For release
Monday, January 18, 1960
at 12.30 p.m. C.S.T.
(1.30 p.m. E.S.T.)

" LIVING WITHIN OUR MEANS "

Remarks by
Mr. J. E. Coyne, Governor of the Bank of Canada,
prepared for delivery at a meeting of the
Canadian Club of Winnipeg, January 18, 1960

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There are three recognized major economic goals of modern states -- economic growth, a high level of employment, and a stable value for the currency. A sound currency and price stability are not only of major importance in themselves but are essential to the maintenance over a long period of fruitful economic growth and a consistently high level of employment.

The objective of central banking is therefore to safeguard the value of the national currency and to contribute to the maintenance of overall economic growth on a sound and sustainable basis, in order that the end results of the business activities of all members of society may be a rising standard of living, an increasing measure of enjoyable leisure, and as wide as possible a choice of useful and constructive employment opportunities.

It is important to emphasize that the goal of economic policy is not just any kind of growth and definitely not a hot-house type of growth, but sound and sustainable economic growth, a continuous and sustained improvement in production. As the Minister of Finance said last week, with particular reference to Canadian economic development during the decade of the fifties, "Too often we have been tempted to pursue too rapid a rate of growth with too little regard for the inevitable consequences and inequities. .... We cannot assume the assurance of a higher national income year after year unless we take steps to ensure that the expansion is orderly and balanced."

The pursuit of an unrealistic rate of growth regardless of cost will also most certainly lead to inflation of prices, of costs of production, hardship and misery for all those whose incomes cannot be adjusted to the higher cost of living, and serious displacements in those industries which find themselves in conequence of these factors unable to continue to export under competitive world market conditions, or unable to continue to produce for the domestic market at prices competitive with the products of other countries which have pursued a more balanced and prudent course.

An unhealthy, unsustainable expansion based to an excessive degree on borrowed money, whether domestic or foreign, will -- as recent experience has shown -- make the ensuing recession all the more severe, and attempts to mitigate it more difficult.

To distort all economic relationships in order to pursue the single objective of an extraordinary and unsustainable rate of growth for a short time may be necessary in war-time. In peace-time it is an aberration which has led and must lead to inefficiency, misdirection of effort, and waste of resources in projects which prove to contribute little or nothing to efficient productive growth. Moreover, attempts at excessive or misdirected growth are always followed by a period of contraction or much reduced growth, with consequent unemployment among those whose livelihood has become dependent upon construction and the production of capital goods, as well as for many others who have been drawn into employment in activities which could not continue on the scale previously achieved.

In our country, pursuit of an excessive and unsustainable rate of capital expenditure since the war has not only contributed to the unstable cycle of short-lived boom followed by recession but has also been responsible for a growing deficit in our international balance of payments, a large excess of imports of goods and services over our exports, increasing reliance on foreign resources to finance (directly or indirectl y) both capital projects and consumption, and a great increase in our foreign debt and in the annual burden of debt charges. It has also produced a higher level of interest rates than might otherwise have appeared, and recurrent periods of tight money and difficulties in the field of bank loans and bond markets.

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A further lesson of many countries since the war, as well as the lesson of our own experience, is that substantial and steady employment and growth cannot be achieved and continued without price stability and public confidence that price stability will be maintained.

The prevention of inflation is essential for the maintenance of steady growth at the maximum rate that can be sustained without the excesses that lead down the path to dissipation of foreign currency reserves, and the incurring of such a degree of foreign debt as to produce in the end a foreign-exchange and foreign-trade crisis which would seriously harm a country's economic structure for years following.

As a nation we cannot choose between price stability and growth, we must aim at both. Inflation, and the attempt to expand at an excessive rate which produces inflation, are not an effective means of overcoming unemployment, because inflation in the end will create more unemployment than it cures.

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There are not one but several major requirements for the prevention of inflation, the maintenance of sound and steady growth and the prevention or mitigation of fluctuations in the level of unemployment. One requirement, certainly, is the maintenance of a sound monetary policy, which means restraint in the process of expanding the stock of money. Another is moderation in spending and borrowing by governments and public bodies. A third is the development and maintenance of appropriate fiscal policies and public policies of various other kinds designed to promote sound expansion in private business but to discourage excessive spending throughout the economy.

