

*Bank Act*

published in 1964, the author Mr. R. H. Wallace, senior lecturer in economics at the University of Adelaide has this to say:

Up to 1956 the Commonwealth Savings Bank played such a dominating role in the industry that by adjusting its policy it could offset any undesired changes by the other banks. The central bank used the Commonwealth Savings Bank as an instrument for its over-all policy. It continued to conduct its over-all open market operations partly through the Commonwealth Savings Bank, but with its own greatly expanded power and experience it did not need to rely on manipulation of the Commonwealth Savings Bank to control the liquidity of the trading banks.

Later, the author has this to say:

A most important change is the reduction in the share of the business of the Commonwealth Savings Bank. Prior to 1956, savings banking in three of the six states was the savings banking of the Commonwealth Savings Bank. Its over-all size was so great that changes in its investment policy which were marginal to its own scale of activity were sufficient to significantly influence the whole group. Today the absolute magnitude of the possible changes in the investments of the other banks is so much greater, and the relative size of the share of the Commonwealth Savings Bank so reduced, that these offsetting activities will no longer be marginal to its own activities. Further the Commonwealth Savings Bank is now operating in a highly competitive situation—

The expansion of the housing loans of the Commonwealth Savings Bank since then indicates that its policy is still largely determined by the treasury and reserve bank, and that the directive to the board in the Commonwealth Banks Act of 1959 to direct the policy of the corporation "to the greatest advantage of the people of Australia" is not an empty phrase. So long as the reserve bank will assist it by bond purchases, the Commonwealth Savings Bank can still expand its lending for housing and to public authorities as the need arises

Now, Mr. Chairman, it was just such a wide ranging banking complex that I had in mind when I suggested to the minister that he should make a start by taking over the Mercantile Bank and solving a potentially very difficult international situation. The necessity for such a wide ranging and decisive publicly owned sector of the banking system will, I think, become more and more clear as the years go by. As the hon. member for Perth remarked earlier, one of the great concerns before the committee was this question of the near banks and how they were to be controlled.

There were various suggestions. There was a suggestion that the definition of a bank might automatically bring them under the Bank Act. I, myself, inclined to that idea for a while, until I explored its ramifications and found it was somewhat impractical and could be quite dangerous. There were other suggestions of course. The government did take a

rather slight, I might say feeble, step when it introduced the deposit insurance legislation, with the unfortunate feature of leaving it in the hands of provincial governments to decide whether provincial institutions shall come under federal control.

However, in listening to the evidence of the banking witnesses, and in private conversations with bankers who attended the hearings, I came to the conclusion this problem of bringing the near bank under federal control is likely to be solved by a totally different route, a route that will not land us in the constitutional impasse in which we might be landed by relying on the definition of a bank, a route that will avoid the many pitfalls that lie ahead in nearly every one of the suggestions for bringing them under control. I came to the conclusion that we are on the verge of seeing a vastly expanded banking system in Canada. When I say "vastly expanded", I mean that I can see signs already that the banks are going to move into many of the fields that are now occupied by the so-called near bank and the various financial institutions that have been causing so much concern.

I, myself, suggested to the chief witness for the Canadian Bankers Association, Mr. Paton, that it seemed to me we could look forward to a sort of department store operation by the chartered bank whereby a customer could take his choice of a personal loan, a business loan, a mortgage or what have you. The development of such institutions as RayNat and Kinross clearly indicates that that process is already under way. I am not inclined to quarrel with that development. Despite the fact that I lack faith in the philanthropy of the chartered banks, nevertheless I would feel much easier in my mind if such institutions had control of the financial system of Canada than I would contemplating such control in the hands of Atlantic, and all the various ones which in the last few days have been mentioned in the press.

While there are desirable features in this development there are, as I have suggested, undesirable ones as well in that there would be a further concentration of power and that concentration of power could only be avoided by the development of a publicly owned sector of the banking industry such as I have described. I repeat, perhaps ad nauseam, that we have plenty of precedents for this throughout the world. I do not believe we have any particular choice in this matter. I believe this development is going to take place whether we like it or not. I am quite