It appears that the household sector is well served by banks and the financial market, due to its competitive nature. This does not preclude the existence of complaints about the system or with respect to certain banks. Some of these were raised before the Committee with respect to bank retail services and loans to households. It is felt that some bank managers are over-reacting to the current economic situation and that the introduction of Electronic Funds Transfers has precipitated apprehension on the part of the public. The information at the Committee's disposal, however, does not allow firm conclusions to be drawn regarding the validity of these complaints. We do believe that more research in this area is needed.

5.2 THE SMALL BUSINESS SECTOR AND THE BANKS

The corporate sector has traditionally enjoyed a wide variety of sources of financing. These include equity, long-term debt through bond markets, bank loans (both long and short-term), trade credit, leasing arrangements, etc. Government financing is also available through deferred taxes, some direct financing programs and loan guarantees. Small business also has access to these sources of financing, although in varying proportions. The nature of smaller firms dictates that certain forms of financing are relatively more expensive to them and so they hold back on the use of these sources.

It is generally believed that small borrowers tend to be squeezed by financial institutions and markets in times of tight credit. Loans are presented with costs or terms more unfavourable to the small borrower than to the large one. Testimony to this effect has been heard before the Committee, alleging that such discrimination is typical in bank lending to small borrowers—small business and farmers. However, such discrimination would appear to be the exception rather than the rule from the evidence we have before us.

Chartered Banks' Business Financing

As financial intermediaries, banks are a significant force in business finance, this being particularly true with small business. From 1976 to 1981, chartered bank financing accounted for over 90 per cent of the net new short-term credit extended to business. Over this same period, the share of bank financing to total sources of the stock of business credit increased from 42 per cent in 1976 to 57 per cent in 1981. In the business financing sector, the banks have increased their importance since 1976, this being especially true of 1981.[10]

Banks are the primary source of funds to small business. Tables 5.5 and 5.6 present statistics on the relative importance of various sources of funds, by size of business. What is most evident from these tables is that small firms rely much more heavily on debt financing than do large firms, which have easier access to equity financing. Tax deferral, as a source of financing, is of little importance to the smallest class of firm, while for the largest size class it amounts to almost 7 per cent of corporate funds. On the other hand, smaller firms tend to use other non-financial corporations as a source of short term financing: accounts payable represent 16.5 per cent of the value of assets for the smallest class of firms but only 7.5 per cent for the largest class.