since Mercantile's liabilities already exceed slightly the prescribed amount. Citibank, the owner of Mercantile's outstanding shares, took the position that when it acquired the shares from the original Dutch owners in 1963 it did so quite legally and that it had no adequate warning of legislation to restrict Mercantile's growth before becoming firmly committed to the purchase. It claimed that this particular provision was retroactive, discriminatory and punitive.

As a result of questioning by members of the committee it became apparent that officials of Citibank knew or had good reason to suspect that the Canadian government was opposed to the acquisition before Citibank became firmly bound to proceed. In effect, the legislation gave Mercantile and its owners a number of options, either to reduce its non-resident ownership to 25 per cent or to remain at its present size or to have its future authorized capital, and therefore its size, strictly regulated by the Canadian government.

Members of the committee and the general public were, I believe, satisfied that in the circumstances these options were not retroactive, discriminatory or punitive but on the contrary were entirely fair. It was essential that the fairness of this legislation should be clearly established. Canada's growth and prosperity in the past have depended very substantially upon capital and technology from abroad. Our need for foreign capital and technology will not continue indefinitely but it will continue for many years. To develop our resources we will need for many years far more capital than we can provide from our own savings. I believe that this fact of life is accepted by all members of the house.

In recent years there has been a world wide shortage of capital, and interest rates and other costs of obtaining capital have therefore been high. Many countries are competing for the available development capital. Canada's ability to obtain such capital in the past on favourable terms has been based primarily upon the assurance that foreign investors are welcome here and that they will be treated fairly. It is perhaps just one application of a principle which has been established for at least 3,500 years, and is expressed in Leviticus, chapter 24, verse 22:

> Ye shall have one manner of law, as well for the stranger as for one of your own country.

The same idea, Mr. Chairman, is well expressed in a recent publication prepared by

the director of the institute of intergovernmental relations as Queen's University for a leading financial house in Toronto. It reads:

> The most important thing in the long run is the atmosphere of confidence, or lack of it, that exists among foreign investors with reference to Canada's long-term status as a reliable place for investment. For a good many years now, this country has enjoyed an unexcelled reputation for stability and financial common sense.

When they were before the finance committee the Citibank officials said they had no intention of selling their Mercantile shares. They said it would not be responsible for them to place shares on the public market in Canada until the bank was in a more profitable position and was better established. They pointed out also that it would be difficult to carry on profitable operations and build up an earnings record which would be attractive to investors if their liabilities were restricted to 20 times their present authorized capital when other banks with which they had to compete could have liabilities of 40 or 50 times their authorized capital.

Since that time Citibank has changed its mind. It has indicated it is prepared to make shares of Mercantile available to Canadians. In view of this fact the committee recommended that the restriction on growth should become effective in 1972 rather than immediately in order to give Mercantile a five-year period to establish itself and build up an earnings record which would make it possible to market its shares successfully in Canada. In the result, if non-resident ownership of Mercantile is not reduced to 25 per cent by 1972 it will be necessary for Mercantile to comply with the growth restriction formula and to cut back its size. The finance committee believes that this provides a sufficient incentive to make orderly preparations during the five-year period for the sale of shares to Canadian residents.

• (5:20 p.m.)

This is a reasonable and fair approach. It has the advantage also that it will retain for Canada the benefits of increased competition in the Canadian banking system, which is greatly needed, and the valuable knowledge and experience which is provided by Mercantile and Citibank. In its third annual review the Economic Council of Canada said:

> It is clear that nothing quite compares with foreign competition as a limitation on the exercise of market power.

It was generally recognized throughout the finance committee hearings that an increase in competition in the banking business in Canada is highly desirable. We need more