

Bank of Canada—Mr. Rhodes

ment power are of course only possible when a country has ceased to be on a gold basis. As long as convertibility is maintained the worst evils resulting from government intervention in banking and currency control are avoided. Doubtless the governments which have laboriously dragged themselves out of the morass of inflation will not readily slip back; nevertheless, if the control of the operations of the central bank lies directly or indirectly with the government, it becomes fatally easy for the government to finance itself for a time by means of book entries and short loans from the bank, a course which is the first step towards currency depreciation and inconvertibility.

I have spoken from the viewpoint of the dangers inherent in government operation, but there are also objections to unrestricted private operation. I am quite ready to admit the evils of the principle of purely private ownership, but I should like to remind the house that the fundamental principle of all the banking legislation which the government has brought down this year is that, for the first time in this country, the control of currency and credit should be taken out of the hands of purely private institutions, that is to say, of private, profit-seeking corporations. No doubt there are others, but I think there are three main objections to the purely private ownership of a bank. If it is to have the sole right to issue and control legal tender paper currency it is felt that it would be inappropriate to give such right to an institution not owned by the state. Professor Gregory has stated the answer to this objection in a paragraph which is both succinct and forceful. He says:

The fact that the central bank ought to be State owned because of the right to issue and control the currency is deficient, in so far as it neglects to prove that the state ought not, in its own interest, to delegate these powers. Granted that the power to issue and control currency is a matter of prerogative, it is still open to question as to what is the best instrumentality for this purpose. The state has the power to determine what is the best instrumentality, but it does not in the least follow that a state bank is the best instrumentality. Indeed, all experience goes in the contrary direction. The terms upon which the state ought to delegate its powers ought to be such as to allow the management of credit conditions to be undertaken with the least danger of abuse. What those terms are can best be gathered from economic experience, and is a matter upon which political science can throw no light.

The second objection is based on the undesirability of allowing excessive profits to accrue to private shareholders, or indeed of allowing the profit motive to obtain at all. But it by no means follows that this motive shall prevail in the case of a privately owned institution, and we believe that in the measure

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now before the house we have guarded against that danger. In the bill it is provided that the maximum dividends payable upon the stock of the bank shall be 6 per cent, which would be an annual charge of \$300,000. It will be recalled that in their recommendations the royal commission said the rate might be either 5 per cent or 6 per cent. If in the judgment of the committee or of the house it is deemed desirable to reduce that rate from 6 per cent to 5 per cent the government will be entirely in accord with such action being taken.

The final and perhaps the greatest objection which can be lodged against private management is that the bank might be dominated by bankers and their interests or by other financial interests. In the measure before the house we believe we have absolutely safeguarded against that danger.

In the remarks I have already made I have on the one hand dealt with the objections to public ownership and on the other with the objections to uncontrolled private ownership. It is our belief however that there is a happy medium, a middle course which may be adopted with the greatest degree of advantage. It by no means follows that we should go either to one extreme or to the other. We should free ourselves on the one hand from the evils of political interference and on the other from the danger of control by selfish private interests or management on the basis of the search for private profits. In this connection I would direct the attention of hon. members to the safeguards we have provided in the measure.

First, the shares of the Bank of Canada cannot be held directly or indirectly by a bank or by any bank director, officer or employee. It is believed that adequate power has been provided to enforce these prohibitions. I may add further that if amendments can be suggested which will provide further safeguards in respect of the matters dealt with in these provisions, they will be entertained without any equivocation so far as the government is concerned.

The second factor is that the amount of stock which any individual may hold is limited to fifty shares, representing a total investment of \$5,000. This, it is believed, will ensure a wide distribution of stock ownership, and the impossibility of the stock being controlled by any individual or group of individuals.

May I point out further that power is given to the Minister of Finance to exercise discretion in the matter of the distribution of stock, and may I say that if I am the one who has to deal with the allotment—and any