third is approximately the liability of the Government, now the Federal Reserve Bank, for the notes which it has issued. The Federal Reserve Bank would assume obligations to redeem outstanding notes in exchange for which would be issued the Federal Reserve Bank Notes, guaranteed then as now by the Government, the premier responsibility being with the Federal Reserve Bank behind which is its assets and the double liability of the member banks as shareholders.

At the end of January last the chartered banks hold $182,000,000 of the $250,000,000 of the note issue. As these notes came in they would be deposited with the Central Bank, presented to the Government which would exchange them for notes of proper proportion of gold and securities, which the Government now holds against those notes. The same process would operate with respect to Dominion notes in the hands of the Government because once they came in they would not go out, but instead they would be paid out in Federal Reserve Bank notes.

On a basis of 40 per cent which is the system in the United States the gold reserve of $205,000,000 would support a note issue of over $500,000,000 as against the present note issue of approximately $250,000,000. In other words, without changing materially our financial structure so far as notes and gold are concerned and with absolute security and safety the loaning facilities of the banks could avail themselves of it by rediscount and would be increased $250,000,000 so that in time of business expansion or business depression there would be an elasticity that would greatly add to the farming, commercial, shipping and industrial enterprises of Canada.

Redemption of Small Dominion Notes.

Small Dominion notes, now amounting to $75,000,000 would be issued by the Federal Reserve Bank. The deposit of the chartered banks with the Federal Reserve Bank reduced by $75,000,000 by the withdrawal of that amount from the Federal Reserve Bank would alter the item of liability in this manner:—

Capital..	$ 15,000,000
Outstanding in notes (must have gold reserve of $30,000,000, that is, 40 per cent of $75,000,000 for notes)..	75,000,000
Bank deposits (35 per cent in gold, this is $79,750,000—would now be $50,000,000 plus $75,000,000)..	125,000,000
Total..	$215,000,000

On this basis the total of gold reserve required by law, that is, 35 per cent on deposits and 40 per cent on notes, would give $109,750,000 in gold. The bank would have, in fact, a total in gold of $205,000,000 detailed above. There would therefore be free in gold about $95,000,000 as a base on which to issue further notes. On a basis of 40 per cent this additional increase in loan currency would amount to the sum of about $250,000,000, that being the same amount referred to in previous discussion as being available for additional loans if a Federal Reserve Bank was created. For further business it would be possible to cash in on Government securities the remainder of $100,000,000 if this were necessary.

It is to be emphasized that these facilities for rediscount and for extending the loanable credit, not only that the member banks would have an opportunity