

At this point I should like to place on the record the summary balance sheets as of December 31, 1938, adjusted for the effects of the assumed transactions.

BANK OF CANADA

(At December 31/38—100% cash reserve for banks)

| Assets— | | Liabilities— | |
|------------------------------|--------------|-------------------------------|--------------|
| Gold | 186 | Banks' cash reserve | 2,498 |
| Securities | | Active notes | 118 |
| Government advance | 1,348 | | |
| Discounts | 1,079 | | |
| All other (net) | 3 | | |
| | <u>2,616</u> | | <u>2,616</u> |

CHARTERED BANKS

(At December 31/38—100 per cent cash reserves)

| Assets— | | Liabilities— | |
|------------------------------|--------------|----------------------------------|--------------|
| Cash reserves, of which | | Canadian deposits | 2,498 |
| Loans rediscounted | 1,005 | Note circulation (net) | 88 |
| Other rediscounts | 74 | Shareholders' equity | 279 |
| Other cash | 1,419 | | |
| | <u>2,498</u> | | |
| Total | 2,498 | | |
| Other assets (net) | 367 | | |
| | <u>2,865</u> | | <u>2,865</u> |

The amount of chartered bank deposits would still be \$2,498 millions but against those deposits the banks would be holding cash of the same amount.

The effect of the assumed transaction upon government finances would be a reduction of \$25 millions in debt interest formerly paid to the banks and an increase in revenue of \$5 millions from the $\frac{1}{2}$ per cent charge on rediscounts at the central bank—a total improvement of about \$30 millions.

The banks, on the other hand, would not receive the \$25 millions formerly paid on their government security holdings and would have to pay \$5 millions on the rediscounts at the central bank. Other operating expenses would remain at about \$50 millions and the banks would be forced to make a choice between increasing their charges on loans and services and reducing their payments to the public in deposit interest and dividends, in order to offset a net decrease in income of \$30 millions.

If we assume that the redemption of government securities by payment in cash, were extended to include the \$3,000 millions government securities held by the Canadian public, the effect upon the balance sheets of the Bank of Canada and the chartered banks would be that shown in the tables which I now place on the record.

BANK OF CANADA

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

| Assets— | | Liabilities— | |
|------------------------------|--------------|--------------------------------|--------------|
| Gold | 186 | Banks' cash reserves | 5,498 |
| Securities | | Active notes | 118 |
| Government advance | 4,348 | | |
| Discounts | 1,079 | | |
| All other (net) | 3 | | |
| | <u>5,616</u> | | <u>5,616</u> |