

The success of any course may fairly be tested by asking whether it can be permanently successful. The success of the last five years both in deficit financing and in maintaining a low interest rate makes the government authorities feel that they can go on indefinitely following the same course. But really the theory has not been fully tested. So far it has been maintained partly by appeals to patriotism, partly as a good investment, and when necessary by support in the market afforded by the Bank of Canada.

I want to digress for a moment to tell of an incident which is related of a bond dealer in the United States who was going about selling his wares after the war was over. He approached a coloured gentleman who was engaged in some kind of improvised government employment which was taking care of him, and used some well-tryed arguments. First of all he used the argument of patriotism; and the coloured gentleman said, "Boss, de war is over; don't talk to me about dat". Then the bond dealer came to his second argument, the excellence of the investment, and to this the coloured gentleman replied, "Boss, dem dat pays me what I gets for what I does will go broke".

The first of these supports, that is to say, patriotism, is no longer to be relied on to anything like the same extent. The continued low interest is going to tend to make government bonds less attractive as an investment and therefore the task of the bank might be heavier. The truth is that deficit financing and its offspring, low interest, is still untried under peacetime conditions. I suggest that they are not supported by the common sense of the man on the street, but are the financial conceptions of people living in a world inhabited not by ordinary men of hopes and fears but by that imaginary creature, the economic man.

The ordinary man on the street cannot be made to believe that interest charges can go on mounting indefinitely. He believes there can only be one end to constantly mounting debt, namely, currency instability. Moreover, while low interest rates may be very convenient for borrowing governments, there is another aspect of this question which we should not overlook. Whatever may be the blessings of low interest in some ways, let us not forget that it has important implications for those who have through life insurance or otherwise acquired security for their old age.

The policy of hammering all interest rates down to aid the government in carrying a mounting debt burden means an increase in the cost of security to the largest and most diversified group of investors in the country. Those who, aged or disabled, have provided

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for self-support from past savings find their retirement allowances cut by this policy. It means that people in modest circumstances must either make larger contributions out of current earnings or accept lower pensions at the time of retirement. It is here that cheap money strikes its hardest blow. It is here that cheap money levies a special tax on the frugal and the thrifty. Inflation can become a vicious form of taxation. Cheap money, especially occasioned by vast government spending, can become in this respect a tax also. It hits the thrifty. It hurts those who are trying to help themselves.

To sum up, the whole deficit theory of financing is based on a controlled economy. Let us face the fact that we have had a virtually controlled economy since 1939. It is not unnatural that those who have been in control should believe that they can do in peace what they did in war. I wish to point out that three of the all important aids which they had in wartime are now gone. First of all they had the insatiable demand for goods. Second they had practically unlimited spending powers. They ran up our debt from three billion to somewhere near seventeen billion. Third, they had control over both producer and consumer. They could tell the producer what to produce, what not to produce. They could tell the workman at what job he was to work. Do not let us deny that with these advantages they accomplished certain things, but the conditions which made their achievement possible no longer exist.

Do I then suggest that government should from now on take an entirely negative attitude? By no means, but what I do say is that to embark or prepare to embark on large further deficit financing when in addition to a deficit on ordinary account of \$300 million we are borrowing hundreds of millions for loans abroad, is a highly questionable proceeding.

Bound up with this matter of deficit financing is the question of security, about which it will be convenient at this point to say a few words. I doubt if there ever was a time in the history of the world when there was such an anxious urge for security and such an appalling awareness that we have not got it. There is a widespread feeling that security must come through government. Well, we have had evidence of governments providing security. Governments provided security for several years over large parts of Europe and large parts of Asia. There was security for work; work was not only obtainable; it was inescapable—the work of the slave, the kind of security the Israelites had when they worked for the ancient Egyptians. We can have that kind of security, but it is not the