In any country the central bank has the power to encourage an increase in the money supply. By buying government securities in the market it places additional cash in the hands of the sellers, and their deposits increase the cash reserves and therefore the lending capacity of the chartered banks.

Clearly the central bank must see to it that there is enough money in circulation to facilitate the daily exchange of goods and services, the daily volume of payments that must be made, whether by notes or by cheques transferring claims to bank deposits. In the process, the central bank must also see to it that the commercial banks have sufficient lending power to be able to facilitate the essential short-term credit needs of businesses and individuals in order to enable economic activity to continue on the highest level that can be consistently maintained without promoting inflation. But beyond this necessary creation and expansion of money and credit, it must be the duty of the central bank to exercise restraint in its own activities, restraint on its own expansionary potential.

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The greater the amount of direct monetary expansion by the central bank, the greater will be the capacity of the commercial banks to increase their loans and investments and thereby put additional spending power into the hands of would-be spenders. But increasing the quantity of money and credit does not of itself increase the supply of goods and services. There is no monetary manipulation or magic trick that can achieve this.

Beyond some point, further increases in the total supply of money and credit simply provide fuel for inflation and actually retard and hamper the growth of efficient production.

In Canada the total supply of money rose rapidly -- too rapidly -- in the year 1955 and the first half of 1956, and thereafter showed little change until the economic boom passed its peak and started downwards in the late summer of 1957. In the latter part of 1957 and the first three quarters of 1958, for reasons which I have discussed at length elsewhere, the supply of money again increased very rapidly and to a substantial degree. In the process the chartered banks were put in a position to expand their loans or investments as might be required to meet economic needs for a long time ahead. In the early months of this period when the demand for commercial credit was not large and when the Federal Government was running a large cash deficit, the chartered banks put the increase in their lending capacity entirely into the purchase of Government of Canada securities. From early October 1958 until August 1959 the chartered banks sold off the greater part of the government securities so purchased and expanded greatly their volume of commercial loans, personal loans, mortgage investments and other investments.

Since August 1959, the volume of commercial loans has declined. The banks are in a position now to facilitate a moderate degree of expansion in the total volume of their commercial loans on a prudent, selective basis, particularly for those enterprises which are unable to obtain necessary financing from other sources. Some other categories of loans and investments acquired in 1958 and early 1959 may well decline in 1960 through repayments and maturities and help make room for such further expansion in commercial loans as may appear to be sound and necessary.

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The maintenance of monetary stability is by no means sufficient in itself to assure sound growth or prevent inflation. The prevention of inflation and the inevitably succeeding recession -- the effective mitigation of fluctuations in the level of employment, production and prices -- requires action in many other fields besides monetary policy. For example, all levels of government can assist by holding down their spending programmes, including lending programmes, during the buoyant phase of private business expenditures. Taxation policy can also make an important contribution. The anti-cyclical modulation of government spending and taxing can have the double effect both of moderating the fluctuations in private business itself -- for some expansion programmes of private business are directly stimulated by government programmes -- and of offsetting to some degree those fluctuations in the private sector which are not directly so influenced.

There are other important requirements besides appropriate fiscal and monetary policies if an economy is to be able to sustain a high rate of economic growth with minimum fluctuations in prices and total employment. A tendency towards preoccupation with fiscal and monetary policy has perhaps resulted in not enough attention being given to the whole range of other factors affecting the basic efficiency, stability and adaptability of the economy, especially the degree of mobility of resources and the degree of competition, the conditions under which business operates, and the outlook and attitudes of business and the general public. No use of fiscal and monetary policy, no matter how inspired, can call forth good performance from an economy if the factors of production and distribution are not basically flexible and competitive. Here, too, public policies may have an important influence, either helpful or the reverse.

These requirements for policy apply to any country, to Canada no less than to the United States, the United Kingdom and other nations with free economies. In varying degrees all countries endeavour to follow expansion policies, high employment policies and anti-inflation policies, and obviously these must be harmonized if they are to be successful.

