

Bank of Canada Act

The present financial system is nothing very unusual, and there is no particular magic about it. I suggest—

Mr. Grégoire: Mr. Chairman, I do not think the minister would like to impute to me words I never said. I never said that banks should not charge interest in return for money lent. If banks lend money to individuals, they charge an interest rate. But if they create new money this is where I do not think interest is logical or realistic. I suggested that new money created by the Bank of Canada should not carry interest. Money in the accounts of credit unions, savings banks or the chartered banks should demand interest, but any new money representing an increase in the money supply in any one year should not carry interest and should be created by the Bank of Canada. I should not like the Minister of Finance to put into my mouth words that I did not say.

Mr. Sharp: I am quite happy to accept the words the hon. gentleman has just uttered, Mr. Chairman. All I said was that the deposits which appear on one side of a balance sheet as liabilities of a chartered bank cost the bank something either in the form of interest on the deposits or servicing of the deposits. There is no costless system under which a bank can operate; otherwise they would be much more profitable institutions than they are. I suggest that the hon. member is really misleading the committee when he suggests that there is some magic way in which the banks create something out of nothing. That is simply not so.

• (8:20 p.m.)

[Translation]

Mr. Caouette: Mr. Chairman, the Minister of Finance (Mr. Sharp) has not been very precise nor very convincing in his reply to the question put by the hon. member for Lapointe (Mr. Grégoire). He said that he found it quite difficult to educate the hon. member for Lapointe but the Minister of Finance did not attempt to educate those who advocate social credit in Canada, because it is precisely by studying in detail the system endorsed by the Minister of Finance and by those who came before him that we came to the conclusion that social credit offers a solution to the problem the Minister of Finance is unable to solve at the present time.

The minister says that social credit exists nowhere. This does not mean that social credit is wrong, and it does not disprove the fact that the financial system in which the minister flounders still remains a monkey

system, an unrealistic system, a system which is not based on facts, a system which penalizes the Canadian worker, the Canadian people.

The Minister of Finance gives his fatherly and favourable blessing to a system which I would call "cannibalistic".

Mr. Chairman, it is easy for the minister to say that everyone is familiar with the process, but I think that he is not so sure himself that he knows it in depth, and he proves it when he says that anyone who wants to lend money must first borrow it.

Has the minister ever seen a chartered bank borrow money? Has he ever seen a chartered bank lend its savings deposits? Has he forgotten what Mr. Graham Towers, former president of the Bank of Canada, said in 1939: "The chartered bank does not have the right to lend its deposits."

Now one must really know why the Bank of Canada was created in 1934 and to what purpose. The Minister of Finance probably never read this but here is what it says at page 1054 of the 1966 Canada Year Book:

The Bank of Canada is Canada's central bank. It was incorporated under the Bank of Canada Act in 1934 and commenced operations on March 11, 1935.

A Conservative government was in office then. It is under a Conservative administration that the Bank of Canada was created.

This was in 1935, 32, or 33 years ago.

The Act of Parliament which established the central bank charged it with the responsibility for regulating "credit and currency in the best interests of the economic life of the nation", and conferred on it certain specific powers for discharging this responsibility.

Through the exercise of these powers, the Bank of Canada determines broadly the combined total of the basic forms of Canadian money held by the community—currency outside banks plus deposit balances in chartered bank accounts.

By virtue of the provisions of the Bank of Canada Act, which enable the central bank to increase or decrease the total amount of cash reserves available to the chartered banks as a group—

Available to the people, to chartered banks.

—the Bank of Canada is able to determine broadly the over-all level of the total assets and deposit liabilities of the group, and hence of the combined total of currency and bank deposits.

Mr. Chairman, here on page 1055 of the Canada Year Book, we find the following concerning the Bank of Canada:

The chief method by which the Bank of Canada can affect the level of cash reserves of the chartered banks and through them the total of chartered bank deposits, is by purchases and sales of government securities.