

Secondly, improvement in business conditions permitted many of the firms which were forced to increase their bank loans in 1930-33 to repay those advances out of their earnings from a larger volume of operations. Together, these two factors were to a large extent responsible for the failure of commercial loans to rise more quickly and to a larger extent during 1934-38.

There has also been, as Mr. Deachman mentioned, a tendency for many concerns to operate on a lower volume of inventory in recent years. In some cases this development is undoubtedly an outgrowth of the depression when businessmen found that if necessary it was possible and efficient to operate on a smaller inventory than had previously been customary. Improvement in transportation and manufacturing technique probably has also been a reason. On the whole, I would ascribe to this factor considerably less importance than to the first factors which I mentioned, namely, prices and liquidity.

In the case of at least one important commodity—wheat—smaller volume due to poor crops has been an important factor in reducing the amount of bank loans required for financing.

While it is impossible to say how much of the decline in commercial loans has been due to each of the factors which Mr. Deachman mentioned at the last meeting and which I have attempted to describe in a general way this morning, I believe that in total these factors account for the great part of the decline in current loans.

I have not made any reference as yet to the possible effect on the situation of doubt in respect to contracts and in respect to the fulfilment of contracts. What psychological effect that may have had, there is no question but that to the extent which doubt enters into business dealings it is a factor of importance and a hindrance to business development. To assess it quantitatively, as Mr. Deachman knows, would be impossible,

As a last remark I might say that in certain industries it should be possible to obtain a more accurate idea of the bank loan situation by taking companies' annual balance sheets and putting them together. In doing so, one will not be able to distinguish between the three factors, namely, the effect of a decline in prices, the desire for liquidity, or a change in habits, because these balance sheets only show the total dollar value of the inventory and will usually not indicate volume. But something more might be done along those lines to get an idea here and there of the changes in the picture. It is quite a piece of work; in fact, I may say we could not have anything very extensive for these meetings of the committee. It is a type of work which we intend to proceed with as soon as we have an opportunity.

(b) Decline in Bank Loans and Increase in Investment Holdings

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

(Volume 8, page 203)

At the last meeting Mr. Stevens referred to the lower level of banks' commercial loans which are some \$164 millions below the 1926 level and asked if these loans could not be greatly increased, at the same time decreasing bank holdings of government securities which are some \$858 millions higher than in 1926.

The low level of commercial loans at the present time as compared with pre-depression years, is partly because of a somewhat smaller volume of business, partly because of a lower general level of prices and partly because of the relatively liquid working capital position of many Canadian firms.

I should expect that commercial loans would rise when the volume of business and level of prices increased and when Canadian industry required more working capital. Under these conditions I should hope that government