something in the form of a reserve, they do not dissipate that reserve if they can possibly avoid doing so. Suppose, however,

that I am wrong. Suppose a considerable number of people do want to get cash for their savings in the form of Bonds and Certificates. We have the machinery to deal with any situation of this kind which may develop - and deal with it in a way which will avoid serious upsets or disturbances - in a way which will keep faith with the millions of small investors who are supporting the savings programme during the war years.

A significant decline in the price of government bonds implies an upward move in the level of interest rates. I see no likelihood of there being any economic justification for higher interest rates after the war. When war and post-war shortages have been overcome, it is not inflation that we have to fear - unless we are completely imprudent in the management of our affairs. Rather, our main task will be to minimize the declines in consumers' incomes and expenditures, and to encourage, rather than retard, capital development. These matters relate to the future. While we must think of the future, we cannot let it distract our attention from the present. Our primary concern is winning this war. The battles which are still to come will call for an unceasing flow of supplies in great quantities. It is a matter for congratulation that shortages of war materials have been, to a considerable extent, overcome. In a few cases, it has been possible to reduce production. That is a sign that the United Nations are getting their organization in good order and control. But we must not forget that the overall needs are still tremendous, that civilian goods continue to be in short supply, and that there is no justification for relaxation of

our efforts to encourage savings and investment in Victory Bonds. While our men in the Forces face the greatest trials of the war, perseverance is the least of the virtues which can be expected from us at home.

The Sixth Victory Loan, which opens on April 24th, calls for a minimum amount of \$1,200 millions, of which more than half will come from savings handled by insurance companies and other corporate investors of that type, and from business enterprises in general. The most important part of the money to be obtained, however, is that which will come from individual subscriptions.

The official minimum objective for individuals is \$525 millions. With a similar objective in the last Loan, over three million ~~applicants~~ ^{applicants} ~~received~~ ^{received} a total of \$603 millions. This time I have every hope they will do even better. Why am I so hopeful? Well, to start with, I know the money is there. The aggregate income of the Canadian people is running at a higher level now than in 1943. Moreover, our people have increased their savings deposits by some \$329 millions within the last twelve months. It is true then that the Canadian people, as a whole, have the income and have the money. To make the Loan a success, however, millions of people have to buy Bonds, because the incomes and the money are very widely distributed. It is estimated that more than 80 per cent of the entire national income goes to those who earn less than \$3,000 per annum. To achieve a successful loan, we want still more buyers and we want to increase the average amount bought. It will take real self-denial on the part of the Canadian people to make

this possible. But if enough individuals do not give their full and loyal support, a chain of circumstances will be set up that can bring down the whole economic structure. For that very reason, every single Canadian, whether in the Armed Forces - and they respond in their hundreds of thousands and set a great example - in our factories and offices or on our farms, is asked to play his or her part to the full.

As General Montgomery said of the present momentous hour - "The inspiration of the armies requires the inspiration of the nation Only from an inspired nation can go forth under these conditions an inspired army there must swell up in every nation every noble thought, every high ideal, every great purpose which has waited through the weary years... and the surest method of gaining confidence is success....." We have confidence in our armies ... we must give them confidence in us ... We must continue to take care of the future now, not just worry about it. In that way, it will be a future of which Canadians everywhere can be justly proud. We have been told that we cannot lose this war, but we must each assume our personal responsibility in winning it. How best can we help to do this? Three words give us the answer - Put Victory First.
