

and incomes which occurred after 1929 had increased proportionately the real burden of carrying that debt - in many cases the burden became unbearable and default and bankruptcy resulted. In these circumstances it seemed to us in the central bank that we should do what we could to relax the general credit stringency by a monetary policy of easy money, and our operations were designed both to increase the liquidity of the banking system and to improve the tone of the capital markets. Our purpose was to improve the reception that would-be borrowers would receive whether they were looking for new financing or for re-financing and whether they chose to approach their bankers or to sell a public issue of securities in the market. In this way we did, I think, make a helpful contribution towards easing the debt burden and towards the creation of economic conditions more favourable to expansion. I would wish to add that an easy-money policy could not and did not solve all the economic problems of the pre-war years and the country continued to suffer far too much unemployment until after the war broke out.

Even while we were struggling with the problems of the depression we felt ourselves increasingly impelled to cast an eye forward to see what would happen if war should in fact break out. The sort of war that we envisaged was of course one in which Canada was engaged and the United States was not, and it was clear that one consequence of such a war would be a drastic weakening of Canada's external financial position unless vigorous measures were taken to protect it. The risk was that we would not be able to pay for even our peace-time imports from the United States, let alone the vast increase in imports that economic mobilization would require. In such circumstances effective economic mobilization would be impossible. Obviously something had to be done. What we did was to work out a system of foreign exchange control. We even had the various forms printed - printed in triplicate or quadruplicate or whatever it was - and we hoped devoutly that nobody would ever have to suffer the vexations of filling them all in. Well it didn't turn out that way; when war came the Government acted quickly and one Monday morning the country woke up to find itself operating under a comprehensive system of exchange control. Whatever the defects of the control, and I know of some, this much can, I think, be said, that the magnitude of the Canadian war effort was not restricted to any significant extent, not even at the beginning, by an inability to carry the external financial consequences. Looking back now to those pre-war days of planning, the point I would like to make is that, whether by good luck or good management, the creation of the Bank of Canada came at a fortunate time - not too late to get its organization in order and to make various preparations for war emergencies but certainly with no great amount of time to spare.

Earlier in my remarks I referred to the monetary policy of the Bank from 1935 until the outbreak of the war. In this period the problem of what policy to pursue was not a difficult one because the relatively high level of unemployment and the deflationary tendencies of the time clearly called for any reasonable degree of encouragement to the expansion of credit that a central bank could give. Nor in a sense was the war period a difficult one for the framers of monetary policy. The overriding necessities were such that the most a central bank could hope for was