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In Canada we have not only the usual cyclical problems, which are not entirely within our own control because of our high degree of dependence on conditions in foreign markets, but a further problem or cause of instability, namely, that the total demand on the part of all elements in the community for goods and services for all purposes, both for consumption and for the creation of new production facilities and government works and housing combined, has for some years been considerably greater than the amount which our own productive capacity can satisfy. This is a condition which most other industrialized countries in the North Atlantic community had to face in the post-war period but have by now largely overcome. In Canada it assumed major proportions five or six years ago and has grown since then. To a considerable extent these inflationary pressures have been temporarily suppressed or diverted through the medium of foreign borrowing by Canadian governments and enterprises and the securing of capital from other forms of foreign investment in Canada, which have made possible the importation from other countries of a volume of goods and services greatly in excess of our exports of goods and services, to such degree as to fill most of the excessive demand in Canada for such goods and services.

Put more bluntly, we have for at least five years been living beyond our means on a grand scale. Perhaps we have comforted ourselves with the thought that we were by this means increasing from year to year the total productive capacity of the Canadian economy by a sufficient extra margin to enable us before long to balance our foreign accounts, live within our annually expanding means, and even at some time begin to pay off our foreign debt. But this has not happened. Exports are rising but imports are rising faster. We are not producing ourselves out of our import deficit but are getting in deeper.

Some degree of reliance on foreign resources for some period of time may be justified at particular periods of a nation's economic development. This is particularly true of the really undeveloped countries which live close to the poverty level and find it virtually impossible to accumulate domestic savings and devote them to the expansion of productive facilities. It was perhaps also appropriate at times during the earlier stages of industrial development of a new country, as, for example, in the United States in the 19th Century, and in Canada into the early 20th Century. It is scarcely true of Canada today, a country which is in many ways a highly developed economic entity, enjoying a standard of living generally thought to be second only to that of the United States.

The Canadian people and Canadian business enterprises are capable of a high rate of saving and do accumulate each year large new savings, which are available for investment in new productive facilities. The statistics indicate that in most years our rate of personal saving is somewhat less than in the United States, but our rate of total saving, by corporations, individuals and governments combined including the setting aside out of earnings of funds for depreciation, is considerably higher than in the United States.

Anything that can be done to encourage a reasonable increase in personal, governmental or other saving in Canada would obviously be a step in the right direction.

Probably the greater factor in our problem, however, has been an excessive degree of spending on capital facilities of all kinds (including housing) much greater in total than we were able to produce or at any rate willing to provide out of our own savings. The longer we cause or permit this excessive spending to operate, and to produce a correspondingly heavy surplus of imports over exports and a high annual rate of increase in our foreign debt, the more vulnerable and precarious does our position become.

The rate of new capital spending (both public and private) on physical works, plant and equipment in Canada in recent years has, according to the statistics, been considerably greater than in the United States -- about 26 per cent of Gross National Product as against 18 per cent -- but there does not appear to have been a correspondingly greater increase in the output of new goods and services by Canadians. We have absorbed, consumed or put to use a much greater volume of capital, without getting a commensurately greater rate of increase in production.

One reason may be that a larger proportion of our capital spending has gone into the development of facilities for our greater comfort and enjoyment, rather than into an increase in productive facilities.

It is evident also that through pursuing an excessive rate of growth a quantity of business investment in new enterprises or for expansion has been undertaken in too much of a hurry, at high cost, in directions which perhaps should not have been exploited at all, or not until the following year or later years, with the result that a certain amount of capacity remains under-employed because it is in excess of market requirements, or was established before adequate markets could be developed, or is unable to operate at prices competitive with producers in other countries.

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Clearly, not all capital spending contributes to sound growth, or to any growth. If we can afford out of our own resources capital spending that does not assist growth -- that, at best, provides some desirable but not economically essential facility or service -- well and good. But a rate of capital spending that requires large increases in foreign debt and that creates inflationary pressures and mis-allocation of economic resources, is clearly undesirable and harmful.

