

maturity, and with it the corresponding deficit in the current account of the balance of payments, or excess of imports of goods and services over exports. Perhaps the rate of capital formation will decline by more than the change in our international balance, the difference being matched by a decline in the percentage of income saved in Canada from the very high levels of recent years. This might take the form of an increase in personal consumption expenditures as a percentage of personal incomes, or an increase in the percentage of corporate profits distributed to shareholders, or both.

These are questions of degree. There seems little doubt that both saving and investment will continue to grow on a sufficient scale to provide financial institutions as a group with the pleasant prospect of continuous and substantial increases in their total assets.

A marked feature of the present century is the development of financial institutions to handle and invest sums saved out of income by a very large number of individuals. Accumulation of bank deposits and accumulation of savings in the form of insurance reserves of life insurance companies have been the two chief channels of these funds. Pension funds seem likely to develop into a third major channel in the years ahead.

An expansion of bank deposits is sometimes regarded as a symptom of inflation; indeed, some people would define inflation as simply meaning an increase in the money supply as represented by bank deposits. This seems to me to rob the word of any real meaning. Inflation in any significant sense means a rise in the general price level and while this can, it is true, be brought about by an excessive increase in the money supply, it is clear that a growing economy requires more money for the transaction of business and that an increase in the active money supply which is reasonable in relation to such requirements need not have any inflationary effect on prices. Similarly, it is to be expected that savings deposits as well as current account balances with our banks will continue to increase over the next twenty years and that monetary policy must be such as to facilitate such an expansion.

One can see the possibility of changes in the outlets for investment funds. It seems likely that residential mortgage financing, at least of new residences, will decline in relative importance. For several years recently the net increase in the supply of housing -- new houses built, plus additions by conversion of existing premises, less the number of housing units demolished -- has exceeded the rate of net family formation. This catching-up process will come to a natural end. The population statistics I have been using indicate a rate of net family formation by 1975 of about 120,000, compared with about 90,000 in recent years. So far in our history the estimated rate of scrappage of houses has not exceeded 10,000 per annum. Admittedly that figure should grow, but unless and until it does, the required volume of housing starts per annum will not increase over the actual rate of last year by more than a moderate percentage. It is possible, of course, that the cost of building houses will rise in relation to the general price level,