

Bank Act
AFTER RECESS

The Committee resumed at 8 p.m.

Mr. Thompson: Mr. Chairman, without going into all the details of the remarks made this afternoon by the Minister of Finance, I would say that there are a number of other points which he brought up which I believe are commendable, and it is a good thing they are being included in the revision of the Bank Act. It is in accordance with the recommendations of the Royal Commission on Banking that banks be allowed to make conventional mortgage loans. I note also the Minister has stated that the banks will receive the same rate of interest for those loans as is presently charged on national housing mortgages.

I note, too, that the Minister intends to retain the 6 per cent ceiling on interest rates. I think this is a sound suggestion. As a matter of fact, I believe that as more competition comes into the banking business we can well expect that interest rates will come down even below this. It is probably good for an expanding economy such as we have, particularly at the moment, that the cash reserves of the chartered banks be lowered from the required 8 per cent to 7 per cent. I note with some interest the Minister's reference to the ratio of cash reserves to the different categories of deposits. We will have some remarks to make with regard to this provision later.

It is interesting also to note that the Government intends to permit the incorporation of new banks through letters patent, with the House of Commons having the right to annul such letters patent within a stated period of time. This seems to be a reasonable approach. So long as there are the requirements which any proposed bank must meet before it is permitted to be incorporated, then it should not be necessary to have that incorporation through Act of Parliament. However, there is a real danger here. There is a lesson to be noted from the present situation of banking in the United States, a warning on one hand but an indication of a freer policy in regard to banks on the other. During the last ten years in the United States there have been 614 new national banks come into being. In addition to that, there have been nearly twice as many state banks come into being. It has to be admitted that there have been a number of bank failures, although in comparison to the number of new bank charters the number of failures is small.

[Mr. Thompson.]

I mention this to the House not only with regard to the fact that there will be this new policy for incorporation of new banks but also to suggest to the Minister, when he states so emphatically that banks must be kept definitely under the direct control of the Federal Government, that in the United States there are two types of banks. As long as they are both part of the federal reserve system, they apparently operate quite effectively. There are those incorporated under national charters and those incorporated under state charters. While agreeing in principle with the statement the Minister has made, certainly he should not become so rigid as to prevent certain types of near banks or provincial governments from carrying on a legitimate phase of banking, provided they come within the over-all framework.

There are just one or two more comments I should like to make very briefly as they relate to banking. When we are considering the revision of the Bank Act, we ought to be aware of the actual purpose and function of a bank. I went to a dictionary to find out just what was the definition of a bank. I did this because, as I went back to the Statutes of Canada, particularly to those referring to banking, I found that there were various descriptions, but I found it very difficult to get a definition of a bank. Webster's Dictionary, second edition, says that a bank is an establishment for the custody, loan, exchange or issue of money; for the extension of credit. According to the Statutes of Canada, volume I of the 1953-54 edition, chapter 48, which is the Act respecting banks and banking, section 2(c) defines a bank as a bank to which this Act applies. This is the sum total of the definition.

In the same volume, chapter 47, I found an Act respecting savings banks in the Province of Quebec. In section 2(a) I found that a bank is here defined as a bank to which this Act applies. This all seems rather confusing. If we were to go to the Statutes of Canada to determine just what the terms of reference of a bank are, or the responsibilities of a bank, I do not think we could find an answer. It is interesting to note that according to section 2(c) a bank cannot lend or invest money or make advances.

In reading a book from Britain entitled "The Theory and Practice of Banking" by one Mr. H. D. McLeod, I found a definition which stated this:

The essential and distinctive feature of a "bank" and a "banker" is to create and issue credit payable on demand, and this credit is intended to be