than some imaginary alternatives. Let us give no quarter to such defeatist doctrines. Inflation acts like a drug on the economic system. Even small doses breed a craving for more.

One of the most serious effects of inflation is that, like other drugs, it erodes stamina and will power. The will to save, to build carefully and prudently for the future, lies at the heart of sound financial policy, whether it be the financial policy of the individual, the corporation or the government. Saving —voluntary, purposeful, constructive saving —is essential in an economic system dedicated to freedom and progress. Yet it is this sort of saving that inflation most insidiously undermines. As prices rise and stability disappears, the prizes of inflation go not to the worker but to the speculator, not to the saver but to the spendthrift.

To contain inflationary pressures the government has reduced its borrowing and has held a firm check on the expansion of government expenditure. The treasury board has painstakingly reviewed and revised spending programs. As a result of careful scrutiny we are reducing substantially the demands of the federal government on the financial markets and, through them, on the savings of the Canadian public.

If all of us, working and saving together, will increase the total amount of capital available for sound investment in Canada, we can reduce our reliance on foreign resources. In short, we have at our disposal the means to achieve in a positive way, the objectives which negative courses of action cannot hope to accomplish.

There is a related question upon which I should like to dwell for a moment. This is the question of our exchange rate. The external price of our Canadian dollar has been high for eight years now and is currently running about five per cent above the United States dollar. This situation has been brought about mainly as a result of an inflow of foreign capital and reflects the confidence of outsiders in the soundness of the management of our financial affairs. Admittedly it lowers the prices received in Canadian dollars by those exporters who have to sell in world markets at world prices. It also means a lower price in Canadian dollars for many classes of Canadian imports. On the other hand, it lowers the cost of imported raw materials and semi-finished goods used by our manufacturers, and it has helped to keep down our cost of living and cost of producing.

I have said on many occasions and I repeat now that I would welcome the development of circumstances that would reduce the external price of our dollar provided this was brought about by means other than an arbitrary and artificial attempt by the government to work against basic economic forces.

I have seen some references to a demand that the government should deliberately "devalue the dollar". This kind of talk might have been appropriate when Canada was on the gold standard, or even when it maintained a fixed exchange rate. We have not been on the gold standard for half a century and we have not had a fixed exchange rate for a decade.

An attempt by the government artificially to lower the external price of the Canadian dollar would involve borrowing or raising by taxes very large sums of money with which to buy up foreign exchange. It might well be that the government could not reduce the inflow of funds sufficiently without imposing direct controls on capital movements and then on the movement of goods. Apart from the economic objections to such policies it would be a very difficult matter to work out effective technical means of control. Even then the controls would not be effective unless the objective were one which commanded the broad public support which is necessary for general compliance. In other words we would be embarking upon a gigantic financial speculation with no assurance of success.

The exchange value of the Canadian dollar is determined by the free play of the forces of supply and demand. These forces have pushed the rate up, and at some time in the future market forces could drive the rate down. Many people would be happy about such a development, at least if it came about in an orderly manner. However, those who undertake commitments in terms of United States dollars or other external currencies expose themselves to the risk of having to repay at a time when the exchange rate for the Canadian dollar may be quite different from what it is today. This is a risk which the borrower, whether personal, corporate, provincial or municipal must bear himself and is a danger which I clearly wish to stress.

I have referred to the improvement in our exports; we must look further ahead, however, and make every effort to preserve and improve our access to world markets so that Canada's exports, which will remain one of the foundations of our prosperity, can continue to expand.

In recent years the western European economy has been enjoying particularly rapid and substantial growth. More than one quarter of our exports go to western Europe including the United Kingdom. A prosperous, politically stable and expanding European economy will