(*i*) Tax of 1/12% per Month on Savings Deposits

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

(Volume 17, page 562)

The first effect of the proposal to impose a tax of 1/12 per cent per month on savings deposits would be to reduce the net interest return on personal savings deposits from $1\frac{1}{2}$ per cent to $\frac{1}{2}$ percent per annum. Other effects would depend upon the action taken by the depositors concerned.

If savings depositors considered that even at $\frac{1}{2}$ per cent per annum net interest return, a cash balance was preferable to any other form of investment, then savings deposits would remain the same and the government would receive increased revenues of say $17 mm. per annum at the expense of a similar reduction in net interest received by depositors.

If savings depositors felt that a net interest return of $\frac{1}{2}$ per cent per annum was so small that they preferred some other uses for their funds, I think it would be very unlikely that they would increase their purchases of goods and services. In all probability they would turn towards other forms of investment.

In so far as corporate securities are concerned there is every incentive already for the public to purchase any sound new issues which come on the market. The supply of these, however, is quite small so that the important avenue of investment to which savings depositors might turn would appear to be government securities.

An increase in demand of this kind for government securities would reduce the yields on government securities which would force the banks ultimately to reduce the rate of interest paid on deposits. I assume that there is no intention that the tax on savings deposits would be a capital levy and that the tax would be lowered in step with the reduction in deposit interest rates. Under these circumstances the effect of the tax on deposits would be the same as that of an extension of the easy money policy which has been followed during the last few years and which could be extended if it were thought desirable.

The tax on deposits as a fiscal measure is open to objection because of its inequity. It would fall particularly heavily on the small depositor who would have very little, if any, chance of profitably employing his funds elsewhere. It might lead him to withdraw his deposit and hold notes. This would be a most undesirable development, both from a social and financial point of view.

VI. FINANCING GOVERNMENT EXPENDITURE BY THE ISSUE OF MONEY

(*a*) General Considerations Involved

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

(Volume 4, page 95)

The main proposal upon which I was asked to comment related to the issue of currency or central bank credit to the government as an alternative method to borrowing or taxation in financing government expenditures.

There is no doubt, of course, that it is *possible* to issue currency to finance government expenditures and that it is within the powers of parliament to provide the necessary legal authority. However, I believe that this proposal has been made because its advocates consider it to be preferable to other methods of financing—not simply because it may be possible or legal.