For release
Monday, November 16, 1959
at 12:30 P.M.

"MONEY AND GROWTH"

Remarks by Mr. J.E. Coyne, Governor of the Bank of Canada, prepared for delivery at a meeting of The Canadian Club of Montreal, November 16, 1959

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The title of my remarks today does not mean that I believe money is the sole or main determinant of growth, - far from it. Rather my title is intended to emphasize that economic growth is an accepted goal of modern society, that central bankers are fully aware of this, and that a primary aim of monetary policy is not to restrict growth but to assist the maintenance of over-all growth on a sound basis.

By over-all growth I mean a higher total production of economic enjoyments - material things and services - per unit of human labour, the fruits of which are a rising standard of living for everyone, or more leisure, or both.

There are other goals of economic policy - and therefore of monetary policy which does not exist in a vacuum, but is merely one branch of economic policy in the broadest sense. One of these other goals is the maintenance of a high level of employment, also on a sound basis so that it may be sustainable with the least degree of disturbance that our social institutions, changing needs and methods, and the limitations of human nature permit.

Still another goal is to maintain long-run stability of the price level, which means maintaining the value of money as the measure of the value of all things economic. For this purpose it is desirable also to maintain as much short-run stability as possible, while recognizing there are bound to be some short-run fluctuations of moderate degree. (Studies made by the recent Senate Committee on Inflation show, indeed, that in the past the long-run tendency in peacetime has been for prices to decline, in contrast to the relatively short but intense periods of large price increases which have all occurred in times of war, or preparation for war, or recovery from war.)

This goal that I have mentioned third, price stability, would by some be placed first, for serious fluctuations of prices undoubtedly create unemployment and disrupt growth. Inflation is particularly insidious in that it seems to some to encourage production and employment and expansion for a time, but it continually cumulates excesses, distortions, inefficiencies and injustices which in due course produce recession, loss of confidence, and contraction.

The <u>social</u> evils of inflation, and its aftermath deflation, the harm done to its innumerable innocent and helpless victims, may or may not be considered a relevant factor in the field of economic and monetary policy. For my part, I think they are. But certainly the <u>economic</u> damage - the misdirection of employment and production, the waste and inefficiency, the loss of effective productivity and therefore of real growth even while the boom is on, to say nothing of the loss of production during the ensuing recession, --

these are obviously stultifying to all the goals of economic policy. It is for this reason that the prevention of inflation, or the counteracting of inflationary influences, assume such importance in our affairs with every turn of the business cycle. It is for this reason that we say, it is not a question of choosing between price stability and growth, we must aim at both. Neither is there a choice between inflation and unemployment - we must avoid both. We cannot achieve substantial and steady employment and growth without price stability and public confidence that price stability will be maintained.

One essential requirement for price stability is restraint in the process of expanding the stock of money. The first job of a central bank is to exercise self-restraint. Its job is not to restrict the activities of others, but to be careful how much monetary expansion should be facilitated in order that the banking system may adequately perform its function in the carrying on of general economic activity, without undue stimulation. Too much stimulation, too much increase in the quantity of money and credit, too much encouragement to too many people to borrow and spend, or attempt to spend, all at the same time, can produce inflation and fear of inflation even without other causes working in the same direction. A central bank is under constant temptation to accommodate its management or trusteeship of the quantity of money (including bank deposits) to apparent urgent needs of every conceivable variety. In my opinion, we have not always exercised as much self-restraint in such matters as, in retrospect, we ought to have done. Nevertheless, we have learned and are learning from experience. Methods, criteria and techniques are subject to adaptation and evolution, and I have no doubt that the effectiveness of monetary policy in restraining inflation has increased materially in recent years, in all countries. No-one has yet eliminated the business cycle, the recurrent ups and downs of total economic activity or, in the more favourable case, the alternation of greater and less rates of continuing economic growth. Such fluctuations seem to be rooted in basic factors of human nature. The first job, the vital job, is to seek to hold the fluctuations within moderate limits, to restrain the excesses of boom periods in order to mitigate the set-backs.

