SPEECH BY

MR. GRAHAM F. TOWERS, GENERAL CHAIRMAN, NATIONAL WAR FINANCE COMMITTEE

Mr. Chairman and Gentlemen:

I wish to thank you for the cordial welcome you have given me, and for the privilege of speaking to you to-day. I recognize that this welcome, and this privilege, are tokens of your appreciation, and of your support, of the vital work being done by the National War Finance organization in this community, in this province, and throughout Canada. My message to you to-day can be stated in one short sentence. "The need for your support is still urgent."

Now, the immediate occasion for this meeting is the Eighth Victory Loan, which opens on April 23rd. On that day, you, the citizens of this community - indeed, all the people of Canada - will be asked once again to place all available resources at the disposal of our country through the purchase of a new issue of Victory Bonds.

Victory Loans are not new to you. They are not new to people anywhere in Canada. In fact, they have become part of the routine of wartime living in this country. So, the announcement of a new Loan every six months is no great surprise. But, the facts that Victory Loans are well known, and that a new Loan is expected every half-year, do not mean they have ceased to be important. They are of very great importance. And, as vast co-operative undertakings by the Canadian people, each new Loan is really a fresh test of our willingness, as a nation, to support our men in uniform, and of the sincerity of our desire, as a nation, to attempt and accomplish more after the war than we have done in any previous peacetime period.

To-day, I propose to talk about Canada's savings program - about the part it has played in the financing of the war - and about the way it affects our hopes and plans for the days that lie ahead. With the war in Europe entering its final stages, there are bound to be some changes in the way of life to which we have become accustomed over the past five years. And, the closer we come to the return of peace, the greater the number of changes we can expect. This means some of the things we have been doing during the war will come to an end, others will go on in a different form, and others will go on the same as before. So, it is quite appropriate for us, as we face this period of change, to review the function of the savings program in the general scheme of things. The new Victory Loan is the current phase of the savings program. So, as a point of departure, I believe it is both logical and desirable to deal first with its background. Then, we can step away from the affairs of the moment and take a broad look at the past and prospective place of the savings program in the life of our country.

As you know, the Minister of Finance has announced that the objective for the Eighth Loan will be $1 billion 350 millions - half of the total being for Individuals, and half for business firms and other large investors. Now, it is only natural that you should ask why the objectives have been raised to a new high at this late stage of the war.

What are the facts about our current needs for money? What are the present levels of outlays and borrowing needs? And, will they be higher or lower in the year that lies ahead?

For the past year, both outlays and borrowing needs have been running at all-time peak levels. The great developments on the battlefronts made this inevitable. Now, the financial picture for the new year, which began on April 1, is difficult to forecast. To begin with, the Budget for this year has not yet been brought before Parliament. Then, the course and duration of the war are important, and uncertain, factors. But, even with an early Victory in Europe, we can be almost sure that this year's outlays and borrowing needs will continue around the same levels as they were last year.

There are a number of reasons why the end of the war with Germany will not mean a great cut in the size of Canada's budget. Of course, when Hitler & Co. do go into military bankruptcy, some war costs will disappear. We won't be using up things like bullets and bombs in Europe. But, other costs go on. And, some new costs will enter the picture.

For example, men in hundreds of thousands must be brought back to their homeland from overseas - and, with shipping shortages, this will take time. They must be fed, housed, and cared for in a hundred-and-one different ways. This all costs money - large amounts of it. Then, the wounded and the sick must be restored to health. The maimed must be taught new ways to a good life. Thousands of men must be enabled to return to school and university, trained for new jobs and helped in every way possible to readjust themselves to normal Canadian life. In addition to outlays for these purposes, hundreds of millions will be paid out to veterans in the form of war service gratuities and re-establishment credits.

Then, we must remember the Japs remain to be beaten. And, the Pacific War is a huge business. It's true our Allies will carry a large share of the load. But, Canada must play her part. This will undoubtedly involve important outlays on supplies, even if the full strength of our armed forces do not participate in the march to Tokyo.

