

by very much, the prices being paid by Americans for Canadian beef, or Canadian newsprint or Canadian lumber. Nor has the Government claimed that its policies could prevent prices in Canada from being affected by prices paid for wool from Australia, cotton from the United States or coffee from Brazil. What it has been reasonable to expect is that a budgetary surplus, and a curb on the expansion of the money supply and the extension of credit, would help to reduce pressure on domestic prices.

Defence preparations are going to have an increasing impact on the economy. That much is certain. But it by no means follows that these preparations will result in upward price pressure in Canada. I believe that we can make the necessary adjustments to meet defence demands without upsetting the balance.

One of the really difficult problems in dealing with a potentially inflationary situation is to avoid "rocking the boat". To warn against the dangers of inflation, to paint a lurid picture of what may happen to prices, is likely to cause people to act from fear and lead to unnecessary shortages and price increases. On the other hand, if the dangers of inflation are under-estimated, people may be led to question the anti-inflationary policies that are necessary under present circumstances.

My own view is that we cannot afford to be complacent about the outlook; but neither need we be unduly alarmed. Let us bear the following in mind: if we succeed in our efforts to avert war, the impact of the defence effort will eventually decline. We are in a period of build-up. In due time, we shall surmount the hump and more manpower and resources will become available for ordinary civilian use. We should remember that productive capacity is growing and this will enable us to maintain adequate defences with much less strain on the economy.

The primary emphasis in all our thinking should be on increased production of those items which are in short supply. In the long run, our ability to meet the increased demands placed upon Canada and the free world will determine our success in holding down the level of prices. That is why I think we should do all we can to preserve a strong and resilient economy with the maximum freedom from controls.

Confidence in Canada's economic future is shared by many nations. In particular, our friends in the United States have demonstrated their confidence by investing increasing amounts in Canadian resources development and industrial expansion. On the trade side, we have reached new high levels, both in exports and imports. Even though there was a trade deficit last year, foreign capital inflow was so substantial that Canada continued to be in a healthy foreign exchange position. A few weeks ago the Government abolished foreign exchange control. Canada is now one of the principal trading countries in the world, such as the United States and Switzerland, where foreign exchange dealings can proceed, unaffected by government regulation. The fact that our dollar has in recent weeks risen very close to the value of the United States dollar is encouraging evidence that the world seems to believe, as we do, in the basic soundness of the present Canadian position.