

term—then the Government and the individual citizens will enter the market in competition for the proceeds of industry. Individuals offering their money for the goods they desire tend to keep industry working on these goods; the State, by offering additional purchasing power will seek to divert industry to the making of goods which the State needs.

In these circumstances, it is inevitable that with purchasing power increasing faster than production, prices will rise. Each unit of purchasing power will buy less goods. The mass of the people will be forced by the rising prices to forego not only their usual and modest luxuries, but indeed the necessities of life, and thus in a roundabout and incomplete fashion the State will get the better of the individual citizens, and production will be devoted to the production of goods required by the State, and away from the production of goods required by private individuals. Under such a condition of inflated prices, the chief burden of war rests upon the mass of people, and industry is only imperfectly adapted to war needs.

I may possibly be able to make my point clearer by the use of an illustration. Let us suppose that the total production of a community is represented by one million bushels of wheat, and that representing this million bushels among a population of one hundred thousand, there are distributed one million tickets, each of which represents a fractional part of the available supply. But the division has been very unequal among the people. Instead of each person having in hand ten tickets, his just proportion, some may, indeed, hold only one, some two, some three, some as high as 100. Now, supposing the Government needs one-third of the available wheat supply for its soldiers, it can force the people to give up one-third of the tickets; and if it be a just and wise government it will see to it that those who have only one or two tickets representing the amount of wheat necessary for the maintenance of their health and strength, are not asked to surrender their tickets; that those having ten are asked to give up not more than three; and that those holding 100 are required to surrender to the State a very large proportion, indeed, of their holdings. This is one method of taxation—the method of a properly graduated income tax.

The second method would be for the Government to issue some new tickets, say, several thousand new tickets, and place

them in the hands of their purchasing agents for presentation to those in charge of the nation's supply. What would be the result? The State would get its third, but the tickets held by the nation would all depreciate in value, and would represent, instead of one bushel of wheat, a very much smaller portion. This might affect but little the health, strength, and comfort of the men who had formerly held 100 tickets; affect little the health, strength, and comfort of the man who held ten; but it would mean the direst hardship for the man who held one or two tickets. This is the method of inflation. This is why inflation bears so heavily upon the poor classes of our community.

I now purpose dealing with the question as to whether our Government has had greater recourse to borrowing than it should have had. I answer that question in the affirmative. I do not think we should compare ourselves to France, to Italy, to Austria, or to Germany, but that we should compare ourselves to Great Britain and to the United States.

We, like the United States, met, in the first four years of the war, about one-half of our war-time expenditure out of current revenues, while Great Britain met only one-third. But then, Great Britain's expenditure was, comparatively speaking, hugely greater than our own. We spent up to March 31, 1918, less than five times the sum we used to spend every year in peace time, while Great Britain spent twenty-five times its peace outlay just prior to the war. Then, if we ask the question, how much surplus revenue did we raise during the first four years of the war, over and above the total civil expenditure of the last year before the war, we find a very different situation. We raised six per cent, the United Kingdom twenty per cent, and the United States about twice the latter amount.

Secondly, we were in fault, because we did not adopt the other direct method of taxation, the excess profits tax, until the war was well under way. We allowed war profits of vast proportions to be heaped up by certain individuals, whose lavish expenditure unduly competed with the Government for the productive work of the nation. Thirdly, because when our income tax was adopted, the rates of taxation were far too low. Mr. Speaker, the Opposition is not to blame for that. Last year I very strongly urged on the then Acting Minister of Finance (Mr. Maclean) that the rates were far too low. This year the Minister of Finance has been obliged to follow the