Further, in the period that lies ahead, our government will have to buy a larger amount of supplies to send to other countries, either as a gift or as a loan. These supplies will help to speed final Victory, to save lives, and to help less fortunate peoples to get back on their feet once again. Incidentally, government spending for these supplies gives jobs and incomes to Canadian workers.

Finally, there will be increased outlays on other things such as social security measures, and interest charges on the public debt - and outlays of various kinds to clean up the tag-ends of the war program, and to start us on our way towards normal peacetime living.

With these facts before us, we can readily understand why the need for money is still great and urgent - and why there is no early prospect of an important cut in the amount of government outlays, even if hostilities in Europe cease this spring.

Now, on each Victory Loan in the past, the statement has been made that Canadians have the money to buy more Bonds than before. The statement is true for the Eighth Loan just as it was for earlier Loans. Over the war years, personal incomes and personal savings have been steadily expanding, and the upward trend is still continuing. Industrial employment, with exceptions here and there, is continuing at very high levels. Farm income has never been higher than it is today. Money to spend still exceeds things to buy. After high wartime taxes, Individuals - in total - have about $1 of spendable income for every 70 cents of new things to buy at current prices. Savings deposits with the banks and cash in the hands of the public will reach new highs by the opening day of the Loan.

With the increased amount of money available for investment in Victory Bonds, and the continuing high levels of outlays and borrowing needs, it is quite apparent why the objectives for the new Loan have been set at higher levels than ever before - and why every Canadian is being asked, once again, to buy Bonds both with money on hand and by the pledge of future income. So much for the background of the Eighth Loan. Now, let's merge the present with the past and the future. Let's see what the savings program has accomplished up to now, and what place it will occupy in the future scheme of things.

In the last war, inflationary financial policies among the major nations, including Canada, led to a world-wide rise in prices of enormous magnitude. During the period between the two wars, the world paid a terrible price for these mistakes. Indeed, it is perhaps not too much to say that some of the roots of the present war are to be found in the world-wide unsound financing of the last war and the great economic dislocations of which it was, in part, the cause.

The conflict of 1914-18 was the first major war in which Canada had ever participated. We learned a lot. And, we learned it the hard way. So, when German aggression brought on another world war for the second time in a generation, we made up our minds to use our hard-gained knowledge. We knew that inflation went hand in hand with war. And, from the experience of many countries during the last war, we knew that serious inflation, followed by the certainty of deflation, not only could, but would, wreck our whole way of living, cause terrible suffering and hardship to large sections of the population, and retard our development for many years to come. So, we took early action. The special Budget, brought down in September 1939, declared war both on our enemies and on inflation. We pledged ourselves to smash our enemies on the field of battle. And, we resolved to conquer inflation on the home front.

To conquer the enemy, we undertook the three-fold task of building up a new munitions industry in this country; of providing war supplies, raw materials and foods to our Allies; and, of enlisting and equipping a large Navy, Army and Air Force. To conquer inflation, we first laid down a stern financial policy. We undertook to raise the huge amounts of money needed for war in ways which strengthened, not weakened, our country - in ways which distributed the costs of the war in a fair and equitable manner. This meant we had to raise as much as possible of our money needs by taxation and borrowing from the public, and as little as possible by borrowing from the banking system, or by other forms of inflationary financing. Over the war years, this policy has become the backbone of the whole system of measures which have been adopted to hold down the cost of living and to maintain stability.

At this point, you may well ask if we have followed the plans we laid down at the start of the war. Here is the story. Since 1939, our country has spent about $22 billions, of which nearly $18 billions has been for war. Figures are hard things to remember, particularly huge amounts such as these. So, I am going to explain how we have financed these outlays by using a simple formula. And, I will give you easily remembered formulas on other phases of war finance later on in my remarks.

