(*b*) Financing Public Works by an Advance from the Bank of Canada

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

(Volume 17, page 557)

Questions by Mr. Woodsworth on the effects of the Government borrowing \$50,000,000 from the Bank of Canada at $\frac{1}{20}$% per annum, to use for public works.

(1) *Would \$25,000 per annum pay the Bank of Canada's expenses?*

If the Bank of Canada's participation were limited to creating first a deposit in the Dominion Government account and later deposits in the accounts of the chartered banks, then \$25,000 per annum, obviously, would more than cover any additional cost to the Bank. However, if it were necessary to issue and service Bank of Canada notes, the total cost involved would be much greater than \$25,000 per annum, as is illustrated by the statistics in the table on page 402 of the Minutes and Proceedings. (*See page 27.*)

(2) *What would be the procedure?*

The are two possible methods of procedure:

(*a*) The Government might withdraw the \$50,000,000 in Bank of Canada notes and use them to pay contractors and others.

(*b*) The Government might issue cheques on its account in order to make payments to contractors and others.

(3) *The Effect on the Accounts of the Chartered Banks?*

(a) Regardless of which of the procedures just mentioned was adopted, the result would be to increase the cash reserves of the chartered banks by about \$50,000,000.

(i) If the Government had used Bank of Canada notes as a means of making payments, almost all of those notes would find their way back to the chartered banks increasing their cash reserves.

(ii) If the Government drew cheques on the Bank of Canada, those cheques would be presented by the banks and credited to their balances at the Bank of Canada, thus increasing their cash reserves by \$50,000,000.

(*b*) The Canadian deposit liabilities of the chartered banks would be increased by about \$50,000,000 through the deposits by the public. This increase in chartered bank liabilities would balance the increase of assets in the form of cash.

(c) The increase in cash reserves would stimulate the banks to add their earning assets, which might, if the banks could find suitable loans or investments, increase by \$450,000,000 and increase deposit liabilities by the same amount. Deposits would then be \$500,000,000 larger than before this transaction occurred and assets larger by the same amount in the form of \$50,000,000 cash and \$450,000,000 other assets.

(4) *The Effect on the Accounts of the Bank of Canada?*

(a) The first effect would be to increase Bank of Canada liabilities by \$50,000,000 in the form of a deposit of the Government—accompanied by an increase of the same amount in assets held in the form of Government securities or advances.