securities to the treasury board, getting dominion notes, and lodging those dominion notes in the central gold reserve, in lieu of gold, and issuing their own notes against them. As I said before, people holding these bank notes may demand dominion notes. It has often occurred to me that it is very misleading to say that we have forty per cent gold behind our dominion notes, rather intimating that we have forty per cent behind all the dominion notes people might need, whereas it is only forty per cent behind those dominion notes which happen to be printed and issued. But every depositor in a bank has a right to ask for dominion notes in drawing from his account, and as we have deposits in our private banks to an amount of nearly $2,000,000,000 it stands to reason that not only is there not sufficient gold to cover the notes which might be demanded, but there is not sufficient gold in any country in the world to meet the calls of depositors if the depositors really made a run. So the gold basis is really a fair weather basis, perfectly all right when it is not wanted, not called for, but if a run occurs it is never there. I am not saying this to create suspicion, because I think most people realize to-day that gold as a basis for our internal currency is not necessary, it is only a myth; some people believe in it, but it is not necessary if you have an educated public, and I am rather of the opinion that we have a sufficiently educated public in Canada to be perfectly open with them.

It seems to me that in suspending the payment of gold in September, 1931, the government laid itself open, as the hon. member for Macleod (Mr. Coote) has said, to be brought into court if it would allow individuals to do so. Therefore I am delighted that even at this late date they bring this measure before the house to legalize what they have been doing illegally, in refusing payment of dominion notes in gold.

Mr. MACKENZIE (Vancouver): This does not change it very much.

Mr. SPENCER: It openly says that they are not going to pay gold, which I think is a very wise statement to make. I would prefer to delete subsection 3 entirely and not pretend to pay gold, because if there is a run it is not there. Our financial soundness does not depend on the one commodity, gold; our total assets comprise many other things in Canada, of which gold is only a small part.

A question has been asked as to the difference between issuing say $100,000,000 in bonds and $100,000,000 in notes: whether the notes would be considered inflation and the bonds would not. It seems to me that it depends entirely on how the purchase of the bonds is financed. If it is financed by savings I would say there would be no inflation at all. But if financed, as most bond purchases are, by the extension of credit by the banks to enable the buyers to buy the bonds, then I say it is just as much inflation as the direct issue of paper money.

Mr. MATTHEWS: Do you mean to say that most bonds are bought with borrowings?

Mr. SPENCER: The bonds issued from 1916 to 1920, I think the hon. member will find, were very largely bought on credits extended by the banks to enable their clients to buy the bonds.

Mr. MATTHEWS: That is during the war?

Mr. SPENCER: Yes.

Mr. MATTHEWS: You are confining your statement to that period?

Mr. SPENCER: Not entirely, but I think the hon. member will find, if he takes the loans of the banks from 1914 to the end of 1916, that there was very little difference in the level of loans, but from the end of 1916 to 1920 the amount of bank loans went sky-high at a very rapid rate.

At six o'clock the committee took recess.

After Recess

The committee resumed at eight o'clock.

Mr. COOTE: The section of the bill which is intended to amend the Dominion Notes Act deals with the convertibility of notes into gold, and on that point I wish to quote a couple of sentences from Planned Money by Sir Basil Blackett, a director of the bank of England and an acknowledged monetary expert, whose remarks on this point will, I think, be of interest to the committee. He says:

> The notes are money. They give the holder a claim to goods and services within the country; they represent a stated amount, measured in money, of internal purchasing power, exercisable at the bearers' option anywhere within the country at any time present or future that he may choose. They represent nothing more and nothing less, and their value in terms of commodities depends, as already stated, solely on the relation between the quantity in circulation and the work which it is at any moment required to perform.

That is the point I would emphasize before this committee. The work which our money is supposed to do, and the purpose for which