The formula telling us how we have raised the money to pay for the war is 3-2-1. It means that each $6 of outlays since 1939 has been financed $3 by taxation, $2 by public borrowing, and $1 by borrowing from the banking system. This shows clearly that public acceptance of high taxation, and public support of Victory Loans have made it possible to stick to the sound and sensible financial policy laid down at the start of the war.

Widespread public support of this financial policy and of other stabilization measures has paid real dividends. The wartime rise of living costs has been less in Canada than in most other countries. Further, our record in this war is much better than it was in the First World War. A comparison of the change in the cost-of-living index from the start of the war up to now with the change over the same period after 1914 shows that the index has gone up this time only 1 point for every 5 points it went up last time. And, since 1939, it has gone up by only 18 points, the index remaining about the same level over the last year.

To avoid any misunderstanding, I must state that the cost-of-living index does not cover each person's living circumstances in every part of Canada. The index is not intended to be this comprehensive. But, it does reflect the average of typical wage-earning families in urban centres across the country. So, despite its limitations, it is a good and proper way to show the degree of success that Canadians have attained in keeping things on an even keel throughout the last five years.

Now, any discussions of the way we have financed the war bring up the debt question, because half our outlays have been covered by borrowing. Statements are sometimes heard that the securities representing this increase in debt have been almost all grabbed up by big business firms and wealthy Individuals. And, some people wonder how big a debt we can carry in this country. These are very important matters. So, let's take a look at them.

From the start of the war to the end of 1944, our country's debt, payable in Canadian dollars, went up over $10½ billions. Who owns the securities representing this debt increase? The formula to answer this question is 4-3-3. It means that each $10 of increase in debt has been absorbed $4 by Individuals, $3 by business firms, life insurance companies and other Non-Individual investors, and $3 by the banking system. Now, this figure for Individuals, although large in itself, reflects only the increase in their direct holdings of securities. When you consider the interest that Individuals have in life insurance companies, in deposits with the banks, in pension funds, and the like, it is clear that Individuals are the direct or indirect owners of the major part of the debt which has been incurred since 1939. This is a healthy and desirable condition. It means that Individuals have more savings than ever before, that they are more able than ever before to take care of their needs and wants. And, it means that a large and increasing number of people will have the means to realize their post-war dreams and hopes. Right now, over 2½ million persons own Victory Bonds.

This brings me to the $64 question. How big a public debt can we carry?

There is a tendency to confuse public debt and personal debt. Many people think the same principles apply to both. But, they are really quite different. When we owe a personal debt to somebody we can pay it only by sacrificing some of our assets or some of our income. But, national debts - such as Victory Loans - are owed by the nation to itself. The nation does not make a sacrifice of wealth or income to pay off the debt, or to pay interest on the debt. It simply raises money from taxpayers and others and pays it out to bondholders. This transfer of money amongst its own people leaves the nation - as a whole - neither richer nor poorer. It's like taking money out of one pocket and putting it into the other.

Of course, there are limits to the amounts of money that can be shifted around in this way, even though bondholders, in many cases, are the same people who are putting up the money to pay the interest on the debt, or to pay off the debt. And, obviously, the more we borrow, then the closer we get to the limit. So, we cannot contemplate increasing our debt at the present rate forever. But, even though this is true, we can be completely confident about our ability to carry a larger debt than we have today.

Most discussions on the wartime increase in Canada's debt start and stop with the simple, single statement that our debt, payable in Canadian dollars, is today over 5 times what it was when the war began. Leaving the subject at this point can lead to very incorrect conclusions, because the burden of our public debt has not increased 5 times since 1939. Now, here's a graphic and neat little formula which will help to develop a proper perspective on this subject. The formula is 5-4-3-2-1. And, its meaning is as follows:

