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PRICES AND CREDIT

An address by The Honourable Douglas Abbott,
Minister of Finance, at the Semi-Annual Meeting
of the Academy of Political Science, New York
City, April 1, 1948.

When I accepted the kind invitation of your President to speak to you on this subject of Prices and Credit, I assumed that what you would expect me to do would be not to attempt any economic dissertation on the controversial causal relationship between credit and prices but rather to give you some of the facts and the lessons of Canadian experience in this field.

Problems connected with the practical aspects of price control and price decontrol and the adaptation of fiscal and monetary policies to the changing economic situation have occupied a very large proportion of my waking hours during the last two or three years. Nevertheless, I am a layman and I have no desire to split hairs with the economists in a field of doctrine concerning which, as one of them has said, not more than a half dozen economists are able to argue with any real comprehension of what they are talking about! Therefore, I shall not take sides in the controversy as to whether it is expansion in the supply of money or credit^x that drives up prices or whether it is rising prices that force expansion in the supply of money or credit. I suspect that at certain times the primary impulse comes from the money side and at other times from the goods side but I am confident that whichever comes first, a point is reached where each feeds upon the other. That, it seems to me, is what is important from the practical point of view of those of us who are concerned with policies and remedies.

The most conspicuous economic fact of the last two years has been the upward spiralling of prices all over the world. It is not a local problem. It is not confined to any one country or to any group or class of countries. It is a world-wide phenomenon. It appears to be the inevitable sequel to the physical destruction, the disruptions of production and trade, and the enormous credit expansion caused by war, for, as might follow day, this type of phenomenon has followed each of the four major wars of the last century and a half. Thirty months after the end of World War II, the world from the price point of view stands very much where it stood a short time after the Napoleonic Wars, after the U.S. Civil War and after World War I.

We in Canada have not been able wholly to escape the effects of this world-wide epidemic, although our economy was untouched by the physical ravages of the war, we succeeded in increasing our production of goods enormously, and we vigorously pursued bold anti-inflationary policies. In the first war budget, delivered on September 12, 1939, the day after Canada

In this paper I shall use these two terms interchangeably.