CHARTERED BANKS

(At December 31/38—100% cash reserves—all internal government debt redeemed)

Assets—		Liabilities—	
Cash reserves, of which		Canadian deposits	5,498
Loans, rediscounted	1,005	Note circulation (net)	88
Other rediscounts	74	Shareholders' equity	279
Other cash	4,419		
Other assets (net)	367		
	5,865		5,865

The cash given to the public in payment for the $3,000 millions government securities held by them, would be deposited at the chartered banks increasing deposits from $2,498 millions to $5,498 millions and raising cash reserves by the same amount.

On the assumption that all internal government debt would be converted into cash, the reduction on government interest charges would be about $150 millions, of which $125 millions would represent a reduction in security interest received by the Canadian people and $25 millions a reduction in interest received by the banks which decline as I pointed out a few moments ago would be passed on to the Canadian people in one form or another.

Variations in the detail or scope of the proposals which in general may be referred to as 100 per cent Money, will naturally effect the magnitude of the changes involved, but it remains true in every case that for each dollar by which the government reduces its interest charges there is a corresponding decline in the income of the public, in the form of a smaller return on investments, a reduction in interest on bank deposits and probably through increased charges on bank loans and banking services.

I can only repeat what I have already said on several occasions, namely, that I do not see how a proposal of this kind can be "costless" to the country as a whole nor how it can fail to cause widespread inequality of sacrifice.

In regard to the other argument which is advanced in favour of the 100 per cent cash reserve plan, that is, its value as a method of monetary control, I should like to make a few comments.

The first point is that if the redemption of government debt in cash is applied to the publicly-held debt, there is an increase of about $3,000 millions in the volume of bank deposits—approximately doubling the existing volume of money in Canada. If this large increase in the amount of money remained idle, there might be no serious effects beyond the inequitable taxation which has been discussed. But if the additional money were used by its owners there would be very marked effects—effects which the Bank of Canada does not believe would be favourable or it would have taken steps under the existing system to provide the basis for such an expansion.

Secondly, in regard to the suggestion that 100 per cent cash reserves would provide more control over the lending activities of the banks, I would point out that if the central bank merely rediscounted whatever loans the banks chose to present, there is no reason to believe that bank's loaning policy would be any different than it is to-day. If, on the other hand, the central bank were to assume the responsibility for deciding what loans should or should not be made, I believe that to perform such a task efficiently would require a huge organization. As to whether the results would be better than under the present system, I could not say, but I believe the determining factor would be the experience and judgment of the persons involved.