

Canada, and we think the additional interest which is payable is a reasonable price to pay for avoiding the terrible effects of inflation.

My hon. friend comes back and says, "Well, change the law or the regulations; make it so that the banks cannot proceed on a ten per cent or a five per cent cash reserve basis but," as I understood it, on a 100 per cent reserve basis; that they must retain a reserve up to and equal to the amount of their deposit liabilities.

Mr. KUHL: That would be right and just.

Mr. ILSLEY: We are facing the issue squarely. If they got leave to extend it by ten or twenty times, we would have that much more inflation; we would have Simon-pure 100 per cent inflation. But some say, do not allow them to expand credit in that way. It was suggested by the hon. member for Rosthern when he was in the house, and I believe it has been suggested by one or more members of the Social Credit party. Imagine the situation where the banks had to retain 100 per cent cash to cover deposit liabilities! If they did that—

Mr. SLAGHT: Cash or Bank of Canada credits.

Mr. ILSLEY: When I say "cash", I mean Bank of Canada notes or Bank of Canada deposits. I use the word "cash" in that sense and in no other. Now, if we impose upon them, by law, necessity for a 100 per cent cash ratio, they cannot make money out of loans.

Mr. KUHL: That is the way they claim they make their money.

Mr. ILSLEY: I do not know what they claim. I am not speaking on behalf of the banks. The banks in years past have been wrong, a good many of them, in the claims they have put forward. I do not say that the banks are always right by any means, but I do say that they could not carry on business. How could they?

Mr. SLAGHT: Read their annual statements. For years they made sixteen per cent profit.

Mr. ILSLEY: Please do not interrupt too much. The inevitable effect of insisting upon a 100 per cent cash ratio is, of course, that the payment of interest on savings deposits would disappear overnight and a service charge on current deposits, a substantial one, would have to be imposed. In other words, you would be levying, by this regulation, an indirect tax, and one not in proportion to ability to pay, upon the savings depositors

and current account depositors, or on borrowers from banks, or on the shareholders of the banks, or on all three.

Mr. KUHL: The depositor should pay interest to the bank, not the bank to the depositor. He should pay a service charge.

Mr. ILSLEY: No doubt you would have a big service charge if you did that.

An hon. MEMBER: Put it on.

Mr. ILSLEY: What justification is there for doing that? Is there any great reason why that should be done; why we should change our system so that persons using the banks should pay a substantial service charge and depositors be unable to get any interest whatever? This is altering the present system by a queer form of indirect and unfair taxation on a certain class. The taxation that goes on that class at the present time is mostly income taxation and it goes on in proportion to their ability to pay, as properly conceived income taxes always do. What is to be gained by the change? To listen to the hon. member for Parry Sound, one would think that the banks were making a tremendous amount of money; but are they? And if they are not, is there any reason for disturbing the present system? The banks, or most of them, had to reduce their dividends in the summer of 1942, as a result of increasing taxation, they stated. But for whatever reason, they reduced their dividends, to the knowledge of a great many persons in this country, who saw the shares they held in the banks go down in value on the market. The banks charge us, whenever they lend us money, on a great part of the money we borrow—six months money—three-quarters of one per cent. Is that an unreasonable charge? It must be borne in mind that when the government pays out money and that money goes to the banks, the banks have to pay interest on it. When we borrowed \$782,000,000 from the chartered banks last year at three-quarters of one per cent and paid that money to contractors, civil servants and others, those who received the money from the government, or most of those who received it, took that money back to the bank. If they took half of it back to the bank and put it in savings accounts and the other half in current accounts and the banks paid one and a half per cent on what was put in savings accounts, then the outlay to the bank, the cost of the transaction, was three-quarters of one per cent; and as a matter of fact three-quarters of one per cent is, as nearly as we can estimate it, the cost to the banks of doing that business. In other words, we consider that the banks are rendering this