At the end of 1944, Canada's direct debt, payable in Canadian dollars, was over 5 times its pre-war size. But, part of the wartime increase in this debt has been incurred to pay off direct foreign debt. So, at the end of 1944, Canada's direct debt, payable in Canadian dollars and foreign currencies, was only 4 times its pre-war size. But, part of the wartime increase in direct debt has been incurred to pay off some CNR debt. So, at the end of 1944, combined direct and CNR debt was only 3 times its pre-war size. But, the increase in size of the public debt is measured better by the increase in amount which must be raised to pay annual interest charges. The average interest coupon rate, on the combined direct and CNR debt, came down from 3.6% pre-war to 2.6% at the end of 1944, and part of the debt increase over the war years has been incurred to acquire revenue-producing assets. As a result, net interest charges at the end of 1944, on the combined direct and CNR debt, were only 2 times their pre-war size. Finally, the real burden of public debt charges depends on the taxable capacity of the economy. As a rough measure of this burden, net interest charges at the end of 1944 were about 3¼% of 1944 national income, which is 1 times the pre-war ratio of 3¼%.

Now, I do not suggest that this formula shows our debt increase to be unimportant, or that we can go on adding to our debt forever without fear of getting into trouble. On the contrary, you will recall I stated a few moments ago that there are limits to the amount of debt we can carry. I have used this formula as a convenient illustration of the facts that the present debt burden is quite manageable, and that, in appraising the wartime increase in debt burden, there are factors to be considered other than the growth in capital amount of debt.

And, this brings us to the question - Where do we go from here? Is the need for voluntary savings almost over, or will the need go on for some time?

Every day that passes brings us closer to the time when we must convert our country to peacetime living - to the day when production for war will cease and production for peace expand - to the day when the armed forces will be demobilized - to the day when we must rebuild our trading connections with the countries of the world. The problems of the transition period will be very great. And, the problems over later years will be no less formidable than those we have faced and solved during the war. With a sober recognition of the nature and stature of the trials that lie ahead, we gain a renewed appreciation of the manifold advantages we will enjoy if we can continue to preserve stability in our country and enter the peacetime period with our economy on an even keel.

Useful work at a fair income for all who are able and willing to work is one of our major post-war objectives. We want to make Canada the best place in the world in which to live and work and bring up a family. This goal will not be reached if we approach our problems with timidity. Bold planning - now and in the future - is necessary by labour, farm and business organizations and by governments. And, the planning must be both imaginative and based on a sound knowledge of facts. As fact number one, all should recognize that maintenance of stability is a primary "must" in all post-war planning. Without stability, all plans would suffer a terrible handicap. And, we can preserve this stability if we continue to keep our eye on the ball and don't let war-weariness, or a failure to understand the facts, lead us into premature relaxation or discontinuance of the savings program, price controls, and the other policies our country has used up to now to fight inflation and hold down the cost of living.

High employment now results from a virtually unlimited demand for war-useful goods and services, planned and administered by the federal government. When this demand falls off, our task will be to find other jobs for the people now in war work or in uniform, and markets for the things they can produce. And these markets will depend, not primarily on the decisions of one government as they do today, but on the diverse circumstances and decisions of millions of individuals, and of peoples and governments in other countries. The stature of this problem can best be realized when we understand that the goal of high employment means at least one million more jobs than there were in 1939. This figure is made up of the people who were unemployed at the start of the war, the increase in our working force due to the steady growth of our population, plus some men and women from farms and homes, now at work in plants and offices, who will wish to continue that type of work after the war.

When total spending is at high levels - as it is today - we enjoy high production and high employment. When spending declines, unemployment develops. The problem of the future, therefore, centres around the need to maintain a high volume of total spending. And, to give useful work, at a fair income, to our whole post-war working force will involve peacetime spending on a vastly greater scale than in any pre-war period. A brief analysis of the various forms of spending which give employment will show the advantages of maintaining stability - the rewards we will get for avoiding inflation and, its hangover, deflation.

First, let's look at exports - that is, the spending in Canada by people of other countries - spending which in the past absorbed nearly one-third of our output.

