We are so dependent upon foreign trade, and so closely linked in many ways with the fortunes of the United States and our other trading partners that we are bound to be affected, for good or ill, by the swings of economic activity originating outside our own borders. Then, too, in a dynamic economy such as ours, technological changes, variations in demand at home and abroad for particular goods and services, and errors in judgment on the part of those whose business it is to try to anticipate these changing demands, all serve to produce fluctuations in economic activity from year to year, and sometimes to interrupt our progress.

But the kind of instability that we have to fight against is a more serious one. I refer to the instability which arises when a condition of greatly increased demand develops over a wide area of the economy, usually based upon the use of credit, and which threatens to outrun the productive capacity of the economy. This is the kind of situation which causes inflation and recession. It was present to a considerable degree in North America in 1955 and 1956 and in fact is a condition which can easily develop in a dynamic economy, particularly if prices and costs are rising, or if it widely believed that costs and prices are likely to rise. As we know from experience, if these conditions are allowed to develop it is usually impossible to apply the brakes without bringing about economic dislocation and recession, with all that this means in terms of wasted resources and unemployment.

The fact is that a condition of steadily-rising price-levels is not conducive to sustaining the growth of the economy. It is a dangerous temporary stimulant, and no more. We have seen that the very impressive expansion of production and living standards which the countries of Western Europe have begun to achieve in the last few years was not able to gather momentum until they had achieved price and currency stability.

The lesson we should draw from experience is that in a period of economic expansion such as we are now enjoying in Canada we must all avoid doing those things which are likely to encourage a forced or excessive growth in spending. If we fail to act in this way we will be faced with the distortions and instabilities which cause economic recessions. We all know that if an upsurge in the total spending in a country proceeds too rapidly, and in too many directions, in too short a time, prices and costs are bound to be pushed up. In such a situation those who speculate, or who can operate on the basis of increased borrowings, tend to be rewarded, while normal business suffers. All too often, we find that the economy has accumulated swollen inventories and built more plant capacity than we need for the time being. So production is curtailed, or shut down, workers are dropped from the payroll, and almost every other business finds it necessary to go slowly for a year or two. If price inflation becomes very marked, or continues for very long, confidence in the value of fixed interest-bearing securities is likely to be undermined, thereby discouraging saving. When this happens the more productive and dependable forms of enterprise was unable to obtain capital and the whole economy is weakened.