

As the influence of the different factors which I have mentioned can never be accurately measured, comparisons of per capita note circulation have no value. Moreover, even if the factors could all be measured, the results might only indicate that the level of business activity in one country was not the same as that in another, without showing why the difference existed.

In Mr. Tucker's remarks on this subject I note that he said:

"As a matter of fact, we have in the past three years, to a very limited extent, actually increased our currency and circulation."

Perhaps I should point out that between December 31, 1932, and December 31, 1938, the active circulation of Bank of Canada notes and chartered bank notes, plus circulation of coin, rose from \$171 millions to \$238 millions, an increase of no less than 39 per cent, which brought total active currency circulation back to the pre-depression level.

Finally, it may be pointed out again that the amount of active circulation is determined by demand from the public. Notes which were issued in excess of demand would immediately find their way back to the banks, and produce an increase in the banks' cash reserves.

(e) Issuing Currency to Redeem Maturing Government Securities

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

(Volume 13, page 433)

Mr. Kinley raised the question at yesterday's meeting as to what effects there might be from using the issue of currency to meet security maturities. The answer to this question depends upon the circumstances in which such a transaction occurred and upon the amount involved. I believe I can best deal with the various aspects of the problem by referring to sections of memoranda submitted at previous meetings which are relevant to this question.

At least a corresponding increase in the volume of money must necessarily follow an expansion in the volume of currency. If the currency issued is legal tender there may be a ten to one expansion in the volume of money on the basis of increased banks' cash reserves.

The general effects of an expansion in the volume of money have been outlined on pages 83 and 84 of the minutes and proceedings. If the amount of expansion were enough to result in currency depreciation there would be certain other results which are referred to on pages 84 and 85 of the record.

The general effects which are mentioned in these references have been those which I would expect to occur if the additional amount of currency were permitted to perform the usual functions. If, however, there were an attempt to neutralize the effect of an increase in the volume of currency by some such measure as 100 per cent cash reserve requirements for the chartered banks, there would be certain other results to which I have drawn attention on pages 198 and 199 of the proceedings of this Committee.

I believe that the important effects of a transaction of this kind depend upon the amount involved and attendant circumstances because the technique involved in creating the additional currency by retiring securities is much the same in effect as the present system under which the Bank of Canada buys securities in order to expand cash reserves.