

ANNEX III

STATEMENTS MADE BEFORE THE COMMITTEE ON MONETARY AND FINANCIAL QUESTIONS

STATEMENT BY THE PRIME MINISTER OF CANADA (THE RIGHT HON. R. B. BENNETT)

The question we have to discuss this afternoon divides itself into two heads—the problem of price levels and the problem of stabilizing exchange rates. It will not, however, be necessary for me to deal at great length with either of these phases.

Canada, like all other countries, has suffered severely from the calamitous fall in commodity prices. Since August, 1929, our index of wholesale prices has fallen 32 per cent and is now only 4 per cent above the pre-war level. This means that the dollar has increased in purchasing power by 48 per cent. As a result of this rapid and persistent decline in the general price level and the inevitable disparities created between different kinds of prices, normal business relationships have been disrupted, profit margins have disappeared in many cases, enterprise has been discouraged, unemployment has steadily increased, the fiscal problems of all our public bodies have been greatly aggravated, and the burden of fixed charges is exerting an almost intolerable pressure upon some of the strategic elements in our national economy.

Only a few facts need be cited to illustrate the way in which the traditional alignment of economic forces in this country have been sundered by the different rates of speed at which the various parts of our price structure have succumbed to the deflationary pressure of falling prices.

While wholesale prices have been falling 32 per cent, our cost of living index number has fallen only 19 per cent. On this basis the purchasing power of the dollar has increased 24 per cent.

Prices of raw materials, here as elsewhere, have fallen much more rapidly than wholesale prices generally. Thus, prices of raw and partly manufactured materials have fallen 47·3 per cent since August, 1929, whereas prices of fully and chiefly manufactured articles have declined only 26·0 per cent. Farm products have been particularly hard hit, the decline averaging 56·4 per cent. Wheat, the staple of the Western farmer, has fallen from an average price of \$1.50 per bushel in 1926 to 55 cents in June, 1932, a drop of 63·3 per cent, giving an index of 36·7 as compared with one of 70 for manufactured goods at wholesale.

Established relationships between the various commodity groups have been dislocated. This may be briefly indicated by the following index numbers for the eight important groups of commodities into which our wholesale price index is divided: Vegetable products, 54·3; non-ferrous metals and their products, 56·6; animals and their products, 57·6; fibres, textiles and textile products, 69·3; wood, wood products and paper, 72·1; chemicals and allied products, 82·6; non-metallic minerals and their products, 86·0; and iron and its products, 86·6. The general index stands at 66·6, and the base year for all these indexes is 1926. The wide range in the variations since 1926 is apparent.

Of special importance is the fact that our export prices have fallen more rapidly than our import prices. Thus between 1929 and 1931 our index of export values declined 30·5 per cent whereas the import values index fell only 22·5 per cent. In other words it took 11 per cent more exports last year to buy the same quantity of imports as in 1929.

While nearly all other types of prices have been declining more or less rapidly, we have seen a significant rise in taxes—federal, provincial and municipal—and in interest rates or the cost of capital. The Canadian indicator of the yield on high grade, long-term bonds has risen from 93·9 in December, 1930, to 113·2 in May, 1932. In January of this year a high of 119·8 was reached.

Interest charges represent the most important of the fixed or semi-rigid elements in our cost structure. If prices remain on their present level, such charges will constitute an intolerable or almost intolerable burden in many cases.