

I dwell on these matters for two reasons. First, to remind you, if any reminder is necessary, of the major changes in attitude and policy which have taken place in Europe in the last couple of years. Great progress has been made in the United Kingdom and many countries of Western Europe in freeing trade and reducing restrictions and discrimination. The countries concerned have benefitted greatly from these changes, and so indeed has the whole free world. My second reason for referring to the subject is to record my belief that the change in attitude and policy is no mere flash in the pan. Common sense dictates that further progress must be made in freeing trade of quantitative restrictions and in establishing convertibility of currencies, because policies leading in the opposite direction make nonsense of the political and economic philosophy of the free world and render difficult the close association of free countries on which so much depends. Everyone has to play his part in this affair, not least the North American continent. It is well to recall that currency inconvertibility and trade restrictions, like tariffs, usually afford protection against international competition. North America is not unaware of the opposition which sometimes exists to greater international competition. If at times we run into set-backs or disappointments, we must remember that patience is a virtue if it is not carried to the point of passivity. What is essential is that we keep our eye steadily fixed on the ultimate goal and that we keep moving towards it as rapidly as at the time is possible.

I referred a moment ago to the fact that at the core of a central bank's responsibility was the duty to do what it could to ensure that the banking system operated in a manner conducive to sound economic growth. I would like to conclude my remarks with a word on this matter of growth and the banking system.

If twenty years ago you had been gifted with sufficient insight to foresee that by 1954 the total physical output of the Canadian economy would grow to nearly three times the level of 1934, you might reasonably have wondered how the chartered banks would be able to find the money necessary to play their part in financing the greater output. If you had also foreseen the very large increase in prices which has taken place - an unfortunate legacy of the war - you would of course have wondered even more how the chartered banks would be able to handle the demands that business would make on them.

In fact the outstanding loans in Canada of the chartered banks grew over this period from about \$1 billion to about \$4 billion. The funds required were found through an expansion of the whole banking structure; the total assets of the chartered banks increased from about \$3 billion to nearly \$11 billion. This growth would not have been possible without a corresponding increase in the cash reserves of the chartered banks, which rose from about \$200 million to their present level of around \$800 million.

Now the total of the cash reserves of the chartered banks is the responsibility of the central bank and it is principally through altering these cash reserves that central bank influence on the banking system is exerted. The point that I want to make in all this is