The Minister of Finance has urged that "we must all avoid doing those things which are likely to encourage a forced and excessive growth in spending". Similar sentiments have been expressed by Chancellors of Exchequers and Secretaries of Treasuries in many other countries, because it is in the national interest of any country to avoid such excesses.

In Canada, the Minister said of the Federal Government "Our aim ... will be to avoid expenditures that are not strictly necessary now and to bring Government revenues and expenditures into better balance". The Minister said that the provinces, municipalities and business would be assisted in meeting their borrowing problems by restricting Federal borrowing. The borrowing problems of provinces and municipalities would of course be much easier if these bodies reduced the magnitude of their borrowing as a result of restricting their own spending. There are also considerable differences among provinces and municipalities in their level of taxation and other revenues. Those that borrow the most may not be the best managed, the most frugal, or the most prudent.

At any rate, the fact is we have not increased our production commensurately with the increase in our spending. We have not overcome the factors making for a large continuing annual increase in our foreign debt. Our exports have increased, but our imports have increased more.

In addition to a large deficit in our merchandise trade, we also have a growing net deficit on non-merchandise items, such as freight and shipping, tourist expenditures and interest and dividends on our foreign borrowings and on foreign investments in our country. The excess of our total payments for these so-called invisible items, over our receipts of the same nature, continues to grow and is approaching the level of one billion dollars per annum. Our merchandise trade, so far from being adequate to enable us to pay these costs, is itself also on the deficit side to the extent of about half a billion dollars a year.

The development of a balance of payments deficit of this magnitude might be tolerable if it occurred under emergency and temporary conditions which it was clear could and would be rectified by policies being adopted for that purpose. A glance back over the Canadian balance of payments since the war shows that our situation is not temporary but is becoming chronic.

The last year in which we had a favourable balance of payments on current account was in 1952. Deficits of $400 million a year in 1953 and 1954 were followed by an increase to $700 million in 1955. The deficit almost doubled again in 1956, increased a bit more in 1957, declined moderately in 1958, increased again in 1959 perhaps to the 1956 level, and seems likely to increase in 1960 to a new record high figure of $1,500 million or more.

We have had for years, of course, a large deficit in our trade and payments with the United States. For a time it seemed possible that this would be largely balanced by a surplus in our trade and payments with the rest of the world. That surplus averaged over half a billion dollars a year in the early fifties but has declined every year without exception since 1952, virtually disappeared in 1958, has been converted into a deficit in 1959 and probably will be a bigger deficit in 1960.

In the field of merchandise trade an important item in our trade deficit has been the volume of investment-type goods imported, that is, machinery and equipment for use in construction or for the expansion of physical facilities in Canada. The peak in the importation of investment-type goods or capital goods appears to have been reached in 1956; imports of this type declined slightly in 1957, and substantially in 1958, showed a moderate increase in 1959 over 1958, and in 1960 are likely to approach if not reach the 1956 volume. Even without exceeding the level of four years ago, it is a high volume and symptomatic of capital spending at a rate which is greater than can be provided out of our own national savings.

But in addition to such imports of capital goods, a further consequence of the excessive aggregate pressure on Canadian resources has been a rapid expansion in the importation of consumer goods including, of course, parts and materials for further assembly or manufacture in Canada. These have risen every year but one in the past ten years, and seem likely in 1960 to be at least 25 per cent higher than in 1956 and more than double the 1950 level.

In other words, we are incurring foreign debt to pay for both a level of capital spending and a standard of comfort which are higher than would be justified by our own earning capacity.

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I have no doubt that our exports could be further increased and our imports could be reduced if we adopted a more moderate approach to capital spending in Canada.

If there were a substantial reduction in capital expenditures on the part of governments and business enterprises alike, and so in the demand for capital goods, imports of this character would be less.

Moreover, if so much of our own productive resources were not devoted to construction, more could be utilized in production for export and more could be devoted to production of various kinds of goods for the domestic market at competitive costs and thereby bring about a further reduction in the volume of imports.

