

(c) Ability to Carry Increased Debt with a Lower Price Level

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

(Volume 3, page 89)

I shall assume in replying to this question that Mr. Jaques was referring to an increase in the amount of interest charges payable on debts rather than to an increase in the principal amount of debts. If the interest rate declines, a larger principal amount of debt may not involve an increase in debt charges.

The burden of debt charges varies with the level of incomes rather than the level of prices. Debt charges may constitute a much heavier load when output is small and prices high than when output is large and the level of prices low.

The amount by which debt charges might increase would depend upon the concurrent change which took place in the amount of incomes. If the debt increase represented an increase in productive investment and resulted in a larger rise in incomes than in debt charges, the country's capacity to carry the increased debt would be greater. On the other hand, if an increase in debts is incurred for non-productive purposes there is no increase in incomes and the burden of debt charges rises, which is undesirable because it means an increase of fixed charges in relation to a highly variable income.

An increase in debt charges payable to foreigners or in foreign currencies is more undesirable than an increase in domestic debts for a country like Canada where variations in foreign trade may seriously affect the ability to make transfers abroad.

Domestic debt charges are an internal transfer between various groups of people. The maximum possible amount of such a transfer depends—as I have already mentioned—on the volume of income with which it is associated and on the psychological attitude of the public.

In my opinion, an increase in debt for productive purposes is desirable because it represents an increased ability to produce goods and services; no country has built up a large volume of production per capita without a great increase in productive debts. On the other hand, I believe that increasing debt for non-productive purposes is undesirable because it represents a move in the wrong direction, although it is impossible to define precise limits as to how far such an increase may go before something breaks down.

(d) Effect of Currency Depreciation on Farm Prices

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

(Volume 8, page 201)

A further question of Mr. Tucker's was: How much more would be received by Canadian farmers for wheat, butter, cheese and bacon if the Canadian dollar were at a 25 per cent discount below the pound sterling instead of at par?

Currency depreciation is a measure so far-reaching as to affect almost every aspect of the economy and it would be impossible to present a statistical analysis of its effects on any particular group. It is equally impossible to ascertain *a priori* exactly what the effect of such a policy would be and to say afterwards what the effect has been, because inevitably there are a great many unknown factors which cannot be measured.

As I mentioned in the earlier memorandum "Monetary Policy and the Price Level", currency depreciation tends to raise the level of export prices in terms of Canadian dollars; but the actual increase in price which takes place may vary considerably from the amount of depreciation.