

of the lines of inquiry which the committee will probably wish to follow. First I shall touch upon some general considerations affecting practically every country, and then I shall try to be more specific in relation to Canada.

I do not think I need to spend much time discussing shortages—they are numerous and widespread, and some of them are severe. In the world as a whole most basic foods are short, especially those like grains, meats and processed dairy products, which can be preserved for quite a long time and which can be carried long distances without too great expense. Almost all textile fibres and fabrics are in short supply—wool, cotton, jute and sisal. Newsprint, lumber, base metals, steel, coal, petroleum—for all of these the active demand quickly and readily absorbs the flow of supply even at present prices. For many of these things, however, the demand is highly inelastic. A 5 or 10 per cent shortage can drive prices up rapidly, and a 5 or 10 per cent surplus can produce a sharp fall in prices. Present shortages and high prices of many things could turn very quickly into a surplus and falling prices with only a moderate change in the supply and demand ratio.

A question closely related to this discussion of shortages is the effect on prices of loans and other assistance to war ravaged countries. The immediate effect of such loans or assistance is to send large quantities of goods overseas for which we get no immediate payment. The Canadian farmers and workers who produce these goods get paid in Canadian dollars supplied by the Canadian government, but there is for the time being no return flow of goods to Canada to match this additional spending power. The effect on the economy as a whole is to maintain or increase Canadian incomes and at the same time to reduce, or retard the expansion of the supply of goods on which these incomes can be spent. This effect is offset to the extent that the government's taxation revenues exceed its expenditures, that is, to the extent to which the government finances these overseas loans out of current revenues or to the extent that it draws on its reserves.

There is going on at present in the United States a lively discussion on the probable effects on American prices of the impending European recovery programme. To the extent that we participate in any such programme similar considerations will arise here. It should be noted, however, that the degree of any future pressure of this kind on prices, will be related, not so much to the absolute magnitude of further aid, as to the change, if any, in the rate of aid as compared with what has been going on during the past couple of years.

Monetary and fiscal policy is a subject upon which I cannot offer technically expert comment, but I can hardly avoid all reference to it. Money, that is internal or domestic money, is about the only thing which no country in the world is short of. In part, the abundance of these domestic means of payment is merely the obverse of the shortage of goods. There can be and there has been a good deal of controversy as to whether it is the expansion of money supply that drives up prices, or whether it is rising prices that force the expansion of the supply of money. But whichever comes first there comes a point where each feeds upon the other.

The relation between available spending power, the supply of goods, and the level of prices is not at all a simple matter; it is a complex relationship. But if and when this relationship can be identified as the main cause of rising prices, the remedy, in brief, is for the community as a whole to expand production relative to consumption, and for governments to spend less, finance less on credit and tax more. These maxims are easy to state, but notoriously difficult to practise, especially when over-all national production is running at a very high level and is operating at or close to short-run capacity.

The third general factor in the present world price situation is one which I approach with some diffidence. It is the large amount of buying and selling through direct or indirect government agencies that is going on all over the