It must be assumed that little could be done to reduce the net total of $1 billion a year which we must pay by way of interest and dividends and for other non-merchandise purposes over and above our receipts of the same character. (A possible reduction in the net bill for some items would probably be offset by some continuing increase in the amounts paid out by way of interest and dividends. We could, however, if we bring to an end the process of heavy foreign borrowings each year, greatly reduce the rate of increase in the annual burden of net payments of interest and dividends to foreigners.)

If we were now to resolve to live within our means -- which includes paying out of current income the heavy interest charges on past foreign borrowings -- our merchandise balance would have to be rectified to the extent of $1.5 billion a year, either by increases in our exports or decreases in our imports or by a combination of increased exports and decreased imports.

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Supposing we had been living within our means during the past five or six years, what would the difference in capital expenditures have been? This is a matter for conjecture and no doubt every person would have his own ideas on the subject. We must realize, however, that it would have meant that we would have built fewer houses and perhaps lower-cost houses (actually, new houses completed in the past five years exceeded net family formation, including immigration, by 250,000 units). This would have meant a smaller consequential expenditure on streets, sewers, etc. by municipalities. We would also have built fewer miles of new high-cost highways, and would have tried to finance more of various expenditures by governments and government enterprises out of revenue instead of out of borrowing. We would have had somewhat less in the way of natural resource development -- (some obvious cases will occur to everyone) -- would have needed less hydro electric development (particularly if some part of such development had to be financed out of increased revenues instead of borrowing) and would of course have had somewhat less spending on public buildings and other public facilities. In consequence of the lower level of capital expenditures in these more obvious fields, there would have been other sectors of private business which would not have expanded so much so soon.

It may be argued by some that a lower level of capital expenditures would not necessarily, considering the structure of our economy, have assured a balanced position in our international payments. Other conditions might have had to be different than they were if we had resolved to avoid further foreign borrowing on balance. But certainly a major essential would have been that capital expenditures should not have exceeded our capacity and willingness to provide for them out of our own savings out of income and production each year.

Not all capital expenditures, whether public or private, have in the past been necessary or productive. Some have been misdirected or premature. Some provided us with a higher standard of comfort or public amenities, which were of course good things to have but not at the expense of increasing our foreign debt.

It must be emphasized that the scale of capital spending need not be forced or permitted to rise at the rate of recent years in order to maintain total employment in Canada. Indeed, it must be obvious that the excess spending in Canada which forced a large excess of imports went to maintain employment outside Canada. Moreover, other countries with a more moderate rate of expansion have had just as good or better a record in regard to employment and unemployment. By attempting an excessive rate of expansion, we encouraged employment in particular fields of activity to rise to a level which could not be sustained and prevented other more stable types of activity from expanding their employment opportunities. This was not contributing to the maintenance of stable employment conditions. Our heavy reliance on capital spending and on the inflow of foreign capital has indeed complicated rather than assisted the task of achieving a sustained high level of employment.

Do we want to live within our means? Adjustment to a lower scale of total spending in the economy is obviously possible if we are resolved upon it. There is room for debate about methods and measures, but let us not exaggerate the difficulties that would be involved in making a substantial start on getting away from the present heavy dependence on foreign resources and foreign borrowing. Increases in the rate of private saving of various kinds, and of public saving through governments developing an excess of revenue over total expenditure, are surely possible without hardship. At the same time there are various kinds of capital expenditure, both public and private, which we do not need to increase as rapidly in the future as we have done or attempted to do in the past. We may have to question among ourselves the sanctity of a number of sacred cows in the field of public investment. This may be shocking to exponents of the do-it-all-now-at-any-cost school of expansion, but it may yield some interesting answers once we begin to ask the right questions. One of the questions might be -- are those who will benefit willing in certain cases to pay for further capital expansion by rate charges on a pay-as-you-go basis? Another question is whether the community as a whole or the affected groups are willing to pay for certain public expenditures out of increased taxes? If not, what things would we be most willing to forego if borrowed funds were not available? In the field of natural resource development, is it necessary or wise to proceed at quite the pace we attempted in the "fifties", or would it be desirable for public authorities to husband more of our natural resources for development at a time when Canadian savings, growing over the years, would be larger and better able to finance their development without foreign capital?

