(b) If the Government withdrew its deposit at the Bank of Canada in Bank of Canada notes, the second effect would be to decrease the Bank of Canada's liability in the form of a Government deposit by $50,000,000 and increase its liability in the form of Bank of Canada notes by the same amount. There would be no change in assets.

(c) If the Government withdrew its deposit at the Bank of Canada by drawing cheques on the Bank of Canada, the second effect would be to decrease the Bank of Canada's liability in the form of a Government deposit by $50,000,000 and increase its liability in the form of a deposit of the chartered banks, by the same amount. There would be no change in assets.

(d) If the Government had paid out $50,000,000 in Bank of Canada notes, presumably when the public deposited such notes at the chartered banks, the latter would return most of them to the Bank of Canada, so that the Bank of Canada's liability in the form of notes would decrease and its liability in the form of a deposit of the chartered banks, increase by the same amount. There would be no change in assets.

(e) On the basis of present gold reserves an increase in note and deposit liabilities of $50,000,000 would not reduce the reserve ratio to 25% and therefore the minimum gold reserve section would not have to be suspended.

(5) *Methods of recall of notes, if inflation ensued?*

As I have already mentioned, there would be a very small increase, if any, in the amount of Bank of Canada notes in public circulation. I assume, therefore, that Mr. Woodsworth had reference to the methods by which the chartered banks' cash reserves could be reduced if the circumstances of inflation ensued.

The ordinary central banking method of effecting the desired reduction in chartered banks' cash reserves would be for the Bank of Canada to sell the required amount of its assets, payment for which by the public or the banks would reduce the chartered banks' cash in the form of notes of and deposits with the Bank of Canada.

The fiscal methods by which Mr. Woodsworth suggests that the result might be obtained, namely, taxation or Government borrowing, would be effective if the Government deposited the proceeds of taxes or borrowing at the Bank of Canada, the effect of which would be to decrease banks' cash reserves by the same amount. I should like to point out that in these circumstances, the Government is practically in the same position as if it had taxed or borrowed from the people to obtain the $50,000,000 in the first place, instead of obtaining a loan from the Bank of Canada.

(6) *The possibility of inflation?*

In raising this question Mr. Woodsworth pointed to the currently low level of the general wholesale price index as compared with 1920 and 1929, as an indication, I assume, of the probable remoteness of inflationary results from the $50,000,000 transaction which he described.

Internal monetary expansion of this type may not produce a marked increase in the general price level for a time because of the importance of export and import prices in the Canadian price structure. It will, however, tend to lower the rate of interest and increase the burden borne by savings depositors, policy-holders and, in general, those who receive fixed interest incomes.

The further effects of such an internal monetary expansion depends upon when and to what extent the additional money created is actively used by the public. In this connection I should like to point out that the potential increase of $500,000,000 in bank deposits would be a 20 per cent increase over their present amount.