

(c) Estimated Chartered Bank Expenses

*(Submitted by Mr. Towers in reply to Mr. Quelch and Mr. Deachman)

At the close of the meeting on Friday, May 26, Mr. Quelch and Mr. Deachman asked if I could give any breakdown of my estimate in regard to the operating and overhead costs of the chartered banks, viz. 2 per cent on total assets (exclusive of interest paid to depositors). On their Canadian business in 1938 this estimated 2 per cent would work out to about \$55 millions a year.

I had, of course, stated that my figure was only what I thought to be a reasonably accurate guess, and I am not in a position to give complete details. In regard to two of the major items I can, however, supply some figures which have been published by the chartered banks and which may be of interest to the Committee.

The number of people employed in Canada by chartered banks was reported in 1938 at 25,000. Over the ten fiscal years 1928-37 the average amount paid out in Canada in wages and salaries was \$37.6 millions a year; I should think the 1938 wage and salary bill was very little below this average. The amount paid to the Dominion, provinces and municipalities in 1937 by way of taxes was \$8.5 millions; this item was probably a little higher in 1938.

VIII. CHARTERED BANK LOANS IN CANADA

(a) Certain Factors Affecting the Volume of Current Loans

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

(Volume 14, page 435)

You will remember that the question mentioned, first of all, the effect of the decline in the price level; next the desire for liquidity; thirdly, possible changes in business practices, and, fourthly, any effect which anxiety in regard to the fulfilment of contracts might have had on borrowing and lending.

My answer this morning must necessarily in certain sections of it at least be of a very general character. It is impossible, I think, to calculate how much of the fall in commercial bank loans is due to each of the various factors which were operative during the period of the decline. All that can be done is to indicate that various factors for known reasons must have had an appreciable effect on the volume of commercial loans.

The lower price level—which is the first factor suggested by Mr. Deachman—undoubtedly has been an important reason for a smaller amount of commercial lending. A large part of banks' advances are for the purpose of financing the current inventories of industry. With lower prices the same volume of inventory represents a smaller dollar investment and therefore probably less need for bank credit.

During the years when general business activity was contracting—say 1930-33—and there were relatively few opportunities for profitable expansion of industrial production, a great many firms attained a very liquid working capital position, i.e., not seeing profitable avenues for investment they paid off bank loans and built-up cash balances. There were other firms, of course, which were unable to weather the financial crisis unassisted and had to increase their borrowings from the banks. The results of this situation upon the course of bank loans during 1934-1938, have been two-fold. First, firms which attained a position of liquidity in 1930-33 have been able to finance a considerable degree of recovery out of their own cash resources, without recourse to the banks.

* This statement was filed after the last sitting of the Committee and consequently does not appear in the minutes of proceedings and evidence.