at least four times a year. The Deputy Minister of Finance is an ex officio member of the Board of Directors and of the Executive Committee, but is without a vote.

The Governor alone, or in his absence the Deputy Governor, has the power to veto any action or decision of the Board of Directors or the Executive Committee, subject to confirmation or disallowance by the Governor in Council.

Subsection 2.—The Bank of Canada and Its Relationship to the Canadian Financial System

An article under this title is given at pp. 881-885 of the 1937 edition of the Year Book. It deals with such subjects as the functions of the Bank, its control and regulation of credit and currency, the mechanism by which such control is exercised, the expansion and contraction of credit, the mitigation of general economic fluctuations, the control of exchange operations, the advisory function of the Bank and its duties as the Government's banker.

THE WAR-TIME FUNCTIONS OF A CENTRAL BANK

Broadly speaking, a central bank has one main function, namely, to regulate currency and credit. Associated with the performance of this function there are usually others, such as the protection of the external value of the currency and the influence of skilled and impartial banking advice. For a description of the normal functions and operations of a central bank, see the article given at pp. 881-885 of the 1937 Year Book.

Normally, the level of economic activity is the result of many forces, both external and internal. Monetary policy is one of the internal factors: its aim is to stimulate as high a level of economic activity as is feasible by providing suitable monetary conditions. The central bank cannot achieve this result directly for it is neither an important producer or consumer of goods and services, nor is it equipped to initiate great productive enterprises. It can, however, provide financial conditions favourable to economic activity on a sound basis.

War introduces into the economy an all-powerful driving force in the demand for war's necessities. The pressure of these requirements soon makes it unnecessary for monetary policy—or any other factor—to stimulate the level of production which tends to rise to capacity as quickly as labour, equipment and material resources can be brought effectively into the desired channels of production. Monetary policy, however, is a very important factor in easing the transition of the economy from a peace-time basis to a war footing and in determining the equity with which the economic sacrifices of war are distributed between various groups in the country.

In the period preceding the attainment of full activity, the problems of internal monetary policy are very much the same as in any other period of economic expansion. As the scale of operations increases, industry needs larger cash working balances and plants expanding or changing their equipment to meet war demands may require additional credit facilities. In the face of the uncertainties produced by war conditions, certain sections of the population may desire to increase their holdings of liquid assets or, in other words, to keep some of their savings in the form of money. For all these reasons a certain amount of monetary expansion may be appropriate during this period.