

First of all, I think that I am correct in saying that those who give consideration to this form of procedure do not wish it, if adopted, to result in inflation. No doubt they fully realize the disrupting influence of inflation and the social injustices and other hardships which it causes. A great number of Canadian people would—if they understood the situation—violently object to measures likely to produce such unfortunate results. For example, there is no reason to believe that the reaction of organized labour in Canada would be any different than in the United Kingdom and United States where labour leaders have declared vigorously against inflation.

Other countries whose governments resorted to issuing currency in order to finance government expenditures, experienced very unfortunate results. With the committee's permission, I shall not describe these experiences in detail, since the disastrous inflations of the post-war period and more recent, if less extreme, examples are a matter of common knowledge.

I believe that those who advocate issuing currency to finance government expenditures, do so in the belief that in some manner inflation may be prevented and that it will be a cheaper method of financing than borrowing or taxation.

I have already dealt—in a memorandum placed on the record at the last meeting of the committee—with a suggestion made by Mr. Tucker that the inflationary effects of financing government expenditures by means of issuing currency should be offset by raising the legal minimum cash ratio of the chartered banks. It would be repetition for me to discuss this suggestion again in detail, and perhaps it may be sufficient to say that this proposal is, in essence, a form of discriminatory public taxation which is bad because it is not graduated in accordance with ability to pay. The adjustments which it would cause would be of a most unusual and disturbing character, and would create a certain loss of public confidence.

When it is claimed that a proposal of this type is "costless," I suppose that what is meant is that it is costless to the *government*. I cannot, however, conceive that a policy which is expensive to the people—as this proposal would be—can be costless to the government which is simply the representative of the people. If the government wants to adopt such a policy, it is possible for it to do so; but the result is a levy upon the public which counteracts the saving to the government.

If the additional money which the issue of currency to finance government expenditures would provide were actively used—as in the other countries to which I referred earlier—the result would be inflation. In my opinion, the onus is on the advocates of this proposal to prove that the results would not be the same in this country as history has shown to have occurred in other countries.

When the establishment of a central bank was being discussed in Canada, one of the chief reasons advanced against its foundation was that a central bank would provide such an easy way of creating money that the temptation to make immoderate use of it would be too great to resist. The period of four years during which the Bank of Canada has been in operation, has been too short to prove that those fears were unfounded, and the real test of our ability to adhere to a policy of moderation has yet to come.