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THE ECONOMY: RETROSPECT AND PROSPECT

A speech by Mr. Donald M. Fleming, Minister of Finance, to the Canadian Club of Toronto, at the Royal York Hotel, on January 5, 1959.

It is a great pleasure to return to this Club of which I have been a member for so many years, and of which I had the honour for a time to be an officer.

I was very pleased when our President, last August, invited me to speak at the first meeting in this new year and to deliver a forecast of business and economic conditions for 1959. The timing of his invitation is a mark of the sagacity and foresight of the President. Perhaps if the invitation to attempt this forecast had been delivered more recently, my acceptance of it might not have been quite so readily forthcoming. Nevertheless, I do welcome this opportunity to review and assess the leading economic events and trends of 1958 and to estimate as best we can the strength and probable trend of these forces during the new year upon which we have now entered. The Roman god Janus, after whom this month is named, was always represented at the threshold of the temple with two faces, looking in opposite directions. It is appropriate that at this time of year we look back at the recent past and forward to the early future and guide our courses accordingly. The continuity of history is not changed simply by an alteration of a digit in the date.

Not a Budget Speech

I know I do not need to remind you that under our constitutional system a Minister of Finance must observe some very severe restrictions in the scope of any forecasting in which he indulges, except in his annual Budget presentation to the House of Commons. While he may and should at times comment upon the forces at work in the economy, it would be highly improper for him to relate such factors, in a public utterance, to future financial plans.

Conflicts in the Economy

We behold in the economy of this continent today a strange co-existence of conditions normally associated with inflation and conditions normally associated with deflation. I suppose there never has been a time when contrary forces were so openly at work in conflict with each other in the economy, as in recent times. In the winter of 1957-58, we witnessed a relatively high level of unemployment and evidences of recession in business activity which happily yielded in the spring of 1958 to stronger and healthier forces in the economy. Even with continuing unemployment, we must be aware of inflationary forces present in the economy. The concurrent existence of higher than normal unemployment and a disturbing inflationary potential is puzzling and confusing economic observers, not only in Canada, but, as I observed in my travels last autumn, in many other countries.

The next factor of which full account must be taken is that the Canadian economy cannot be isolated from world influences. As an exporting nation, we are sensitive to changes in the economic climate in various parts of the world; we are particularly vulnerable to financial and economic trends in the United States. We have been inescapably reminded of this factor in the year just closed.

Events of 1958

An economic review of the year 1958 must recognize the primary importance of two events, both of which augur well for the future prosperity of Canada. In the first place, it is now widely recognized that the spring of 1958 marked the bottom of the recession in North America and that economic activity is once again on the increase. Secondly, the Commonwealth Trade and Economic Conference which took place in Montreal in September confirmed our most optimistic hopes about the strength and cohesion of this great Commonwealth association of free nations. It is perhaps fair to say that the ground work was laid in Montreal for the pursuit by the Commonwealth of a more vigorous role in the larger task of bringing about a prosperous and expanding world economy.

From the Montreal Conference emerged agreement on the desirability of the restoration, as soon as possible, of convertibility of exchange, the removal of discriminations and restrictions against imports from dollar countries, and the enlargement of the resources of the International Bank and Fund. As a sequel to the Montreal Conference and the later meetings at New Delhi has come a gratifying series of recent announcements. The United Kingdom and other countries of Europe have taken important steps toward convertibility and removal of discrimination, and it now seems assured that the resources of both the Bank and Fund will soon be substantially increased. These important developments promise bright opportunities for energetic

Canadian exporters and should go far to fulfil the goal of the Montreal Conference, "an expanding Commonwealth in an expanding world economy".

To obtain a perspective on developments during 1958, it is necessary to refer very briefly to the overall economic trends during recent years. The record-breaking expansion in Canada in 1955 and 1956 had been characterized by an immense business capital investment boom which had its origin in a rapidly rising world demand for industrial materials. In early 1957 it became apparent that many commodity markets were moving into a position of over-supply. This had the effect of dampening plans for further expansion in the resource industries, and as the mood of caution developed it spread to other industries. By the end of 1957, inventory liquidation began to make itself felt, with the result that a portion of total demand was being met from existing stocks rather than from new production.

