

the Bank of Canada has no facilities at the present time for taking deposits, for accepting deposits on such a large scale, it is because it has no facilities for servicing them. It could not accept cheques and it could not carry out banking business on the scale envisaged by the hon. member. If it did have these facilities, then of course it would be just like any other bank and the cost of doing business would be exactly the same as that borne by any other bank. There would be no difference then between the Bank of Canada and any chartered bank and it would not be cost-free money. The bank would have to pay interest because no one would leave money with the Bank of Canada without obtaining interest. If the Bank of Canada wanted to keep money on deposit it would have to pay interest or alternatively some law would have to be passed which would require money to be kept in the Bank of Canada.

Mr. Grégoire: Will the minister permit a question? Why should the Bank of Canada accept deposits? That is not its objective or goal. There would be no need for the Bank of Canada to accept deposits from the general public. Its purpose would be to lend money to provinces, municipalities and school boards, not to individuals. It would not be its role to accept deposits from the public. Far from that. When the Bank of Canada received repayments of these loans it would then lend these moneys again.

Mr. Sharp: The hon. member must have it one way or the other. If he is going to have the Bank of Canada performing the services of an ordinary bank, then the balance sheet must balance. On one side would be the liabilities and on the other side the assets. When it places at the disposal of municipalities and provinces \$2 billion of loans, there are equal liabilities. Under the circumstances what would the municipalities and provinces use for money if not deposits in the Bank of Canada? Unless we go back to the first case which I said was so inflationary and which I am sure is what the hon. gentleman has in mind, namely the issuance of Bank of Canada bills which then become a cash basis for the chartered banks to expand their liabilities.

• (5:30 p.m.)

Mr. Herridge: I rise on a point of order, Mr. Chairman.

The Acting Chairman (Mr. Richard): The hon. member for Kootenay West on a point of order.

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Mr. Herridge: I think the hon. member for Lapointe is imposing upon the minister's time and also upon other members of the house. I know the minister is just dying to reply to the sound proposals put forward by the hon. member for Fraser Valley, the hon. member for Medicine Hat and the hon. member for Kootenay West, and I think it is only right he should be allowed to do so.

[Translation]

Mr. Grégoire: Mr. Chairman, is—

The Acting Chairman (Mr. Richard): Order. The hon. member for Lapointe (Mr. Grégoire) still has a few minutes at his disposal and when he is through with his statement, another member will have the floor.

Mr. Grégoire: Mr. Chairman, I think that the gap between ideas is getting narrower, at least, the misunderstanding can obviously be reduced.

The question that remains obscure, Mr. Chairman, is the following, if I understand the Minister of Finance and Receiver General (Mr. Sharp) well. The minister is asking how the Bank of Canada could, for instance, make interest-free loans to municipalities, if it does not first have deposits?

Mr. Chairman, I wish to tell him that that is exactly what the chartered banks are doing now. They make loans, even before they get deposits. I ask the minister to bear that in mind. That is how credit is created. The chartered banks make loans before they get deposits. And I can quote three or four testimonies in that connection. The minister said:

—The system used for creating credit is well known. The banks make loans. The monies are deposited with the banks.

So, when the chartered banks make loans, they create credit, and it is only after that—because the banks do not have the necessary deposits—that those loans are left with the banks as deposits.

Mr. Chairman, I have another testimony to that effect. It is a booklet published by the Royal Bank of Canada—that is surely not a sacred institution—more specifically by the department of economic research of the Royal Bank of Canada. That booklet is entitled: "Economic Trends and Problems, June 1966".

On page 6, one reads:

Currency is an unproductive asset for the chartered banks.

Any excess of currency represents a lack of earnings for the chartered banks. When they