

his reasons for not reducing taxation is the fear of letting loose spending power, but at the same time he apparently contemplates, if he can reach agreement with the provinces, a whole series of commitments which if he carries them out will, according to the figures given by him to the dominion-provincial conference, involve annual expenditures of several hundred million dollars. This is manifestly impossible without an incredibly high tax burden, presumably even higher than at present, or deficit financing in a big way.

It appears that the minister has not only moved from the old fashioned annual balancing to the doctrine of cyclical balancing of budgets—that is, balancing over a cycle of years, not necessarily every year—but that he is also contemplating the final step of the new financial thought, namely, out-and-out deficit financing. Particularly in the light of the fact that this is a year of high income, to contemplate large additional deficits, piled on top of our present deficit and the large loans and advances we have in contemplation, is enough to make us think seriously. What it will do is to increase an already over-abundant supply of money while adding little or nothing to the supply of goods.

The London *Economist*, commenting on the English situation, and the various social services and other expenditures contemplated, said:

Each of these, regarded by itself (the country) can perhaps afford, but can it afford them all together? That is the question that this government . . . is apparently unwilling to ask or at least unable to answer.

I apply these words to the minister, and I ask him, has he tried to make any such calculation, or is that unnecessary according to the theory of deficit financing? Let me make one thing abundantly clear. I am not suggesting that we should starve social services. What I am suggesting is that if we disregard precautions which even the socialist chancellor in England observes, we may all suffer, and social services most of all.

But someone will say, surely the Minister of Finance is as much against inflation as anyone. He has repeatedly said so. Surely we can rely on him not to run these risks. In answer to this I think it can fairly be said that the minister has been forced into a situation where he halts fatally between two courses. Is he to favour inflation or deflation? Has he too much money or too little money? In this condition of mind it is not surprising that we have this astonishing facing-both-ways budget. In one breath he is warning us against inflation, and in the next he is expounding expansive income-creating policies, which will have to be based on borrowed money, and in

the end he takes an action which is really no action, as it does not become effective until 1947.

While talking of deficit financing, let us have a look at the attitude of Britain and the United States, which I have mentioned already. Both the socialist chancellor in London and the private-enterprise secretary in the United States are at one as to the necessity of balancing and hope to do so soon.

Now a word as to the technique of deficit financing. It depends, of course, on the government being able to borrow money practically without limit and on having the resources of the central banking system available to support the bond market. It is essential that bond prices should be kept firm; otherwise a loan might fail.

For several years this policy of deficit financing has been maintained partly by the creation of additional bank credit, deliberately created for that purpose. Recourse to the creation of additional bank credit solves none of our problems. It only postpones and multiplies them. I note that bank deposits are expanding at the rate of about 1 per cent per month in Canada. That is roughly \$50 million a month; I believe that in the last two years, from 1944 to 1946, deposits increased, according to the dominion bureau of statistics, by some two billions. No corresponding increase in our wealth production has occurred or is occurring, but the dykes against inflation are being weakened dangerously. The present dangerous situation in the United States is due in no small measure to the fact that they have proceeded with the creation of spending powers on a scale much greater even in proportion than ours. Apparently the belief is that this procedure can be maintained indefinitely. To me this is suspiciously like the mentality of the stock market speculator who believes the market will never fall.

It is part and parcel of this theory of deficit financing that interest rates should be kept low; for if interest rates are tending to rise, or even are expected to rise, the citizen with a capacity to save can be no longer relied on to subscribe as required at the low rates, and therefore the government is compelled to put its entire reliance on the creation of bank credit. There is only one end consequence of this procedure.

The advantage of low interest from the point of view of government interest charges is, of course, obvious, and this same low-interest policy has been pursued in the United States and in England, and of course has naturally affected our situation here. But there are signs, at any rate in the United States, of a change.