Interest rates. High interest rates in Canada compared to the United States and Europe encouraged borrowers to raise capital outside the country. The elevated short-term rates in Canada were in large measure a direct consequence of the efforts of monetary authorities to reduce the rate of expansion of the money supply. While the general movement in short-term interest rates was downward over the year, the decline in short-term rates at the outset of the year was reversed by Bank of Canada operations and short-term interest rates peaked in March. In the autumn when the rate of growth of the narrowly defined money supply was below the target range of the Bank of Canada, its policies were designed to accommodate a downward adjustment in interest rates. Over the year as a whole, short-term rates fell by about 100 basis points; the 90-day finance paper rate, for example, fell from 9.34% in December 1975 to 8.16% by the close of 1976. Long-term interest rates also moved downward over the year, with the rate on long-term federal government securities falling by 102 basis points.

A summary of the financial market for 1975 and 1976 is presented in Table 21.38. More detailed data for individual sectors and summary matrices are available in the quarterly Statistics Canada publication *Financial flow accounts* (Catalogue No. 13-002).

The anti-inflation program 21.7

In the fall of 1975, despite a 7% unemployment rate, Canada was in the grip of inflation. The consumer price index was 10.6% above its level a year earlier, but wage and salary increases were even higher than was consistent with the rate of price increases, with average base wage rate increases over 20% for the first year of new collective agreements. In the early 1970s, almost all industrial countries including Canada had followed policies that led to an economic boom. The resulting demand pressures, coupled with poor harvests in many countries and with the sharp increase in oil prices, stimulated the greatest commodity price explosion since the early 1950s.

By 1974 the world economic cycle was turning, and major industrial economies were sliding into a recession. In Canada, policies were directed toward maintaining output and employment in the face of this recession. With real income and employment falling sharply in many countries, output and incomes held up well in Canada and employment continued to rise. Rates of price and income increase, falling elsewhere by mid-1975, were not doing so in Canada, where costs were increasing faster than in other countries competing for international markets. Through the first half of 1975, labour costs per unit of output in Canada were up 17.5% compared to 11% in the United States.

The prices of some goods had begun to recede in late 1974, but by the middle of 1975 overall rates of increase in consumer prices were again rising. Large increases in municipal taxes, and in the prices of items such as insurance, housing and energy were anticipated. Some Canadian workers were asking for unprecedented wage increases to make up for erosion of their purchasing power and to protect themselves against anticipated escalation in the rate of inflation. Businessmen, unsure about future cost increases, were raising prices in anticipation of further increases in wages and material costs.

Inflation was a major threat. Anti-inflation policies were designed to bring the rate of inflation down without introducing restrictive monetary and fiscal policies that could cause a sharp decline in output and a further increase in the unemployment rate. These policies were set out in the white paper "Attack on inflation", released October 14, 1975.

The program to reduce inflation 21.7.1

The essential element of the program was gradual monetary and fiscal restraint. To ensure restraint by both business and labour, guidelines to restrict price and wage increases were enacted. Administrative machinery including the Anti-