

Mr. MALCOLM: Would the Prime Minister state whether or not it had an adverse effect upon our exchange at that time?

Mr. BENNETT: I was going to say that this was a gradual change. I dare say my hon. friend from Battle River (Mr. Spencer), who has been giving a good deal of attention to this question, could trace that change better than I could. There came a time when, having fixed \$50,000,000 as the maximum for which a coverage of twenty-five per cent, which is a very low coverage, should be provided, the question was asked, what about more if it is required? We did what the great banks of the world have done since time immemorial; we decided by statute that there should be a gold dollar behind every paper dollar issued in excess of that amount; that is, that every paper bill should have behind it full coverage for its face value.

That is the history of the currency issue, but during the war we were confronted with difficulties and the government of that day, with the aid of the War Measures Act and subsequently by statute, issued \$26,000,000 of paper in payment of obligations, just as my hon. friend mentioned, for which there was no coverage at all, and for which there is no coverage now. In that regard let me direct the attention of the committee to the fact that in the post office savings bank the coverage required is only ten per cent. Why do we require only ten per cent for a savings bank and either twenty-five per cent or full coverage in our ordinary currency? The reason is that one is a savings bank and the other is not. In the one case notice is required and time is given thereby in order to provide whatever money may be necessary for the purpose of meeting the obligations. That is the real reason why it is ten per cent in the one case and twenty-five per cent and one hundred per cent in the other case.

Of course I can only speak from the inferences that others have drawn, because obviously I am not an authority or an economist, but the right hon. leader of the opposition will remember that his old preceptor, in his book on tariffs, said that it is very difficult for anyone to say that a given result followed from a given cause when dealing with tariffs. He says that you can say inferentially that this is so, but that it is very difficult to prove it.

Mr. YOUNG: We have the proof now.

Mr. BENNETT: Well, there are differences of opinion as to that. But with respect to the \$26,000,000 of paper money issued by this country, naturally I have inquired, as I fancy other hon. members of this committee [Mr. Bennett.]

have inquired, as to what has been the general effect of that action. I am informed that this at once had an injurious effect upon our credit, but that owing to war conditions the full force of it was not felt, though it was a substantial factor, as I shall presently show, in fixing exchange values for our money. I give that obviously not as an opinion of my own that has any value, but from information I have ascertained from sources to which one looks for real information with respect to a matter of that kind. Therefore all these years our currency is inflated by \$26,000,000 under the authority of the statute of 1915. Every fall, during the grain crop movement, we have inflated our currency.

Mr. MALCOLM: The 40 per cent coverage does not cover that amount.

Mr. BENNETT: No; I tried to make it clear that the \$67,000,000 paper money is not covered by gold deposits. During the fall we have sometimes, under the provisions of the Finance Act, issued money to the extent, if my memory serves me correctly, of upwards of \$100,000,000. What did that mean? It meant merely that under the provisions of our statute by which the Dominion of Canada becomes a central bank, the banks of the country, by depositing with the Minister of Finance or with his agencies in the cities in which agencies are maintained, bonds, usually of the dominion, or securities to which a fixed value has been attached by order in council, were lent by the dominion in paper, promises to pay of the dominion, sufficient money to enable them to meet the situation. The movement of this money in normal times never suggested any demand for conversion into gold, but in the narrow sense of the term it was inflation; in the wide sense of the term it was fiduciary currency issued upon the security of the securities held by the banks, namely, bonds or whatever they might be. Commercial paper might be and is permissible.

There is a conflict of opinion among bankers in this and other countries and individuals as to the value of a central bank as distinguished from the Finance department for the purpose of making such an arrangement. The arrangement, whether it be by a finance department or a central bank, is the same, that by deposits with the central authority, whether it be a central bank or the dominion, of certain approved securities, the central reserve authority, or the nation, as the case may be, issues its notes which at once go into circulation for the purpose of discharging the real function of money. That is the story prior to this moment.