

*Bank Act*

chartered banks and another piece of legislation to deal with credit unions, merchant banks, discount houses and those kinds of financial institutions. I am not convinced that we should bring credit unions totally under the control of the Bank Act.

If we look into the matter carefully, I think we will find that the bulk of assistance being given to small business today in Canada is given by credit unions. A tremendous amount of assistance is being given to small business by credit unions, I believe more than by chartered banks. I would be upset if we tried to cast a net and draw credit unions totally into the same orbit in which we find chartered banks.

One of the things we need most is confidence in the dollar. We also need confidence that Canada will continue on some rational footing for the next period of time. We need confidence in the integrity of Canadian enterprise. I do not think that confidence will come through programs and incentives from the Department of Industry, Trade and Commerce, where there is much bureaucracy but as a result of a realistic revision of the Bank Act, a close look at the functions being performed by trust companies and credit unions and an examination of the merchant banking system which we find to be very successful in Europe.

In my own career in business I had an opportunity to use merchant banks. Many years ago we had a tight money policy. At least that is what bankers in Canada told us. I had some difficulty acquiring some funds, so I got in touch with a merchant banking firm in London, England. After telex messages passed back and forth between London and my office, in a matter of 24 hours a line of credit was arranged which could not be arranged with one of our chartered Canadian banks. Merchant banks have a place in our banking system.

One gentleman in the business community whose opinion I particularly respect told me at the weekend that sooner or later Katz' Law is going to come into effect in Ottawa. According to Katz' Law, when you have completely screwed up the economy sooner or later you are going to do the things you should have done in the first place. Had the government pursued a revision of the Bank Act in 1974 and 1975, we would have been better served than we were by the imposition of controls. As I have said, the cornerstone of the economic recovery program is a revived and revised Bank Act.

One of the difficulties which was experienced by many businesses in 1975 and 1976 when our interest rates were running high was that they had to make arrangements principally in the United States and Europe to finance inventories. They entered into arrangements with European and American suppliers to finance inventories at rates of interest ranging from 5.5 per cent to 7.5 per cent, which was considerably lower than rates in Canada. As a result of a slowdown of activity in 1977 many of those business firms are now carrying notes from European and American financial institutions on their books. With the present devalued dollar they are into a serious profit position.

The stabilization of the dollar, a reconstituting of the Bank Act and a revision of the Bank Act are vital to everything we

[Mr. Kempling.]

do in business, and I am amazed that when we came back here in the fall the government did not announce that it would proceed full speed ahead with a new Bank Act and endeavour to have it in place by the spring of 1978. I want to stress the need to revise the present act. Businesses face tremendous difficulties with various sections of the existing act. I have raised the matter of section 88 before. That is the section of the act which deals with collateral. Under section 88, if you are in a manufacturing operation, banks will accept as collateral raw material and work in progress. However, once that work in progress is completed and is part of inventory it no longer falls under section 88. Where material rolls off the line and is delivered, that is fine; section 88 works well in that situation. But where there is a slowdown and where there is an accumulation of inventory, the business involved rapidly runs out of money, especially if that inventory is stored for a long period of time.

I have heard various members of the New Democratic Party urge that certain industries should be stockpiling or building up inventories to keep employment going during the present economic slowdown. The very real difficulty is the financing of that inventory. Most trading companies and most manufacturing companies have a great deal of difficulty financing finished inventories. Consequently, they tend to keep a minimum of finished inventories on their shelves. We really need some new instruments and some changes in the act in order to accommodate this situation. Banks need a new instrument to deal with small and medium-sized businesses, and I hope the minister will consider what I have said about two levels of financial institutions.

Once again I say that credit unions, trust companies and merchant bank operations could be governed by another type of legislation. Perhaps there could be a financing instrument to deal with the requirements of small and medium sized businesses. Under the existing act the small businessman really has very little leverage through the medium of a debt instrument which he can use to finance his business.

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We are concerned, of course, with the forecast in the white paper about the role of the chartered banks in the areas of leasing, computer services and the extension of consumer credit. If the banks enter these areas to any great extent it could be to the detriment of the small and medium sized business sector. I think that would be a tragedy, Mr. Speaker.

We face difficult times. Unemployment stands at 8.3 per cent, inflation at 9 per cent, the Canadian dollar is under 90 cents U.S. and is unstable, while private capital spending is below 3.5 per cent. Everyone is calling for increased activity in the private sector and it seems to me that introduction of the Bank Act would do more to stimulate this than any other action. Programs of the Department of Industry, Trade and Commerce, GATT incentive programs, controls or no controls, labour relations, competition legislation—none of these things will have as much effect on the private sector as a revised Bank Act.