Reasonable Price Stability.—Price stability has been defined by the Council in the following terms:—

> "A satisfactory degree of price and cost stability would exist if, in the period to 1970, average annual increases in prices and costs could be held within the limits of the 1953-63 experience—for example, in this period, the average annual increases in consumer prices and in the prices of all goods and services produced in Canada were 1.4 p.c. and 2.0 p.c. respectively, but with moderate year-to-year variations around these rates. An important condition for the attainment of this goal will be the achievement and maintenance of a reasonable price stability abroad and especially in the United States."

There was an extended period of generally good performance on price and cost stability over the 1961-66 expansion. Only when the previous economic slack had disappeared and the economy approached close to potential output at a time of rapid expansion in final demand in late 1965 and early 1966, did price increases become persistent and pervasive. The GNP implicit price index rose at the rate of 4.6 p.c. between 1965 and 1966. During 1966, price and cost pressures eased.

In its projections to 1970, the Council assumed that the GNP price index would rise at an average annual rate of 2 p.c. The Council said it would regard this as consistent with the attainment of a satisfactory degree of price and cost stability over the medium-term future, at least under conditions of reasonable price stability abroad, particularly in the United States. Such an average rate of price increase would imply that some demand components—government expenditures, housing, and business investment in plant and equipment—would rise at a somewhat faster rate than the total and that the rate of advance in consumer prices and in export and import prices would be somewhat less. The Council added:—

> "We recognize that the achievement of this degree of price and cost stability will be extraordinarily difficult under conditions of high demand and high employment, as has been amply demonstrated by developments of the past three years. However, we continue to regard it as one of the basic goals towards which Canadians should continue to strive in the conduct of their economic affairs, with particular emphasis on longer-range policies designed to deal with basic structural and regional problems—that is, policies which would facilitate the consistent achievement of both our employment and price goals."

A Viable Balance of Payments.—After careful reappraisal in 1967, the Council concluded that the balance-of-payments goal set out in 1964 was appropriately formulated in terms of a current account deficit (and accompanying net capital inflow) at potential input in 1970 in the order of $1,500,000,000 to $2,000,000,000 and that this goal is still relevant.

The current account deficit was $1,100,000,000 in 1966. It is estimated that this deficit will widen somewhat over the 1966-70 period and that, at potential output in 1970, it could be in the neighbourhood of $1,700,000,000. The total deficit will be accounted for entirely by the deficit on services, which is projected to rise from $1,500,000,000 in 1966 to $1,900,000,000 at potential output in 1970. A small surplus on merchandise trade would continue.

The current account deficit of $1,700,000,000 at potential output in 1970 would represent about 2.2 p.c. of GNP, a smaller reliance on the net import of resources from abroad than in several past periods of strong economic growth. The equivalent net capital inflow would also be correspondingly small in relation to GNP and would represent a reduced reliance on net foreign capital inflows in relation both to the domestic investment and domestic savings, compared with most previous periods of strong Canadian economic growth. At potential output in 1970, net capital inflows would make up less than 10 p.c. of the estimated total demand for savings of $18,100,000,000. However, the Council observed that the $1,700,000,000 capital inflow would still be a very sizable requirement for external financing in circumstances of a prevailing world shortage of capital, uncertainties about moves to strengthen the international monetary system, and possibly continuing