These developments led to a noticeable decline in economic activity, particularly in the durable goods manufacturing sector. By December 1957, industrial production had fallen 7 per cent below peak levels. After a short period of hesitation, output began to show some strengthening in April 1958, and in the third quarter of 1958 industrial production was at a level about 2 per cent above the previous low point. Industrial employment, after adjustment for seasonal variation, declined between August 1957 and March 1958, but gained during the succeeding six months.

The inventory liquidation which prevailed in 1957 gave way in recent months to inventory accumulation.

Canadian experience was, to a marked extent, influenced by economic conditions abroad. The industrial countries of Western Europe underwent a period of slackening growth in 1957 and 1958, and there was a short but relatively sharp economic recession in the United States. These factors were reflected in a reduction of the demand for raw materials from third countries, and the consequent decline in foreign earnings, particularly for countries dependent on primary production, had an adverse effect on the international trade in industrial goods.

Events in the United States have, of course, an important bearing on world economic conditions and especially on Canadian economic developments because of the large-scale movement of goods, services and capital between our two countries. It is therefore reassuring to see that during the course of 1958 the United States economy has been making a firm recovery, and it is encouraging to note that qualified commentators in the United States are almost unanimous in predicting a sustained and accelerating upswing in 1959. At the same time, it is a fact of some importance that the recent contraction was more severe in the United States than in Canada. Industrial production in the United States fell by about 14 per cent before the decline was reversed, compared to a drop in output about half as large in this country.

Throughout the post-war period, population growth and the discovery of rich resources exerted a strong impetus on the Canadian economy, and these influences continued to be felt during 1958 despite the difficulties experienced since early 1957. Indeed, a variety of factors were at work, sustaining total Canadian production during the recent recession and contributing towards the current recovery. The most important of these were:- an all-time record in consumer spending; an all-time record in residential construction; an all-time record in our export trade; and, last but not least, a large and determined effort on the part of the Government to counteract slackness in the private sector of the economy through public works and other constructive measures.

Despite lagging production and employment, there was an almost continuous rise in personal incomes in 1957 and 1958. This made it possible for Canadians to expand their purchases of consumer goods and services while putting aside a relatively large proportion of their earnings in the form of savings. In the first nine months of 1958, personal incomes were 5 per cent higher than in the same period of 1957. This strength, in turn, contributed to a rise of 4 per cent in consumer outlays in the first nine months of 1958 compared with a year earlier. To an important extent, personal incomes were supported by substantially higher transfer payments from government, including increases in old age pensions, veterans' benefits, family allowances and unemployment insurance as well as assistance payments.

Residential construction, largely because of a shortage of mortgage funds, had declined severely in the second half of 1956 and first half of 1957. In the second half of 1957, the competition for loan funds from other investment outlets became less intense, and over half a billion dollars of government funds were made available to augment housing loans supplied by private lenders. Additional stimulus was provided by new federal legislation reducing down payments and lowering income eligibility requirements on homes financed under the National Housing Act. The actions taken by the Government in the field of housing were a major factor in bringing about a record level of housing starts for the twelve months' period beginning in the fourth quarter of 1957. In the first nine months of 1958, expenditures on residential construction were 28 per cent higher than in the same period of 1957. This increase, together with higher outlays by governments and institutions on community facilities, offset the greater part of the decline in business capital expenditures.

Notwithstanding the weakening of world markets in general and the downturn in the United States in particular, total Canadian export sales have been well maintained and for the first eleven months of 1958 slightly exceeded those in the same period in the previous year. Larger sales of wheat, beef, uranium, aircraft and farm implements were sufficient to balance the declines which occurred in the export of industrial materials. Stability in our exports was accompanied by a substantial reduction in imports, largely due to the fall in demand for investment goods. The decline in imports meant, of course, that the burden of economic adjustment in Canada was shared to some extent by our foreign suppliers. As a result of these overall trends the Canadian trade deficit for 1958 will be substantially reduced, and will indeed be lower than at any time in the last five years. The deficit in our trade with the United States will be little more than half of what it was in 1957.

