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## INTEREST RATES AND INFLATION

*The following is part of a statement on July 3 before the Standing Committee of the House of Commons on Finance, Trade and Economic Affairs by Mr. Louis Rasminsky, Governor of the Bank of Canada.*

...We are confronted in this country, and in fact in most countries of the Western world, with serious problems of high interest rates, inflation, and a strong inflationary psychology. These problems are very much interrelated. The problem of inflationary psychology, by which I mean the widespread belief that inflation is here to stay, is particularly difficult to deal with. It has arisen from the failure, for one reason or another, both here and abroad, to bring inflation under control at an earlier stage and from the persistent rise in costs and prices over a number of years....

In some ways, the most outstanding and important fact in our present economic situation is that the economy has been moving forward rapidly and virtually without interruption for more than eight years. It is the longest period without a recession that we have ever experienced in peace-time in this country. There is no doubt that Canadians have benefited greatly from this extraordinary run of prosperity. Between the first quarter of 1961 and the first quarter of 1969 real output in Canada increased by about 60 per cent. The increase per person employed was 22 per cent. Personal consumption in real terms, that is, after allowing for price increases, rose by 51 per cent in aggregate and by 31 per cent on a *per capita* basis. This last figure can be regarded as a very rough measure of the improvement in the standard of living in Canada over the eight-year period, though it does not take into account the sharp increase in the volume of services provided by governments, for example, in the form of education, health services, roads, etc. Unemployment, which averaged 7.6 per cent of the labor force on a seasonally-adjusted basis in the first quarter of 1961, was 4.2 per cent in the first quarter of this year and, over the past four years, has averaged 4.1 per cent. The number of jobs rose by 1.75 million, or 31 per cent, over the eight-year period. In addition we have greatly added to our facilities for production of goods and services, including government services. For example, in real terms, expenditures on business fixed investment rose by 64 per cent and on housing by 62 per cent.

It would have been astonishing if the degree of pressure of demand which we have been experiencing during the past eight years or more did not result in some distortions and excesses. These constitute the other side of the ledger and they have taken the form of a progressive worsening of price and cost inflation during the past few years which has yet to be brought under control. Consumer prices, which rose at an average annual rate of 1.5 per cent in the first four years of the expansion, increased at an average annual rate of 3.7 per cent in the second four-year period. The increase over the past 12



(Over)