Obviously, export trade is of vital importance to Canada. We must make every effort to restore and expand trading connections with the nations of the world. As you know, we are supporting every reasonable proposal for workable monetary arrangements between nations - arrangements which aim to maintain stability in exchange rates, to encourage trading on the widest possible basis among nations, and to promote the growth of international long-term lending. But, this is only a start. We must be willing to enter into reciprocal trade arrangements with other countries on a bolder and more comprehensive basis than ever before. We must be willing to buy more from other countries so that they can get enough Canadian dollars to buy more from us. We must be prepared to lend money to other countries to buy things from us when those countries are unable, for the time being, to earn enough Canadian dollars by selling things to us to buy the things they need and want. And, to maintain our competitive position with other countries, we must encourage scientific research.

Measures of this kind will help to keep up the volume of spending in Canada by people of other countries. But, maintenance of stability can greatly fortify these measures. This form of spending would be greatly hampered and discouraged if inflation got a grip on us. It would upset relations between Canadian exporters and buyers in other countries partly because it would drive up prices of the things we want to sell abroad, and partly because instability would breed uncertainty, and uncertainty would breed a reluctance to enter into longer term contracts and plans. So, internal stability in Canada is of vital importance to employment conditions in our export industries.

Next, let's look at new private capital development, because spending by businessmen on new plant and equipment, by individuals on the building and improvement of homes, by farmers on the improvement or extension of farms and equipment, and the like, give jobs and incomes to a large number of Canadian workers.

Private capital outlays are financed by savings or by loans. Under a condition of internal stability, individuals and businessmen will be encouraged to use their savings, or to incur loans, to finance capital outlays. On the other hand, instability - by increasing future uncertainties - would greatly restrict this form of spending and cut down employment in capital goods industries.

So, everything possible must be done to bring about a high level of private capital outlays. This includes sound tax policies which encourage the investment of capital in new industries, and also encourage the modernization or expansion of productive equipment in older industries, big and small. And, we must be certain that adequate supplies of capital, on reasonable terms, are available to anybody who wishes to borrow money for desirable capital outlays. Some steps have already been taken in these matters. But, none is more important than the maintenance of stability - the maintenance of conditions which encourage favourable decisions on spending for new capital development.

The third form of spending which gives employment is the day by day outlays of Canadians on food, clothing, services of one kind and another, and other things needed for immediate consumption. This type of spending gives employment to more people than any other form of outlays.

The amount of public spending for immediate consumption depends mainly on the size of the public income, which in turn depends mainly on the level of production and employment. A high level of employment in export industries, and among workers engaged in new capital development, can help to keep up the flow of consumer spending. But, because of the difficulties which may reasonably be expected in developing and maintaining a high level of exports and capital outlays, there are advantages in taking special steps to sustain and expand consumer spending.

For example, consumer spending can be influenced by the kind and level of taxes imposed on individuals. And, social security measures, justifiable as desirable programs within their own specialized fields, can have important indirect effects on consumer outlays. They can help to maintain these outlays in circumstances where they might otherwise decline, such as during unemployment, sickness, or in old age. Family allowances are also a stabilizing force, as the money paid out for this purpose will be going to those families most likely to spend it quickly.

At this point, it should be mentioned that the great volume of savings in Victory Bonds and in other forms which have been accumulated by the public during the war can help to finance future outlays for consumer goods and new private capital development. But, it must be realized that these savings are most likely to act as a stimulant to the flow of spending if conditions are stable, and people have confidence in the future level of employment and incomes.

Of course, there is a fourth form of spending which can help to bring about high employment. That is spending by government. When government spends money for war, for public works, for national development and conservation of resources, or for the ordinary conduct of its affairs, it puts people to work and provides them with incomes.

Government spending in the future will, no doubt, be tied more directly to the general employment situation than ever before. But, government spending should not be regarded as an easy way to assure high employment at all times. Under our way of life, it can be only a helping hand, not a cure-all.

