

Subsection 2.—Money Supply

During 1947 the Bank of Canada developed a presentation of statistics concerning money supply and related bank assets which differs in several important respects from the table presented in previous issues of the Year Book. It is believed that the new series provides a better approach to the problem of measuring changes in the volume of money under present-day conditions though, unfortunately, the Bank of Canada series has been carried back to 1938 only, whereas the former Dominion Bureau of Statistics series was available from 1919 (see pp. 1022-1023 of the 1947 Year Book).

In measuring the volume of money it is necessary to decide which categories of bank deposits should be classed as 'money' and which, by their nature, should be regarded more appropriately as part of the public's other liquid asset holdings such as Government bonds. Generally, it has been satisfactory to classify bank deposits as money if cheques may be drawn against them. In other countries this criterion has seemed to work fairly well because cheques may not be drawn against savings deposits. In Canada, however, cheques are, in practice, drawn freely against savings deposits and this has always posed an awkward problem when trying to assemble volume of money statistics. To omit all savings deposits of chartered banks would ignore the obvious fact that for many people a savings account is an active chequing account which is very similar to a current deposit. On the other hand it is known from available information that, of the total amount on deposit in savings accounts in Canada, much the larger part is, in practice, inactive. Chartered banks pay interest on the minimum quarterly balances in personal savings accounts, i.e., on the sum that has been left undisturbed for the quarterly period; from the amount of interest that is actually paid on this basis as compared with the nominal rate of interest, it is apparent that the aggregate minimum quarterly balances in personal savings accounts are about five-sixths of the total of such deposits at the present time.

It is felt, therefore, that a more realistic picture of monetary developments in Canada—and one more comparable with the usual presentation of similar statistics in other countries—is obtained by omitting the minimum quarterly balances in personal savings deposits and non-personal notice deposits from volume-of-money statistics. It has seemed preferable to exclude these deposits from the volume of money on the basis that they are inactive in practice rather than to include them on the grounds that they are potentially active because cheques may be issued against them.

The published returns of Canadian chartered banks include among assets "Cheques on Other Banks" which represents the amount of cheques that have been credited to the deposit account of the payee but not yet cleared against the deposit account of the drawer. To the extent of such items in 'float' there is, therefore, duplication in the figures of bank deposits. In Table 7 "Cheques on Other Banks" has been deducted from the figure of chartered bank deposits in order to eliminate this duplication.

Government deposits are given different treatment in different countries as far as volume-of-money statistics are concerned. In most cases the commonly used figure of bank deposits excludes Government deposits and, on the whole, it appears preferable to exclude Federal Government deposits from the Canadian money-supply figures.