

tendency towards preoccupation with fiscal and monetary policy has perhaps resulted in not enough attention being given to the whole range of other factors affecting the basic efficiency, stability and adaptability of the economy, especially the degree of mobility of resources and the degree of competition, the conditions under which business operates, and the outlook and attitudes of business and the general public. No use of fiscal and monetary policy, no matter how inspired, can call forth good performance from an economy if the factors of production and distribution are not basically flexible and competitive. Here, too, public policies may have an important influence, either helpful or the reverse.

These requirements for policy apply to any country, to Canada no less than to the United States, the United Kingdom and other nations with free economies. In varying degrees all countries endeavour to follow expansion policies, high employment policies and anti-inflation policies, and obviously these must be harmonized if they are to be successful.

#### Special Canadian Problem

In Canada we have not only the usual cyclical problems, which are not entirely within our own control because of our high degree of dependence on conditions in foreign markets, but a further problem or cause of instability, namely, that the total demand on the part of all elements in the community for goods and services for all purposes, both for consumption and for the creation of new production facilities and government works and housing combined, has for some years been considerably greater than the amount which our own productive capacity can satisfy. This is a condition which most other industrialized countries in the North Atlantic community had to face in the post-war period but have by now largely overcome. In Canada it assumed major proportions five or six years ago and has grown since then. To a considerable extent these inflationary pressures have been temporarily suppressed or diverted through the medium of foreign borrowing by Canadian governments and enterprises and the securing of capital from other forms of foreign investment in Canada, which have made possible the importation from other countries of a volume of goods and services greatly in excess of our exports of goods and services, to such degree as to fill most of the excessive demand in Canada for such goods and services.

Put more bluntly, we have for at least five years been living beyond our means on a grand scale. Perhaps we have comforted ourselves with the thought that we were by this means increasing from year to year the total productive capacity of the Canadian economy by a sufficient extra margin to enable us before long to balance our foreign accounts, live within our annually expanding means, and even at some time begin to pay off our foreign debt. But this has not happened. Exports are rising but imports are rising faster. We are not producing ourselves out of our import deficit but are getting in deeper.