goal of reasonable stability in the value of money is a much more easily understood objective of public policy. In a free and democratic society any policy, such as creeping inflation, which gives rise to vast complications and uncertainties not easily comprehended, is a policy that cannot be soundly based.

The Existing Situation and the Fear of Inflation

There was virtually unanimous agreement among those who gave evidence to the Committee that there was no actual inflation at the present time, as indicated by the relative stability of the consumer price index over the past year. The problem rather is one of the possibility of renewed inflationary pressure as full capacity output of the economy is approached. It was emphasized that despite the encouraging recovery in business there was still unemployment and a good deal of unused capacity in industry. Consequently the present position was not one in which there are "too many dollars chasing too few goods." The output of goods and services can be increased further by a considerable amount before full industrial capacity is attained. Also, it was pointed out that the deficit position of the federal government has improved significantly since the last Budget and that the deficit is likely to be overcome in the relatively near future as revenues rise following continued improvement in business. This assumes, of course, that in the meantime expenditures will not be materially increased.

In spite of this reassuring picture, there is a widespread fear of inflation. It has been described as an "inflationary psychosis". This fear is said to have arisen from the experience of prolonged inflation during the post-war years, the continued increase in the cost of living and the costs of production during the recent recession, the further increase in government expenditures, the appearance of a large deficit in the federal budget, the rapid expansion in the supply of money associated with the problems of financing the federal deficit, and finally, the persistent talk in certain quarters about the inevitability of some form of inflation in the future, creeping or otherwise. This fear has expressed itself most prominently in the marked reluctance of the public to purchase bonds and other forms of fixed interest investments except at short term and sharply increased rates of interest. On the other hand there is a strong preference for stocks, mutual funds, an inflation-hedge properties. The Dominion Mortgage and Investments Association told the Committee that "Pressures are developing on our member companies to direct their investments away from their historically fixed interest channels to larger proportions of equity investments of one kind or another . . . this pressure has a tendency to reduce the amount of funds available for investment in fixed income securities."

Many witnesses emphasized to the Committee the dangers which are inherent in a widespread fear of inflation. The greatest danger lies in the possibility that this fear could in itself bring about the inflation which is feared. Mr. J. Douglas Gibson explained how this could come about and the consequences which could follow. ". . . there is the danger that fear of inflation will set the groundwork for a serious recession. Sooner or later stock prices may get so high in relation to corporate earnings and bond prices that a marked reaction may set in. People may suddenly realize that things are getting out of proportion. This is all the more likely if fear of inflation leads to ill-considered capital investment in some directions or to unnecessary accumulation of inventories."

It is a matter of vital concern that this inflation psychology be overcome and that confidence in the future value of money be made secure. This is an essential and urgent task in the battle against the threat of inflation. However, this task cannot be accomplished by some legerdemain or empty