

about 85 per cent, has been diluted by an issue of almost \$100,000,000 of currency, backed either not at all, or by securities which are non-liquid. It is, of course, elementary that such a dilution inevitably decreases the purchasing power of money, or in other words, increases the prices of commodities. And we have also a further indisputable proof of the debasement of our currency. A few years ago American bills and silver circulated quite freely in Canada. We see none now, because, under Gresham's law, the poorer money always drives out the better; and obeying that law, though possibly quite unconscious of it, any one going into the United States, instead of taking Canadian money, or cashing a cheque in New York on his bank in Montreal or Toronto, collects, where such is available, American currency and takes that down to New York, because he wants to avoid the rate of exchange which is against Canada and in favour of the United States.

To sum up, the situation on February 28, 1919, with respect to Dominion notes then outstanding was as follows:

Total of Dominion notes outstanding, \$306,405,399; held by chartered banks, \$185,932,418, as against only \$92,114,482 held on the 30th of June, 1914. Deposited by the banks in the central gold reserves, \$93,250,000, as against \$2,550,000 in June, 1914; while in circulation there was \$27,222,981, as against \$19,517,618, an increase in general circulation of about 39 per cent; while the increase of currency in bank notes has risen from \$96,848,384 on the 31st March, 1914, to \$223,763,000 on the 30th April, 1919.

These inflations in currency are evidences of inflations in credit. A great deal of the war loans floated in this country were taken up by persons with money they borrowed from banks. What share of the responsibility one has to place upon the fiat money issued by the Government, and what share on their reliance on borrowing rather than on taxation, it is impossible to state; but the fact remains that our currency has become inflated, with serious consequences. The Government cannot expect to escape legitimate criticism by saying that it is no worse sinner in this regard than other governments. In one sense all governments have been obliged to adopt methods which have led to inflation, but to plead universal shortcoming is not an excuse.

What are the disadvantages to a people of excessive borrowing during war time? Has our Government as compared with other Governments been a greater sinner

in this regard? These are the questions with which I now purpose dealing. A war of such world-wide extent as the recent war we have been engaged in for the last

five years should be fought with
4 p.m. the actual production of the nations engaged therein. Stocks on hand will, within a few weeks or a few months at most, be used up; and it is through the annual production of the belligerents that the sinews of war must be obtained. And the question arises as to how the Governments shall divert from ordinary channels the productivities of the nation required to satisfy these war needs. How shall the Government secure the funds to carry on the war? There are two questions involved in this query:

1. From what sources should money come—from real savings or from inflated credit?

2. What means should be adopted for raising money—loans or taxation?

For countless generations men have worked out a mechanism of money credits for obtaining and paying for property, goods and services. It is the growth of centuries. For instance, one of the earliest known appearances of bills of exchange is when in mediaeval times the Papal See drew upon rich Orders in outlying parts of Europe for contributions, and threatened excommunication if the drawees did not accept the drafts. The system reaches its greatest perfection in time of peace, though in the Napoleonic war we have the instance of Napoleon winking at the purchase of greatcoats for his army from Great Britain, and although we learn that all through the Crimea war the Russian Government punctually paid the interest on its bonds held by individual British investors.

However, this war threw out of gear the whole of what has been called the "mechanism of exchange." At any given time there exists under ordinary circumstances at the disposal of private individuals a great fund of purchasing power, which they may use to obtain the goods, etc., they desire. This purchasing power may take the form of metallic or paper money, or it may take the form of credit on the books of a bank, which credit is controlled and operated by the drawing of cheques. Now, if the State or Government wishes to secure for war purposes one-third of the product of the people's industry, it should, at the same time, induce or compel the people to part with one-third of its purchasing power. If this is not done; if the Government, or the banks acting for it, simply create additional purchasing power—new money in the widest sense of the