

years the world has been paying the price—a colossal one. Indeed it is perhaps not too much to say that some of the roots of the present war are to be found in the world-wide unsound financing of the last war and the great economic dislocations and continuing burdens of which it was in part the cause. It is to be hoped that in the present war the world may be able to avoid a repetition of that experience.

All this is not to say that a small and carefully regulated amount of credit expansion may not be desirable in the early stages of the war in order to assist the increase of production and employment. It must be small and carefully controlled because its effects which may not appear immediately are cumulative and otherwise might get out of hand. If at the beginning of the war there are unemployed resources, some credit expansion may give an impetus to their prompt utilization. If it is carefully controlled, the expansion of production may prevent any abnormal rise in prices, confidence may be maintained and the initial impetus may be carried on and accelerated by the insistent demand that exists for supplies. However, as soon as the expansion of employment and production gets well under way and certainly before it approaches its limits, further expansion of the supply of money and credit must be stopped if the danger of progressive inflation is to be avoided. With an economy at full production and employment, the only result of expanding money and credit is to raise prices without increasing production. At such a point commences the cumulative spiral of inflation with all its deadly consequences to the economy.

It is with these fundamental considerations in mind that we have decided upon our policy of war finance. Because we believe it is the part of wisdom, we shall follow as far as may be practicable a pay-as-you-go policy. In imposing the new tax burdens which this policy will require we shall be guided by the belief that all our citizens will be ready to bear some share of the cost of the war, but we shall insist on the principle of equality of sacrifice on the basis of ability to pay. We shall not of course be able to meet all war costs by taxation, because, as already indicated, there is a limit to the taxes that can be imposed without producing inefficiency, a lack of enterprise, and serious discontent. As the first necessity is to win the war as quickly as possible and without undue cost, we cannot carry taxes beyond the point where they seriously interfere with production. But we are not prepared to be timid or lighthearted in judging where this point lies, if need arises. What we cannot meet by taxation we shall

[Mr. Ilsley.]

finance by means of borrowing from the Canadian public at rates as low as possible. There may be some who expect or fear that interest rates will rise substantially, perhaps a few who are thinking in terms of conditions during the last war. Such a view completely overlooks the vast changes that have taken place. We do not expect that any material change in interest rates from peace-time levels will be necessary to attract a sufficient portion of the large increase in savings which should be produced by the expanding production and incomes under war-time conditions. And we refuse to believe that those of our people who will benefit from the new conditions would seek to take advantage of war necessities to demand any undue increase in the interest rates which we have paid in peace-time.

I have already indicated the basis for distinguishing two major periods in our program—the initial period of expansion and preparation and the main period of full war effort. We commence the initial period immediately, and the paramount need is to get things moving as rapidly as possible in the proper direction. Our own expenditure on defence and preparation will furnish an important stimulus to the expansion of economic activity. There will be two additional sources of stimulus, first, the orders which we expect some of our allies to place in Canada for essential foodstuffs, raw materials and munitions; and secondly, the private capital expenditures which will probably be necessary in order to place our industry on an adequate footing to meet war requirements. These expenditures will probably soon be large enough to bring a rapid expansion of employment and incomes. Out of these enlarged incomes the public will be able to contribute more tax revenues and more savings. During the next few months, while we are starting the process of getting all our available resources into useful employment, the expansion in tax revenues from either existing or new sources may not provide for any very important part of our increased expenditures. We shall have to do some borrowing but the initial operation will probably be of a very short-term character and be designed to promote the immediate expansion of productive activity. It would be unwise and probably impracticable to attempt at an early stage any large borrowing operation designed to draw heavily upon public savings. Only after the initial period of expansion is well under way should we find it necessary to offer a loan for general public subscription in order that savings may be put directly to use.

By the time we have achieved the second stage of full war effort our national income will