

Bank Act

The Chairman: Order. I regret to interrupt the hon. Member but his time has expired unless he has the unanimous agreement of the Committee to continue.

Mr. Thompson: I wish to finish my sentence, Mr. Chairman. We owe it to ourselves and to the nation to come to grips with the real issue that is involved in our whole banking set-up. As we consider the revisions to the Bank Act, this lengthy and complicated Bank Act as the Minister himself has described it, we must concern ourselves with how we can make our banking system work more effectively, with greater competition, because certainly it is one of the greatest enterprises we have within our economy, and which I believe, must continue to operate, as far as possible on a private enterprise basis.

• (8:20 p.m.)

[*Translation*]

Mr. Perron: Mr. Chairman, my remarks at this stage will be very brief and consist only in a few statements of principle. I will also try to replace in its context the conception that the members of my group have on the definition of banks.

During his remarks this afternoon, the Minister of Finance (Mr. Gordon) described banks as institutions authorized to accept deposits and carry out transfers of those deposits. If this is the only definition that can be given of banks doing business in Canada, within our present banking system, I believe this is restricting and over-simplifying the question. Other banking authorities have given a quite different definition of the more important role fulfilled by banks within the Canadian banking system.

At this time, I would like to quote a few extracts from the report of the "Conseil d'expansion économique incorporé de Québec" which, in a pamphlet entitled "Our Chartered Banks" outlined the operation of our banking system and the creation of credit.

First, a definition of money is given.

The public are often under the impression that money is essentially a bank-note while actually, judging by the way Canadians make their payments, monetary operations are largely made by means of cheques or internal accounting operations at the banks (transfers of funds from one customer's account to that of another customer).

Money as an instrument of payment or means of exchange may take various forms: coins, paper money, cheques, etc. On the other hand, money is used in many ways in the national economy.

What is money used for?

(a) As an instrument of payment, money is accepted by everybody by virtue of its legal value as an instrument to pay debts;

[Mr. Thompson.]

(b) As a value standard, it allows each and everyone to deal with people in terms of prices without any difficulty;

(c) As a savings instrument, it ensures future purchasing power for a relatively long period.

Further on in this book there is a very important statement by a person who knew all about the banking system of this country. In 1939, before the parliamentary committee on banking and commerce, the president of the Bank of Canada, Mr. Graham Towers, answered certain questions in this way:

He was asked:

Is it true that banks create a medium of exchange?

He answered:

That is correct. That is their function...it is their business just like a steel mill produces steel.

That can be seen at page 287 of the 1939 report of the committee on banking and commerce.

He went on:

Their manufacturing operation consists in making the necessary entries on a card or in a ledger with a machine or a pen.

That can be found at pages 76 and 238 of the same report. Further:

In general terms, any new money comes from a bank in the form of a loan.

This is found on page 561 of the report. Those were answers by Mr. Graham Towers, the then governor of the Bank of Canada.

To another question he gave the following answer, that the Minister of Finance should certainly heed:

Will you tell me why a government that has the power to create money should relinquish that power in the hands of a private monopoly from which it borrows what parliament can create, and borrows with an accumulation of interest which could lead to national bankruptcy?

Mr. Towers answered:

...we realize of course that the amount thus paid covers the operating cost of the banks plus the interest paid to depositors. However, if parliament should so desire, it certainly could change the way the banking system operates.

I was referring to page 394 of the report of the committee on banking and commerce.

As seen on page 12 of the publication of the economic council, those people highly trained in banking asked this question:

But is this how banks create money?

Answer:

Obviously, it is a manner of speaking. By opening a credit, the banker has made available to his customer \$10,000 of new money (in account: bank money).

But if the bank can create money, how is it interested in receiving savings?