Monetary policy cannot fully achieve such a result by itself. No central banker, at least, would so delude himself. Fiscal policy -- the relation of government revenues to expenditures and the aggregate size of both -- is obviously of major importance, and so is the management of the public debt, the way that deficits and refundings are financed by new issues of long-term or short-term securities. All these factors bear importantly on such matters as the liquidity of investors, interest rates, and public psychology. Important also are many other aspects of government policy, which encourage some forms of economic activity and discourage or handicap others, often without meaning to. And finally, the thoughts and actions of bankers, businessmen, primary producers, workers, consumers and all sections of society, are not only affected by these developments in the whole field of public policy, but also by a wide range of other factors, some indigenous and some external, which influence their views on whether economic conditions are good or bad, or improving or deteriorating, or too good in the sense of being inflationary -- and how they act on such views -- to spend, to borrow, to lend, to accumulate inventories or place forward orders or the reverse, to build or postpone building, to plan for increased production, to undertake new commitments, or to slow down, consolidate, improve liquidity and look for greater security.

The foregoing is perhaps an overlong preamble to a review of recent developments in the field of money and banking which is no doubt of more contemporary interest. The North American economy has moved from the 1957-58 recession to the 1958-59 recovery and some observers are now talking of a 1960 boom.

Monetary policy shifted gears in Canada in August 1957, and by the end of the year the total of currency and bank deposits had risen substantially. In the United States, where the discount rates of the Federal Reserve Banks were raised in August 1957, an easier policy became apparent in October and discount rates were reduced in November. In both countries, prices of Government securities rose and yields or interest rates declined. Bank loans levelled off or declined owing to reduction in demand, particularly as inventory accumulation changed to inventory reduction.

From the end of July, 1957, to the beginning of October, 1958, total currency and bank deposits in Canada rose by $1,843 million, or 16%. In the United States the increase was 6%. After the beginning of October, 1958, the total stock of money (as here defined) remained fairly stable in Canada, but continued to increase in the United States. By the end of September, 1959, the increase in Canada from the pre-recession level was 15% and in the United States about 10%. In both countries the increase in gross national product from the previous peak in the third quarter of 1957 to the second quarter of 1959 was approximately 8%, after which the United States figure dropped off about $\frac{3}{4}$ of 1%, in the third quarter, apparently due to the steel strike, while the Canadian figure probably rose by about the same percentage.

During the recession both national governments developed an overall cash deficit. In Canada, in proportion to gross national product, the net cash requirements of the federal government over the past two years have been more than 50% greater than the corresponding figure in the United States. Our government expressed its intention to finance its requirements in a non-inflationary way. An important element in such a policy is to sell new issues of Government securities to investors other than banks. In 1958 this was found to be extremely difficult. The same or other investors sold Government securities out of their existing holdings to a larger amount than their purchases of new ones. For reasons which I have elaborated on an earlier occasion, the Bank of Canada, entirely on its own responsibility, increased the stock of money, and therefore the loan and investment resources of the chartered banks, to a sufficient degree to assist both the financing of the deficit and the carrying through of the great Conversion Loan of 1958.

The value of the Conversion Loan should not be under-estimated. It was the most important single factor in the changed circumstances which made it possible for the net financing requirements of the Government to be raised entirely from non-bank investors after September 1958, and therefore made it possible for monetary expansion to cease and comparative stability to be maintained for a considerable period thereafter.

The relative quantities are remarkable. From end-September, 1957, to end-September, 1958, total Government of Canada direct and guaranteed securities outstanding rose by $1,050 million, and the holdings of the banking system and government accounts rose by $1,450 million; all other holdings, therefore, declined by $400 million. For the next 12 months, to September 30, 1959, the total outstanding rose by $865 million, holdings on the part of the banks and government accounts declined by $1,315 million, and all other holdings, therefore, rose by the extraordinary amount of $2,180 million.

