

in the early stages of the upward movement of the business cycle than during its downward phases or at the bottom of a depression. Incidentally, if the habits of the people are unchanged, the volume and rate of turnover of notes circulating is fairly closely related to the volume and rate of turnover of the deposits. The total deposits of commercial banks in various countries are, during a depression, often as great as or greater than in a boom period, but their velocity will be very different. The deposits in the English banks, for example, at June 30 in 1929 were £1,861,000,000; at the bottom of the depression in 1932 they were £1,813,700,000, and in 1935 they were £2,044,800,000 or actually £183,800,000 greater than 1929.* In Canada the average deposits of the chartered banks in 1929 were about the same as in the spring of 1936, but their turnover in 1929 was very much higher. The national income of Canada was about \$5,690,000,000 in 1929 and in 1934 only about \$3,613,000,000, though this was an improvement on some of the intermediate years. This reduction in national income is what would be expected in the light of the fall in turnover since 1929.

But while an easy money policy may not easily promote spending, it will cause a fall in the rates of interest, assisting the refunding of fixed interest obligations on favourable terms and the flotation of new capital issues. This is often its most important result.

Mitigation of General Economic Fluctuations.—Thus the ability of the central bank to appraise the economic situation and to act at the proper time is important, especially by way of seeking prevention rather than cure. The fluctuations which the central bank has to mitigate are not only cyclical, they may also be seasonal and secular. It should always try to offset the seasonal fluctuations, for these are of short duration and their elimination or modification should present no difficulty if the normal mechanism of open-market operations is functioning.

Secular fluctuations, due to increase in population, production and trade, over a long period of time, are difficult to distinguish, but require attention. Seasonal and cyclical movements may call for opposite treatments, in which case the central bank will take care of the net effect it wishes to produce.

It is most important that the central bank should not act too early or too late on the cycle. It will not wish to stop a business revival, but, equally, it must not let it get out of hand. In order to know when to act and to what extent, the bank must constantly watch carefully all barometers of economic activity—foreign trade, employment, production, capital movements, etc. The more skilful and well-timed the Bank's operations are, the less jarring their effect on the economic system will be. In a depression, the central bank lays the foundation for economic expansion by making money cheap and plentiful, within the limits of safety.

Control Over Exchange Operations.—The Canadian dollar is at present off gold and unstabilized, and no statutory duty has yet been laid upon the Bank to maintain the exchange at any particular rate or level. On the gold standard, or any other standard, such maintenance is, of course, a primary duty of the central bank and it defends the exchange mainly by the same weapons which it uses for internal purposes, having, it may be, foreign exchange assets to help it. As the Royal Commission on Banking and Currency in Canada pointed out (p. 63, paragraph 208 of the official report), "Whatever additional influences may affect the level of exchange, . . . the long-term factor of decisive importance is the credit structure of

* Figures of deposits of English banks given here are from the Banking Supplement of *The Economist* for Oct. 12, 1935, and include undivided profits, etc.