the distinction is not often made. The actual inflation in the world, at least among the nations that are in the soundest position in the world, is credit inflation due to the issue of securities. Connected with that but secondary to it in those nations, is their currency inflation. The currency inflation is not noticed so much as credit inflation. The reason why credit inflation—that is to say the expenditure of enormous sums of money representing the proceeds of Government borrowing—has not an effect on high prices is because of the increased buying power in the nation, and the result is that many of the people buy right up to their capacity. With this credit inflation, you necessarily have an increase in prices. Now then, with regard to currency; if you increase your currency to anything like your credit inflation, that aggravates it. In fact, to the extent that you increase, it aggravates. The reason why the currency situation is not more noticed in other countries, and for that matter in the United States and Canada is because on account of the high prices due to the credit inflation, more currency is required for day to day use. The purpose of currency is to enable men to supplement their use of bank credit by paying in bills, Dominion notes or bank notes, but there is no greater fallacy in the world than to assume that a nation can create money by simply stamping paper, by issuing their demand obligations which they are not in a position to pay. If we put out $300,000,000 worth of notes, how shall we pay it upon demand? We are not on a gold basis. We are inflated now in our currency beyond what we ought to be, and the policy of the governments of this country, as I mentioned in my Budget speech, should be to get in that currency over a course of years and get back to the gold basis, so that we can remove the prohibition which exists in this country at the present day against the payment out of gold. If the world could get back to a gold basis, the cost of living would be on a very different basis.

By Mr. Nesbitt:

Q. The dollar would be worth more for the product?—A. That is it. One who has not considered the technical side of this question might very well say, "Oh, well, put out $500,000,000 of paper money", but the fact is that it would greatly injure our credit, and would cause the exchanges to run against us. After the Civil War in the United States their paper money was voluminous. An example of the effect is to be seen in Germany today and in France where the mark and the franc respectively have depreciated.

By the Chairman:

Q. Why is that the franc is only worth ·9 to-day?—A. Partly o naccount of the paper monies issued by the French Government and the credit inflation, and also because of the fact that France is importing largely. Like Great Britain she needs commodities, and she has not got on a basis on which her exports can take care of her imports plus any obligations that she has.

Q. In your opinion, the inflation of currency in France, plus the inflation of credit, has had the effect of depreciating the value of the franc?—A. I do not think there is any doubt about it. If France was on a gold basis—supposing every nation was on a gold basis—does any one suppose that the mark of the franc would be depreciated? If a nation is on a gold basis, it means that you can get gold for it. That is the international money; it is the small change in which international transactions are carried out. Nations clear their obligations by the sale of goods, but any balances are cleared by the sending of comparatively small consignments of gold. You will see gold being shipped to London or to New York. If all the nations of the world had their currency on a gold basis, there would not be any depreciation in the currency because you could surrender it for gold.