

in the banking system. If bank deposits are greatly increased by purchases of government securities they cannot be readily contracted when, at the start of an inflationary movement, their velocity of turnover begins to rise.

I have now indicated the main factors which I think should be considered in any assessment of the extent to which deficit spending should be continued in this country. Some of these are shifting so rapidly that only a provisional appraisal can be attempted. However, it seems to me that if rising national income, in terms of goods and services as well as money, is to enable us to avoid both horns of the dilemma of crippling taxation or inflation, then all reasonable precautions should be taken to prevent discouragement of private initiative and expenditure. The onus should be on the advocates of any government expenditure, in the ordinary as well as in the special or capital categories, to demonstrate that it definitely will add to the strength and balance of our economy. Needless to say, deficits incurred merely for the purpose of increasing spending power should be avoided at all costs, particularly those resulting from needless expenditures which give rise to additional waste and rigidity by adding to operating expenses as well as to interest charges. How far borrowing for government expenditures which definitely improve the efficiency of the country as a whole, and do not have a harmful effect upon private spending, can be justified at any time, depends, of course, upon how far we are from full employment, upon what considerations arise in connection with the external value of our currency, and, incidentally, upon what fiscal policies are being pursued elsewhere.

(b) Employment of Unemployed Factors of Production

(Submitted by Mr. Towers in reply to Mr. Tucker)

(Volume 9, page 221)

At the last meeting of the committee Mr. Tucker raised certain questions which I might describe very broadly as relating to the problem of unemployed factors of production.

May I say I thoroughly agree with the thought expressed by Mr. Tucker that to the extent we have unemployed labour and productive equipment in this country, a potential means of bettering our economic status is being foregone.

With reference to a solution of this problem and whether such a loss is inevitable under existing conditions, I remarked during the meeting on April 21 that "I would be the last to deny that there are possibilities in Canada, even with the handicaps which we have as compared with a country such as Germany from certain points of view. But I did try to indicate in my memorandum to-day what I thought were some of the limiting factors which are found in Canada."

Before proceeding to a discussion on this subject I believe it is essential to agree that a decline in export income due to poor crops or reduced foreign demands, means a loss to the country as a whole which can only—if at all—be offset by building up domestic industries to supply goods or services which were formerly imported and which cannot be imported when our purchasing power in other countries declines. No other course of action—monetary or non-monetary—can offset that loss to the country as a whole.

Building up industries to satisfy wants hitherto satisfied by imports, is an expensive solution—one which is only justified if the decline in exports is considered to be of more than temporary duration.

Therefore, it follows that in the case of a temporary fall in export trade—and on the basis of Mr. Tucker's earlier remarks I believe he is thinking of a temporary situation—there is no feasible way in which we can hope to prevent a loss to the country as a whole. In fairness to Mr. Tucker I do not think he