There can be no doubt that most of the kinds of capital expenditure now being made in Canada are good in themselves in varying degrees, but even where they are highly desirable the combined total is so large as to raise the question, how much is really necessary, and how soon is it necessary that certain projects should go ahead?

This is the kind of question that individuals and families have to ask themselves constantly. It is most unusual for any family to be in a position where it can afford to have whatever it wants and all that it wants as soon as it wants. There will always be many desirable things it would like to have or do but cannot afford -- at any rate not yet -- not until it has built up its earning power (production) or is able to increase its saving by doing without something else it wants less. What is taken for granted in the case of a family is no less necessary in the case of the nation as a whole, though of course certain enterprises within the nation may prudently borrow for certain purposes if other sectors will provide the savings. In addition to the test "Is it good?" there must be applied the further test "Can we really afford it? Can we pay for it out of our own production or income or within the limits of prudent borrowing at home?" And if not "Is there something else we want less and could do without in order to save and have this?" As a nation we cannot in the long run avoid this kind of choice any more than we can avoid it in our separate families. Relative to other countries the choices that face Canada, the second wealthiest country in the world, should not be too hard.

Three years ago when reviewing the development of the very large balance of payments deficit of 1956 I remarked that "An import surplus of balance of payments deficit of the present size is the product and symptom of an excessive rate of spending in the economy, not just of a reasonable rate of real growth. It would be disturbing to think of an import surplus of such magnitude continuing for an indefinite period". At that time I expressed the belief " That total spending of all kinds .... was at least $1 billion greater than would have been desirable from the point of view of general stability and sound economic growth".

Three more years have gone by in which we have had large balance of payments deficits and we are now launched on another year with the prospective excess of spending over production being greater than ever, presumably to be made possible for the time being by an equivalent excess of imports which will have to be financed by foreign resources in one form or another.

The relationship between excessive total spending, the excess of imports over exports, and continued borrowing abroad (or investment in Canada by foreigners) is obviously one of interaction. If spending exceeds local production it must induce either inflation, or a flow of imports in excess of exports, or both. Such imports can only be financed either by running down the national reserves of foreign assets, or by new borrowing abroad, either of which causes the net foreign debt of the country to rise by an equivalent amount.

Conversely, the ability to borrow abroad or obtain investment funds from abroad makes possible for a time the maintenance or expansion of spending programmes which otherwise would have to be curtailed or held to a smaller rate of increase. Borrowing abroad therefore not only finances a rise in imports, it makes possible the spending which gave rise to the increased load on the domestic economy which induced the rise in imports.

(The imports are not necessarily made by the same person who does the borrowing and spending.)

"Contrariwise", willingness to do without foreign borrowing, willingness to hold spending programmes to amounts that can be raised at home out of revenues, or available loanable resources at home, will reduce inflationary pressures and the volume of imports, and therefore the size of the current account balance of payments deficit. It will also increase our ability to compete in export markets.

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New foreign investment in Canada each year may be divided into two broad categories. One is that which is undertaken by foreigners on their own initiative, either by way of direct investment in Canadian subsidiaries or by way of purchasing in the market Canadian stocks and bonds, payable in Canadian currency. The other broad category is that which would not take place without the initiative being taken by Canadians, whether governments or business. In this category, the parties chiefly involved in recent years have been the provincial governments and a number of municipalities which have borrowed abroad through the issue and sale of bonds payable in foreign currency. The Federal Government has not borrowed abroad since 1950, but provincial and municipal net new issues abroad, of bonds payable in foreign currency including guaranteed as well as direct issues, have been substantial every year except 1955 and rose to $340 million in 1959. Gross new issues have of course been considerably larger.

Local governments and their government-owned business enterprises and other agencies that issue or guarantee securities payable in a foreign currency incur an exchange risk of unknown dimensions. Because they have no foreign currency revenues and because no one can know what rate of exchange will be ruling at various times in the future when payments of interest and principal have to be made, they do not in fact know what the borrowed money is going to cost in terms of Canadian dollars, the currency in which their revenues are paid.

