

The large increase in the amount of money that has taken place without causing inflation, does not mean that expansion could be continued indefinitely without serious inflation. Historical precedents show that this is not only a matter of opinion and that sufficient expansion can make a currency worthless. The proper amount of expansion is a matter of judgment in which the central bank should be neither timorous nor over-bold. In practice, Canadian monetary policy has been about in line with the policy of other countries, as I illustrated a few minutes ago.

(b) Monetary Expansion to Raise the Price Level

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

(Volume 8, page 201)

Before replying to this question I should point out that while I have referred to the probable results of certain extreme policies which have been under discussion, I have not expressed any opinions as to what the future policy of the Bank of Canada should be. I have expressed the belief that a more substantial degree of monetary expansion in recent years would not have aided the country, nor would it have raised the price level unless it had been so extreme as to inspire lack of confidence and a flight from money. What the future policy should be can only be determined in the light of circumstances of the time.

My answer to the thought underlying Mr. Tucker's question is as follows:—

The importance in the Canadian price structure of export and import prices which are chiefly determined in world markets, makes it most improbable that internal monetary expansion can appreciably raise the general level of prices in this country unless the internal policy is such as to affect existing external currency alignments.

In replying to the two preceding questions I dealt with the various factors which should be taken into consideration before deciding on a policy of currency depreciation.

In any event, no monetary policy such as currency depreciation can hope to bring about more than a slight temporary improvement in the relationships between various price groups, which relationships are usually more important than the general price level. I have indicated in an earlier memorandum that the relation of primary products' prices to other prices does not appear to have been more favourable in countries which depreciated their currencies below the Canadian dollar.

I do not believe, of course, that the present level of Canadian prices is entirely satisfactory—far from it. But I do question the possibility that an intensification of the policy of domestic monetary expansion would have resulted under conditions as they have been, or would result under existing conditions, in an appreciably higher price level; omitting from consideration the rise in prices that follows lack of confidence in the currency and is desired by no one. The low level of Canadian prices in relation to pre-depression years, is chiefly the result of non-monetary factors and in my opinion an appreciable improvement in the situation depends upon non-monetary developments.