

the money which the government requires to meet its expenditures, the Bank of Canada should be utilized. The minister attacks this proposal on the ground that to utilize the Bank of Canada is more inflationary than to use the chartered banks. He gave that reply to the hon. member for Parry Sound last night, and I was very much surprised that the Minister of Finance should again trot out that hoary old reason which his predecessor, Mr. Dunning, used to give when we made this proposal. All that the Minister of Finance is doing when he makes that declaration is this: He is frankly admitting that we have no effective control of the chartered banks to-day because, if we had, they would not be able to expand their loans on the basis of the money issued by the Bank of Canada.

Mr. ILSLEY: The hon. member knows the answer to that.

Mr. QUELCH: I do not, and I shall be very glad if the minister will give me the answer.

Mr. ILSLEY: The hon. member is suggesting that we insist on a 100 per cent reserve so that the cash reserve cannot be multiplied into a greater volume of bank deposits. That is the suggestion, is it not?

Mr. QUELCH: Yes.

Mr. ILSLEY: Well, if the chartered banks could only lend as much as their cash reserve, it would mean that they would be conducting business at a loss, because the money would go back into the chartered banks and interest would be payable by the chartered banks to the depositors. The banks would have to discontinue paying interest, and therefore what my hon. friend is suggesting is a tax either upon depositors or upon shareholders, or upon both. If we are going to impose a tax upon depositors or upon shareholders, or upon both, we might just as well impose that tax directly. That would be a much fairer and more straightforward way of doing it than the way he suggests. He is merely suggesting, for that is what it amounts to, further taxation of an indirect kind when he suggests that we insist on a 100 per cent reserve.

Mr. QUELCH: In the old days when you deposited your money with a bank, you paid the bank for looking after that money, and the people who get this service are the people who should pay for the service. It would not be taxation but a legitimate service charge.

Mr. ILSLEY: Call it anything you like.

Mr. QUELCH: But the people who do not have any money in the bank would not have to pay any part of that charge.

I might quote to the minister what Irving Fisher says in that regard but no doubt the minister would reply to me as Mr. Dunning did, "Oh, Irving Fisher!" Mr. Dunning was very much interested in Babson's reports and was continually quoting from them. Let me quote what Babson's have to say. In their March 20, 1939, issue, Babson's devote a whole page to advocating the 100 per cent system, and they have this to say:

Lest anyone may think that the 100 per cent reserve system would be injurious to the banks, it should be emphasized that the banks would gain, quite as truly as the government and the people in general. Government control of the money supply would save the banks from themselves—from the uncoordinated action of some 15,000 independent banks, manufacturing and destroying our checkbook money, in a haphazard way.

I realize that that does not apply to the same extent in Canada because we have not quite the same banking situation, but otherwise the statement would apply quite well here.

Perhaps I should quote what Irving Fisher has to say, because, mind you, his proposal was endorsed by a large number of prominent bankers of the United States. This is what he has to say:

So far as this change to the 100 per cent system would deprive the bank of earning assets and require it to substitute an increased amount of non-earning cash, the bank would be reimbursed through the service charge made to its depositors.

Apparently the banks themselves do not take any great exception to such a proposal. As I said to the minister on the last occasion on which I spoke on this question, personally I am not overenthusiastic about the 100 per cent system, but I refer to it because the majority of monetary reformers in the country are in favour of the 100 per cent system. While I agree that it can adequately control inflation, I do not believe that it can adequately control deflation. I am of the opinion that the only fair and sound way to deal with the whole question of effective control is to nationalize the chartered banks of Canada.

Mr. HANSON (York-Sunbury): Then what would happen?

Mr. QUELCH: The chartered banks would be under the effective control of the Bank of Canada and would be controlling the finances of the country for the benefit of the people as a whole. In so far as the charge that the