

COMMITTEE ROOM, No. 429,

HOUSE OF COMMONS,

March 15, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, A.M., the Chairman, Mr. F. W. Hay, presiding.

Albert E. Phipps, called and sworn.

The CHAIRMAN: Mr. Phipps, perhaps we ought to submit to you a series of questions, but it is open to you to go on as you please. You will find that there will be ample questions submitted to you later on. Would you prefer just to make a statement?

The WITNESS: Yes, I would, Mr. Chairman. I have one here which I will read:

In the beginning of organized banking in Canada over one hundred years ago, three features which have persisted up to the present characterized the system:

- (1) The establishment of branches;
- (2) Note issues against the bank's assets;
- (3) No lending on mortgage of real estate.

All three were essential, if the growing country was to have adequate and continued banking services. The centres of population must supply banking capital for the outposts—hence branches; banks must have till money free of cost, if banking facilities were to be afforded in newly established communities—hence the note issue privilege; and there must be no lending on real estate because land speculation was rife and liquidating was essential and the antecedent experience in the United States of lending against land had brought financial disaster and would soon have had a like result in Canada.

Other features have followed. Special forms of security, to facilitate the marketing of timber in the early days and of wheat, wood products and manufactures in these latter days, have been devised so that the system is an evolution expanding or changing from time to time to meet the actual conditions in the development of the country.

The whole system has been exhaustively examined by Parliament within the past five years and nothing has arisen since the last amendments were made which would seem to call for structural changes. In fact the system, it is submitted, is meeting the banking needs of the Country adequately.

#### BANK NOTE ISSUE PRIVILEGE

The bank note issue privilege has been mentioned. In some respects this has been from the standpoint of the national interest a very important feature of our present system and if abolished, certain results would inevitably follow. By way of preliminary it should be said that the Government notes, backed substantially by gold, are the main currency of the country—the backbone of our currency system. All adjustments of the trade and business of the country that go through the banks are settled in the Government's currency. If one bank, in the operation of

[Mr. Albert E. Phipps.]