In addition to the comprehensive federal programme in support of housing, the substantially higher government expenditures in the social security field and increased fiscal payments to the provinces, there were also widespread federal tax reductions during the last twelve months affecting the business community, provinces, municipalities and the individual taxpayer. Besides these measures, which served to underwrite purchasing power and thus strengthened production and employment, the Federal Government has made available to the provinces additional financial assistance for resource development. Furthermore, in the federal sphere the Government embarked on a greatly enlarged public works programme. Special encouragement has been given to construction work carried out during the winter months.

Finally, gross national product in 1958 attained the record figure of $32 billion, precisely as was estimated last June in the budget presentation.

Canada Conversion Loan 1958 and the Bond Market

The principal event in Canadian financial history in 1958 was the Canada Conversion Loan operation. It was the largest and, I think I may say, the most successful financial operation in Canada's history. Let me remind you of the situation in which the decision was taken last summer to embark on this undertaking.

In April 1958, the rising trend in bond prices was arrested. Indications of economic recovery appeared, with its prospective concomitant of a growing demand for money from non-government sources. In the United States, worry about the size of the Government's deficit and borrowing requirements and fears of inflation emerged at an early stage, and a sharp and continuing decline in bond prices set in.

The last reduction in the discount rate of the Federal Reserve Banks of the United States was made on April 18. Bond prices in that country hit their peak on April 21. A decline then set in which was temporarily interrupted in the latter half of May, but then continued with little interruption until October 3. A further decline in bond prices began in the last week of November and has continued in that country up to the present time.

It is not to be expected that Canadian bond prices will always follow United States prices even in direction over short intervals, let alone in degree of movement, but undoubtedly developments in the United States are bound sooner or later to have a weighty influence on developments in Canada. And so it has been in 1958.

The average maturity of the public debt had been shortening for several years, both in the United States and Canada. The large volume of securities falling due for repayment each year was a matter of concern to fiscal authorities in both countries, and a serious handicap to the sale of new issues for cash in a period of government deficits.

By the end of June the market atmosphere was very unfavourable to new financing, yet the Government of Canada needed large sums of new money in the immediate future. Funds could be obtained as a last resort from the banks, with the Bank of Canada providing increased cash reserves to the chartered banks, but after the large scale purchases of government securities by the banks and corresponding monetary expansion in the preceding twelve months, this would have been regarded as dangerously inflationary, unless other steps could be taken simultaneously to deal with the public debt structure and make possible the sale of future issues of government bonds to non-bank investors. At the same time, some way had to be found to reduce the heavy proportion of short-term bonds and increase substantially the proportion of long-term bonds.

The five victory loans totalling $6,416 million had ultimate maturity dates between January 1, 1959 and September 1, 1966. In addition, all these issues were callable on or before September 1, 1961. This prospect, in addition to non-victory loan maturities and the need for heavy new borrowings, made debt re-organization imperative, if a high degree of confusion and demoralization of the bond market was to be avoided and a sound basis created for financing Canada's expansion and development. The conversion of all five victory loan issues was more equitable, more efficient and less costly than a piece-meal approach.

Fundamental to the project was the idea that it would be easier to sell the public long-term bonds in exchange for bonds which they already held, than to sell them long-term bonds for cash. The prospective cash requirements of the Canadian Government for several years ahead were also a major consideration.

It was urgently important to improve the Government debt structure, to reduce the overhang of refinancing which would have to be done in addition to new money financing, and to put as much of the Government's debt as possible on a long-term basis.

The terms of the Conversion Loan were developed on the best advice, having regard for the objective, the erosion which had occurred in the market and the measures necessary to attract public investment in the long-term sector. The Conversion Loan was an overwhelming success. A total of more than $5,803 million, or more than 90 per cent of the outstanding victory bonds, was converted.

