The financial markets absorbed a smaller volume of new issues of bonds and stocks during 1969 than in the previous year. The volume of money and bank credit grew much less rapidly and the liquidity of the banks was sharply curtailed through the operation of monetary policy. The public showed a growing preference for holding financial assets in liquid form. The net consequence of the myriad pressures in the capital markets, emanating from abroad as well as from the actions of the authorities and other domestic lenders and borrowers, was an upward sweep of interest rates to historic peaks. This rise in yields which started in September 1968 continued through the end of the calendar year 1969.

Canada is not unique among countries of the western industrialized world in having to face a menacing erosion of the value of its currency. The malaise is widespread, and we can take some comfort from the fact that our experience in 1969 was not the worst in comparison with some of these countries. The increase in consumer prices in the United States, for example, was of the order of 6 per cent. This fact serves to emphasize how vital it is to maintain the attack on the disease.

The balance of this White Paper contains an elaboration of the economic developments in 1969 in the perspective of the events of recent years, and concludes with a preliminary view about prospects for 1970.

THE EXTERNAL ENVIRONMENT

Inflationary pressures intensified throughout the industrialized world in 1969. Consumer prices in most major countries rose at rates between $4\frac{1}{2}$ per cent and 6 per cent. The rises were smaller in Germany and Italy, but in these countries pronounced increases in wage settlements are viewed as the harbingers of accelerated price increases. The rise in prices in the United States was greater than in any year since the Korean war. The moderation hoped for in the North American trend of prices had not appeared by the turn of the year. The pervasiveness of inflation throughout the industrialized world is illustrated in Chart 2.

The volume of world output remained high in 1969, though its growth slowed to about 5 per cent in the OECD countries[(1)]. This slowing reflected the gradual impact of anti-inflationary policies in North America and Britain and the attainment of capacity production in much of Continental Europe. Fiscal and monetary policies reinforced each other in the fight against inflation in North America and Britain. Elsewhere, countries started tightening credit conditions significantly, not only to restrain demand but also to defend official reserves against the effects of the massive flows of funds during much of 1969 to Germany and, via the Eurodollar market, to the United States. By early 1970, interest rates throughout much of the industrialized world had reached their highest levels in modern times.

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(1)The members of OECD are: Austria, Belgium, Canada, Denmark, Finland, France, The Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.