Thus, for this twenty-four month period as a whole, non-bank investors increased their holdings of Government securities by $1,780 million, or 21%. I doubt if the sale of Government securities to non-bank investors on such a scale (relative to our size) has ever before been paralleled, in peace-time, in any country.

Turning now to the subject of bank credit, may I recall that in 14 months from the end of July 1957 to the end of September 1958, the assets of the chartered banks increased by $1, 535 million as a result of central bank operations which increased their cash reserves and enabled them to expand their loans and investments. For this period as a whole, nine-tenths of this increase took the form of purchases of Government securities, and the banks' cash reserves also increased very substantially. Loans and other investments in total did not rise, an increase in mortgage loans and holdings of provincial securities being offset by decreases in other categories, mainly through decline in demand for commercial loans. After the total amount of money ceased expanding in October, 1958, and the banks' total resources levelled off, a large scale expansion began in loans and non-Government investments, which had to be largely matched by sales of Government securities to the public. From September 30, 1958, to September 30, 1959, such loans and non-Government investments by the banks, representing credit extended to their customers whether private individuals, businesses, institutions, provinces or municipalities, rose by $1, 390 million, or 20%. During the same twelve months the chartered banks' holdings of Government of Canada securities fell by $1, 065 million as compared with an increase of $1, 380 million from July 31, 1957, to September 30, 1958.

There is nothing inherently wrong in such a development, but the speed and magnitude of the loan expansion understandably led to a determination on the part of the banks to slow down, and indeed to hold the line against further over-all expansion for the time being. I think it was right that they should do so, and equally I think we may expect to see some degree of renewed bank credit expansion once the more selective approach now being adopted has become fully operative. In considering this whole question of the recent tightening of bank credit policies, we should not take too literally the more extreme reports that sometimes circulate about banks ceasing to make loans, or to increase loans, or to take on new accounts. In fact, banks are opening new credits every day -- though certainly not for everyone who applies. And banks are reviewing and increasing lines of credit for businesses and individuals with legitimate requirements arising out of either growth or temporary emergencies, although here too a careful selective process must be expected to operate. The Industrial Development Bank is continuing to provide medium-term and long-term capital assistance to many different kinds of businesses which are eligible under the statute and are unable to obtain such financing elsewhere on reasonable terms and conditions. But every customer of the I. D. B. also gets normal banking accommodation for current purposes from one or other of the chartered banks, and I know that such chartered bank working-capital loans are increasing, in appropriate cases, and that new loans are constantly being made. Similarly the banks are continuing to make many loans to farmers and fishermen and private individuals who are good credit risks, who need funds for a reasonably necessary purpose which they cannot reasonably be expected to obtain elsewhere. I am confident that this will continue to be the case. The screening process will no doubt be more rigorous than in the earlier period. Some would-be borrowers will inevitably be unsuccessful, some existing loans will be paid off and not renewed. A number of borrowers, particularly the larger corporations who can resort to the securities market and other alternative sources of capital, will be expected by their bankers to find elsewhere at least part of the funds previously borrowed, thus releasing resources for re-lending by the banks to those who do not have such alternatives available.

In short, the banks have money to lend, and will continue to have money to lend, and the banks are making new and increased loans, and will continue to do so - but they will not have as much money to lend as all their would-be borrowers put together would like to borrow. If under conditions of economic expansion and potential boom every would-be borrower were able to obtain all the funds he wanted, that would result in too much credit expansion and would lead to real inflation.

