

"While prices of Government bonds have declined in the last two months, the benefits of the Conversion Loan operation continue. I should add a comment on the market price quotations on the new Conversions bonds.

"The Government at no time said it would support the current market prices on the Conversion Loan. While the Bank of Canada, acting as the Government's fiscal agent, normally operates in a manner to stabilize the "after-market" for a short period after each new loan, it is not the Government's policy to 'support the bond market' over longer periods. The Government's obligation is to pay the fixed rate of interest on the Conversion Loan bonds and redeem them in full at maturity....

Of inflation, Mr. Fleming said:

"The air has been filled of late with talk of inflation. It is said that the fear of inflation is disturbing confidence in Canada's financial outlook. If it is, the condition is certainly not confined to Canada. The United States is displaying all of the symptoms which are said to exist at present in Canada.

"I do not deplore the current evidence of concern over inflation. On the contrary, I think it is a healthy sign that people are showing concern for the preservation of the purchasing power of the Canadian dollar. That degree of public concern will, I trust, assist governments and others in grappling with the problem. I am concerned, however, that the discussion of this subject should be realistic and balanced. The danger of inflation exists, as it has existed for the last twenty years. We will not, however, overcome it by exaggerating it beyond all recognition.

"Indeed, just as a year ago gloomy and exaggerated talk about recession and unemployment actually enlarged the dimensions of these problems by disturbing confidence, so we can today actually bring on some of the feared effects of inflation by yielding to an unwarranted inflation psychology. The current situation is certainly not one of overt inflation but of the fear of inflation. Inflation has been defined as 'too many dollars chasing too few goods'. There is, however, certainly no scarcity of goods in Canada. The problem with respect to most products and commodities is that we have surpluses of them.

"One would expect to find inflation reflected in the Consumer Price Index. The Index in December, however, showed a slight reduction. Over the last year the Index has risen only 2.5 per cent. How modest is this rise may be seen when it is compared with rises of 6 per cent in 1946, 15 per cent in 1947, 7 per cent in 1948, and 10 per cent in 1951. Of the slight increase in 1958, little was in the prices of goods -- food, fuel or clothing. The greater part of it was in the cost of services, especially health care, personal care and recreation.

"One would also expect to find inflation reflected in the Wholesale Price Index. How-

ever, the general Wholesale Price Index is the same as it was a year ago. It is also 16 points or 7 per cent below the 1951 figure....

"There is no evidence in recent events of themselves to justify anxiety over inflation. I am aware, however, of concern over the long-term trend. Since 1946, the Canadian dollar, as measured by the Consumer Price Index, has lost forty cents of its purchasing power. Nearly all of that loss occurred prior to 1952; relatively little of it occurred in the last two years. The present problem of inflation arises in its creeping form.

"I think I have been as outspoken as anyone in warning the Canadian public of the dangers of inflation. It is a stealthy thief, reducing the value of savings, fixed incomes, insurance policies, bonds, pensions, mortgages. I hope the Canadian people will always be on their guard against inflation. It is well to remind ourselves, however, that there is little value in deploring inflation while at the same time seeking the illusory, will-of-the-wisp advantages it appears to offer.

"It is also well for us to realize precisely where responsibility lies in this regard. It is temptingly easy for individuals to place the full blame and responsibility on the government or governments. The fact is that in a free economy every citizen has a responsibility to play his part in the maintenance of the stability and purchasing power of the Canadian currency. This solemn duty rests upon employers, employees and self-employed. I repeat the stern warning which I issued in my budget speech on June 17 last:-

"Moreover, I confess my concern over costs of production and prices in Canada. Only by keeping our costs of production in line with those of our competitors can we hope to achieve expanding employment and progressive improvement in our standard of living.

"We are in danger of becoming a high-cost economy. Such a prospect is particularly perilous in the case of a country like Canada which must sell so much of its production in markets abroad. Moreover, Canadian producers are encountering increasing difficulty in retaining their domestic market in the face of keen competition from abroad. Many of them, under these circumstances, turn to the Government for a solution of their cost problem.

"In a free society there is no simple formula by which the government can maintain stable prices and there is a limit to what governments can do to assist producers to hold down their costs of production. A wise government can, of course, help to promote an environment which is conducive to price stability and this Government gives a high place to that duty; but to an important extent, prices are the result of competition among the various economic groups which compose our nation, each striving for a greater share of the national product. I echo the warnings issued by the Prime Minister, Mr. Diefenbaker,