

END OF RECONSTRUCTION PERIOD

MR. HOWE'S WARNING NOTE: For all practical purposes, the reconstruction period will end with the present year, said the Minister of Reconstruction and Supply, Mr. C.D. Howe, addressing the Saint John N.B., Maritime Board of Trade, Sept. 24. The transition from war to peace, Mr. Howe added, is practically accomplished. The number of jobs being offered exceeds the numbers of those seeking employment. Production is on an unprecedented high level. Canada's national income is exceeding the most optimistic estimates. Canada's supply situation is coming into balance and the limiting factor today is manpower. It seems an opportune time for the Department of Reconstruction to disappear, and for the established departments to take over its continuing functions.

Following a review of the situation in the Maritimes, Mr. Howe continued: I know you share with me a feeling of optimism over Canada's economic prospects. However, I feel that I should sound a note of warning at this time about the situation in regard to rising prices and its probable adverse effect on economic conditions next year. You are being warned of this danger repeatedly, but I fear that the facts brought forth to support this warning are not always very convincing. I would like, therefore, to view the over-all situation briefly as I see it.

DEMAND POSITION OF MARKET

Let us look first at the demand position of the market. Limited evidence is now accumulating that the first flush of post-war investment is over, and that investment outlay may therefore level off in 1948. This levelling off is already noticeable in the United States. In the consumers' goods market, the rate of consumption expenditures since the end of the war has been increasing faster than the disposable income of individuals. There is evidence that individuals are reducing their rates of savings from wartime levels. While the current rate of savings of our citizens is still materially higher than before the war, it is unlikely that it will continue to be reduced for the sake of making income available for the purchase of consumer goods. Therefore, consumer expenditure should soon bear a very close relationship to current consumer income. As a result, a levelling off in consumer demand, can be expected next year. Economic conditions abroad, and our own difficult foreign exchange position, could also ease the demand for exports. Without further increases in price levels, therefore, it seems fairly certain that there will be a general softening of demand next year. By a "softening of demand" I do not mean a decrease in demand, but a failure of demand to continue to expand at the rates that have prevailed since the ending of hostilities, a rate set, in most cases, by the rate of expansion of supplies. This phenomenon

is not a cause of worry, and is to be expected. It represents the using up of purchasing power accumulated during the war years. Thereafter, the dynamic factors supporting prosperity must be those generated from day to day.

There are not now the reserves of demand in the market to tolerate material increases in prices, and if businessmen as a whole take the short-run point of view that they should make windfall profits while the opportunity exists, they will most likely find that the opportunity does not in fact exist, and that they have priced themselves out of the market. The most pertinent observation on the present relationships between selling prices and the level of income is to say that a great many wage and salary earners can hardly afford to purchase their own product, at market prices. Under these circumstances, a whole range of goods could suddenly encounter a decrease in demand, either relatively or absolutely. The effect of this is already becoming evident in the construction industry, as accumulated savings are used up. Sight must not be lost, also, of the degree to which the disposable income of the farming population in recent years has been the result of favourable crops. Wage and salary earners, and the farmers, between them receive about three-quarters of the disposable income of individuals, and any material changes in the price level forces them to make substantial changes in their pattern of spending.

REASONABLE PRICES A BUOYANT ELEMENT

The point that too many businessmen miss, I fear, is that the controlled price levels in Canada have not been a penalty on private initiative, but rather insurance against future possibilities of adversity. As the demand for goods and services softens, whether with or without further price increases, and as the increasing volume in goods eases current shortages, the market will be increasingly sensitive to prices. The necessity for a cut-back in prices holds the material for a first-class recession. Reasonable price levels provide the buoyant element to tide us over the critical few months when panic could take hold.

Any decrease in volume of business will immediately crystalize cost-price inequities. There has been a wartime divorce of relative prices from relative values. This factor will probably give the businessman concern when the demand for, and the supply of, goods start to come into balance. For eight years, most prices have been under control, and the basis for the revision of prices has been costs. The value of goods, on the other hand, depends on buyer preferences. As scarcities end, buyer preferences will become the final arbiter of price. There is no reason to expect that preferences will follow too closely the pattern prevailing before the war.