The expansion of bank loans in 1958-59 was much better signalled in advance than in earlier periods, and banks were better aware of what was developing both in their own loan accounts and in the banking system as a whole, for several reasons. First, at the request of the Eank of Canada, statistics had been gathered from April 1956 of increases in authorized lines of credit in accounts of $100, 000 or more. Second, the adoption and observance of a standard minimum liquid asset ratio meant that increases in amounts outstanding under authorized credits at a time of stability of the overall resources of the banking system entailed the selling of Government bonds. Third, the agreement not to make long-term fixed capital loans to large business corporations (originally not in excess of $250, 000, later increased to $1, 000, 000 and then to $2, 000, 000 but reduced to $1, 000, 000 again in the spring of 1959) -- and not to enter into forward commitments to make such loans or buy corporate securities of their large customers - protected the banks this time against that particular drain on their resources, which was so important in 1955-56, as it had also been in 1950-51 and 1948-49.

The information respecting increases in authorized lines of credit proved to be a particularly good advance warning of expanding demand for and use of bank credit, notwithstanding the fact that the rise in demand came first in the field of smaller loans, especially personal loans, loans to farmers, mortgage loans and business loans under $100, 000. By April 1958 authorizations for the larger business loans (including loans to instalment finance companies) had increased by $450 million from a year before, but amounts actually utilized had decreased. By March 1959 the increase in authorized lines of credit was $950 million and utilizations had also started to rise. These developments, and particularly the implications of the increase in authorizations, were the subject of discussion at our regular meetings with the chartered banks in June 1958 and subsequently. I am quite sure it was the knowledge of the great increase in authorizations, which even where they were not firm commitments were a clear intimation of demands yet to come, when considered in conjunction with the amount of expansion that had already occurred in their smaller loans, which led the banks to announce on May 14, 1959, that they intended "to exercise the utmost care in the handling of their credit facilities, in order to avoid any significant further increase in the over-all total of bank loans. Within these limitations a special attempt will be made to look after the essential credit needs of small borrowers." At that date total chartered bank loans and investments excluding Government securities had risen $1,025 million in $7\frac{1}{2}$ months since September 30, 1958.

At the annual meeting of the Canadian Bankers' Association on June 12, 1959, the President in his public address referred to the declaration of May 14 and said:

> "That declaration still stands. The chartered banks are still exercising every care to see that total bank loans do not increase. That condition will continue and intensify as long as the money supply remains fixed and the demand for bank credit continues to grow.
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> I am sure I speak for all chartered banks when I say that every effort will be made to see that small borrowers, including the personal borrower, will receive fair treatment in this period of increased demand for bank credit against a static money supply."

The loan expansion continued through June, July and early August, and was marked to an increasing extent by utilizations of the larger loans.

On August 13, 1959, a further statement was issued by the President of the Canadian Bankers' Association emphasizing once again that "the banks must curtail further expansion in their lending policies". By August 19, 1959, chartered bank loans and non-Government investments were $465 million above the level of May 13. Since August 19 there has been a net decline of $145 million. Although statistics by size cannot be obtained for this particular period, the information that I have suggests that much, perhaps most, of the decline in bank loans from the August peak has been in the larger loans.

In considering the significance of the recent reduction in total bank loans it should be recalled that there is a seasonal tendency for loans in total to decline from August to February, that the banks have already achieved a number of fundings of larger loans (with more still to be expected), and that the United States steel strike may have caused a reduction of inventories and bank loans in Canada. As the economy continues to expand, it is natural to expect in due course some renewed increase in bank loans, especially in relation to those borrowers who are least able to find alternative sources of financing. In recent weeks the banks have not, for a variety of reasons, been fully re-investing the funds obtained from the reduction in their loans. Banks have allowed their cash reserve ratios to remain at unusually high levels, averaging 8.3% as a group since mid-August. One should of course bear in mind that loans for the instalment purchase of Canada Savings Bonds will be put on the books this month to the amount of $175-200 million.

