I shall deal first of all with the 100 per cent cash reserve proposed by Mr. Tucker. During the course of the last meeting Mr. Tucker suggested that the maintenance of 100 per cent cash reserves against bank deposits would not involve a restricted loaning policy by the banks, if such loans were eligible for rediscount at the central bank in return for a charge of ½ per cent. Mr. Tucker stated that a plan of this kind would offer certain advantages over the present procedure:

(a) Government debt charges would be reduced.

(b) Bank depositors would continue to receive interest.

(c) There would be more control over banking operations.

In my opinion the only way to discuss this proposal and at the same time avoid utter confusion, is to relate it directly to its effect upon the financial statements of the institutions concerned. With that in mind, I should like to place upon the record summary balance sheets of the Bank of Canada and the chartered banks in millions of dollars as at December 31, 1938.

BANK OF CANADA

Assets		*Liabilities*	
Gold	186	Banks' Cash Reserve	257
Securities	186	Active Notes	118
All other (net)	3		
	375		375

CHARTERED BANKS*

Assets		*Liabilities*	
Cash Reserve	257	Canadian Deposits	2,498
Govt. Securities	1,162	Note Circulation (net)	88
Loans	1,005	Shareholder Equity	279
All Other (net)	441		
	2,865		2,865

*Canadian business only.

Since an important feature of the proposal under discussion is its effect upon the income position of the banks, I should like to indicate roughly their earnings and expenditures on the basis of such approximate rates as I mentioned the other day. I would repeat that these are my own guesses, but I believe they are accurate enough for this purpose.

Earnings are about as follows:

on $1,162 mm. Government Securities	$25 mm.
" $1,005 mm. Canadian Loans	50 mm.
" Earnings on all other Canadian assets, totalling $441 mm. plus earnings from exchange dealings and all other services	12 mm.
Total (approximately)	87 mm.

Expenditures are about as follows:

Operating costs (including taxes) .. *at least*	$50 mm.
Interest paid to Depositors	25 mm.
Dividends paid to Shareholders	12 mm.
Total (approximately)	87 mm.

Let us suppose that Mr. Tucker's plan were adopted, government securities being redeemed in cash and the banks obtaining sufficient additional cash to provide a 100 per cent reserve against deposits, by rediscounting loans or other investments at the central bank. I believe it will be easier if we assume as a first stage that only government securities held by the banks have been redeemed in cash.