The interest rates set on the new Conversion Loan bonds reflected the market yields prevailing at the time, while taking into account the size of the operation. Exaggerated and distorted statements have been made as to the burden which these higher Conversion Loan interest rates will impose. Such statements erroneously assume that each victory loan issue could have been refunded on maturity at a 3 per cent interest rate. The evidence is all to the contrary, especially having regard to the fact that the overhang on the market would still have persisted. Rates at the time of such refundings would almost certainly have been higher than is now the case.

The coupon rate on all of the victory loans was 3 per cent. The average coupon rate on all of the bonds converted is now 3.83 per cent. Since 61 per cent of the conversions went into the 14-year and 25-year maturities, and since, having regard to call dates, all of the victory loans were of three years or less maturity, this is a very satisfactory average coupon rate. The interest payable on the $6,416 million of bonds before conversion was $192,480,000. It is now $240,705,000 -- an increase of $48,225,000 or about 25 per cent.

The Conversion Loan was a constructive and stabilizing factor in the market, particularly in the long-term sector. The benefits of this influence accrue to provincial and municipal borrowers who would otherwise have had to face a high rate structure inevitably resulting from the uncertainty and imminence of these huge maturities overhanging the market.

I have said that the Conversion operation was an overwhelming success. It has earned the outspoken admiration of the governments of other countries. This success was achieved with the full co-operation of the Bank of Canada. Before the conversion, only 17 per cent of the Government of Canada's debt other than Savings Bonds was in maturities of over 10 years; after the conversion, fully 43 per cent was in such maturities. Before the conversion, 39 per cent of the debt other than Savings Bonds was in market issues with maturities of less than two years; after the conversion, 25 per cent was in such issues. The average maturity of the public debt other than Savings Bonds was lengthened from 6 1/6 years to 10 1/2 years in Canada, and is now double the comparable average maturity in the United States.

While prices of government bonds have declined in the last two months, the benefits of the Conversion Loan operation continue. I should add a comment on the market price quotations on the new Conversion bonds.

The Government at no time said it would support the current market prices on the Conversion Loan. While the Bank of Canada, acting as the Government's fiscal agent, normally operates in a manner to stabilize the "after-market" for a short period after each new loan, it is not the Government's policy to "support the bond market" over longer periods. The Government's obligation is to pay the fixed rate of interest on the Conversion Loan bonds and redeem them in full at maturity.

Far from having given any indication of supporting the market price of the Conversion Loan, the Government expressly disclaimed any such undertaking in the House of Commons. It is the play of forces in the market which determines the day-to-day price of bonds. It happens that, largely as a result of the continued erosion of the United States bond market, there have been weakening effects on market offerings for government issues in Canada. There is no way of insulating the Canadian bond market from such influences, but, had it not been for the constructive effects of the refunding represented by the Conversion Loan and its overwhelming success, the Canadian market would undoubtedly have displayed much more weakness than is today evident.

The fact clearly emerges that the recent decline in the bond market was in no sense attributable to the Conversion Loan, but has occurred in spite of it. With the exception of the period during the Conversion Loan campaign and immediately following it, the decline in government bond prices in Canada has paralleled, but has not been as extensive as the decline in the United States.

In the longest-term category United States bonds declined 12½ points from April to December, while Canada's dropped 11½ points. In the mid-term field the decline in Canada was distinctly less than in the United States. Thus United States 68's declined 10½ points in this period while Canada 68's declined less than 7½ points. The removal of the bulk of the Canada 3's of '63 and '66 from the market as a result of the conversion operation is the chief reason for this relevant difference in mid-term in bond price changes.

In Canada the longest victory loan (3 per cent 1966) was not completely converted, and its market price declined over the period in question from 97.50 in April, to 94.50 in early July, and to 92.13 at the end of December, a decline of about $5\frac{1}{2}$ points. However, the typical holder of this victory bond converted into the new $4\frac{1}{4}$ per cent 1972 or $4\frac{1}{2}$ per cent 1983 which on December 31st traded at 95.63. His new bond is thus about a point higher than his old bond just before the conversion and is paying him 50 per cent greater interest.

