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The growth in the demand for credit was accompanied by a considerable increase in the flow of loanable funds. With wages, profits and other forms of income rising, many individuals and groups were saving more, and these larger savings were flowing through various channels (including the banks) to provide more funds to those who wanted to borrow them. The excess of receipts over payments in the Government of Canada's accounts was also supplying funds to the capital market through the redemption of Government of Canada securities. However, these increases in saving were considerably outpaced by the growth of demand and, as competition for the loanable funds available became increasingly vigorous, interest rates rose.

This development in the market for borrowed money came about not because of any contraction in the supply of funds--the supply did in fact increase substantially--but because of a more rapid increase in the demand. Borrowers collectively succeeded in borrowing considerably more money in 1956 than they did in 1955. Borrowers other than the Government of Canada were able to raise through net new issues of securities in the Canadian market about $1,750 million compared with $1,300 million in 1955. In addition they sold net new issues of $500 million in foreign markets in 1956 compared with a small net retirement in 1955. The scale of borrowing from all major sources was such that the total debt of businesses, individuals and public bodies other than the Government of Canada appears to have increased by about 15 per cent.

The growth in the competition for loanable funds reflected the fact that the supply of goods and services available was not large enough to accommodate everyone's spending plans. In 1956 the amount of resources that savers were willing to give up, though greater than in 1955 or any earlier year, tended to be less than the amount of resources that investors wanted to borrow. Since the economy was already expanding at very close to its overall physical capacity no significant further addition to the supply of goods and services available could come from domestic production. Even with large net imports of foreign resources and heavy net borrowing from foreign savers the balance was not restored.

In the circumstances of 1956, and in view of its statutory responsibilities, the central bank had no alternative but to restrain monetary and credit expansion since it was clear that any significant increase in the money supply would have added to inflationary pressures. Monetary restraint helps to contain an inflationary situation by permitting the basic lack of balance between what savers want to save and what others want to invest to work itself out in part through competition for loanable funds. The competition for funds causes temporary increases in interest rates which encourage saving and discourage excessive capital expenditure. If credit is expanded and interest rates are not permitted to increase, the underlying competition for the physical resources to carry out investment projects expresses itself entirely in greater price competition for the limited supplies of goods. As between these alternatives it is rarely if ever seriously argued that price inflation is in the national interest. Inflation operates to redistribute real income in favour of the economically stronger elements in the community at the expense of those who have less bargaining power. An inflated level of demand makes many operations seem temporarily to be more profitable than they really are, and it thereby encourages expansion of these operations at a rate which is excessive and cannot be sustained. Economic distortions of this kind are not obvious when they are taking place but they show up sooner or later and necessitate painful readjustments. Inflation tends to leave exporters at a disadvantage in selling abroad and to leave industry producing for the domestic market at a disadvantage in competing with imports. It is not an accident that periods of inflationary prosperity are usually followed by periods of dislocation in production and employment. One of the main purposes of efforts to contain inflation is to avoid this aftermath.

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<u>SENIOR APPOINTMENTS</u>: Several senior appointments in the Public Service have been announced.

Mr. A.D.P. Heeney, at present Canadian Ambassador in Washington, has been appointed Chairman of the Civil Service Commission effective May 1, consequent upon the retirement of Mr. S.G. Nelson, which was announced some weeks ago.

Mr. Norman Robertson, who has been for some years Canadian High Commissioner in London, is to become Canadian Ambassador in Washington on May 1.

Mr. Alexandre J. Boudreau is resigning from the Civil Service Commission, effective on August 1, to become Consul General for Canada at Boston. He will take up his duties in Boston immediately after Labour Day and will spend a short time with the Department of External Affairs in Ottawa in preparation for his duties there.

Mr. Paul Pelletier, who has been Assistant Secretary to the Cabinet, and recently Secretary to the Royal Commission on Broadcasting, has been appointed a member of the Civil Service Commission, effective August 1.

Mr. Jean Fournier, at present Canadian Consul General in Boston, will return to Ottawa at the beginning of September and will serve for a tour of duty, on loan from the Department of External Affairs, as Assistant Secretary to the Cabinet.