is a severe reflection on the fund's policy. As a matter of fact, the hoard at Fort Knox, by the very restrictions placed by the United States government upon the holding of gold by its citizens, can also be considered as sterilized or hoarded gold, not fulfilling its function in international trade. With all due respect I consider that that policy is detrimental to the world.

The scarcity of gold in international trade is not only having the restrictive effect which I have indicated, but has encouraged private barter deals and uneconomic trading at prices which have little relationship to the open market or the free economy price of the goods so traded. This further compartmentalizes trade and makes transactions more unrealistic. For example an English manufacturer who is able to get a great deal more in pounds for his produce in a sterling area country than if he sold it in the comparatively competitive economy of North America would, of course, infinitely sooner sell the goods to that sterling country, because he is allowed by the law of the United Kingdom to receive payment in sterling only. This has a bad effect on the morale of the British manufacturer and destroys his efficiency.

I do not wish to be considered critical of any other administration but as long as any country, whether it be the United Kingdom, France or even a South American republic with a favourable balance of payments, resorts to currency restrictions, quotas, embargoes, rationing or any of the other devilish devices of scarcity, there will be no prosperity in that country. No matter what glowing predictions are made in the United Kingdom there will be economic crisis after economic crisis unless and until she gives up this unrealistic and economically unsound principle.

I come now to the question of inflation and the use of gold as a deterrent to inflation. World money supply expressed in terms of United States dollars has increased from $60 billion in 1940 to $170 billion in 1950. The relationship of currencies other than North American to the United States dollar shows this increase in the money supply for non-North American countries to be far more severe. The money supply in terms of francs or pesetas, for instance, shows a far greater numerical increase. Whether the increase in the money supply is the whole cause of inflation is certainly questionable. However, it is significant that the ratio of money supply to physical production of goods bears a close relationship to price.

For instance, in Canada the cost of living, the wholesale price index and many commodity price indices have about doubled during the war decade and the money supply has increased by approximately three times, or from $1,370 billion in 1939 to $4,730 billion in February, 1952, for active deposits, or from $6,193 to $17,938 for the total of both active and inactive deposits. The physical volume of production or the gross national product has of course increased enormously since 1939, but in terms of goods it has not gone up as fast as the increase in the money supply.

Take carloadings, for example. There is now twice as much money in existence for every car loaded as there was in 1939. The cost of the goods loaded into the car has for all practical purposes also doubled. I shall not deal with the subject in any great detail as economists are not in entire agreement as to the actual relationship between the increase in the money supply and inflation. I think they are generally agreed that it is one of the major contributing factors and I suggest that the rough figures which I have given are significant.

The function of the gold standard is not to restrict economic expansion but to restrict monetary expansion not represented by physical growth in production. The return to the gold standard is the only measure which, by making currency both a medium of exchange and a store of actual value, will prevent inflation by a constantly decreasing power to purchase by the national unit of currency. This is a step which cannot be taken immediately or perhaps even in the near future. The danger of action by governmental restrictions is that they create deflation rather than disinflation. Credit restrictions produce the former condition, as recent results of the present government's policy have shown.

I have spoken on the question of inflation and the gold standard before. The gold standard is desirable, but we cannot arrive at a gold standard until we determine the price at which gold can be traded in terms of our own currency. That should not be done by government decree. Pegging the price, rigging the price of any commodity is dangerous, and doing it with regard to gold is probably the most dangerous of all.

There must be a period of time when gold can find its own level. What that price will be, I suggest, no one knows. How long it will take to find that price is also a question which cannot be answered at this time. However, when that price has been arrived at gold will tend to stabilize itself, just as I predicted the Canadian dollar would stabilize itself when it was freed from restrictions; but it will probably take longer. When that happens we can return to a fixed exchange