The American holder of the last United States victory loan ($2\frac{1}{2}$ per cent 1972) watched the market price of his bond decline from 97.38 in April to 85.81 at the year end, a total decline of more than $11\frac{1}{2}$ points over the period, and at the end of that time he still possessed a bond paying $2\frac{1}{2}$ per cent interest.

It remains to be added that in the eleven-month period, January to November, new issues of provincial government bonds in 1958 payable in Canadian dollars equalled in amount those of 1957, and were 60 per cent larger than in 1956, and marketings of new issues of municipal bonds payable in Canadian dollars were 74 per cent larger in 1958 than in 1957, and 32 per cent larger than in 1956. Marketings of corporate bonds in 1958 declined somewhat, as compared with 1957 and 1956.

Before I leave the subject of debt management and the bond market, let me paraphrase in Canadian terms a passage from a recent speech by the Honourable Robert Anderson, United States Secretary of the Treasury:-

"All too often these problems are regarded as something of concern only to the Treasury or involving only those engaged in security transactions. That, of course, is not true. The influence of the national debt and the way in which it is handled penetrates every corner of Canadian economic society. The volume of debt financing that is required, the distribution of the debt in length of maturity and ownership, affect the whole scheme of individual, corporate, municipal, and provincial financing, and bear a significant relationship to how we accomplish the economic goals of a free society.

"There is more involved here than consideration of equity and profit for the holders of securities. Debt management is at the heart of the whole problem of national thrift. It is a major part of the responsibility resting on a competitive society for maintaining monetary integrity, institutional liquidity, and the achievement of growth. Decisions bearing on the management of the debt touch the lives of every individual of our nation."

Inflation

The air has been filled of late with talk of inflation. It is said that the fear of inflation is disturbing confidence in Canada's financial outlook. If it is, the condition is certainly not confined to Canada. The United States is displaying all of the symptoms which are said to exist at present in Canada.

I do not deplore the current evidence of concern over inflation. On the contrary, I think it is a healthy sign that people are showing concern for the preservation of the purchasing power of the Canadian dollar. That degree of public concern will, I trust, assist governments and others in grappling with the problem. I am concerned, however, that the discussion of this subject should be realistic and balanced. The danger of inflation exists, as it has existed for the last twenty years. We will not, however, overcome it by exaggerating it beyond all recognition.

Indeed, just as a year ago gloomy and exaggerated talk about recession and unemployment actually enlarged the dimensions of these problems by disturbing confidence, so we can today actually bring on some of the feared effects of inflation by yielding to an unwarranted inflation psychology. The current situation is certainly not one of overt inflation but of the fear of inflation. Inflation has been defined as "too many dollars chasing too few goods". There is, however, certainly no scarcity of goods in Canada. The problem with respect to most products and commodities is that we have surpluses of them.

One would expect to find inflation reflected in the Consumer Price Index. The Index in December, however, showed a slight reduction. Over the last year the Index has risen only 2.5 per cent. How modest is this rise may be seen when it is compared with rises of 6 per cent in 1946, 15 per cent in 1947, 7 per cent in 1948, and 10 per cent in 1951. Of the slight increase in 1958 little was in the prices of goods -- food, fuel or clothing. The greater part of it was in the cost of services, especially health care, personal care and recreation.

One would also expect to find inflation reflected in the Wholesale Price Index. However, the general Wholesale Price Index is the same as it was a year ago. It is also 16 points or 7 per cent below the 1951 figure.

The condition with which inflation has currently been associated is an increase in money supply, that is, the total of currency in circulation and deposits in the chartered banks. In the twelve-month period commenced October 1, 1957, money supply in Canada, as so defined, increased by $1,422 million, or 12 per cent. This increase in money supply was greater than the increase in government debt.

