

as a minister does he feel capable of giving a homily upon the gold standard. I can only say to my hon. friend and to the committee that that provision has remained in the statute for many years, presumably because it crystallizes in the form of legislation the best judgment of the best brains of the country as to what cover there ought to be for our note issue. I am the first to admit that it may be a debatable question. It may be subject to variation. I think that subject may be one which could with advantage be considered by the royal commission on banking, and no doubt will be. But the answer I have given, which I admit is perhaps inadequate, is the best answer I can give in the circumstances.

Mr. EULER: Then supposing the government decided to issue federal currency beyond what is allowed under that provision, it would be called inflation?

Mr. BENNETT: It could not validly be issued.

Mr. EULER: I would like to ask whether the basis of our currency, that is the percentage of gold reserve, is in accord with the basis in other countries, Great Britain, for example, or the United States?

Mr. RHODES: Our total issue to-day in its relation to gold is, I understand, in proper orthodox proportion according to the opinion of bankers and economists.

Mr. STEWART (Edmonton): That is as far as the federal issue is concerned?

Mr. RHODES: Yes.

Mr. MALCOLM: The minister referred to the gold coverage which is considered orthodox as being forty per cent of the note issue. In other words with gold at \$20 an ounce, forty per cent coverage would mean one-fiftieth of an ounce of gold for every federal dollar issued. It is said that if we got away from that orthodox ratio it would disturb our foreign exchange. In other words, if Canada issued a dollar for every one-hundredth of an ounce of gold in reserve it would injure our foreign credit? Can the minister explain why, if we are not to redeem our notes in gold. We have not enough gold in the treasury to redeem more than forty per cent, and it is purely an internal matter as to how much currency we issue, that should have any bearing at all upon our foreign credit, so long as we agree to redeem our foreign held securities in gold?

Mr. RHODES: Mr. Chairman, I should find that a very difficult question to answer. I have no doubt that the value attributed

[Mr. Rhodes.]

to our dollar by foreign countries may be governed by various factors. But I am quite certain that one of the first things they would look at, apart from their faith in the credit and integrity of Canada, would be our set-up with respect to gold coverage.

Mr. MALCOLM: That is admitted. But I submit that 75 per cent of the thinking people of Canada to-day are asking the question why our position respecting our foreign obligations, which we certainly agreed to pay in gold and which we intend to honour, should be injured by any internal arrangements as to the percentage of currency we issue to meet our domestic needs. That is the point on which I wish the minister would give the house some light. I see no connection, providing we are willing to recognize our foreign obligations in gold.

Mr. RHODES: That may be so.

Mr. EULER: I may be exposing my ignorance but I am willing to do so if I can get an answer to this question, which I think is in the minds of a great many other people. Say, for example, that we are up to the full coverage with our present gold reserve; we have issued as much federal currency as we may under the present regulation, but the government decides to issue, say, an additional \$100,000,000; that would be called inflation. I daresay our exchange with the United States would immediately suffer.

Mr. COOTE: It might improve.

Mr. EULER: But suppose, instead of issuing more currency, the government decided to issue short term treasury notes, or even bonds, which would have the disadvantage of calling for the payment of interest, I suppose that would not be called inflation. I would like to know why it is not inflation in the one case and is in the other, because they are both obligations of the government.

Mr. RHODES: Mr. Chairman, my hon. friend from North Waterloo (Mr. Euler) realizes that he is putting a purely hypothetical case when he speaks of our issuing \$100,000,000 new currency.

Mr. EULER: You might choose to do it.

Mr. RHODES: Not without coming to parliament and getting the necessary authority.

Mr. EULER: We are in parliament now.

Mr. RHODES: At the moment we are absolutely restricted and limited as to the method of issuing currency. If I understand the remaining portion of the question, to the