The goal of high employment will be attained only if all forms of spending absorb a volume of production perhaps 50% greater than pre-war. To bring about this volume of spending, and to be sure the spending takes the most desirable forms, the problem must be attacked on all fronts. And, everybody must work together towards this common goal. This is the great challenge, and the great opportunity which lies ahead of us.

From all this outline of the post-war situation, there emerges the strong conclusion that maintenance of stability in Canada throughout the balance of the war period, and into the peace years, is one of the key factors to the whole picture. It means the stabilization program, of which the savings program is a part, must be continued until there is a better balance between money to spend and things to buy. And, this will take time. When we reach the stage when industry is being reconverted and the war effort demobilized, there will be only a very gradual increase in the supply of things to buy. When it is remembered that money to spend at that time will include not only current income but also the large savings piled up during wartime, it is easy to conjure up the spectre of a post-war inflation.

Against this must be set the powerful force of human foresight. The early stages of the reconversion period are bound to be attended by upsets and uncertainties until peacetime output gets organized. The jobs will be there. But, if a job is in one part of the country and the worker in another part it will take time to bring them together. During this period, each individual will naturally ask himself how he is going to come out in the whirlpool of adjustments he sees around him. His natural tendency may be to play safe and handle his reserve funds as carefully as possible. This human tendency alone may maintain a high rate of saving throughout the balance of the war, and through the reconversion period, and so forestall the possibility of a post-war inflation.

We hope this will be so. But, counting on it would be as improvident as counting on an internal smash-up in Germany and Japan to bring the war to an end. Consequently, we must lay definite plans to prevent a post-war inflation. As we now know, this involves the continued mopping up of excess purchasing power by high taxation and large-scale borrowing operations like Victory Loans, and the continued use, for as long as may be necessary, of direct controls like the price ceiling and rationing.

Compared with most other countries, we enter the post-war period with special advantages - advantages which give us a great headstart in meeting the problems of the future. We have escaped devastation. Our resources of equipment and skill have been multiplied. Our stabilization program has been successful. We have repatriated a large portion of our foreign debt. We have paid cash for our purchases from other countries. Our reserves of foreign exchange are sufficient to preserve our liberty of action. And, we enjoy the goodwill and respect of other nations throughout the world. These are special foundations on which to build our future. These are extra reasons why we must preserve for the future that sense of unity, and those qualities of the human heart and mind which have enabled us to attempt and accomplish so much over the years of war.

Today, the world is emerging from the darkness of the most destructive war in history - more than five long years of death, suffering, hardship, and despair for millions and millions of people in many different lands. Thoughts of the future are wise and proper. But, we must temper these thoughts with the realization that Victory has not yet been won on the battlefields. Step by step we are pressing forward. Germany is being invaded from the east and from the west. Her armies are being crushed into the ground. Tremendous aerial assaults are relentlessly pounding her industries, her cities, her transportation systems to rubble and wreckage. And, in the Pacific, the Japs are losing their outer island defences one by one. Her once vaunted navy has taken smashing blows. And, now the home islands of her Empire are being bombed, day in and day out, by growing armadas of planes.

So, in addition to all the future advantages of supporting the new Victory Loan, let's remember our solemn obligation to the courageous Canadian boys who are still fighting and dying <u>for us</u> on land, at sea, and in the air. To them, we owe our freedom today. To them, we owe our chance for a secure and happier world tomorrow.

Yes, Canada's Eighth Victory Loan gives each of us a chance to "Invest in the Best". It's our opportunity, and our duty, to back up our fighting men - men who rank with the <u>best</u> in courage, skill, and devotion to their task - to back up a country, our Canada, which faces the future with the <u>best</u> prospects of any country in the world - to give practical support to the <u>best</u> form of post-war planning in which all can join - and, to buy personal peacetime security in the <u>best</u> possible way.