

In Canada the total supply of money rose rapidly -- too rapidly -- in the year 1955 and the first half of 1956, and thereafter showed little change until the economic boom passed its peak and started downwards in the late summer of 1957. In the latter part of 1957 and the first three quarters of 1958, for reasons which I have discussed a length elsewhere, the supply of money again increased very rapidly and to a substantial degree. In the process the chartered banks were put in a position to expand their loans or investments as might be required to meet economic needs for a long time ahead. In the early months of this period, when the demand for commercial credit was not large and when the Federal Government was running a large cash deficit, the chartered banks put the increase in their lending capacity entirely into the purchase of Government of Canada securities. From early October 1958 until August 1959 the chartered banks sold off the greater part of the government securities so purchased and expanded greatly their volume of commercial loans, personal loans, mortgage investments and other investments.

Since August 1959, the volume of commercial loans has declined. The banks are in a position now to facilitate a moderate degree of expansion in the total volume of their commercial loans on a prudent, selective basis, particularly for those enterprises which are unable to obtain necessary financing from other sources. Some other categories of loans and investments acquired in 1958 and early 1959 may well decline in 1960 through repayments and maturities and help make room for such further expansion in commercial loans as may appear to be sound and necessary.

Other Measures

The maintenance of monetary stability is by no means sufficient in itself to assure sound growth or prevent inflation. The prevention of inflation and the inevitably succeeding recession--the effective mitigation of fluctuations in the level of employment, production and prices--requires action in many other fields besides monetary policy. For example, all levels of government can assist by holding down their spending programmes, including lending programmes, during the buoyant phase of private business expenditures. Taxation policy can also make an important contribution. The anti-cyclical modulation of government spending and taxing can have the double effect both of moderating the fluctuations in private business itself--for some expansion programmes of private business are directly stimulated by government programmes--and of offsetting to some degree those fluctuations in the private sector which are not directly so influenced.

There are other important requirements besides appropriate fiscal and monetary policies if an economy is to be able to sustain a high rate of economic growth with minimum fluctuations in prices and total employment. A