ESTIMATE OF EFFECT ON DOMINION GOVERNMENT COSTS ARISING FROM FORMATION OF BANK OF CANADA

Made in response to a question from Mr. Tucker (Minutes of Proceedings and Evidence p. 207)

| | | |
|---|---|---|
| New cost to Government | | $3,450,409 |
| Interest on 3 per cent bonds delivered to Bank of Canada May 1, 1935, $115,013,636.82 at 3% for 1 year | $3,450,409 | |
| Deduct: Old Government cost transferred to Bank of Canada | | 1,074,954 |
| Estimated year's cost printing and distributing Dominion notes including cost of operating Currency Division and Assistant Receivers General Offices | 680,000 | |
| Estimated year's cost of loans and interest branch | 229,000 | |
| 1938 loss on silver bullion | 135,740 | |
| Proportion 1938 Pension Fund appropriation applicable to civil servants taken over | 30,214 | |
| Gross new cost to Government | | $2,375,455 |
| Gross profit Bank of Canada 1938 | $2,550,046 | |
| Less dividends paid to public | 140,000 | 2,410,046 |
| Reduction in net Government costs | | $ 34,591 |

## (c) Effect of Security Purchases by the Bank of Canada

(Submitted by Mr. Towers in reply to Mr. Cleaver)

*(Volume 24, page 829)*

Suppose the Bank of Canada decides upon a policy of expanding the chartered banks' cash by, say, $10,000. Suppose also that its gold ratio is already at the legal minimum of 25 per cent. The Bank will therefore have to buy $2,500 of gold from, say, the Gold Mining Company. Suppose also that it buys $7,500 of, say, Dominion of Canada 3's of 1955 from John Smith at par. In each case it pays in Bank of Canada notes. The Bank of Canada's balance sheet (which as given here is purely hypothetical as to figures and condensed in form) will change as follows:—

1. Before

| *Assets* | | *Liabilities* | |
|---|---|---|---|
| Gold | $ 3,000 | Chartered Bank Deposits | $ 6,000 |
| Securities | 11,000 | Notes—in Hands of Banks | 1,500 |
| | | in Hands of Public | 4,500 |
| Other Assets | 1,000 | Capital and Other Liabilities | 3,000 |
| | $15,000 | | $15,000 |

2. After

| *Assets* | | *Liabilities* | |
|---|---|---|---|
| Gold | $ 5,500 | Chartered Bank Deposits | $ 6,000 |
| (Previous 3,000+2,500 purchased from Gold Mining Company) | | Notes—in Hands of Banks | |
| | | in Hands of Public | 16,000 |
| Securities | 18,500 | (Previous 6,000+10,000 issued to Gold Mining Company and John Smith) | |
| (Previous 11,000+7,500 purchased from John Smith) | | | |
| Other Assets | 1,000 | Capital and Other Liabilities | 3,000 |
| | $25,000 | | $25,000 |

There are now $10,000 new Bank of Canada notes in existence. To the extent that some of the notes are needed for the purpose of making hand to hand payments, or to the extent that the Gold Mining Company or John Smith decide for other reasons not to deposit, the $10,000 worth of notes will not come back to the chartered banks. They will be in active circulation or hoards. Let us assume, however, that John Smith does deposit his $7,500 in a savings