

public confidence to the policy of currency depreciation, which would vary according to the circumstances under which the depreciation occurred; upon whether it was a correction of an existing maladjustment or the creator of new maladjustments. It is important to remember that there are very few instances of a country depreciating its currency unless subject to considerable pressure because of an unfavourable balance of trade or an outward movement of capital. Deliberate currency depreciation by a country enjoying a strong balance of payments position, in order to gain competitive advantage or to adjust price relationships, might react so unfavourably upon public confidence as to cause an actual fall in economic activity and a decline in real national income.

V. EFFECT OF GOVERNMENT FISCAL POLICIES IN CANADA

(a) Government Deficit Spending

(Submitted by Mr. Towers in reply to Mr. Tucker)

(Volume 6, page 148)

It is only in comparatively recent times that deliberate unbalancing of budgets has been widely discussed, or, indeed, that fiscal policy has been generally regarded as having anything but a passive role to play in connection with variations in economic activity.

Formerly, the operation of dynamic factors such as rapidly growing population, expanding geographical frontiers, the development of new products which promised to fill obvious needs, and rising international trade, made it reasonable to assume a strong underlying demand for production and installation of durable goods. It was, of course, clear that maladjustments between costs and prices could put an effective brake upon the process of expansion; but, it was believed, costs and prices were sufficiently flexible and the basic forces of growth were sufficiently strong to ensure that the check to progress would be only temporary. Under such conditions there seemed to be no reason why fiscal policy should do anything to obstruct the course of the relatively short-lived deflationary process by means of which the necessary adjustments of costs to prices took place.

The depth and persistence of the depression which began at the end of 1929 led to the development of a theory which challenges this view of the responsibility of the state in regard to economic fluctuations. The theory runs broadly as follows:—

- (a) The strength of dynamic factors has suffered a secular decline.
- (b) The consequent fall in the average rate of economic expansion has revealed the need for adjustments so great as to amount to structural changes.
- (c) These are so formidable, the underlying factors promoting economic recovery or expansion are so weak, and certain rigidities are so great, that the usual deflationary process, if it is not checked by government action, is likely to proceed so far that it will strain the fabric of the present form of society.
- (d) In order to give idle men the opportunity of producing goods or services which they or others would be willing to buy if income were increased, the government is justified in borrowing either idle money, or newly created money, and using it to make good the decline in spending which occurs when existing money goes into idleness.