Before leaving the subject of developments in the field of bank credit, I should like to point out that, as is well known, the Bank of Canada did not during this period of credit expansion take the initiative in suggesting the timing or nature of any change in lending policies to the chartered banks, and indeed we told the banks on several occasions that we would not wish the Bank of Canada to take such action again if it could be avoided. We said we thought the best approach was for the Bank of Canada to exercise its responsibility for money supply and for the chartered banks to exercise their responsibility for the allocation of their resources between the various categories of borrowers, while the Government exercised its responsibility for fiscal policy and public debt policy. I believe this approach has justified itself, and that the chartered banks have taken more effective action to prevent or restrain the potential excesses of the present cycle of credit expansion than on earlier occasions.

Ideally, one would like to reach a state of affairs in which credit expansion would experience much smoother, more gradual changes. I had hoped, after the last cycle, that we could achieve that objective to a reasonable degree this time. I think to some extent we have, but the full achievement must evidently await another turn of the wheel. One should not, of course, exaggerate the degree of suddenness that actually occurred in the transition of bank lending policies during the spring and summer of 1959. I think it has been exaggerated and over-dramatized in various reports, usually at second- or third-hand, and in some public discussion -- although on the whole there has been better discussion and better informed comment this time than ever before. In any case, the hot days of August represented the peak of the fever, preceding the renewal of progress on healthy lines, and we can, I think, look for a more gradual and continuous adaptation of lending policies on a selective basis from now on.

In this connection, I have considerable sympathy with the view that life has not been made easier for the banks by the recurrence since the war of periods of very large-scale monetary expansion in recessions, followed of necessity by virtual cessation of such expansion during recovery and full employment periods. This, too, I hope is something that will not happen next time. In preparation for that next cycle, perhaps it is not too soon for careful examination of how best to take anti-recession action while minimizing inflationary potentialities. An obvious first step is to seek to minimize the next recession by keeping the current economic expansion on a sound basis.

This brings me to the question of the supply of long-term capital, interest rates, and the relation between our saving and our investment.

The attention which is quite rightly given to bank credit may at times cause us to overlook the fact that there are many other kinds of credit and channels for lending and investing, and that in total these normally provide amounts many times as great as the annual increase in bank loans.

There is a tremendous volume of lending and investing done through the purchase of bonds and other securities issued by corporations, governments and various local bodies. Thus in the four years 1954-1957 inclusive, covering a full business cycle, new money raised from non-bank sources through issues of securities in Canada, net of repayments and redemptions, amounted to about $6, 000 million, which was three times as great as the increase in chartered bank loans and investments during the period.

Total new funds obtained in Canada by borrowers in securities markets and from major Canadian financial institutions - which includes all the loans and investments of banks and insurance companies - amounted to $9, 200 million over the four year period, or an average over the four year cycle of $2, 300 million per year.

In 1958 the corresponding amount was $3, 080 million, and for the 12 months ending September, 1959, the figure was $4, 040 million.

These huge sums are by no means all the money that was raised by Canadian borrowers or enterprises operating in Canada, either from domestic or foreign sources. They exclude borrowings abroad payable in foreign currency, also a great deal of capital coming from abroad for direct investment, and an even greater volume of new direct investment by Canadians of their own savings in their own businesses and in their own houses, as well as a substantial amount of housing loans made outside the large institutions, and also some quantity of government works and undertakings financed out of revenue. They also exclude large amounts of trade credit and other private credit which the statisticians have so far been unable to measure.

The fact is that for some years the Canadian economy has been obtaining and utilizing capital on a scale that few countries have ever experienced. Gross public and private investment has been running at 26% of gross national product, compared with about 18% in the United States. Canadian domestic saving (including provision for depreciation) has been 22% of GNP. This saving rate is not low in relation to other countries - it is higher than in the United States - but it is obvious that we cannot utilize capital on the scale indicated without either a still higher rate of domestic saving or a high rate of importation of capital, that is, borrowing the savings of other peoples in other lands than ours. (Personal saving in Canada in recent years has averaged about 6% of personal income after tax, compared with 7% in the United States.)

