production, trade, employment and prices as far as may be possible within the scope of monetary action and;

4. To give expert and impartial financial advice to the government of the day.

It cannot be too strongly emphasized that the exercise of these functions lies outside the power of any single commercial institution or group of commercial institutions. No purely profit-making institution operating in a competitive system can afford to place social interests before its own in regard to credit policy. This, I think, is obvious. Nor can the management of such a body be expected to regard the maintenance of the monetary standard, for example, as a duty prior to its obligations to the stockholders. Clearly it is impossible to visualize any effective international cooperation to the end of mitigating world fluctuations in business unless predicated on a high degree of internal unity and control. This latter feature we certainly lack in Canada.

At this point we are now able to see in proper perspective the role which some have claimed should be filled by the Finance Act. The Finance Act, it may be said, has served us in the manner of providing a "halfway house" in a period of transition from the stage of passive statutory control over our banking and currency system to one of active centralized regulation. In providing an elasticity in our credit structure, and particularly in emergency use, the Finance Act has fulfilled a useful function. It is clear now that while in a position to offer some of the advantages which follow from a central bank it lacked the powers of control ordinarily associated with such an institution. To make provision in the Finance Act for the powers necessary to perform adequately the functions outlined above would, in effect, mean the creation of just such an institution as is proposed in this bill.

It is important that the nature of the contemplated regulation over credit policy be clearly understood. It is not proposed that the Bank of Canada shall be directly responsible for the general level of prices within Canada. Certainly, prices of particular commodities are not to be its direct concern. It is believed desirable, however, and it is intended that the bank shall have a definite measure of control over the total volume of credit and thus be in a position indirectly to exert an influence over the general price level. The ability of central banks to maintain any monetary standard, indeed, largely depends upon its control over internal credit policy, as also does its ability to cooperate with other nations in financial programs of mutual benefit.

[Mr. Rhodes.]

Just here I think I should recite in full the whole of paragraph 207 of the Macmillan report, which says:

207. It is easily possible to expect either too much or too little of central bank action. A central bank is at the same time an instrument and a force. As an instrument it is the means by which the state—which must necessarily retain ultimate sovereignty in matters affecting the currency—can give effect to the national policy. As a force the central bank has certain powers in its keeping which can be used to achieve the ends of national policy. Clearly these powers are of differing efficacy according to the aim of the policy. A central bank cannot be expected to influence directly the price of a particular commodity. It is even not desirable that a central bank should be specifically charged with any responsibility for the general price level of a country. There are many factors, of varying nature, which combine to influence that level, and a central bank, working as it does purely in the monetary sphere, cannot be expected to have complete control, though it may well have a measure of influence. If it attempted to exercise any drastic control it would have to wield powers far beyond those which any body other than the sovereign authority would be entitled to exercise. It is manifest, however, that the regulation of the volume of credit is an important factor in influencing the level of economic activity and therefore of prices and this is one of the cardinal tasks of a central bank. In the absence of a central bank it is a task the fulfilment of which is either left to chance, or performed inadequately by other agencies. The regulation of the quantity of credit is effected by the action of the central bank on the reserves of the commercial banks. By increasing or diminishing these reserves, or by increasing the cost of securing them, there is set in motion a process of expansion or contraction through the ordinary channels of banking. A central bank is thus not a competitor with the commercial banks. Its functions are regulatory and indirect.

In some quarters, there has been apprehension that the creation of this institution would injuriously affect the chartered banks.

It is our belief that there is no ground for this apprehension. On the contrary, experience in other countries has demonstrated the fact that the whole banking structure has been strengthened to the benefit and not the detriment of other banking institutions.

The Bank of Canada is not to be regarded as a competitor with our chartered banks. Its functions are intended to be supplementary and regulatory.

The Macmillan report refers to the introduction of a central bank in South Africa and in Australia, and I quote one paragraph of the report in reference thereto:

It is perhaps worth observing that in South Africa and Australia the commercial banks