

The banks are not the only source of loanable resources, but they are normally the first-line source. In times of enormous demand as throughout 1959, it is vital that the best possible use be made of the existing available lending resources, for these are not unlimited. I am particularly concerned for the legitimate credit needs of farmers and small borrowers, that their interests may not suffer in the keen competition which exists for large and very profitable accounts.

The Bank of Canada publishes quarterly a statement showing the total authorized bank credit limits for customers having lines of credit in excess of \$100,000. At the end of June 1957 these lines of credit amounted to \$3,864 million of which \$2,130 million was outstanding. By June 1958 these lines of credit for the larger borrowers had increased to \$4,321 million though only \$1,964 million were outstanding. By June 1959, the latest figures available, the lines of credit had been further increased to \$4,763 million of which \$2,125 million were in use.

The commitments to the larger borrowers have continued greatly to exceed the actual loans, and have obliged the banks to keep available additional reserves to meet these very large lines of authorized credit. It is evident that had the banks not enlarged these lines of credit so substantially within the past year they would not have encountered such sudden and severe pressures as those which developed this spring and summer.

I also believe that large corporations should be discouraged from using bank credit as semi-permanent capital. Large corporations, unlike small businesses, can and should raise their permanent capital by issuing additional securities into the market. Let me illustrate. Corporation bond financing in Canada in 1957 totalled \$1,045 million, in 1958 \$769.2 million, but in 1959 up to the 24th of August only \$197 million. When a corporation raises, say, \$10 million in the capital market and reduces its bank loans to that extent it immediately makes available to the banks the means of making 10,000 loans of \$1,000 each, or 4,000 loans of \$2,500 each, or 400 loans of \$25,000 each.

Attempts have been made to draw parallels between what happened in 1956 and what has happened in 1959. While there may be some points of resemblance in the background conditions the courses followed have been very different. In 1956 when it considered that some credit restraint was necessary the Bank of Canada intervened. As the result of its intervention term loans by the banks were curtailed, the liquid reserve requirements of the banks were increased and the banks found it necessary to restrict credit immediately and severely and to liquidate in a short time large holdings of Canada Bonds, resulting in very heavy losses to them. There were strong complaints by the chartered banks, and the action of the Bank of Canada was denounced as tardy, drastic and costly.