It is important to remember that several of the commodities named by Mr. Tucker, have an important domestic market as well as export markets. There is no way of forecasting the exact effect of currency depreciation upon the price which Canadian consumers are willing to pay.

Even if it were possible to calculate the extra dollar income which Canadian farmers might receive as a result of a 25 per cent currency depreciation, it would be very misleading to regard the result as being the benefit received by farmers from that policy. " . . . when allowance was made for the rise in prices of imported goods and goods made from imported materials and the increase in interest charges payable in foreign currencies, the net benefit by export industries would be very much less than the amount of depreciation. Any net benefit that might be retained would be temporary, existing only during the period in which other costs lagged behind the general rise in prices. Some benefit in relation to debt might be retained, but an improvement in this respect could be obtained by means of internal adjustments either of a monetary or non-monetary character." I quote from the earlier memorandum to which I referred.

The major effect of a policy of currency depreciation is an internal transfer; but it may involve a net loss to the country as a whole by giving something away to other countries, particularly if adopted under the conditions which have existed in Canada during the last few years.

It is with regret that I have to state that it is impossible to give a specific answer to Mr. Tucker's question, because it is one of a number of questions to which such an answer would simplify the problems of monetary management.

(*e*) Maintenance of the Canadian Dollar Exchange Value

(Submitted by Mr. Towers in reply to Mr. Tucker)

(Volume 8, page 200)

The next question of Mr. Tucker I have paraphrased slightly, perhaps, and the question is approximately as follows: Why has the Bank of Canada maintained the exchange value of the Canadian dollar in terms of other currencies rather than following a policy of keeping the dollar at a discount?

During the last few years the exchange value of the Canadian dollar has been maintained in terms of other currencies by the naturally strong position of the Canadian balance of payments—not because of support derived from the Bank of Canada. To have produced a discount in terms of other currencies, it would have been necessary to take some positive action in the exchange market *or* to have created such an internal situation as to have weakened the balance of payments position.

As to the factors, which should be taken into consideration before deciding upon a policy of this kind, I do not believe I can add anything to what I said in the memorandum contained in the minutes of proceedings and evidence of the meeting on March 31, pages 84 and 85. From that memorandum I should like to quote the following passage:—

> Currency depreciation would increase the dollar value of the Canadian national income by creating a higher level of prices, but its effect upon *real* national income would depend on the degree of stimulus given to economic activity by the internal realignment of costs and prices. An increase of export income in Canadian dollars achieved at the cost of paying a correspondingly larger amount for imports, debt charges and other foreign obligations would not *per se* raise the real income in Canada.
>
> The degree of stimulus imparted to domestic economic activity by an increase in prices relative to costs would depend upon the reaction of