

*Income Tax Act*

taxes, and certain regulatory requirements of the Federal Reserve. So the New York banks at that time thought that the establishment of international banking centres would help them compete in Europe. It was the bankers who began the movement for international banking centres in the U.S. That was not the case in Canada. Canada did not have to feel closed out for the same reasons as the U.S. In fact, our banks are really quite competitive in international markets.

As part of the effort to persuade New York City and the State of New York to reduce their taxes, and as part of the effort to get the federal banking regulations changed, those banks in New York City started a very impressive public relations campaign. All kinds of estimates were floated about the number of jobs that would be created and the economic benefits that would accrue. Last year a banker told me about his experience at the time this effort was at its height. He was asked to go on a television program describing the advantages that an IBC would bring to New York. He was being coached for his interview by someone from a public relations firm. One of the questions he was told to expect was how many jobs this would create. He said he had no idea and the PR person said the figure that is being used is 150,000. You can use that figure safely, he said. Here is an example of a figure pulled out of the air and people being encouraged to use it.

In actual fact, what the banks really wanted they got because the federal regulations changed, which was their main wish; local taxes were reduced; then the question of the economic activity that was to have followed was just quietly dropped.

The chronology was dealt with rather well in an article by Mr. McKie, a very well-known bank tax expert. I will quote from Mr. McKie's paper in a minute. From my own recollection I know that twice in the last Parliament the Government was requested to approve international banking centres. The request originally came from Montreal and later from Toronto and, I believe, Edmonton. On both occasions the Government studied the proposal and decided that it would result in no significant advantage to Canada but might result in tax loss. Therefore, on both occasions the Government refused to establish an international banking centre.

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However, when the present Government came to power, and even before it came to power, it made some promises. In 1984 or 1985 Mr. Louis Rasminsky, the former Governor of the Bank of Canada, was commissioned by the Department of Finance to do yet another study on international banking centres. I will quote from the last paragraph of that report as follows:

—IBFs are not going to generate the large increase in employment in New York or elsewhere in the United States that some earlier advocated. Suggestions that they would create, directly or indirectly, 5,000 to 6,000 new jobs have turned out to be substantial overestimates. The experience has been that moving even large amounts of Euro-dollar business from the books of one bank office to another involves very little movement of staff.

The final conclusion of the Rasminsky-Lawson report released in 1986 was that there would not be significant benefits to Canada but there was the risk of loss of tax revenue. Nevertheless, IBCs in Montreal and Vancouver are what we have in this Bill before us. Studies were done for the previous Government as well before it declined to go ahead with IBCs. The conclusion of those studies was that the benefits would be marginal and the risk of loss to the treasury quite high.

Another interesting factor is that when the present Government decided to go ahead with international banking centres it did not consult the banks which, incidentally, had never asked for this. The Government did consult with chambers of commerce in a number of cities but these negotiations went on for months before the banks were ever made aware of them. When the banks were made aware of them they pointed out that they could see no great advantage to this proposal.

Unlike the U.S. banks the Canadian banks were not inhibited by banking regulations in their international transactions. Also the Canadian banks were not complaining about income tax or asking for changes at that time. If the Government were serious about bringing new business to Canada it would move in the direction of changing withholding tax.

I would like to refer to evidence which was received by the Standing Committee on Finance and Economic Affairs in January, 1987, from the President of the Canadian Bankers' Association. Mr. MacIntosh stated:

It should be stated at the outset that the chartered banks have never asked for legislation to create international banking centres. However, we have said also that we are prepared to go along with the government's initiative, provided that two basic conditions are met. The first condition is that the implementation of any IBC proposal must not cause banks to be worse off than they are now from a taxation and business operating point of view.

The second condition—is that market forces should be allowed to determine the location of IBCs.

In the measure before us there is no question of market forces determining the location of IBCs. The IBCs are to be established in Montreal and Vancouver only. No other country in the world has limited the development of banking facilities on the basis of geography in this way.

The session of the committee on January 29 was long and very interesting. It gave some quite interesting history. As far back as 1981 the City of Montreal approached the federal and Quebec Governments to consider an IBC. The federal Department of Finance carried out an internal study which concluded that such centres would be of little benefit to the Canadian economy or any particular region of the country. At the same time, the proposal eventually would lead to a significant erosion of the federal tax base.

As I mentioned, after the change of Government the new Minister of Finance requested Mr. Louis Rasminsky and Mr. Lawson, the former Governor and Senior Deputy Governor of the Bank of Canada, respectively, to re-examine the issue.