Although at one time access to the United Kingdom capital market, the United States capital market and other foreign capital markets may have been a helpful standby to remedy inadequacies in the Canadian capital market, it has not been necessary from that point of view for some years. Canadian savings and the machinery of the Canadian capital market can now supply all the capital funds needed by governments and business combined to carry on a capital expenditure programme as large in total as is sound and healthy for the Canadian economy to sustain in any one year.

Further resort to foreign borrowing in such circumstances by local governments and their agencies would be based either on the opinion that such borrowing will prove cheaper in the long run ---

which is a gamble on the exchange rate, not a sober judgment -- or on disregard of the possible consequences for future budgets and future generations of Canadians. It is difficult to see how this can be considered sound finance.

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I have at several points in my remarks today suggested what public authorities could do to help bring about a better balance in our savings-expenditure ratio, reduce our rate of foreign borrowing, and moderate to some degree the ups and downs of the business cycle. Of course the problem before us covers a much wider territory.

I should like to revert for a moment to the relationship between monetary policy and the various other factors which can make either for stability or for instability. Unless public policies and private practices alike play their part in the struggle to achieve a more balanced economic structure in Canada, both monetary policy and the credit policies of the banks may be put under great strain -- and the desired results will nevertheless not be achieved.

Those outside central banks who say that monetary policy, usually called "Tight Money", cannot by itself restrain inflation or protect a country from living beyond its means, are only saying something that central bankers have been trying to explain and emphasize for a long time past.

To go on, however, and say or imply that monetary policy is therefore useless and that tight money should be replaced by easy money, is nothing but mischievous defeatism. Anything that can be done by any agency or any group in the community to try to maintain overall stability should be done.

If tight money and high interest rates are painful, and by no means fully effective, the remedy is not to court disaster by cultivating easy money or funny money or subsidized money, but to remove the fundamental cause. So far as the cause is of external origin it is a question of how fast foreign enterprises are to develop their projects in this country. So far as the cause is of Canadian origin, the cure is basically a question of self-restraint and morale.

For us in Canada to adopt the goal of living within our means would not in any way require giving up the goal of progress and expansion. On the contrary, it would enable us to achieve sustainable, efficient and fruitful expansion in a much more satisfactory way than in the past. Nor would it mean we would have a slower rate of growth or a smaller proportion of new investment in physical equipment than in other countries. On the contrary, our own annual rate of saving, even without any further increase, is such as to provide a greater degree of new capital investment within our borders year by year than that which normally takes place in most other countries, including the United States. Every year we would be able to increase our productive plant by a greater amount than the preceding year. Our Gross National Product could be growing at least as rapidly as in the past, though some parts of the pattern of production and employment would be different.

The object of economic policy on a self-sustaining, self-respecting basis is growth not stagnation, progress without recurrent chills and fevers, and the greatest possible measure of the good things of life for the greatest number of people. But in pursuit of these objectives prudence and moderation and putting saving before spending can do more for us, as they have for others, than overreaching and undue haste, and prolonged reliance on the crutch of rapidly rising foreign debt.

Last October I attended the annual meetings of the World Bank and International Monetary Fund, two institutions which are dedicated to the promotion of sound economic growth, monetary stability, and the expansion of international trade. I heard the President of the World Bank congratulate a European country for having overcome its postwar inflationary pressures, which were much worse and much more difficult to deal with -- because of the destruction and dislocation arising from the War -- than the pressures in

Canada with which we have been faced and which we have not yet succeeded in containing.

He attributed their success not to the possession of rich natural resources, of which indeed they have none, but to qualities of personal character and community morale, namely, hard work, self-discipline and financial statesmanship.

With these qualities, and assisted in the early days of post-war rehabilitation by some foreign loans -- including loans from Canada, it is strange to recall that for a time after the war we were a lender rather than a borrower -- with these, they set their house in order, overcame great hardships and handicaps, and succeeded in living within their means, and paying off gradually their post-war foreign debt. They did this, and a number of other European nations pursued much the same course, because they knew it was in their interest as an independent, industrious and self-respecting nation.

Who will say it is beyond the power of Canadians to do the same?