

from outside of Canada who was heard was Professor T. E. Gregory. I should like to quote from a memorandum which this gentleman wrote in 1930 as an addendum to the report from the select committee on the central reserve bank bill to the parliament of Australia. He said:

In discussing the form of government of a central bank, the first point which necessarily arises is the ownership of the bank. The present reaction against state-owned central banks finds its origin naturally in the difficulties to which central banks were exposed in the war and post-war period—difficulties to which most banks were subject, indeed, but which naturally are most acute when the state is the sole owner, because this means that the power of appointment is vested in political hands. That there exists in certain countries a strong political feeling in favour of state-owned banks cannot be denied, but the strength of that feeling can be modified if the following points are borne in mind and brought prominently before the public: (a) The inherent danger that a state-owned bank will under political pressure be made a mere instrumentality of unsound finance; (b) The case for a government bank is obviously weakest where there is a broad capital market capable of providing all the initial capital required, and where there is a fund of banking and general business experience upon which the bank can draw for its executive personnel. This applies without doubt to all British dominions.

Now I wish to deal, not with all but with some of what I deem to be the more important objections in practice to the government ownership and operation of a central bank. The first danger, in my judgment, is the inescapable danger of political pressure, of partisan interference in the administration of the bank. As the Macmillan report indicates, it is vital to the effective working and operation of a bank of this character that not only should there not be the fact of, but also that there should be removed the very fear of, political interference with the operation of such a delicate and complicated piece of mechanism as a national monetary and financial machine; and that, because its operations are of such tremendous importance as affecting price levels and consequently the incomes of every individual citizen of the country.

To my mind—I say this with all deference—there is a deadly danger which I could illustrate by referring to the conditions that obtained in the year 1929, when the world was having that wild monetary jamboree. Admittedly it would be the function and the duty, and perhaps the main purpose of a central bank, to control a period of inflation such as took place during that time—to apply the brakes, to “mop up” all the loose credit,

and to endeavour in every way possible, which would be open to a central bank, to restrict and curb the operations of such a period. There may be some day a government so ideal as to be prepared to consider solely the interests of the state and to forget party interests. But I doubt it. I believe governments will always be composed of human beings, and being human they will exhibit the frailties of human nature.

Mr. WOODSWORTH: Is not that true of bankers also?

Mr. RHODES: I should assume that even my hon. friend would accede to the truth of that statement, that bankers are human—

Mr. WOODSWORTH: I hope so.

Mr. RHODES: —and that being so I do not see the force of his interjection. Now, let us assume that we had a central bank wholly state-owned and operated during that period, with an election four or five months in the offing. The government then would be placed in a most equivocal position. It would have its plain duty to the country to consider on the one hand, and on the other hand it would be looking to its political future; and I leave it to the judgment of the house what the decision would be under those circumstances. To my mind that is a vital objection to the complete operation and control of a central bank by a government which, I care not how well intentioned it may be, is bound to give heed to political considerations of a larger or a smaller character, to a greater or a lesser degree.

Furthermore, a bank controlled by the government would inevitably be subject to sectional pressure and influence, a pull and haul from different parts of the country for certain special consideration and treatment; and again I leave it to the judgment of the house what the result would be if a government were supported by a slender majority and a certain group, not necessarily my hon. friends opposite and to the right, but any party, came to the government and said, “If you don’t do thus and so as a matter of monetary policy we will vote you out of office.” What would happen then? I do not need to elaborate on the danger of the position I have just indicated; all I have to do is to point it out.

There is another vital objection to complete governmental operation and control of a central bank, and that lies in the danger of lack of continuity of policy. I do not think I need labour that point except to say this: first, that continuity of policy is necessary