

ADDRESS BY FINANCE MINISTER

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available additional reserves to meet these very large lines of authorized credit. It is evident that had the banks not enlarged these lines of credit so substantially within the past year they would not have encountered such sudden and severe pressures as those which developed this spring and summer....

"In 1959 there has been no intervention by either the Government or the Bank of Canada. In May and in August the chartered banks acting on their own initiative imposed restrictions on their lending operations. In doing so there was no need for any of the banks to blame anyone else. Certainly there was no need for indulging in recriminations. The situation was the result of unprecedented demand for credit, and the lending resources of the banks were not unlimited. I deplore the attempt made in certain quarters under these circumstances to attribute to what is vaguely and conveniently called "Ottawa" the responsibility for these restrictions.

"...While the Government has no power to direct the actions of the banks in such matters, it is within the scope of its duty to bring to the attention of banks, and of any other business, considerations which it believes to be in the national interest; and I make no secret of the fact that I have strongly pressed the banks, both orally and in writing, to give priority to the credit needs of farmers and of small business within the framework of their resources and good banking practice.

"Again I stress that the fundamental cause of the present credit stringency is the rapid expansion of the Canadian economy, and that the only sound way to relieve this pressure and to maintain a sustained rate of growth in keeping with our expanding population and our rich resources is to increase our total supply of capital. We can increase our capital in only two ways, from our own savings and by borrowing from abroad. While we welcome foreign capital and we shall continue to need foreign investment, by far the better way is to increase our own capital resources by saving and by wise investment. The Government will pursue policies which will encourage saving and the sound formation of Canadian capital.

**INFLATION**

"There is a prevalent belief that a measure of inflation, called "creeping inflation" contributes to growth. Let me speak on this subject as clearly and emphatically as I can. There can be no compromise with inflation in any of its forms, including its insidious creeping form. The Canadian Government has chosen the course of maintaining a strong and stable Canadian dollar.

"...Canada enjoys no immunity from the dangers of inflation. Indeed, it has a special interest in avoiding those perils. If Canada does not maintain the stability of her currency while all of the other principal countries are doing so with theirs, we will most certainly be priced out of world markets, with results that will be a catastrophe for Canada....

"I am asking for the support of the Canadian public, to the fullest degree that Canadians are prepared to give it to us, in our efforts to preserve the stability of the Canadian dollar. We must all recognize that there is in the world today a shortage of capital, and Canada is experiencing that shortage. I ask the Canadian people to refrain from asking for governmental expenditures which are not strictly necessary now. By preserving the value of the dollar, we shall strengthen confidence in Government credit, which will in turn arrest the upward movement in interest rates and restore bond values. This is a task in which every Canadian has a direct interest.

"'The task of maintaining the soundness and stability of currency is never ended', said President Eisenhower recently. We must be vigilant, realistic and determined in our efforts to resist the perils of inflation..."

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**GROSS NATIONAL PRODUCT**

Canada's gross national product continued to advance in the second quarter of 1959, and was at a seasonally adjusted annual rate of \$34.7 billion, a gain of 2 per cent over the level of the first quarter, the Dominion Bureau of Statistics reports. This most recent advance continues the upswing which was showing increasing vigour in the closing months of 1958, and has brought the gross national product in the second quarter of this year to a level some 7 per cent above the same quarter one year earlier. As in the preceding quarter, the second quarter gain in gross national product was represented largely by an increase in the physical volume of goods and services produced; however, final product prices were fractionally higher during the quarter.

Business outlays for new plant and equipment made an important contribution to the rise in gross national product during the second quarter. Both non-residential construction and investment in new machinery and equipment rose above the first quarter by 5 per cent, on a seasonally adjusted basis. This was the first significant increase in business capital expenditures since the two-year decline which began in the early part of 1957. The reversal in trend in this important component of final demand represents a new expansionary element in the current business upswing.

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