share of the expansion depends on its ability to attract its share of the public's deposits of surplus cash as it is paid out in each cycle for the purpose of making new loans or purchasing securities.

Whether from a net profits point of view the Chartered Bank is better or worse off than it was before the operation began depends upon how the increase in its earning assets is distributed between loans, on which it earns, say, 5 per cent, and securities, on which it earns, say 2 per cent; and also upon the increase in its overhead and operating costs resulting from the increased volume of deposits. On the basis of its whole business, a rough guess at the relation of these costs to its deposits would be approximately 2 per cent a year. But if any leeway in the matter of staff or premises had existed before, the addition to costs would probably be less than 2 per cent a year on the new deposits, especially if the new deposits are relatively inactive. The increased earnings on the Bank's new assets would range between $1,800 (all new securities) and $4,500 (all new loans). The increased expenses would be, say, $1,000 interest on deposits (an average of 1 per cent on $100,000) and probably something less than $2,000 in overhead and operating expenses.

The increased volume of deposits may be needed as medium of exchange for an increased volume of business. In that case larger average holdings of cash are one of the necessary expenses to business of an increased turnover.

Active use of the new deposits while the volume of business was not increasing would mean an inflationary rise in prices. The costs of a development of that sort in the way of a redistribution of income and the ownership of assets are well-known.

If, however, as under the conditions of the past few years, the new deposits remain relatively idle, or if, rather, their existence slows down the average rate of turnover of deposits as a whole, this will mean that the average cash holdings of individuals and businesses are greater than required. Those who can will attempt to exchange their deposits for some asset which is slightly less liquid but which gives a somewhat higher return e.g. a government bond. This competition for high-grade liquid assets will drive down the return obtainable from them and the quest for a little higher earnings at the expense of a little less liquidity will continue. How far down the scale of liquidity the pressure of easy money will be substantially felt depends on the circumstances, but it does involve some reduction in the rate of return to, and thus sacrifice on the part of, the investor class as a whole.

(*d*) Credit Expansion in Canada

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

(Volume 19, page 621)

(1) *Expansion of Credit by the Bank of Canada*

The increase which Bank of Canada operations have produced in the cash reserve of the chartered banks, is shown in the table which has been prepared in answer to Mr. McGeer's question.

The changes in the volume of money which have accompanied the expansion in banks' cash reserves are shown in the following statement.

(Millions of Dollars)

	Mar. 31, 1935	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937	Dec. 31, 1938	Total Increase
Canadian deposits ..	2,034	2,208	2,323	2,387	2,498	464
Currency circulation .	163	199	220	238	238	75
Total	2,197	2,407	2,543	2,625	2,736	539