Here is where the Canadian price level

comes into play. At present, this level is below world levels, and particularly American levels. This is one of the basic reasons why it is rising. If, through concerted effort on the part of Canadian business, it can be kept below these levels until demand and supply come into balance with each other, the general level of world prices will give support to our price structure, and reduce the number of prices that will have to be revised downwards, thereby helping the economy to carry itself over a difficult period. If, however, our price level has moved up to the world level before the adjustment between demand and supply occurs, the buoyant element is removed.

Furthermore, the world price level will probably come down in due course. If the Canadian price level moves up to it too quickly, or overshoots it under inflationary or speculative pressures, costs will also rise, increasing the maladjustments that will have to be ironed out the hard way.

CANADA'S ECONOMY STRONG

As we are well aware, Canada is a great exporting country, and presently the third among the nations in value of exports. We rely on our exports to provide funds for purchasing from other countries those products which Canada must import, such as petroleum, coal, cotton, citrous fruits, as well as components for manufactured articles, of which the Canadian content is only part of the whole. Last year, the value of Canada's exports exceeded the value of imports by some \$450,000,000, a very healthy situation. We are still in good position as far as relative value of our exports and imports is concerned, but we are facing a serious difficulty through the non-convertability of national currencies. Unfortunately our exports and our imports do not flow in the same channel. In pre-war years, we relied upon our surpluses in sterling and other currencies to pay for our shortages in American dollars. Such an arrangement is becoming more difficult each month.

Canada foresaw this situation during the war years, and took steps to prevent its occurrence. Loans, in excess of 2 billion dollars, were granted to countries that have been our traditional customers, for the purpose of tiding them over the transition period required to bring their war shattered industries back to health. Canada became a subscriber to the National Monetary Fund and to the Bank of International Settlements, this with the same end in view. We now find that our hopes for free interchangeability between dollars and other currencies are not being realized. The problem of financing Canada's exports and imports has been, and is at the moment, receiving the most intensive study. Since the problem depends on the collective action of a number of countries, the solution is not easy to come by. However, I am confident that a way will be found that will permit us to dispose of our surplus products and pay for our essen-

tial imports. The best financial minds of many countries are engaged on that task at this moment.

I hope that what I have said this evening will not be construed as pessimism. I am not pessimistic. Next year will mark the effective ending of the transition of our economy from a war to a peace time basis. Such turning points are always possessed of some dangers, but next year's dangers are certainly no greater than those of 1945, when we had to start the allocation of men and resources away from war use. Our economy is strong. Our production stands at the highest level in history, and rising. Employer-labour relations are excellent. The Canadian people are enjoying a high level of income and employment. It is up to us to keep it that way. The most effective method is to increase productivity, and to hold down prices until demand and supply can be brought into balance. I know that the business men of the Maritime Provinces can be relied upon to do their part.

MRS. GEORGE POWER: The Department of External Affairs issued to-day the following press release.

Mr. George F. Power of the Department of External Affairs was posted to the Canadian Embassy in the U.S.S.R. in April, 1943. While in Moscow, he met and married Miss Eleanora V. Kuznetsova, a ballerina. The marriage was performed by civil contract on February 4, 1945, and was solemnized in a Roman Catholic church a few days later. Mr. Power left Moscow on July 6, 1945, to return to the Department of External Affairs in Ottawa.

Mrs. Power applied for a Soviet exit visa in February, 1945, shortly after her marriage. This application was refused in July, 1945. Since then, the Canadian Government approached the Soviet Government seven times on behalf of Mrs. Power in unsuccessful efforts to secure permission for her to leave the U.S.S.R.

The first approach was made to the Soviet Government in September, 1945. On June 26, 1947, the Secretary of State for External Affairs, the Right Honourable L.S. St. Laurent, made a statement in the House of Commons outlining the representations made by the Canadian Government on behalf of Mrs. Power up to that time. The seventh approach was made in July, 1947, when the Canadian Government requested the Ministry of Foreign Affairs of the U.S.S.R. to approach the branches of the Soviet Government responsible for such matters, in order to secure without further delay an exit visa for Mrs. Power. A reply was received from Mr. A.Y. Vishinsky, the Soviet Vice-Minister of Foreign Affairs, in August, 1947, to the effect that the Ministry of Foreign Affairs of the U.S.S.R. saw no reason at the present time to raise that question again before the competent Soviet authorities.

Information has now been received that Mrs. Power has applied to the Soviet authorities for a divorce.