

it is issued, is the purchase of goods, and I see no reason why the people of the country should expect it to be convertible into anything but goods and services. If they expect it to be converted into gold they will be disappointed, for the reason, which I have already pointed out, that when the majority of the people desire to exercise the right to convert their currency into gold it becomes inconvertible.

Another point raised this afternoon, which was not cleared up, has reference to inflation. We believe that inflation is not through the note issue but is more often through credit issued by the banks. At page 138 of the report of the Macmillan committee the following statement appears:

Long before 1914 the first stages of credit inflation had ceased to be marked by an increased issue of notes, inflation or deflation being initiated not by changes in the note circulation but by changes in the amount of the bank's deposits.

The amount of bank deposits is decided altogether by the policy of the banks in regard to loans. I know there is a misapprehension in the minds of hon. gentlemen in this regard, and I regret that the hon. member for East Algoma (Mr. Nicholson) is not in his seat tonight, in view of certain remarks he made with reference to a speech I delivered in this house some time ago. In this connection I wish to quote two or three sentences from the Right Hon. Reginald McKenna, to the ordinary general meeting of the Midland Bank, Limited, on January 25, 1924. On that occasion he said:

What is meant by monetary policy? Before I answer this question let me define the sense in which I shall use the word money. I understand by it all currency in circulation among the public and all bank deposits drawable by cheque. Usually when we speak of anyone having so much money we include the value of his land, securities and other property. It is a convenient form of expression, but it is not a strict use of the term. The meaning I am giving it is confined to what is immediately spendable by the owner and does not cover the saleable value of property. In this sense it is limited to the total of bank balances both on current and deposit account, together with the total currency in active circulation. . . . The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. We know how this is effected. Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one.

I think it is quite clear from these statements of Mr. McKenna that the amount of money on which the public has to do business depends upon the policy of the banks in the making of loans or the refusal to make them,

[Mr. Coote.]

or in their demand for the redemption of loans. Let me quote further from the report of the Macmillan committee at page 138:

The somewhat anomalous position arises that while the bank is not regulated by law in respect of its deposits it remains so regulated in respect of the note issue which was a hundred years ago the initiating cause of inflation but to-day is the factor which is the latest to be affected by the forces of expansion or contraction.

One other sentence from that report is interesting in this connection, with regard to the metallic or gold reserve for internal note issue:

Formerly, when the bank's gold was held for two purposes, partly to meet an external drain and partly to meet an internal drain, it may have been reasonable to earmark a substantial part of it for the latter purpose. But now that the second purpose has disappeared, and has in fact been abolished by law, so that the gold reserve of the Bank of England is held for no other purpose than to meet a foreign drain, the effect of enforcing the principle of the fiduciary issue is to forbid the Bank of England to use by far the greater part of its gold for the only purpose for which it is held or could be used. . . .

We cannot regard as satisfactory a system under which so high a proportion of the gold stock is locked up in such a way as not to be available for export if the Central Bank should so desire.

These opinions are quite applicable to the situation of Canada to-day and the question we are now considering. Why should the dominion continue to hold in its vaults \$70,000,000 of gold as a basis for internal note circulation which is intended for use only within Canada? That gold cannot come out and therefore is of no use; in other words, that \$70,000,000 is sterilized and I submit it should be used to assist in the payment of our obligations in New York. The Minister of Finance should be empowered to use it for that purpose. It should no longer be held as a reserve for internal note issue.

I do not want to delay the passing of the bill but I do hope that the minister will put the suspension of the gold standard into effect. Is it the intention of the government to suspend the redemption of notes in gold when this bill passes?

Mr. RHODES: I would not wish to give a yes or no answer to my hon. friend. The government will take such course as it deems wise in the circumstances. That is the best and the only answer I can give at this stage.

Mr. SPENCER: Before six o'clock I was referring to the effect on price levels when bonds were issued against savings, and also when credit was advanced by banks to help to