

Income Tax Act

the production of the country it will be found impossible to meet our expenses by taxation alone, because if we do that we are apt to face the law of diminishing returns. We shall then have to indulge in borrowing, and those borrowings should be from the savings of the people and from the savings of the people alone.

What did we do in the last war? We did not attempt to finance that war by borrowing the savings of the people. We borrowed quite heavily from the chartered banks and from the large financial corporations. We submit that when it becomes necessary to siphon off purchasing power, it should be done by compulsory savings rather than by bond issues. I say that for two reasons. When you have bond issues you have an inequitable distribution of the debt holdings, and you have absolutely no guarantee that the action you take on the day you withdraw that money from circulation will not be counteracted the very next day by the people who bought bonds taking them to the banks to cash them. That was done time and time again during the last war. People were high-pressured into buying bonds when in many cases they could not afford to buy them. In a day or two they would go to a chartered bank and cash them. The process then became inflationary.

It went even further than that. The chartered banks would say to people, "You had better buy some bonds". A man might answer that he had no money, but the manager of the chartered bank would offer to lend him the money. That was not the purpose of the bond issue. The purpose of the bond issue was to withdraw money from circulation. When the chartered banks created money for a person to buy bonds they were counteracting the very thing the government was trying to accomplish.

We submit that as soon as the government considers it necessary to start withdrawing money from circulation by means of borrowing it should be done by compulsory savings rather than by bond issues. May I point out again that during the last war, when bond issues were put out, less than one per cent of the subscribers purchased sixty per cent of the total issues, showing a most inequitable holding of the debt claims against the nation.

Let me go a step further. When you have reached the position that it is no longer possible to meet government expenditures for war purposes by taxation or by borrowing the savings of the people, then the government have to indulge in a system of monetary expansion whether they like it or not. In 1939 the former minister of finance, Mr. Ilsley, stated that once you had reached full

[Mr. Quelch.]

employment it would not be justifiable to have an expansion of money. But in spite of that statement we know that it became necessary to indulge in monetary expansion to the tune of over \$4,000 million. Once we reach the position where it is essential to have monetary expansion, then we insist that that monetary expansion should be brought about by borrowings from the Bank of Canada rather than by borrowings from the chartered banks.

It is true that in both cases it is an expansion of money. It has been argued in the past that borrowing from the Bank of Canada is far more inflationary than borrowing from the chartered banks. The only reason why former ministers of finance have argued that borrowing from the Bank of Canada is more inflationary than borrowing from the chartered banks is that when you borrow money from the Bank of Canada you put in circulation legal tender which finds its way into the tills of the chartered banks, thereby expanding the cash reserves of the chartered banks and making it possible for them to expand their loans at the rate of ten to one on the money so issued, or actually twenty to one under the Bank Act. That has been the attitude of former ministers of finance as expressed in this house, but I was quite interested to find that apparently it is not the opinion of the officials of the Bank of Canada. The officials of the Bank of Canada are not prepared to admit that borrowing from the Bank of Canada would necessarily mean that the chartered banks would immediately increase their loans up to ten times the amount of money so issued.

The reason I say that is that officials of the Bank of Canada say that all they have to do is to advise the chartered banks against an expansion in loans and they will carry out their advice. If you read the reports of the Bank of Canada I think you will see that time and again the Bank of Canada has advised the chartered banks to adopt a certain policy, and the chartered banks have adopted that policy without any legislation being passed to force them. On the other hand, if ministers of finance in the future are going to insist, in spite of that, that utilization of the Bank of Canada would be inflationary, there is a very simple way to prevent it. All that would be necessary would be to amend the Bank Act to increase the cash reserve requirements of the chartered banks so that expansion of money by the Bank of Canada could not be utilized by the chartered banks as a means of expanding loans.

In that way you would very easily offset any inflation. In that way the action of the Bank of Canada would not be any more inflationary