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FIXING THE PRICE OF MONEY BY ACT OF PARLIAMENT

The testimony of the experts, before the Banking and Commerce Committee, has been damaging to the theory, held by some members of parliament and by a large number of borrowers in Western Canada, that the price of money can be successfully regulated by legislative act. It has been a subject of complaint that the banks charged 8 per cent., and in some cases 9 per cent. or more, on loans at the branches in small Western towns and villages.

Certain members, holding the opinion that a 7 per cent. maximum would be for the good of the country, proposed to have a clause to that effect incorporated in the new bank act. But money is not the slave of governments or parliaments. It refuses to be regulated—as the world's history amply demonstrates. Regulation of the price of money has been attempted by practically every civilized nation.

The wisest and most experienced countries abandoned such attempts many years ago. They learned that the policy of fixing a low legal rate injured borrowers more than any other class.

When one takes the trouble to think over the question, it is easy to see that if the law were framed so as to make it impossible for the banks to get more than 7 per cent. on loans and discounts anywhere in Canada, the borrowers in the Western Provinces are the ones who would suffer the greatest injury.

After two or three years of strict operation of such a law there would come down from the West an angry and imperative demand for its repeal. One after the other the banking experts testified that if it was impossible to charge more than 7 per cent., a number of

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branches in the West would be closed, as it would not pay to operate them. Expenses of all kinds pertaining to the establishment and operation of branches in the small localities of the West are high. To equalize the expenses it is necessary to charge higher rates than in the east.

The banks are merely dealers in money or credit. Dealing in credit is just like dealing in sugar, or flour, or tea, or coffee—in that the dealer will discontinue his operations if he is forbidden to make a profit.

If the local grocery man in a Western town could not lay down sugar at a less cost than six cents a pound, and the legislature decreed that sugar should be sold at no more than five cents a pound, the grocery man would not handle sugar while that law was in effect. The law fixing the price of money or credit would work in the same manner.

Take a small Western town under present conditions, with a branch of one of the chartered banks. The bank discounts at 8 per cent. for the local business men who are considered good. Farmers who are in good position also borrow at 8 per cent. We may count these borrowers as belonging to class one.

Then there are several business men and a goodly number of farmers who are not strong enough to qualify for class one. As the risk of extending credit to them is appreciably greater, the bank will not discount their paper unless they submit to an 8½ or 9 per cent rate. They submit, and thus they are able to borrow for their necessary requirements. That is the condition of affairs with the law as at present.

But certain members of parliament and others, being convinced that the borrowers in this town and in others like it are not receiving generous treatment from the chartered bank, bring their influence to bear and succeed in having parliament decree that nothing higher than 7 per cent. shall be exacted. What happens?