

money and putting the securities, whether bonds or treasury bills, away in their boxes. At the end of the year the chartered banks were holding over \$2,000 million of securities. Why do we carry on in that way? Are we not apprehensive that the debt load we are creating will wreck this country? As I say, in borrowing from the Bank of Canada we are not incurring any greater danger of inflation than if we got the money from the chartered banks.

I want to support that statement with the authority of the Minister of Finance himself. On October 15 he had a carefully considered article, answering questions and elucidating for the people the intricacies of our banking and borrowing system, in *Maclean's* magazine, and at page 75 he made this statement.

When the banks lend large sums to the government, they create additional deposits in the process. In the first instance, the new deposits are turned over to the government by the banks when they make the loan. But the government spends these deposits by drawing cheques against them—and they arise in the hands of the public in exactly the same way as if the government had printed more dollar bills to pay its expenses.

And he concludes by saying:

These bank deposits are the commonest and most important form of money these days and the increase in them produces the same inflationary effects, and must be subject to the same sort of limits, as the issue of money.

That being so, what justification is there to add a further unnecessary load in order to finance our necessary deficit in war time? None whatever. Let me say to the minister that there is plenty of scope for the chartered banks in the other fields of activity in which they engaged. I have prepared, and I am going to take the time of the committee to put on *Hansard* a statement of the original capital of the chartered banks of Canada—\$145 million. They have surpluses in the billions and all their buildings, and they have accessible to lend at five or six or seven per cent some \$1,700,000,000 of time or savings deposits which the public have entrusted to them at one and one-half per cent. They have all this and their original capital, so that I think it is as clear as the noon-day sun that the Dominion of Canada must stop borrowing on its own security from the chartered banks of this country when we can borrow equally well from our own Bank of Canada.

The minister might tell us: "I have done a wonderful job in getting down the rate of interest which I pay to the chartered banks." Of course, he has. But while I give him great credit for that, the chartered banks have seen the handwriting on the wall. They

[Mr. Slaght.]

know this is a terrific monopoly which they enjoy and which we gave them for nothing, and I believe that I am speaking in their own best interests when I ask them to join with the government and give up this monopoly and this practice of making book-keeping entries, of pretending to lend money to the government, when all they are doing is taking interest from the government and not putting up any money of their own.

The system was well described by the Minister of Finance last year when he said in an able address on July 15 as reported at page 4270 of *Hansard*:

Everyone familiar with the working of the banking system knows that, the moment the banks get their hands on additional cash—I mean by that Bank of Canada notes, or deposits by the Bank of Canada which are convertible into Bank of Canada notes—when the banks get those reserves in their hands, powerful forces are set in motion to get the banks to buy securities themselves, to make loans themselves, so that the deposits of the chartered banks will be seven, eight, nine or ten times as great as their cash reserves. That lies at the base of their whole profit-making activities; the way they make money is by lending more money than they have. What they have is their cash reserves; and unless a bank has out several times—six, seven, eight, nine or ten times—its cash reserves, it is not being profitably, or, from a banking point of view, properly conducted.

Mr. HOWDEN: I gather from the remarks of the hon. member that the banks lend credit but actually get back cash. Is that the idea? When a loan becomes due it is repaid to the banks, so that they are getting money they never created.

Mr. SLAGHT: If their loans are repaid, of course they do, and having lent \$782,000,000 to the Minister of Finance in the last fiscal year by a stroke of a pen, and with nothing behind it, when the minister pays them back that loan they are getting something they never had. Their business of lending something they have not got would not otherwise be properly and profitably conducted, to use the minister's words.

Mr. HOWDEN: And they do get it back in the end.

Mr. SLAGHT: If they lend money or pretend to lend money they never had, and if the borrower pays that back, they have got back a loan that was just as much a loan as though they had counterfeited a bill. There was no security and no goods and services behind it; there was no gold behind it; there was not a pennyworth of gold in the Bank of Canada behind it, nor is any required to be kept. So that, of course, if they got paid back these loans by making