It is this pressure of demand for new capital - real physical capital - which underlies the pressure of demand for money and causes interest rates in Canada to be higher, in almost all cases, at almost all times, than in countries such as the United States where the domestic utilization of capital is less than the annual amount of new saving out of income, and which consequently have a surplus of capital to lend abroad. Legal restrictions and other special factors sometimes distort certain relationships. Interest rates on Canadian bank loans are lower than the rates on a large portion of bank loans in the United States, interest rates on savings accounts in our chartered banks are lower than rates paid on savings accounts in American commercial banks, and total charges for interest and insurance to the borrower on insured housing mortgage loans in Canada are now lower than the borrowing costs on similar loans in the United States. But wherever the forces of supply and demand operate normally one must expect interest rates in Canada to be higher than those in the United States and some other countries, and thereby to induce an inflow of capital of the size required to meet the demands of business and governments - an inflow of financial capital in the form of new investment in Canada by non-residents, or in the form of additional borrowing abroad by Canadian entities, to match the inflow of physical capital in the form of net imports of goods and services.

We must recognize also that there is an unsatisfied demand for capital throughout the entire free world. With all governments determined to promote a high level of employment, with many underdeveloped countries needing to import capital from abroad, with international institutions seeking to increase the flow of such capital, and with many national governments also providing capital assistance to various other parts of the world, it is inevitable that the demand for capital will press upon the annual supply of new savings for years to come, as far ahead as it is worth our while to look. This means, in my judgment, that we have entered upon a long period of higher interest rates than those which were prevalent in North America in the depressed thirties, the wartime forties, and the early postwar period, although there will, of course, be short periods of moderate reduction in the demand for capital when interest rates will decline. But under conditions of prosperity in a free society there will always be or appear to be more opportunities for the profitable or useful employment of capital than the amount of capital then available. Should not this be a matter for satisfaction, rather than complaint?

In point of fact, there is much more money and credit and capital made available when money is "tight" than when it is easy. In the past year Canadians have been getting in the aggregate more money and credit and capital of all kinds than ever before in our history - and the supply will continue to grow. But its price has been higher than in periods of slack demand. Every potential borrower or user of capital from time to time has to consider whether he is willing to pay the price, or whether his project should be in whole or in part dropped, or postponed, or perhaps financed out of his own revenue.

Some process of selection must be employed. To some extent the rising price of money and credit and capital will reduce demand and, over a period, increase supply. Better a rising interest rate structure than the rise in the prices of goods and services that would develop if everybody's demands for credit at lower rates of interest were met in full. But in addition to a rise in interest rates, the investors and agencies through which a large part of the flow of savings to investment takes place must, of necessity, exercise their own judgment, either for reasons of profit or according to their view of their social function, as to where and when and in what proportions to lay out their funds. Beyond that, legislatures may from time to time, with varying degrees of success, seek to alter the flow of real or financial capital - that is a matter of policy for the appropriate bodies to decide.

Up to now, in the present cycle, it is doubtful if any credit-worthy borrower who would normally expect to be able to raise funds by the issue of securities and is prepared to pay the going rate has found itself unable to borrow within a reasonable period of time. No doubt some have decided that they cannot afford or are unwilling to pay the going rate, and before the cycle is over some others will come to the same conclusion. They are, in effect, unwilling - no doubt for very good reasons - to compete effectively in the capital markets of Canada and other countries, against the many others who are prepared to pay the going rates. In this, there is no cause to blame the machinery, or those who seek to operate the machinery efficiently and keep it in good order. Indeed, a rise in the cost of borrowed money is a clear signal that all demands for capital cannot be satisfied unless there is an increase in saving, and performs the useful and necessary function of inducing all borrowers to reconsider the scale of their expenditure and their use of borrowed capital.

