

Mr. HOWARD: Hear, hear.

*By Mr. McGeer:*

Q. We can be on clear ground regarding that. And I have no thought of establishing a change in the monetary system.—A. Yes.

Q. That would destroy the merchant banking system.—A. Yes.

Q. As an effective service to the commerce of a capitalistic democracy?—A. Yes.

Mr. HOWARD: Hear, hear, that is the thing.

*By Mr. McGeer:*

Q. And if you have any idea that my thoughts are drifting along that line I may say to you that they are not. May I say to you further that in the proposals which I intend to make before this committee, before its deliberations are concluded, I propose to show that the changes which I think can be made to improve public finance and general circulation will not be detrimental to the merchant banking system, to the insurance companies, to the trust companies or to private investment or to private capital. On the contrary, that all those institutions and individuals will be benefited rather than harmed.

Now, the point that I was making was this: If it is the prerogative right of government to issue money, then that prerogative right in Canada under our existing system has been transferred to a merchant banking system to the extent of 88 per cent of the money in issue in use? That is correct, is it not?—A. Yes.

Q. Now, when the merchant bank is authorized to create and issue a bank deposit as a substitute for money in a system where that substitute actually functions as money, it is giving to the bank the equivalent of the power to mint coins, or print money?—A. Under the regulations imposed by government, yes.

Q. But that is the result of that transaction?—A. As I said in one of the earlier meetings on the same subject it gives them that power. Naturally, in order to exercise it, they have to have the confidence of the people.

Q. In any event, under the system of banking authorized by parliament and accepted by the people as the common practice, our merchant banks create and issue 88 per cent of the money medium of exchange used by government and people in Canada?—A. Through their ordinary banking activities in the form of making investments and loans.

Q. But they do create and issue 88 per cent of the money which we use?—A. "Issue" is just that phrasing which I questioned, but it is the case that through their banking activities in the form of making investments and loans you find then the creation of these deposit liabilities which serve in major portion as the medium of exchange in the country.

Q. But there is no question about it that the banks do create that medium of exchange?—A. That is right. That is what they are there for.

Q. That is what they are there for and that is what they do.—A. Yes, they do.

Q. And they issue that form of medium of exchange when they purchase securities or make loans?—A. That is banking business, just in the same way that a steel plant makes steel.

Q. So that we are clear on this point that our merchant banks do create and issue 88 per cent of the money medium of exchange in common use in Canada to-day? That is correct, is it?—A. Roughly.

Q. This may seem elementary, Mr. Towers, but I should like to place it on the record. I want to deal with the laws under which Canadian money is created and issued into circulation and controlled and regulated in circulation.