The percentage increase in the money supply in Canada was twice as great as that in the United States. It must be admitted that this rate of monetary expansion did contribute to Canada's success in arresting the process of recession and to the stimulation of the Canadian economy in 1958.

With the Conversion Loan and the Canada Savings loan of 1958 now behind us, however, it would be undesirable to encourage or permit a substantial degree of monetary expansion in the near future. Thus we can look for a lessening of upward pressure from that source on price levels.

Indeed, in the last four months of 1958, the total volume of money in Canada increased by less than one per cent. In this same period holdings of government securities by the general public increased by over $1 billion. The Canada Savings Bond campaign in this period was the most successful in all our history. There was a net increase in the public holdings of Canada Savings Bonds in this period of $519 million. The public added $150 million to their holdings of Treasury Bills and $400 million to their holdings of marketable government bonds. On the other hand, holdings of government securities by the banking system declined by $450 million. Thus the earlier liquidation of government securities by the general public has in recent months been halted and indeed reversed. These facts should have a reassuring effect upon those who have been concerned over the expansion of money supply during the twelve-month period ended last September 30.

There is no evidence in these recent events of themselves to justify anxiety over inflation. I am aware, however, of concern over the long-term trend. Since 1946 the Canadian dollar, as measured by the Consumer Price Index, has lost forty cents of its purchasing power. Nearly all of that loss occurred prior to 1952; relatively little of it occurred in the last two years. The present problem of inflation arises in its creeping form.

I think I have been as outspoken as anyone in warning the Canadian public of the dangers of inflation. It is a stealthy thief, reducing the value of savings, fixed incomes, insurance policies, bonds, pensions, mortgages. I hope the Canadian people will always be on their guard against inflation. It is well to remind ourselves, however, that there is little value in deploring inflation while at the same time seeking the illusory, will-of-the-wisp advantages it appears to offer.

It is also well for us to realize precisely where responsibility lies in this regard. It is temptingly easy for individuals to place the full blame and responsibility on the government or governments. The fact is that in a free economy every citizen has a responsibility to play his part in the maintenance of the stability and purchasing power of the Canadian currency. This solemn duty rests upon employers, employees and self-employed. I repeat the stern warning which I issued in my budget speech on June 17th last:-

"Moreover, I confess my concern over costs of production and prices in Canada. Only by keeping our costs of production in line with those of our competitors can we hope to achieve expanding employment and progressive improvement in our standard of living.

"We are in danger of becoming a high-cost economy. Such a prospect is particularly perilous in the case of a country like Canada which must sell so much of its production in markets abroad. Moreover, Canadian producers are encountering increasing difficulty in retaining their domestic market in the face of keen competition from abroad. Many of them under these circumstances turn to the Government for a solution of their cost problem.

"In a free society there is no simple formula by which the government can maintain stable prices and there is a limit to what governments can do to assist producers to hold down their costs of production. A wise government can, of course, help to promote an environment which is conducive to price stability and this Government gives a high place to that duty; but to an important extent, prices are the result of competition among the various economic groups which compose our nation, each striving for a greater share of the national product. I echo the warnings issued by the Prime Minister, Mr. Diefenbaker, to all sections of the Canadian people in appealing to all, whether e employers, employees or self-employed, to have regard for the general interest in the returns they seek for their services and products. In a free society there is no omnipotent arbitrator who can set prices and wages at stable levels. One must depend upon the sense of responsibility of free men and women not to demand more than their fair share of the national income. As I have said on other occasions, increases in incomes can be justified by increased productivity, and by increased productivity alone."

There are those who ascribe to the Government powers which it does not possess, and which, if it did possess them it ought not to exercise lest the loss of freedom should result. Some of the panaceas which I am asked to adopt would involve such a regimentation of the Canadian economy as would, I trust, be intolerable to the Canadian people in time of peace. In a free economy in time of peace, the Government cannot compel the freezing of costs or prices.

