have tended to level off and both of these circumstances have contributed to stability. There is also some reason to hope that the effects of the lending policies of the chartered banks will be to persuade those companies and other bodies able to finance themselves in the capital market to turn to this source of credit for funds for capital expansion. In this respect I wish to commend those corporations which in recent months have been prepared to face the capital market with realism. To the extent that the trend towards a greater use of the capital market develops, more credit should be made available to smaller borrowers within the banking system.

Credit Restrictions

In speaking of the improvement in the technical position in relation to bank credit I should not wish to leave the implication that every borrower is receiving all the credit he seeks. Credit restrictions continue to impose difficulties for certain sections of the economy although there is no evidence that from the overall viewpoint they are interfering with the process of growth. The banks are continuing to be selective in the allocation of credit even though their capacity for lending has improved. Nor can we expect any sharp reversal in this situation. If the industrial and commercial expansion takes the forward surge in the spring and summer of this year that seems likely, it would be only reasonable to expect a recurrence of intense demand for bank credit.

It is clear that expansion places heavy demands upon our capital resources which are not unlimited. It would be unrealistic to assume that changes in the allocation of bank credit or greater use of the long-term capital market by business corporations would make capital as plentiful and interest rates as modest as they tend to be when the economy is not expanding. Let me add one final observation on the subject of interest rates. There are those who contend that a measure of inflation would today bring about a reduction in interest rates. This is another fallacy of the deepest dye. Inflation would tend to decrease total savings and to divert them away from bonds and other forms of investment. The inevitable result of inflation is to force interest rates still higher.

Today there is keen competition in the market place by federal, provincial and municipal governments and business for the not unlimited supply of capital available there. In this situation, the Federal Government can best contribute to facilitating the necessary financial operations of other borrowers by confining its own borrowings to the essential minimum, and that is what the Federal Government is doing. We are seeking deliberately to bring our revenues and expenditures into closer balance in order that we may not find it necessary to make new borrowings. As a consequence, I think that with the continued rise of the levels of income, employment and production, we may look forward to a further substantial improvement in our overall cash requirements. And thus we may hope that the market will be more and more left to the provincial and municipal governments and business.