It is true, of course, that at times securities markets (like other human institutions) do not work as well as they should. This is usually due to the development of a wide gulf between the views of lenders and borrowers as to what the appropriate rate of interest should be, and is not a defect in the machinery itself. This was the case in 1958 and part of 1959, both in Canada and the United States. In the late spring of 1958 there was evident an apprehension that government deficits and monetary expansion would aggravate inflationary tendencies. This apprehension was exaggerated, but could only be allayed by the course of events. While the fear of inflation in 1958-59 did not lead to a rush to buy material things, it caused a number of investors to remain out of the long-term bond market, and either buy stocks or keep their funds in idle deposits or in very short-term securities. There was from time to time extreme and unwarranted talk to the effect that bond markets had broken down, that no one would buy fixed-income securities, and so on, talk which undoubtedly contributed to the fall in bond prices and rise in interest rates. My own view is that at times the rise in interest rates was faster than was warranted by basic conditions.

During this period the national governments in the United States and Canada for the most part did their financing in the short-term area. In the case of the United States, the level of long-term market rates, even without much pressure of Government issues, moved in 1959 beyond the statutory limit for the rate that could be paid on longer-term Treasury bonds; short-term rates went even higher. In Canada, the lengthening of the debt through the Conversion Loan left more room for a quantity of short-term financing, but the total volume of government borrowing was considerably higher, in proportion, than in the United States. Efforts were made to borrow in all sectors of the market, efforts which were successful in total quantity, but involved chiefly short-term issues which put growing pressure on short-term rates.

In Canada a pronounced change for the better in market psychology came in September. I have already mentioned how the situation in respect of bank credit became most acute in mid-August. At that time also the psychological atmosphere with respect to treasury bill rates became such that the government rejected a number of tenders at the auction on August 20 and reduced the total issue for that week and the next. This action quickly brought about a stronger technical position and, in conjunction with the quick turnabout in bank loans, led to a more balanced outlook in the Government securities market. The improvement in the treasury bill market and the reduction in banks' selling of Government securities as their loan portfolios came under control helped to prepare the way for further bond financing. On September 14 a refunding issue of 1 year and 3 year bonds at $5\frac{1}{2}$%, giving the holder an option to extend the maturity to 16 years, proved a tremendous success. I believe the maintenance of stability in the money supply over the preceding 11 months contributed to this, as did the announced determination of the Government to improve the budgetary position, and also the evidence that the banks were not only determined but successful in bringing credit expansion under control. Most important of all was recognition of the fact that the Government was prepared to pay a rate of interest adequate to induce lenders to come forward in large numbers. The atmosphere in the market improved further when a number of provincial, municipal and corporate issues, at realistic rates, were also successfully marketed and in most cases went to a premium over their issue prices

In the United States a 5% 5-year issue announced on October 6 met with such success the bonds were nicknamed the "Magic Fives", and other successful issues also followed in that market.

Before concluding, I should like to remind you of some recent remarks by the Hon. Donald M. Fleming, Minister of Finance. In a speech at Shawinigan, Quebec, on November 4, 1959, the Minister said: "No government, excepting one possessing complete totalitarian powers, can compel free men to lend it money. The interest rates which governments in a free society must pay depend upon the interplay of the forces of supply and demand." He pointed out that "There is no short cut for any government to lower interest rates on its borrowings." He also noted that "the prevailing high interest rates have not interfered with the process of economic growth either in Canada or elsewhere."

In concluding my own remarks I would like to come back to the theme on which I opened -- that a primary aim of monetary policy is to promote sound economic growth. There could, in my opinion, be no more erroneous and no more damaging confusion of thought than to believe that inflationary monetary policies promote economic expansion. History proves that the opposite is true and that inflation is the insidious and deadly enemy of growth. Money and the management of money have, indeed, an important positive contribution to make to the process of growth. In the contemporary world the main part of this contribution is to help maintain confidence that money itself will not be a wasting asset. Such confidence is required if people are to be willing to save on a sufficient scale and to make their savings available to governments, corporations and others who want to borrow. It is only with adequate saving that we shall, in fact, achieve the expansion and growth of which we are capable.