

government would be in the lending business is concerned, the chartered banks would be under the control of the Bank of Canada, and the minister has himself stated that the government does not interfere with the internal administration of the Bank of Canada. Therefore we would not be interfering with the administration of the chartered banks.

Mr. HANSON (York-Sunbury): How would that bring paradise?

Mr. QUELCH: The chartered banks have found it profitable to bring about inflation and then deflation, and they have made more money out of that process than out of service charges. It pays them to manipulate prices, and they can make money both ways. When they bring about deflation they can buy stocks at deflated prices, and by bringing about inflation they can sell stocks at inflated prices.

I should just like to quote what Mr. Nash had to say in regard to this question. I asked Mr. Nash, formerly minister of finance of New Zealand, when he appeared before the reconstruction committee, this question:

Mr. Quelch: Mr. Chairman, I wonder if Mr. Nash would tell us what method of financing is used when taxation and public borrowings fail to meet government expenditures?

Mr. Nash replied:

Hon. Mr. Nash: Well, the answer is inside a simple statement I made once in introducing the budget. If in connection with the production of the commodities that are necessary for ordinary human welfare the monetary means are not available to link unused resources with unused labour we, as a government, will find the money. We can do that because we are in control of the reserve bank; we can create our own money.

I should like to commend that statement especially to the hon. member for Vancouver East (Mr. MacInnis), because I remember that some time ago when I was stressing the fact that the Bank of Canada should create money, he took exception and said that in New Zealand they created credit. I pointed out at the time that so far as the Bank of Canada or the Federal Reserve Bank of New Zealand were concerned, it makes no difference whether you use the term "credit" or "money" because they are both legal tender. Mr. Nash in his reply said that in New Zealand they can create their own money; he did not use the term "credit".

Mr. COLDWELL: Money against consumer goods.

Mr. QUELCH: There would be no sense in issuing money unless you had the goods to back it up. In peace time we had half a million men unemployed. We had industry [Mr. Quelch.]

running only at a small percentage of capacity, and we advocated—it was all that we ever advocated—that the Bank of Canada should issue money to put these men to work, so that the money paid out in these public works would create a demand against the goods which our industries could produce but were not producing. In addition to that, we had a favourable balance of payments of \$219,000,000, and the only reason why goods were not being imported into the country to balance exports was that the importers knew that if they did bring them in they could not sell them. I asked this question of Mr. Towers when he was before the banking committee: In view of the fact that we had a favourable balance of payments to the extent of \$200,000,000, is there any reason why we could not issue \$200,000,000 and put people to work so that that money paid out would create a demand for imports that had been paid for but not brought in? He said that was a matter of government policy. There was nothing to prevent it, but apparently it was not considered an ideal policy by government.

The hon. member for Vancouver-Burrard said last night that there had been considerable hoarding of gold. That was not altogether the reason, because we had repatriated a great deal of the debt at that time. About twenty years ago a large percentage of the debt was owned externally, and to-day only a small percentage of the national debt is so owned. That is a worthy course to follow, but no country is justified in trying to repay external debt at such a rate that it causes extreme poverty within the country itself. Under such a policy, if we were to utilize the Bank of Canada at all times when it becomes necessary to have a creation of credit—I am advocating it only to the extent that taxation and the sale of interest-free savings certificates might fail to meet government expenditures—the money so created should be created by the Bank of Canada and not by the chartered banks. Not only would the result of that policy be a reduction in debt, but it would mean that our war effort would no longer be restricted. The minister stated the other day that no other nation has adopted such a policy. I have already quoted the statement by Mr. Nash to the effect that when taxation, and the borrowings of the savings of the people fail to meet government expenditures they do create money. Therefore apparently New Zealand is doing the very thing we are advocating at this time. The Minister of Finance made a specific reference to Germany. To make sure that I quote him fairly I will give his exact words, which will be found at page 4271 of *Hansard*: