group to another and, therefore, the decline in real income would be unevenly distributed. The only alternative to imposing the inequitable burden of inflation would be for the government to set up a system of rationing the available supply of commodities among the population in relation to their real requirements. Since this would be a huge task employing many thousands of workers, it would correspondingly reduce the amount of labour available for war and other purposes.

Successful execution of a war program with the least possible unnecessary economic sacrifice requires not only a domestic monetary policy flexible enough to supply all the legitimate needs for currency and credit, but also taxation and savings adequate to divert the necessary portion of the national income out of the usual spending channels. The central bank should not create unnecessary friction in the economy by being over-cautious in its monetary policy. At the same time, however, it should use all its influence to stress the vital importance of adequate fiscal measures, so that it will not find itself called upon to supplement fiscal policy by exercising its function of regulating currency and credit to create an inflationary price spiral and finance the war program in that inefficient and costly manner.

The responsibility associated with protecting the external value of the currency may be, in peace time, one of the factors influencing a central bank to restrict its domestic monetary policy during a boom period. War creates external currency problems because its uncertainties tend to induce outward capital movements and because the accompanying high level of activity may increase imports of materials and equipment beyond the available supply of foreign exchange. Monetary policy alone is inadequate to deal with this situation and the necessity of conserving exchange for war requirements generally impels the government to set up a control. charged specifically with control over foreign-exchange transactions. The central bank may be closely associated with the operation of the exchange control, but the establishment of this direct control over the external value of the currency reduces the usual close relationship with domestic monetary policy.

The extent to which price changes are attributable to monetary policy and susceptible to the control of such policy is often misunderstood. Other things being equal, domestic monetary expansion tends to raise the general price level and contraction to lower it. If foreign trade is relatively important, these movements usually cannot be very large without a change in the external value of the currency vis-à-vis other currencies. Monetary policy, however, is only one of many factors affecting prices. Individual commodity prices are affected by all the conditions relating to their supply and demand and may change greatly in comparison with other prices, although no change in monetary factors is taking place. War tends to increase the number of and degree of variation in the non-monetary factors affecting prices. Certain commodities become scarce because of war demands, others are over-abundant through the loss of their usual markets. Goods imported from abroad tend to rise in price owing to higher marine freight and insurance. In order to bring into use the economy's marginal resources, it may be necessary to have higher prices to cover the higher costs of less efficient units of production. Not only can monetary policy not prevent such factors from changing the relationships between the various groups of prices, but it may be inappropriate to try to keep the general level of prices from changing in such circumstances, because of the pressure such a policy would bring to bear on the more stable prices.

The value of a central bank as a source of skilled and impartial advice should increase very much in war time. As the scale of government financing expands with the growth in war expenditures, the function of fiscal adviser to the government