

the supply of money beyond that amount necessary to finance the growth in population and production leads to inflation -- to a rise in the general level of prices, to a fall in the value of money and to a decline in the real value of securities which represent a future claim on money.

That is why, in spite of their apparent complexities, sound monetary and fiscal policies are so important to the average citizen. That is why any responsible government must do all that is within its power to defend the value of its currency, and prevent the erosion of the past and future savings of the ordinary citizen.

This leads me to review what has actually been happening in the field of money, credit and banking during the past year.

The supply of money consists of the currency in circulation plus the total volume of bank deposits on which the depositors can draw cheques. The demand for money is most readily represented by the total amount of bank loans outstanding at any time. When business is slack the demand for money also slackens since business firms do not need to carry as large inventories of raw materials, goods in process or finished products, nor do they have as large payrolls to meet each week. As business improves more money, or working capital, is needed to finance increased supplies of materials and goods, to pay weekly wages to more employees, and to buy or build additional machinery and equipment. The business man normally obtains this money, or working capital, by borrowing from his bank.

At the peak of the 1956-57 upswing the total of all business loans by the banks amounted to about \$4,300 million; at the low point of the recession they were about \$4,000 million, or a decline of about 8 per cent. By March of this year the volume of general business loans had again risen to the 1957 peak of \$4,300 million, and continued to rise rapidly until it crossed the \$5,000 million mark in July. During the past ten weeks the volume of general business loans has levelled out at a figure slightly over \$5,000 million. In other words, business loans have increased by more than 25 per cent from the low point of the recession only a little over a year ago, and are now 17 per cent above the previous high record in 1957. It is thus clear that any apparent shortage of credit today is due to the extraordinary intensity of demand for commercial loans arising out of Canada's rapid economic expansion.

Let us now consider the extent to which the Bank of Canada, the chartered banks and the Government in their respective spheres may control or influence the available supply of loanable funds and their effective use. Some of the responsibilities and powers of these institutions have been defined by Parliament; others are of a more general nature.