There is another important factor which limits the extent to which internal monetary expansion can effect an increase in the level of prices—namely, the importance in the Canadian price structure of export and import prices which are chiefly determined in world markets, and, as long as we maintain existing external currency alignments, are almost entirely outside the control of internal policy.

Under such conditions—i.e. exchange stability—expansion of the volume of money is likely to have small *direct* effect on the average level of commodity prices but will probably result in a lower price for money—the rate of interest—which will enable a reduction in debt charges to the extent that maturing obligations may be converted at lower interest rates—and which may increase the amount of new investment by lowering its cost—and which may also increase the amount of money being used for speculative purposes.

To the extent that the decline in interest rates is in line with a similar trend in other countries and if undesirable speculation does not ensue, the results of expanding the volume of money are likely to be favourable, but if expansion is carried too far, undoubtedly such an unfavourable internal situation will develop, that pressure on the balance of payments will result, which will force a decision as between reversing the direction of internal monetary policy and depreciating the external value of the currency which is the second of the two methods of monetary policy to which I previously referred.

Currency Depreciation

Currency depreciation ipso facto would tend to increase the prices of exports in Canadian dollars and at the same time to augument the cost of imports and foreign debt service when expressed in Canadian funds. The higher level of import and export prices would have a buoyant effect upon other price levels and ultimately lead to an adjustment of costs in line with a higher general level of prices.

The general effect of depreciation is to transfer income between various groups within the depreciating country through a rise in prices which reduces the pressure of relatively fixed internal costs such as wages and interest at the expense of wage-earning and "rentier" classes. Under certain conditions of severe maladjustments between prices and internal costs, a transfer of this nature may be desirable. It is necessary, however, to be quite sure that depreciation will chiefly benefit a majority of the people who are in real need of assistance and not impose undue burdens upon other large sections of the country.

The extent to which incomes in export industries increased following depreciation would depend upon the elasticity of demand in foreign markets for our exports and upon the domestic industrial structure. Export prices in Canadian dollars might not be increased by the full amount of depreciation, either because of an attempt to enlarge the volume of exports by selling at a lower foreign price or as a result of competition. Ability to expand our volume of exports by offering them at somewhat lower prices in foreign markets would depend upon foreign demand being responsive to lower prices and upon the willingness of our competitors to suffer a loss of market without having recourse to similar action. Actually neither of these conditions would be satified to any marked degree and Canada's ability to increase her volume of exports by competitive price cutting, distinctly limited. In certain Canadian export industries where heavy overhead costs and surplus capacity exist, competition between individual firms, each trying to increase its output and spread fixed charges over a larger volume might lead to prices being reduced without any appreciable increase in output for the industry as a whole. In general, it would be true to say that an increase in the value of Canadian exports following depreciation would