I have reserved to this point my comments on the responsibility of the government in its own proper field. Government policies undoubtedly can and do affect the economic forces which have either inflationary or anti-inflationary consequences. I suspect at times that the influence of government policy on these forces is exaggerated in the minds of many people, but I have no wish to deny or evade the responsibility of governments in this regard.

The policy of the Canadian Government is quite clear. It was stated by the Prime Minister and myself on July 14th when launching the Conversion Loan campaign. On that occasion he said:

"One of the primary advantages which will, I am sure, commend itself to all of you, is that it, (the Conversion Loan) is in every sense anti-inflationary. It is, even more definitely, a sound money policy. .... I want to emphasize again at this time that the preservation of a sound currency and the maintenance of stability in the value of the dollar are matters to which the Government attaches the greatest importance."

On the same occasion I stated:

"Through this Canada Conversion Loan the Government is reaffirming its determination to follow policies that will maintain the soundness of our currency and the purchasing power of your dollar."

This remains, let it be said, the policy of the Government.

I do not underrate the risks of inflation. I am keenly aware of them, and it is well that the public should be concerned about them. Our aim must be to achieve a sustainable rate of growth in terms of employment, development of resources and the maintenance of the purchasing power of the Canadian dollar. Inflation is not inevitable. It can be controlled if governments at all levels, and business men, and labour, and farmers and the ordinary man in the street all have the self-denying will to combat it.

Some of the policies which the present Government has followed have certainly been deliberately calculated to stimulate the economy with a view to enlarging employment opportunities. Unemployment still gives us deep concern, but we are now convinced that the proportions of the unemployment problem this winter will be smaller than last and that 1959 will witness added strength and activity in the Canadian economy. I am not predicting any sudden boom; indeed, I hope that recovery will rather proceed at a steady and sure pace. Such progress will enable the Government to direct its efforts more definitely toward curbing inflationary forces in the economy, so far as the Government has power to do so.

The expenses of Government are high. The Canadian people continue to demand a high standard of services and social benefits. These must be paid for. I wish that fact were always remembered. After people demand and approve expenditures on their individual merits there is little use deploring them in their aggregate. In 1959, for example, we shall be facing the increased burden of a full twelve months' operation of the new national hospital insurance scheme. Other outlays, whether for services or benefits, advance proportionately with the increases in our population. Nevertheless, the Treasury Board in its current review of estimates is, I assure you, applying a firm hand to controllable expenditure.

I was, as you know, obliged to budget this year for a substantial deficit. I regretted the conditions which made it necessary, but it was under the circumstances the soundest of the limited choices open to the Government in June, 1958. I deplore the loose and irresponsible talk which is bandied about concerning the size of this anticipated deficit. I hear and read talk of "The billion dollar deficit" and "the more than a billion deficit". Last summer I gave Parliament an estimate of $700 million as the amount of the deficit. Today at the end of nine months of the present fiscal year I see no reason to depart materially from this estimate.

This is the open season for rumours and speculation as to what the next Budget may contain. I do not, however, recall a time when I have seen so much sheer speculation on this interesting subject. Let me dispose of all of these mischievous rumours by saying that at this early stage no budget plans have been formulated. No speculation has any right to attempt to shelter itself under the Department of Finance, for no statement has been issued from the Department bearing on our budget plans in any form. There has been no leak from the Department and any statement alleging a leak is entirely without foundation.

Conclusion

1958 was a year of abnormal unemployment and of soft spots in certain sectors of the Canadian economy. It will be remembered also as a year when recession was arrested and the underlying strength of the Canadian economy asserted itself in a gratifying recovery. Notwithstanding the setbacks, 1958 deserves to be remembered as a year marked by many important achievements.

1959 begins with many early advantages over 1958. The domestic improvement is matched by an improvement in conditions in the United States and abroad which will undoubtedly benefit Canada.

The propects before this country are dazzlingly bright. There never was a time when Canadians had more reason for confidence in their country and her future. Canadians are not a mercurial people. At their best they are steady, stable and self-reliant. The Canadian economy has its problems, but it is sound and strong. Canada remains the best investment in the world.

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