to expansion, the Government adapted its fiscal policy by moving in the direction of a balanced budget. Concurrently, the Bank of Canada having regard to these changed conditions, and being particularly concerned with the inflation psychosis that appeared to be spreading into Canada from the United States, took steps to stabilize the money supply.

Early in 1957 the total of currency and bank deposits in Canada was about $11.4 billion. Beginning in the summer of 1957 the Bank took steps to expand the money supply progressively to $12.3 billion in the early summer of 1958 and to $13.2 billion later in the year. In his annual report for 1958 the Governor of the Bank stated that the special circumstances of the summer of 1958 led to a somewhat greater increase in money supply than was fully warranted by strictly economic conditions, and since the first of this year the operations of the Bank of Canada have been designed to keep the money supply at a stable level.

While the total money supply has remained relatively stable over the past twelve months, except for seasonal variations, may I emphasize that there has been no freezing of the money supply. Fluctuations always occur from month to month.

It is worth recording that from the beginning of the recession to the present time the proportionate expansion of money supply in Canada has been significantly greater than in the United States. Over the past two years the United States money supply has increased 10 per cent, while ours has increased 16 per cent.

Interest Rates

The intense pressure of demand for money and credit has had its effects on the cost of borrowing, and the curve of interest yields over the past three years reflects the changing economic conditions. This curve of interest rates reached a peak in mid-1957, dropped off sharply to the mid-summer of 1958, rose sharply up to August of this year, and has been showing a mixed trend during the past six or eight weeks.

This rise in interest rates is not just a Canadian phenomenon; the same trend exists in the United States, and the spread between Canadian and American interest rates has followed a fairly consistent pattern.

The rise in interest rates and the consequential decline in bond prices has been the result of two main influences -- the large increases in net new borrowing through the sale of securities, and the heavy selling of bonds by the chartered banks in order to acquire cash for making business loans to their customers.