historically high interest rates which have prevailed in the past eighteen months or so have been world-wide. This condition stemmed largely from changes in supply and demand relationships, with the supply of savings from conventional sources throughout the world not increasing as rapidly as the demand for funds required to finance extensive capital expansion.

3.6 In Canada, in particular, government undertook to expand the services it felt its citizens required at a time of rapid growth in the private sector. The combined demands of the private and public sectors upon the supply of savings caused interest rates to rise to attract additional sources of capital and led to inflation, which never before in Canada's history has been so widely recognized and anticipated by the public.

3.7 As expectations of inflation became more prevalent, those who did elect to save and invest sought to offset inflationary impacts on their investments. As a result, interest rates continued to rise and since the domestic pools of capital were inadequate, there was a continuing dependence on non-resident capital. During 1969, these stresses in the capital market gave rise to changed patterns of financing, leading to optional maturities on government borrowing and, in the case of corporate borrowers, equity features as well as term options. The table and commentary in Appendix "B" enlarges on these recent patterns.

3.8 Those seeking funds during the last two years experienced extreme difficulty in obtaining their capital requirements, excepting perhaps the federal Government. Ottawa was able to obtain its funds largely as a result of the expansionary policy of the Bank of Canada, resulting in undesirably large increases in the holdings of federal debt