

Mr. Towers: The limit of the possibilities depends on men and materials.

Q.—and where you have an abundance of men and materials you have no difficulty, under our present banking system, in putting forth the medium of exchange that is necessary to put the men and materials to work in defence of the realm?

Mr. Towers: That is right.

That statement has tremendous significance for us at this stage of our national life. May I quote from the Bank of Nova Scotia's *Monthly Review* of October 1939, entitled "Economics of War, No. 1":

Financial outlays are no more than an outward sign of the inner reality. The true measure of a country's ability to prepare for or to wage war is the degree to which it can enlarge and redirect its productive capacity to this end. So long as there are unused resources of labour and capital and so long as peace-time resources may be diverted to war purposes without reducing living standards below a minimum subsistence, it is feasible for a nation to increase its war-time capacity and to find the necessary financial means.

May I quote next from a man who is accepted by most thinkers as at least worthy of attention, Paul Einzig? From his book "Economic Warfare", published in 1940, I quote from pages 80-81:

While it may be open to argument whether in time of peace it is advisable to restrict production in general, in any circumstances, for the sake of preventing a credit inflation, there can be no question about the folly of attempting to hamper production in time of war by means of credit restriction measures.

May I stop there a moment? Credit restriction for primary producers has been in evidence from one coast of Canada even unto the other, and is now. In my constituency there are simply hundreds of farmers who cannot carry on their summer fallow operations because they cannot get credit. And yet these men are engaged in production. And Canada is at war! I quote further:

If the producers have not enough capital, they will have to be assisted by means of an adequate amount of credit, irrespective of the effect of such expansion upon the monetary situation. In any case, the extent to which credit expansion reacts upon the price level is apt to be overrated. In so far as the credit expansion leads to the creation of purchasing power without a corresponding creation of goods, it tends to cause a rise in commodity prices. If, however, the creation of additional purchasing power is either prevented or offset, then there is no reason why credit expansion in itself should lead to a rise in commodity prices.

I think the bearing of what I have said must be clear. There is no limit to the amount of credit expansion or money expansion which is possible to a state like Canada except its men and materials. The government must create, issue and circulate, debt-

[Mr. Blackmore.]

free, such amounts of currency and credit as Canada's materials, equipment and manpower will justify. In other words, money can be created, issued and circulated to the point at which there becomes a scarcity of goods and services. Up to that point there will be no rise in prices—what we call inflation. The government must then manage that new money so as to prevent inflation and adverse exchange.

May I quote another passage. I must crave the indulgence of the house for quoting rather extensively. As matters stand, people in my group are looked upon as crackpots so to speak; people think we do not know. That is just the way Edison felt about Stanley; it is how the opponents of the development of steel ships felt; it is exactly the way people felt about chartism, and women's suffrage, as my colleague (Mr. Hansell reminds me. I can remember being called a crackpot and fool when I was in university because I argued in 1912 in favour of women's suffrage. Conditions being as they are, I have to quote the words of men who might be recognized as being wiser than myself. May I quote these words of the Right Hon. Reginald McKenna in a speech to his shareholders on January 30, 1936:

Additional currency, however, can now be furnished by the authorities, if they choose to exercise their powers without reference to the central bank's holding of gold. Thus the nineteenth century, which brought into general use a means of payment hitherto scarcely known outside London, brought also the machinery whereby it could be subjected to intelligent control.

Again, in the same speech:

We learnt that a shortage of money may be just as vicious in its effects as an excess, though deflation has still a touch of virtue about it in the minds of many people. Nevertheless it is becoming more and more widely recognized that greater productivity calls for an increased supply of money, for otherwise prices will fall, business will stagnate, and the growing productive capacity will be unused.

May I stop to comment briefly on that passage. Every measure in this budget is designed to decrease the amount of money in the people's hands, and consequently is certain to produce the ill effects which Mr. McKenna here points out.

Further on, Mr. McKenna says:

For money to be truly sound there must be enough of it to finance an ordinarily growing volume of trade, yet not so much as to give rise to an inflationary rise of prices.

With that statement I completely agree.

May I quote again from Mr. Towers, in the banking and commerce committee, words the truth of which I think very few people in Canada have come to realize. And before