

that marks turned out by printing presses rapidly depreciated in value and prices soared. It was pure inflation, and the misery and hate that it caused made a fertile breeding ground for a dictator and a war.

An entirely different set of circumstances caused inflation during World War II, both in Canada and elsewhere. Here a magnificent job was done to keep inflation within reasonable control. In wartime a country has to mobilize a very large proportion of its manpower and material resources in order to produce guns, planes and warships, and to man its armed forces. All this spending done by the Government becomes purchasing power in the hands of the public, while at the same time there is a limited amount of civilian goods which can be bought. This causes prices to rise. In wartime it was recognized that this situation must be controlled and curbed in order to win the war, and we were prepared to make sacrifices accordingly. We therefore paid high taxes, bought Victory bonds, and submitted to the Wartime Prices and Trade Board controls and rationing, in order to keep inflation within reasonable check.

Coming now to the present inflationary tendencies, we see that they arise from something different again from the other two cases that I have mentioned.

As the honourable Leader of the Opposition pointed out, the present cost of living index is about 90 per cent higher than the figure for 1939. In order to understand our present situation it seems to me that we must divorce the period between 1939 and 1951 from the period since 1951. First of all, after 1939 we had the inevitable wartime inflation of which I have spoken. In the immediate post-war period when price controls and rationing were removed it was like the lifting of a lid, and there was released a pent-up demand for spending, which again forced up prices in the post-war period; then came the Korean War in 1950, with consequent heavy Government expenditures for the war effort. However, by 1951 all of these inflationary influences had spent themselves and we reached a point of stability, so that for a period of approximately four years we had no inflation, and prices remained stable, even though generally throughout that period we were expanding production and employment. The cost of living index averaged 116.5 for the year 1952, and in May of last year it was 116.6, practically the same figure.

Since May of 1956 the cost of living index has risen to 120.4, a gain of nearly 4 points in seven months, and it is that rise in the last seven months that is the significant feature in our present situation, and not the

inflation that took place between 1939 and 1952. That is the warning signal that inflationary pressures are at work in our economy.

When we look into the causes of this rise in prices we find that in 1955 the gross national production in Canada rose about 9 per cent above the figure of the previous year. That was perhaps the largest single annual increase in the history of the country. The expansion continued through 1956 and brought our economy to the point where production is bumping up against the ceiling imposed by our physical capacity to produce; yet we want to go on expanding. In effect, what we are trying to do is to run faster than our legs will carry us. One set of figures will give an example: As of October 1956, compared with two years earlier, October 1954, there were nearly 370,000 more persons employed in Canada, and the number of persons unemployed and seeking work had dropped from 180,000 in October 1954 to 98,000 in October 1956. The percentage of labour force unemployed and seeking work was down to 1.7; in other words, we had practically 100 per cent employment. At the same time, because of the expansion during those past two years, shortages had begun to develop in a number of essential materials. We have therefore reached the zone of full employment of our resources of manpower and materials.

Honourable senators, one might ask: "What is wrong with all this? We are prosperous, everybody is working, profits are good, so why not relax and enjoy it?" A good many people would be prepared to swap a little inflation for what they hope will be a continuation of the boom. This is dangerous psychology and might involve our economy in some serious trouble. An analogy comes to my mind of the man who likes to drive his car fast along a highway; the faster he goes the greater thrill he gets out of it, but if he keeps pressing his foot down on the accelerator I am afraid that at some time he will pay dearly for his enjoyment. If this inflationary tendency of the present time was to stop at the 4 per cent rise seen in the last seven months, and were now to level off, of course, no harm would come, but in fact the rapid rise in prices has not yet percolated through our whole economy, and there are still price increases to come as the result of the 4 per cent rise during the last year.

Furthermore, when we reach this stage of full employment and still wish to expand, bidding for the available supplies starts. Organized labour is able to ask for and receive higher wages; businesses making good profits are able to pay the higher