II. Suppose alternatively that the banks do utilize the $250 millions increase in their cash reserves to expand their earning assets, and thus their deposits, in the way I have mentioned in the preceding memorandum, by $2,250 millions. If we assume that the additional deposits, now totalling $2,500 millions, remain idle, then the developments which I outlined in the last paragraph will be enormously intensified. For example, the interest return on high grade bonds and all other types of liquid assets would fall sharply, and the rate paid on bank deposits would have to be cut still further or eliminated. To give only a few instances of the possible repercussions of such developments, insurance companies would probably have to raise premiums on new policies and reduce or eliminate dividends on existing ones; in the case of the endowments of educational institutions the reduced return would force those institutions to raise fees or reduce salaries; and the decline in the average rate of return to municipal or government utility sinking funds would necessitate increased tax levies or service charges for debt amortization.

I make no attempt to give an exhaustive account of what might follow the injection into our economy of a very large block of money which remained idle. Perhaps enough has been said to indicate that the government financing out of which this arose would in fact involve substantial sacrifices on the part of at least one large group within the community. In any case, I believe the assumption that the additional $2,500 millions in deposits would remain idle is quite unrealistic. I believe that such an assumption is unrealistic because it would run contrary to what has happened in every other country which has been exposed to such monetary conditions. To argue that a doubling of deposits would not cause apprehension, coupled with a fear in respect to further increases in the future, and would not form the basis for a flight from the currency into commodities, foreign balances or some other form of real wealth, is to assume a lack of sensitivity or perception on the part of the Canadian people which I am sure does not exist.

I do not propose to enlarge upon the disastrous effects of inflation because they are well known to members of the committee. Suffice it to say that in so far as the deposits are used actively they will tend to increase sharply all prices which are free to rise. Many forms of return such as wages, interest and pensions are, however, more or less fixed over short intervals and would lag behind commodity prices. Profits would encroach upon the real income of wage-earners, and organized labour in the United Kingdom and the United States has shown it is well aware of this by declaring vigorously against inflation. Capital values which are fixed in terms of the monetary unit, e.g. bank deposits and insurance policies, to mention only the most obvious examples, would depreciate with respect to goods and services in the same way as fixed incomes. As inflation progressed the shift in the distribution of our national income and the ownership of our real assets would become so great as to distort and disrupt the economy.

I have shown how the financing of $250 millions of government expenditure in Canada by the issuance of new money would inevitably entail sacrifices on the part of certain groups within Canada. It is true that their sacrifice, or its money equivalent, would not be collected by the government before being passed on to those who benefit from the expenditure; it would merely be remitted by another route. But if this is all that the adjective "costless" implies, I find it meaningless. In connection with any government expenditure and the method by which it is financed the vital questions are, "Does this particular transfer of goods and services strengthen the economy as a whole?" and "Is the necessary sacrifice equitably distributed?" Compared with these the question of the manner of transference is unimportant.