

integrity and probity amongst members of the banking profession as amongst any other group of people of whom I have knowledge.

Mr. WOODSWORTH: The minister did not catch my point. My suggestion was that if the bankers were appointed by the government, would they not then exercise independence just as the judges, I believe, exercise independence, and not be subject absolutely to the whims of whatever political party might be in power.

Mr. RHODES: My hon. friend must surely know that when I was talking about patronage in the matter of appointments I had no reference to and I had not the slightest idea of discussing appointments of governors or deputy governors. That was not what I had in mind, and my hon. friend should know that. I was referring to clerks and employees, the purchase of supplies and printing, the securing and location of premises; where credit should be extended, and a thousand and one other things. I know my hon. friend is more intelligent than his question would indicate.

There is another grave objection, and to my mind it is just as serious as some of the others which I have urged. In giving utterance to these objections I am not for a moment suggesting that I have exhausted the field; I am drawing to the attention of the house only some of the major ones. The objection to which I would now ask the house to give consideration is that which would arise out of incompatibility between the government as a borrower in the public markets and the government as a regulator of the volume of credit and currency. Canada this year has a heavy refunding program. What would be the attitude of the Minister of Finance or of a government confronted with a heavy program of refunding?

At six o'clock the house took recess.

After Recess

The house resumed at eight o'clock.

Mr. RHODES: Mr. Speaker, when the house rose at six o'clock I was dealing with the possible, and indeed I almost feel like saying the probable, conflict of interest which would be bound to arise between the government, as the regulator of credit through the management of a government owned bank on the one hand, and its interests as a borrower upon the other. There is an incompatibility of interest here which cannot possibly be avoided. With a state owned central bank

this fundamental incompatibility is inevitable. If the government is in control of the administration of money market policy it is bound to find itself in the equivocal position of being called upon to choose between two courses, one of which may be immediately convenient to itself and the other conducive to the ultimate interests of the country as a whole.

In its most extreme form this weakness or danger of public ownership is, in my judgment, illustrated by the case of a government which, unable or unwilling to finance itself by other methods, leans too heavily upon the central bank, forcing the latter to make excessive advances and usually bringing about financial disaster both for the bank and for the community. Historical instances of this, particularly in war time, are not uncommon. Kisch and Elkin, in their book on Central Banks, to which I made reference this afternoon, refer to two interesting illustrations in the history of Spain and France, and even at the risk of wearying the house I will quote one rather long paragraph from that work, illustrative of this point. They say:

In the latter part of the last century the proceedings of the Bank of Spain were prejudiced by obligations imposed on it by the state, and even before the Spanish-American war it had only been by advances from the bank entailing currency expansion that the treasury was able on occasions to meet its engagements. The result was seen in a heavy depreciation of the exchanges and in the price of public stocks. Resolute efforts were required later to restore the position. Developments in France between 1923 and 1925 also offer a striking example of the same phenomena. The advances by the Bank of France to the treasury were limited by law, the maximum having been raised from time to time as appeared desirable. During the war and in the following years increases became frequently necessary as the purchasing power of the franc fell and the exigencies of the government increased, but even the enhanced power to borrow from the bank was insufficient to satisfy the needs of the government. Acting under government compulsion, the bank eventually exceeded the legal limit for advances to the treasury, and published balance sheets devised to hide the fact. When the situation was made public, in April, 1925, the Minister of Finance admitted that the legal limit had been exceeded by 1,200 million francs in December, 1923, and that by the following June the excess had increased to 2,325 million. Early in 1925 the excess rose to over 3,000 million francs. This had inevitably involved further issues of paper currency, with the result that the volume of notes in circulation rose to 43 milliard francs, although the maximum issue had been fixed in 1920 at 41 milliard francs. There can be no question that the power of the government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis that culminated in 1926. Such extreme abuses of govern-