

## APPENDIX No. 1

Q. Do you have a special knowledge of the problems, for example, of inflation and deflation?—A. I do not consider myself an expert, but I naturally have a little experience and knowledge of it.

Q. Can you tell me whether or not the interest rate might be used as a means of assisting in the process of deflation, or as a weapon which might be used against inflation?—A. I do not quite get that.

Q. Do you recognize the interest rate, that is the raising and the lowering of the interest rate, as an effective instrument not perhaps thorough, but an effective instrument to cause deflation or to assist inflation?—A. I do not think so.

Q. You think the interest rate would have no relation to that matter at all?—A. I do not think so.

Q. And consequently it would be wholly unnecessary to have either an increase or decrease in the interest rate for that purpose under the provisions of the War Finance Act?—A. We have never looked at it in that way, nor considered it in that way.

Q. Then it would be fair to say that as an instrument for the purpose I have mentioned, the Treasury Board does not consider it, and has never considered it?—A. Not in that light, no. It has always been considered as meeting the needs of the banks in their commercial business, and work outside in the business world.

Q. Is it profitable, Mr. Saunders, for the banks to take advantage of the provisions of the Finance Act?—A. It must be, or they would not work it.

Q. And do you know the ordinary procedure of the banks in connection with the operation of the Act? Probably I had better put that this way. Is this what ordinarily happens, that the banks come to you with their securities, take advantage of the provisions of this Act, get the Dominion notes at five per cent, and then take these Dominion notes to the Central Gold Reserves and thereby get the right to increase their own circulation?—A. Yes, they can, but as I see it that is not the usual reason for getting it. It would not pay them; the banks are so anxious to have these repayments made and escape the five per cent interest that I do not think they would pay five per cent just for the sake of getting further circulation, unless they could make that work in business.

Q. Do they not make that work in business?—A. I should think they do.

Q. And they would have little difficulty in getting their circulation out at a rate exceeding five per cent, would they not?—A. Well, of course we do not follow the money out, to see what rate of interest they get.

Q. I was wondering if you knew what it seems to me must be a perfectly clear practice, for them to go with the Dominion notes secured under the War Finance Act, and take them right over to the Central Gold Reserves and get the right to increase their circulation by depositing them there.—A. As a matter of fact the banks use these notes mostly to meet clearings. The circulation is an intricate business for the banks to keep track of, they have so many branches flung all over the country, and they have several expert men watching the circulation. When they think they will be met by demands at the Clearing House beyond their resources to pay in Dominion notes, they ask for these advances, they may put them in and when they are not needed they will take them out again, because they do not want to pay the interest. Or they may leave it in.

Q. Would you suggest that the main purpose that the banks have in mind in applying under this Finance Act is for the purpose of getting large legals in order that they may meet their Clearing House returns?—A. That is my opinion.

[Mr. J. C. Saunders.]